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 2008

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

Company Profile

Sinopec Yizheng Chemical Fibre Company Limited ("**the Company**") and its subsidiary ("**the Group**") is the largest modernised manufacturer of chemical fibre and chemical fibre raw materials in the People's Republic of China (the "**PRC**"). In terms of polyester capacity in 2008, the Group ranks the sixth largest manufacturer in the world, and the Company is the largest one-site polyester manufacturer in the world. (Source: PCI Magazine 2008)

The Company is located in Yizheng City, Jiangsu Province, and was established on 31 December 1993 following a reorganisation 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 the production and distribution of chemical fibre and petrochemical products, the production of ancillary raw materials and textile machinery, research and development ("**R&D**") into textile technology, and transportation and technological support for the 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. The Company's technology has reached an advanced level in the polyester industry through continuous technological improvements. The Company's product quality system is ISO9001 certified, and its product quality commands a leading position in the industry. The Company also obtained the international certificate ISO14001 for its environmental management system. At the end of 2008, the Group owned polymerisation facilities with an annual capacity of 1,722,000 tonnes, solid-state-polymerisation ("**SSP**") facilities with an annual capacity of 420,000 tonnes, spinning and drawing facilities for polyester fibre with an annual capacity of 754,000 tonnes, texturing facilities for polyester filament with an annual capacity of 85,000 tonnes, oxidation and purification facilities for PTA with an annual capacity of 959,000 tonnes and ancillary public utility facilities, building a significant advantage in 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

5.	**Domestic Newspapers disclosing information**	:	China Securities, Shanghai Securities News, Securities Times
	Internet website designated by HKSE to disclose information	:	http://www.hkexnews.com
	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				
	2008	2007	2006	2005	2004
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
			(as restated)	(as restated)	
Turnover	**15,224,524**	17,175,656	17,307,636	15,830,063	13,348,471
(Loss)/profit before taxation	**(1,549,301)**	11,366	64,333	(1,009,336)	276,792
Income tax expense/(credit)	**92,016**	(11,890)	23,450	(41,343)	33,860
Minority interests	**–**	944	415	(485)	2,549
(Loss)/profit attributable to equity shareholders of the Company	**(1,641,317)**	22,312	40,468	(967,508)	240,383
Total assets	**8,280,424**	9,931,984	10,046,111	9,692,187	11,234,701
Total liabilities	**1,753,892**	1,764,135	1,872,907	1,568,270	2,061,850
Total equity attributable to equity shareholders of the Company	**6,526,532**	8,167,849	8,125,552	8,071,813	9,120,322
Minority interests	**–**	–	47,652	52,104	52,529
Basic and diluted (loss)/earnings per share	**RMB(0.410)**	RMB0.006	RMB0.010	RMB(0.242)	RMB0.060
Net assets per share	**RMB1.632**	RMB2.042	RMB2.031	RMB2.018	RMB2.280
Ratio of shareholders' equity	**78.82%**	82.24%	80.88%	83.28%	81.18%
Return on net assets	**(25.15%)**	0.27%	0.50%	(11.99%)	2.64%

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

	For the year ended 31 December or as at 31 December				
				2006	
	2008 *RMB'000*	2007 *RMB'000*	Increase/ (decrease) from 2007 *(%)*	As restated *RMB'000*	As previously reported *RMB'000*
Total assets	**8,417,284**	10,072,812	(16.4)	10,025,803	10,115,603
Total equity attributable to equity shareholders of the Company	**6,663,392**	8,308,677	(19.8)	8,290,860	8,274,261
Net assets per share attributable to equity shareholders of the Company	**RMB1.666**	RMB2.077	(19.8)	RMB2.073	RMB2.069
Operating income	**15,224,524**	17,175,656	(11.4)	17,307,636	17,027,846
(Loss)/profit before income tax	**(1,554,592)**	4,657	(33,481.8)	59,053	60,742
Net (loss)/profit attributable to equity shareholders of the Company	**(1,645,285)**	17,817	(9,334.4)	35,980	37,415
Net (loss)/profit deducted extraordinary gain and loss attributable to equity shareholders of the Company	**(1,585,466)**	69,275*	(2,388.7)	19,839*	21,772
Basic (loss)/earnings per share	**RMB(0.411)**	RMB0.004	(9,334.4)	RMB0.009	RMB0.009
Diluted (loss)/earnings per share	**RMB(0.411)**	RMB0.004	(9,334.4)	RMB0.009	RMB0.009
Basic (loss)/earnings per share net of extraordinary gain and loss	**RMB(0.396)**	RMB0.017*	(2,388.7)	RMB0.005*	RMB0.005
Fully diluted return on net assets	**(24.69%)**	0.21%	Decrease 24.90 percentage points	0.43%	0.45%
Weighted average return on net assets	**(21.98%)**	0.22%	Decrease 22.20 percentage points	0.44%	0.45%
Fully diluted return on net assets net of extraordinary gain and loss	**(23.79%)**	0.83%*	Decrease 24.62 percentage points	0.24%*	0.26%
Weighted average return on net assets net of extraordinary gain and loss	**(21.18%)**	0.84%*	Decrease 22.02 percentage points	0.24%*	0.26%
Net cash (outflow)/inflow from operating activities	**(48,043)**	(62,106)	(22.6)	803,196	792,608
Net cash (outflow)/inflow from operating activities per share	**RMB(0.012)**	RMB(0.016)	(22.6)	RMB0.201	RMB0.198

* *The above figures for 2007 and 2006 have been adjusted. The Group made these retrospective adjustments in accordance with Interpretive Pronouncement on the Preparation of Information Disclosures of Companies Issuing Public Shares No. 1 – Extraordinary Gain and Loss (2008).*

Financial Summary

2. Details of the Group's results for the year ended 31 December 2008 (extracted from the financial statements prepared in accordance with the PRC Accounting Standards for Business Enterprises (2006))

	(Expressed in RMB'000)
Operating loss	1,507,814
Loss before income tax	1,554,592
Net loss attributable to equity shareholders of the Company	1,645,285
Net loss deducted extraordinary gain and loss attributable to equity shareholders of the Company	1,585,466
Net cash outflow from operating activities	(48,043)

3. Extraordinary gain and loss items and amount (extracted from the financial statements prepared in accordance with the PRC Accounting Standards for Business Enterprises (2006))

	(Expressed in RMB'000)
Disposal of non-current assets	(1,720)
Employee reduction expenses	(9,082)
Other non-operating expenses excluding losses on disposal of fixed assets	(54,046)
Other non-operating income excluding gains on disposal of fixed assets and intangible assets	5,029
Subtotal	(59,819)
Effect on taxation *	–
Total	(59,819)

* *As the Group suffered tax losses during the current year, and has not recognised deferred tax assets in respect of the current tax losses, the above extraordinary gain and loss items have no effect on taxation.*

4. 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 (%)		Loss per share (RMB)	
Loss during the reporting period	Fully diluted	Weighted average	Basic loss per share	Diluted loss per share
Net loss attributable to equity shareholders of the Company	(24.691)	(21.978)	(0.411)	(0.411)
Net loss deducted extraordinary gain and loss attributable to equity shareholders of the Company	(23.794)	(21.179)	(0.396)	(0.396)

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

5.1 Statement of impairment of assets of the Group

		At 1 January 2008 RMB'000	Increase for the year RMB'000	Decrease for the year RMB'000	At 31 December 2008 RMB'000
1.	**Total provisions for bad and doubtful debts**	8,511	2,301	6,993	**3,819**
	Including: Accounts receivable	1,258	1,986	2,409	**835**
	Prepayments	–	315	153	**162**
	Other receivables	7,253	–	4,431	**2,822**
2.	**Total provisions for diminution in value of inventories**	12,599	43,644	–	**56,243**
	Including: Raw materials	–	2,991	–	**2,991**
	Finished goods	–	35,402	–	**35,402**
	Spare parts and consumables	12,599	5,251	–	**17,850**
3.	**Total provisions for impairment of fixed assets**	12,302	441,087	3,959	**449,430**
	Including: Plant and buildings	1,140	518	918	**740**
	Machinery, equipment and others	11,162	440,569	3,041	**448,690**
4.	**Total**	33,412	487,032	10,952	**509,492**

5.2 Statement of impairment of assets of the Company

		At 1 January 2008 RMB'000	Increase for the year RMB'000	Decrease for the year RMB'000	At 31 December 2008 RMB'000
1.	**Total provisions for bad and doubtful debts**	7,723	2,301	6,205	**3,819**
	Including: Accounts receivable	470	1,986	1,621	**835**
	Prepayments	–	315	153	**162**
	Other receivables	7,253	–	4,431	**2,822**
2.	**Total provisions for diminution in value of inventories**	12,599	43,644	–	**56,243**
	Including: Raw materials	–	2,991	–	**2,991**
	Finished goods	–	35,402	–	**35,402**
	Spare parts and consumables	12,599	5,251	–	**17,850**
3.	**Total provisions for impairment of fixed assets**	11,409	441,087	3,066	**449,430**
	Including: Plant and buildings	247	518	25	**740**
	Machinery, equipment and others	11,162	440,569	3,041	**448,690**
4.	**Total**	31,731	487,032	9,271	**509,492**

Financial Summary

6. **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 2008 *RMB'000*	At 31 December 2007 *RMB'000*	Change *(%)*	Reason for change
Prepayments	**23,648**	72,674	(67.5)	Decrease in prepayments for purchasing raw materials at the current year end
Inventories	**831,453**	1,257,187	(33.9)	Decrease in raw materials due to fall in the price of materials at the current year end
Long-term equity investments	**25,803**	156,184	(83.5)	Increase in loss of jointly controlled entity during the current year
Construction in progress	**272,012**	89,566	203.7	The Company started new construction projects during the current year
Deferred tax assets	**–**	90,989	(100.0)	The Company wrote off certain deferred tax assets recognised in prior years during the current year
Bills payable	**115,000**	–	Not applicable	Increase in unsettled bills issued for purchasing raw materials at the current year end
Advances from customers	**244,437**	109,743	122.7	Advances received from customers increased at the current year end
Employee benefits payable	**61,345**	136,101	(54.9)	No unpaid year-end bonuses remained at the current year end
Taxes payable	**17,979**	12,211	47.2	Increase in education surcharge tax payables at the current year end
Provisions	**5,198**	–	Not applicable	Provisions for losses on breach of contracts increased.
Deferred income	**15,000**	–	Not applicable	The Company received government grants related to the projects under construction
Accumulated losses	**(1,899,776)**	(254,491)	646.5	Net loss for the current year

Item	For the year ended 2008 *RMB'000*	2007 *RMB'000*	Change *(%)*	Reason for Change
Business taxes and surcharges	**29,355**	44,141	(33.5)	Decrease in city development tax and education surcharges during the current year
Net financial income	**45,946**	28,051	63.8	Increase in net exchange gains during the current year
Impairment loss	**475,925**	3,935	11,994.7	Increase in fixed asset impairment and provisions for diminution in value of inventories during the current year
Investment loss	**130,381**	21,756	499.3	Increase in loss of jointly controlled entity during the current year
Non-operating income	**8,165**	20,371	(59.9)	Decrease in gain on disposal of fixed assets and intangible assets during the current year
Income tax expenses	**90,693**	(14,104)	Not applicable	The Company wrote off certain deferred tax assets recognised in prior years during the current year

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

	Net (loss)/profit attributable to equity shareholders of the Company		Total equity attributable to equity shareholders of the Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
PRC Accounting Standards for Business Enterprises (2006)	**(1,645,285)**	17,817	**6,663,392**	8,308,677
IFRSs	**(1,641,317)**	22,312	**6,526,532**	8,167,849

For detailed explanations of differences, 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 2008. The Group's consolidated turnover decreased by 11.4 per cent to RMB15,224,524,000 (2007: RMB17,175,656,000). After two consecutive years of making profits, the Group encountered another year of operating loss due to the tough market environment and recognised the impairment in respect of filament production facilities amounting to RMB425,494,000. In 2008, the loss attributable to equity shareholders of the Company was RMB1,641,317,000 and basic loss per share was RMB0.410, while the profit attributable to equity shareholders of the Group was RMB22,312,000 and basic earning per share was RMB0.006 in 2007.

Pursuant to the requirements of the PRC's Company Law and the Company's Articles of Association, the Board proposed that no final cash dividend would be paid for the year ended 31 December 2008 (final cash dividend for 2007: Nil).

In 2008, the Group experienced an extremely difficult operational environment. In the first half of 2008, the global market price of crude oil constantly hit new heights, pushing the prices of raw materials, coal and other fuels up by big margins. Meanwhile, owing to the impact of PRC's tightened macroeconomics, the appreciation of the Renminbi, the decrease in VAT rebates rate and rising labour costs, downstream textile enterprises faced significant difficulties in their export business. The high costs of raw materials and tough market environment considerably shrank the profit margin of the Group's products. With the spread of the global financial crisis into the real economy from the third quarter, downstream textile enterprises, facing the pressure of decreasing demand both from home and broad, sharply reduced their demand for polyester products. At the same time, the global crude oil price slumped, resulting in a drastic drop in price of polyester raw material and polyester products and causing considerable losses from the diminution in value of the raw material stock and product inventory.

In 2008, faced with the unprecedentedly tough situation, the Group continued to strengthen fine management, try to expand its operations, reduce costs and expenses and optimise product structure to actively cope with various market risks.

In 2008, the Group maintained safe and stable operations with a relatively high capacity utilization rate. According to the cost and margin situation and market changes, the Group actively optimized operation plans, adjusted facilities operation load and tried to produce and sell more profitable products. The Group consistently pushed forward the fine management, deepened individual line accounting, individual facility accounting and individual product accounting, and effectively fulfilled targets for cost and expense reduction. Substantial results in energy saving have been achieved. Compared with those of 2007, comprehensive energy consumption for main products, total industrial water consumption and total COD emission decreased by 2.3 per cent, 4.4 per cent and 1.7 per cent respectively. New projects construction went on smoothly. The main construction of the high performance polyethylene project with an annual capacity of 300 tonnes was completed at the end of 2008, and was put into trial operation in early 2009. The aramid fiber project with an annual capacity of 100 tonnes was also put into trial operation in February 2009.

In 2009, the impact of global financial crisis is expected to deepen, while uncertainties about the global economy remain. Due to decreasing global consumption and demand, the PRC's textile and garment exports will experience slower growth and therefore, the domestic polyester industry will encounter an even tougher operational environment. However, the Chinese government has initiated a series of policies and measures to stimulate economic growth, and we believe these will effectively boost domestic consumption and create opportunities to increase domestic demand for polyester products.

In 2009, the Group will follow the market lead and aim for profitability, strengthen fine management, intensify market development and customer service, advance science and technology innovation, and product development, look to save energy, reduce costs and expenses, and explore and push forward increment asset restructuring and upgrading for sustainable development. To achieve these goals, the Group will (1) actively answer the call of market, strengthen product marketing and raw material purchases to expand its profit margin; (2) comprehensively implement a safety and environmental protection responsibility system to maintain the safe and stable operation of facilities; (3) focus on product-upgrading and industry-upgrading, advance science and technology, and develop new products; (4) strictly fine management, and thoroughly mine the potential to improve efficiency; (5) actively explore favourable conditions to propel industrial upgrading and efficient development. The high performance polyethylene project, with an annual capacity of 300 tonnes, which was put into trial operation in early 2009, and the aramid fibre project, with an annual capacity of 100 tonnes, which was also put into trial operation in February 2009, will be the Group's new profit growth points in 2009.

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 to the Group.

Qian Heng-ge
Chairman

30 March 2009, Nanjing

Business Review and Prospects

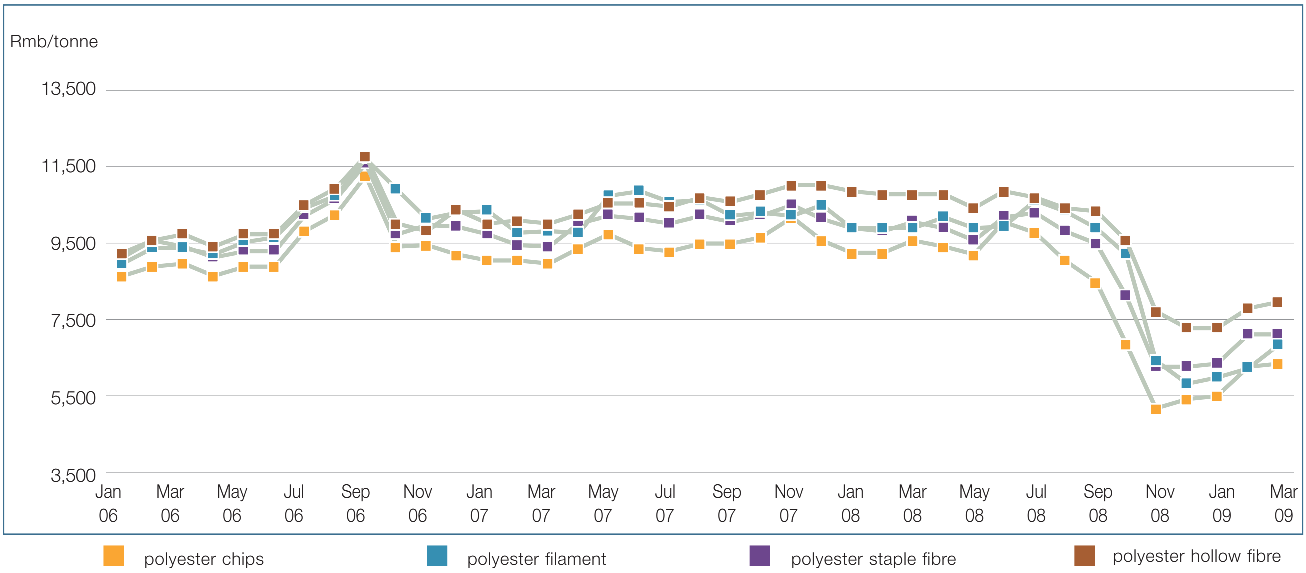
Financial figures, where applicable, contained herein have been extracted from the financial statements prepared in accordance with IFRSs.

In 2008, faced with the unprecedentedly tough base, the Group continued to strengthen fine management, try to expand its operations, reduce costs and expenses and optimize product structure to actively cope with various market risks.

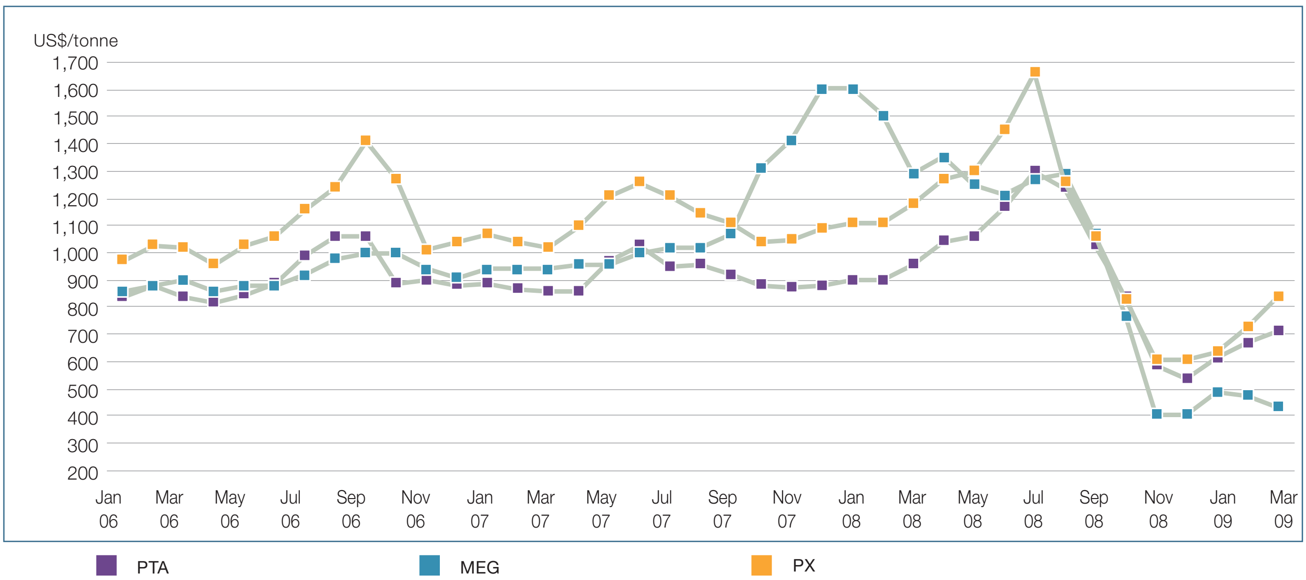
1. MARKET REVIEW

In 2008, the domestic polyester industry experienced price fluctuations: rising in the first half of 2008 and dropping in the second, resulting in a drastic shrinkage in polyester products' profit margin and an extremely difficult business environment. In the first half of 2008, as the global market price of crude oil soared, the costs of polyester raw materials increased significantly. Meanwhile, the increase in the selling prices of polyester products was much lower than the rise in raw material costs because of the severe operational environment and slowing demand for downstream textile products. As a result, the profit margin of polyester products fell significantly. With the spread of the global financial crisis to the real economy in the third quarter, global crude oil prices plummeted repeatedly and demand for polyester products weakened further, causing prices for polyester raw materials' and products' prices to drop dramatically.

PRODUCT PRICES QUOTED BY THE COMPANY (EXCLUDING VAT)



RAW MATERIAL CONTRACT PRICE OFFERED BY INTERNATIONAL SUPPLIERS



In 2008, domestic polyester production capacity increased greatly, further complicating the oversupply in the domestic polyester industry. Polyester production capacity grew by almost 2.0 million tonnes in 2008 and total polyester production capacity amounted to 25.0 million tonnes at the end of 2008. The volume of the total domestic supply of polyester fibre amounted to 20,994,400 tonnes, an increase of 5.4 per cent over that of 2007. Of the total volume, the domestic production volume increased by 4.5 per cent and the import volume decreased by 26.7 per cent as compared with their respective amounts in 2007. Meanwhile, the slowing growth of PRC textile and clothes exports drove the export volume to USD189.62 billion, 8.0 per cent higher than 2007, but below the 11.1 percentage points growth rate in 2007. Total domestic consumption of polyester fibre amounted to 18,685,400 tonnes, an increase of 2.5 per cent over 2007. Domestic demand for polyester fibre has been slowing down.

Domestic supply and demand of polyester fibre

	Polyester filament			Polyester staple fibre			Polyester fibre		
	2008 ’000 tonnes	2007 ’000 tonnes	+/(-) (%)	**2008 ’000 tonnes**	2007 ’000 tonnes	+/(-) (%)	**2008 ’000 tonnes**	2007 ’000 tonnes	+/(-) (%)
Production volume	**12,829.2**	12,127.2	5.4	**7,216.4**	6,999.5	3.1	**20,045.6**	19,176.7	4.5
Import volume	**182.5**	246.5	(26.0)	**144.9**	200.3	(27.7)	**327.4**	446.8	(26.7)
Export volume	**803.7**	652.2	23.2	**462.8**	417.8	10.8	**1,266.5**	1,070.0	18.4
Net import	**(621.2)**	(405.7)	53.1	**(317.9)**	(217.5)	46.2	**(939.1)**	(623.3)	50.7
Inventories at beginning of the year	**378.4**	221.1	71.1	**243.0**	70.0	247.1	**621.4**	291.1	113.5
Year-end inventories	**733.1**	378.4	93.7	**309.4**	243.0	27.3	**1,042.5**	621.4	67.8
Total supply volume	**13,390.1**	12,644.8	5.9	**7,604.3**	7,269.8	4.6	**20,994.4**	19,914.6	5.4
Total consumption volume	**11,853.3**	11,614.2	2.1	**6,832.1**	6,609.0	3.4	**18,685.4**	18,223.2	2.5

Source: The Chemical Fibre Association of China

2. PRODUCTION AND OPERATION REVIEW

(1) Production and Marketing

In 2008, the Group maintained safe and stable operations with a relatively high capacity utilisation rate. Responding to the cost and margin situation and market changes, the Group actively optimised its operating plans, adjusted its facilities operation load and endeavoured to produce and sell more profitable products. The total production volume of polyester products amounted to 2,050,447 tonnes, a decrease of 3.9 per cent compared with the 2,133,145 tonnes produced in 2007. The capacity utilisation rate reached 93.9 per cent. The total production volume of PTA amounted to 987,894 tonnes, a decrease of 3.6 per cent compared with the 1,024,919 tonnes produced in 2007. The Group’s total sales volume of polyester products amounted to 1,662,470 tonnes in 2008, a decrease of 3.0 per cent compared with the 1,714,726 tonnes sold in 2007. Excluding self-consumption volume and other factors, the ratio of sales to production reached 100.1 per cent. In 2008, the Group’s export volume of polyester products fell to 120,622 tonnes, a decrease of 16.7 per cent over the 144,833 tonnes for 2007.

(2) Cost control

In 2008, the weighted average price of the Group’s polyester products (excluding VAT) decreased by 8.8 per cent compared with last year, while the weighted average purchase prices of the Group’s principal purchased raw materials, such as PTA, mono-ethylene glycol (“**MEG**”) and parxylene (“**PX**”), decreased by 7.5 per cent. The Group tried to increase the profit margin of polyester products by reducing expense management, procurement and sales expenses, and by strengthening fine management in production and operation. Measures for reducing costs and expenses were implemented together. Energy saving was effectively advanced, since compared with 2007, the comprehensive energy consumption for main products decreased by 2.3 per cent, total industrial water consumption decreased by 4.4 per cent and total COD emissions decreased by 1.7 per cent. By exerting great efforts to improve the proportion of direct selling and to reduce intermediary sales expenses, the Group’s selling expenses were 3.5 per cent lower than in 2007. Due to increases in salaries, staff welfare fees and social insurance, the Group’s administrative expenses increased by 18.9 per cent compared with 2007. Due to the increase in net exchange gains, net finance income increased by 63.8 per cent compared with 2007. The total increase in selling expenses, administrative expenses and net finance income was 6.7 per cent on that of 2007.

Business Review and Prospects

(3) R&D

In 2008, the Group further exerted the integral advantage of product development team, and extended the work of fixing production line, variety and customer to organise product development and production. Thirty-seven new polyester products were successfully developed and ten patent rights were obtained. Products such as specialised chips for polyester sheet material SH701, fluorescent brightened sewing thread, specialised FDY for Oxford Nylon and FDY for blankets were put into batch production and sales commenced. In 2008, the Group's total production volume of specialised polyester chips amounted to 812,379 tonnes; the specialised rate was 81.0 per cent, 0.8 percentage points lower than last year. The total production volume of differential polyester fibre amounted to 483,073 tonnes and the differential rate of polyester fibre was 71.9 per cent, 2.9 percentage points higher than that of last year.

(4) Internal Reform and Management

In 2008, the Group strictly implemented its internal control system to standardise internal management and control operational risks. The quality of management was further strengthened, and quality standards were enhanced to further regulate and improve product quality. A new round of "Compete for Appointment" was carried out for management and technology positions to further optimise position standards and staff allocation. Meanwhile, the Group extended performance evaluation to establish an effective stimulating and binding mechanism.

(5) Capital expenditure

In 2008, the Company's total capital expenditure amounted to RMB258,591,000. With a clearer outlook on sustainable development, the Company's new projects were implemented smoothly. The main construction of the high performance polyethylene project, with an annual capacity of 300 tonnes, was completed at the end of 2008, and was put into trial operation in early 2009. The aramid fiber project with an annual capacity of 100 tonnes was also put into trial operation in February 2009.

3. BUSINESS PROSPECTS AND WORK PLAN

(1) Market Analysis

According to the 2009 market analysis, the Group believes firstly, due to the impact of the financial crisis on real economy, the global economy will enter a recession. The PRC's textile export will face an even tougher market situation which will in turn weaken demand for polyester products. Secondly, the expansion of the domestic polyester industry will continue worsing existing over-capacity, and harming the profit margin of polyester products. On the other hand, the Chinese government has taken series of policies and measures to stimulate economic growth, which the Group believes should effectively boost domestic consumption and create opportunities to increase domestic demand for polyester products.

It is expected that global crude oil price will continue to fluctuate. Supply shortages of polyester raw materials will be eased as domestic new facilities for polyester raw material are put into operation. Polyester producers will be in better position to negotiate for the purchase price of raw materials. However, domestic polyester producers are still facing a difficult business environment of slowed demand growth for polyester products from downstream textile enterprises.

(2) Business strategy

In 2009, the Group will maintain its market orientation, focus on profit, strictly fine manage and intensify market development and customer service; advance scientific and technological innovation and product research and development; carry out energy savings and cost and expense reduction; and explore and push forward incremental assets restructuring and upgrading for sustainable development. To achieve these targets, the Group will set the following priorities for 2009:

I. Actively answer the call of market, strengthen product marketing and raw material purchases to expand profit margin

The Group will actively face up to the market challenges to increase revenue and profit. To realise its goals, the Company will: (1) further strengthen market development and customer service to shift concept from "selling products" to "selling services" and to promote product brand value; (2) balance and optimise its inventory structure according to market and customer requirements to ensure an effective ratio between production and sales; (3) closely follow-up and analyse the raw material market both at home and abroad to secure supply and reduce procurement costs. To meet the target ratio of 100 per cent sales-to-production, the planned volume of polyester products sales is 1,694,000 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 its safety and environment management, further implement its safety responsibility system, and strengthen its spot management and controls over key facilities to reduce unexpected production interruptions and maintain safe, stable, high-grade, and low energy-consumption operations. Meanwhile, the Group will enhance environmental management by implementing clean production and establishing a long-term clean production mechanism. In 2009, the planned volume of polyester product production is 2,224,000 tonnes, of which self-consumption volume is 530,000 tonnes. The planned production volume of PTA is 1,000,000 tonnes.

III. Focus on product-upgrading and industry-upgrading and push forward scientific and technological advancement and product development

The Group will further utilise the integrated strength of its product development team to develop new products and continually optimize product structure. Meanwhile, in accordance with the spirit of upgrading by transformation and sustainable development, the Company will push forward scientific and technological advancement and product development, and further optimise the production technology of its 100 ton-grade aramid fibre and high performance polyethylene fibre, and accelerate the research and development on technology and equipment for 1000 ton-grade production. The Group will develop and research new applications of polyester products in non-fibre fields to transform the structure of its polyester products. In 2009, 40 product items are planned for new development. The Group's projected production volume of differentiated fibre and specialised polyester chips products for 2009 will be 458,000 tonnes and 913,000 tonnes, respectively, while the differential rates for differentiated and specialised products are expected to be 70.1 per cent and 87.7 per cent.

IV. Strictly fine manage to achieve potential and enhance efficiency

The Group will further extend overall budget control and firmly manage unplanned expenses to achieve cost reduction targets. The Group will reinforce internal control management to control business risk, push forward energy savings and strengthen whole-area, whole-personnel and whole-process energy saving management to enhance the efficiency of resource utilization. Meanwhile, the Group will speed up the construction of energy saving projects, such as natural gas replacing heavy oil project, air-separating facilities and the second phase of its marsh gas power generation project. Compared with 2008, the Group wishes to reduce comprehensive energy consumption for main products by 3.0 per cent, total industrial water consumption by 1.0 per cent and total COD emission by 0.8 per cent.

V. Actively create favourable conditions for industrial upgrading and sustainable development

With the trial operation of the two projects such as the aramid fibre project with an annual capacity of 100 tonnes and the high performance polyethylene project with an annual capacity of 300 tonnes, the Group will focus particularly on actively promoting these products. The 1,000 ton-grade projects on these two products will be initiated as soon as possible. Meanwhile, the Group will organise resources to plan new projects. If conditions mature, new projects will be put into construction to enhance the Company's profitability in the future. The main pipeline construction of natural gas/heavy oil replacement project was completed in the first quarter of 2009 and will be put into operation as early as possible to reduce fuel costs.

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 55 to 102 and pages 103 to 171, 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 2008, faced with a difficult operating environment, the Group endeavoured to strengthen fine management, optimise production and operations, further reduce costs and expenses, and optimise products structure to mitigate diversified market risks.

(1) Turnover

In 2008, the Group maintained a safe and stable operation with a relatively high capacity utilization rate. According to the cost and margin situation and market changes, the Group actively optimized operation plans, adjusted facilities operation load and tried to produce and sale more profitable products. The total production volume of polyester products was 2,050,447 tonnes, representing a decrease of 3.9 per cent as compared with that of 2,133,145 tonnes for last year. The average capacity utilization rate for polyester facilities reached 93.9 per cent. The total production volume of PTA amounted to 987,894 tonnes, a decrease of 3.6 per cent as compared with that of 1,024,919 tonnes for last year. The average capacity utilization rate for PTA facilities reached 93.9 per cent.

Production volume

	For the year ended 31 December			
	2008		2007	
	Production volume *(tonnes)*	**Per cent of total production volume *(%)***	Production volume *(tonnes)*	Per cent of total production volume *(%)*
Polyester products				
Polyester Chips (including intermediate products)	**1,378,460**	**67.2**	1,457,946	68.3
Of which: bottle-grade polyester chips	**375,662**	**18.3**	416,318	19.5
Staple fibre	**448,751**	**21.9**	447,596	21.0
Hollow fibre	**51,760**	**2.5**	52,783	2.5
Filament	**171,476**	**8.4**	174,820	8.2
Total	**2,050,447**	**100.0**	2,133,145	100.0

In 2008, the Group's total sales volume of the polyester products was 1,662,470 tonnes, representing a decrease of 3.0 per cent from the 1,714,726 tonnes sold in 2007. Excluding the self-consumed volume and other factors, the ratio of sales to production reached 100.1 per cent. The export sales volume of the polyester products was 120,622 tonnes, representing a decrease of 16.7 per cent compared with the 144,833 tonnes sold in 2007. Due to the decrease in the price of polyester raw materials and the substantial decline in demand for polyester products from downstream textiles, the prices of polyester products dropped sharply. The weighted average prices (excluding VAT) of the Group's polyester products decreased from RMB9,779 per tonne to RMB8,922 per tonne during the year, representing an 8.8 per cent decrease. Prices of polyester products decreased more than the prices of polyester raw materials, leading the profit margin of polyester products to shrink dramatically.

Sales volume

	For the year ended 31 December			
	2008		2007	
	Sales volume *(tonnes)*	**Per cent of total sales volume *(%)***	Sales volume *(tonnes)*	Per cent of total sales volume *(%)*
Polyester products				
Polyester chips	**987,869**	**59.4**	1,025,404	59.8
Of which: bottle-grade polyester chips	**374,502**	**22.5**	416,166	24.3
Staple fibre	**451,399**	**27.2**	456,325	26.6
Hollow fibre	**51,458**	**3.1**	53,314	3.1
Filament	**171,744**	**10.3**	179,683	10.5
Total	**1,662,470**	**100.0**	1,714,726	100.0

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

	For the year ended 31 December		
	2008	2007	Change (%)
Polyester products			
Polyester chips	**8,701**	9,458	(8.0)
Staple fibre	**9,120**	10,084	(9.6)
Hollow fibre	**10,073**	10,831	(7.0)
Filament	**9,332**	10,528	(11.4)
Weighted average price	**8,922**	9,779	(8.8)

Turnover

	For the year ended 31 December			
	2008		2007	
	Turnover *RMB'000*	**Per cent of turnover %**	Turnover *RMB'000*	Per cent of turnover %
Polyester products				
Polyester chips	**8,595,629**	**56.5**	9,698,563	56.5
Staple fibre	**4,116,609**	**27.0**	4,601,461	26.8
Hollow fibre	**518,316**	**3.4**	577,443	3.3
Filament	**1,602,670**	**10.5**	1,891,669	11.0
Others	**391,300**	**2.6**	406,520	2.4
Total	**15,224,524**	**100.0**	17,175,656	100.0

In 2008, due to the decrease in sales volume and weighted average prices of polyester products (excluding VAT) by 3.0 per cent and 8.8 per cent respectively as compared with last year, the Group's turnover was RMB15,224,524,000, representing a decrease of 11.4 per cent as compared with RMB17,175,656,000 for last year.

Management Discussion and Analysis

(2) Cost of sales

In 2008, the Group's cost of sales amounted to RMB15,653,672,000, representing 102.8 per cent of the turnover, an increase of 6.4 percentage points compared with 2007. Total costs of raw materials decreased by RMB1,428,649,000, from RMB14,313,927,000 in 2007 to RMB12,885,278,000 in 2008, accounting for 82.3 per cent of the cost of sales in 2008. The decrease in the total costs of raw materials was mainly due to the decline in the purchase costs of raw materials. The Group's weighted average purchase prices of polyester raw materials decreased by 7.5 per cent as compared with last year. Of which, the average purchase costs of PTA, PX and MEG decreased by 2.2 per cent, 3.9 per cent and 15.2 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 organise the safe and stable operation of facilities, reduce costs and expenses, optimise products structure and reduce energy consumption.

In 2008, despite the cost of sales decreasing by 5.4 per cent as compared with last year, the Group's gross loss was RMB429,148,000 due to the decrease in turnover by 11.4 per cent as compared with last year, while the Group's gross profit was RMB620,514,000 in 2007.

(3) Selling, administrative and net finance income

	For the year ended 31 December		
	2008	2007	Change
	RMB'000	*RMB'000*	*(%)*
Selling expenses	**187,146**	193,918	(3.5)
Administrative expenses	**351,656**	295,838	18.9
Net finance income	**(45,946)**	(28,051)	63.8
Total	**492,856**	461,705	6.7

In 2008, by exerting great efforts to improve the proportion of direct selling and to reduce intermediary sales expenses, selling expenses decreased by RMB6,772,000 as compared with last year. Due to increases in salaries, staff welfare fees and the social insurances, administrative expenses increased by RMB55,818,000 as compared with last year. Due to a significant increase in net exchange gains, the net finance income increased by RMB17,895,000 as compared with last year. The total increase in selling expenses, administrative expenses and net finance income was 6.7 per cent from that of 2007.

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

	For the year ended 31 December		
	2008	2007	Change
	RMB'000	*RMB'000*	*%*
Operating (loss)/profit	**(1,464,866)**	7,842	(18,779.8)
(Loss)/profit before taxation	**(1,549,301)**	11,366	(13,731.0)
Income tax expense/(credit)	**92,016**	(11,890)	Not applicable
(Loss)/profit attributable to equity shareholders of the Company	**(1,641,317)**	22,312	(7,456.2)
(Loss)/earnings per share (in RMB)	**(0.410)**	0.006	(7,456.2)

In 2008, despite the Group making great efforts to strengthen fine management, optimise production and operations, reduce costs and expenses, and optimise the product structure, the Group's loss before taxation and loss attributable to equity shareholders of the Company was RMB1,549,301,000 and RMB1,641,317,000 respectively. In comparison, the Group's profit before taxation and profit attributable to equity shareholders of the Company for 2007 was RMB11,366,000 and RMB22,312,000 respectively. The difference was caused by marked fluctuations in the prices of crude oil and raw materials, a significant decrease in the demand from downstream industries, high fuel costs and the impairment of RMB425,494,000 for the filament production facilities.

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

Products	**Operating income** *RMB'000*	**Cost of sales** *RMB'000*	**Gross profit margin** *%*	**Increase/ (decrease) in operating income as compared with last year** *%*	**Increase/ (decrease) in cost of sales as compared with last year** *%*	**Gross profit margin as compared with last year**
Polyester products	14,833,224	14,822,082	0.1	(11.5)	(6.7)	Decreased by 5.2 percentage points
Of which: connected transactions	184,736	185,488	(0.4)	(6.9)	(1.1)	Decreased by 5.9 percentage points

During 2008, the Company did not sell any products or provide any services to its controlling shareholders or their subsidiaries.

(6) Operations of jointly controlled entity in 2008

Yihua UNIFI Fibre Industry Company Limited ("**Yihua UNIFI**") is the jointly controlled entity of the Company. The Company and UNIFI Asia Holding SRL ("**UNIFI Asia**") holds 50 per cent of the equity interest of Yihua UNIFI respectively. Yihua UNIFI, 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 2008, the total assets of Yihua UNIFI were RMB380,628,000. For the year ended 31 December 2008, Yihua UNIFI made a loss of RMB260,762,000.

(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 2008. On 18 February 2009, the Company entered into a conditional Equity Transfer Agreement with UNIFI Asia to acquire UNIFI Asia's 50% equity interest in Yihua UNIFI for a consideration of US$9 million, subject to Chinese regulatory approval and certain customary closing conditions. The regulatory approval and customary closing conditions were completed on 2 March 2009. Following the acquisition, Yihua UNIFI will become a wholly-owned subsidiary of the Company. The excess of the purchase consideration over the Company's additional interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of Yihua UNIFI at the acquisition date was approximately RMB22 million.

Management Discussion and Analysis

2. FINANCIAL ANALYSIS

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

(1) Assets, liabilities and shareholders' equity analysis

	At 31 December 2008 *RMB'000*	At 31 December 2007 *RMB'000*	Changes in amount *RMB'000*
Total assets	**8,280,424**	9,931,984	(1,651,560)
Current assets	**3,842,986**	4,468,311	(625,325)
Non-current assets	**4,437,438**	5,463,673	(1,026,235)
Total liabilities	**1,753,892**	1,764,135	(10,243)
Current liabilities	**1,738,892**	1,764,135	(25,243)
Non-current liabilities	**15,000**	–	15,000
Total equity attributable to equity shareholders of the Company	**6,526,532**	8,167,849	(1,641,317)

As at 31 December 2008, the Group's total assets were RMB8,280,424,000, total liabilities were RMB1,753,892,000, and total equity attributable to equity shareholders of the Company was RMB6,526,532,000. Compared with the assets and liabilities as at 31 December 2007 (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 RMB8,280,424,000, a decrease of RMB1,651,560,000 as compared with the end of last year. Current assets were RMB3,842,986,000, a decrease of RMB625,325,000 as compared with the end of last year. The decrease was mainly due to the decrease in trade and other receivables by RMB368,599,000 as the turnover of the Group decreased during the year and the Group enhanced control over collection of debts during the current year. Meanwhile, inventories decreased by RMB425,734,000 owing to the decline in the prices of raw materials. Non-current assets were RMB4,437,438,000, a decrease of RMB1,026,235,000 as compared with the end of last year, which was mainly due to the impairment of RMB425,494,000 for the filament production facilities and due to ordinary depreciation and amortisation.

Total liabilities were RMB1,753,892,000, a decrease of RMB10,243,000 as compared with the end of last year. Current liabilities were RMB1,738,892,000, a decrease of RMB25,243,000 as compared with the end of last year, which was mainly due to the decrease of RMB30,432,000 in trade and other payables. Non-current liabilities were RMB15,000,000, an increase of RMB15,000,000 compared with the end of last year, which was mainly due to the increase of RMB15,000,000 in deferred income in 2008.

Total equity attributable to equity shareholders of the Company was RMB6,526,532,000, a decrease of RMB1,641,317,000 as compared with the end of last year, mainly due to RMB1,641,317,000 for loss attributable to equity shareholders of the Group in 2008.

As at 31 December 2008, the ratio of total liabilities to total assets was 21.2 per cent, and 17.8 per cent as at 31 December 2007.

(2) Cash flow analysis

At the end of 2008, cash and cash equivalents increased by RMB381,547,000, representing an increase from RMB459,747,000 as at 31 December 2007 to RMB841,294,000 as at 31 December 2008. The following table lists major items in the consolidated cash flow statement of the Group for the year 2008 and 2007.

Major items in cash flow statement	2008 *RMB'000*	2007 *RMB'000*	Changes in amount *RMB'000*
Net cash used in operating activities	**(51,637)**	(68,349)	(16,712)
Net cash generated from/(used in) investing activities	**433,184**	(404,818)	838,002
Net cash used in financing activities	**–**	(239)	239
Net increase/(decrease) in cash and cash equivalents	**381,547**	(473,406)	854,953
Cash and cash equivalents at the beginning of the year	**459,747**	933,153	(473,406)
Cash and cash equivalents at the end of the year	**841,294**	459,747	381,547

In 2008, the Group's net cash outflow from operating activities was RMB51,637,000, representing an decrease of RMB16,712,000 as compared with last year. The decrease in interest paid and income tax paid in 2008 led to the decrease of the net cash outflow from operating activities by RMB17,451,000.

In 2008, the Group's net cash inflow from investing activities was RMB433,184,000, an increase of cash inflow by RMB838,002,000 as compared with last year. This was mainly due to the following:

(1) Deposits with banks and other financial institutions decreased by RMB510,000,000 in 2008, while there had been an increase of RMB457,000,000 in 2007. As a result, the net cash inflow from investing activities increased by RMB967,000,000.

(2) In 2007, the proceeds from the disposal of a subsidiary was RMB96,952,000, while no such income was received in 2008, causing the net cash inflow from investing activities to decrease by RMB96,952,000.

In 2008, the Group's net cash outflow from financing activities was nil, a decrease of cash outflow by RMB239,000 as compared with last year, as no dividends were paid to minority shareholders in 2008.

(3) Bank borrowings

As at 31 December 2008, the Group's bank borrowings were nil (31 December 2007: nil).

(4) Assets charges

For the year ended 31 December 2008, there were no any charges on the Group's assets.

(5) Management of foreign exchange risk

The Group's operations are mainly dominated in Renminbi and foreign currency needed was mainly dominated in US dollars. The Group's receivable and payable items are settled immediately under current items. Therefore, fluctuations in foreign exchange rates have no material adverse effect on the Group.

(6) Debt-equity ratio

The debt-equity ratio of the Group was nil for 2008 (2007: nil). The ratio is computed as long-term borrowings divided by the sum of long-term borrowings and shareholders' equity.

Management Discussion and Analysis

3. CAPITAL EXPENDITURE

In 2008, the Company's capital expenditure amounted to RMB258,591,000. With a clearer outlook on sustainable development the Company's new projects were implemented smoothly. The main construction of the high performance polyethylene project, with an annual capacity of 300 tonnes, was completed at the end of 2008, and was put into trial operation in early 2009. The aramid fiber project with an annual capacity of 100 tonnes was also put into trial operation in February 2009.

The Company's capital expenditure for 2009 is expected to be approximately RMB753,710,000. It will mainly invest in project such as reducing energy consumption, safety and environmental protection, reducing costs and expenses, and preparation works for the planning of new projects. To maximise its return on investment, the Group will strengthen its 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 2008.

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 nine meetings during the reporting period, the details of which are as follows:

(1) The twenty-fifth meeting of the fifth term of the Board was held on 7 April 2008. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times and the website of HKSE on 8 April 2008.

(2) The twenty-sixth meeting of the fifth term of the Board was held on 29 April 2008. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times and the website of HKSE on 30 April 2008.

(3) The twenty-seventh meeting of the fifth term of the Board was held on 30 July 2008. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times and the website of HKSE on 31 July 2008.

(4) The twenty-eighth meeting of the fifth term of the Board was held on 25 August 2008. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times and the website of HKSE on 26 August 2008.

(5) The twenty-ninth meeting of the fifth term of the Board was held on 24 October 2008. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times and the website of HKSE on 27 October 2008.

(6) The thirtieth meeting of the fifth term of the Board was held on 30 October 2008. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times and the website of HKSE on 31 October 2008.

(7) The thirty-first meeting of the fifth term of the Board was held on 6 November 2008. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times and the website of HKSE on 7 November 2008.

(8) The thirty-second meeting of the fifth term of the Board was held on 28 November 2008. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times and the website of HKSE on 1 December 2008.

(9) The first meeting of the sixth term of the Board was held on 23 December 2008. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times and the website of HKSE on 24 December 2008.

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

During the reporting period, the Board executed the resolutions of the shareholders' meeting of A shares market, the Annual General Meeting for 2007 ("**2007 AGM**") and Extraordinary General Meeting ("**EGM**") for 2008.

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 Group's principal activities are the production and sale of polyester chips and polyester fibre, and the production of the 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.

Report of the Board of Directors

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 shares	–	–	–	–	–	–	–	–	–
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 or in the capital structure of the Company.

The Company acknowledged that, based on information available to the Company immediately before publishing the 2008 Annual Report, and understood by its Directors, 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	29 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 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 2008 was as follows:

Type	Number of shareholders
Legal person share ("A" share)	2
Social public share ("A" share)	44,993
"H" share	683
Total	45,678

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

As at 31 December 2008, the shareholdings of the top 10 major shareholders and circulating shareholders of the Company were as follows:

Number of shareholders at the end of the year	45,678

Report of the Board of Directors

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	1,381,643,005	34.54	Circulating shares	Nil
CITIC Group Corporation ("**CITIC**") ***	Domestic legal person shareholder	720,000,000	18.00	720,000,000	Nil
Agricultural Bank of China – China Post Core Well-chosen Share-type Securities Investment Fund	Domestic Circulating shares	12,376,938	0.31	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
Guangzhou Yidian Engineering & equipment Install Corporation	Domestic Circulating shares	1,599,599	0.04	Circulating shares	Not applicable
Lu Bao-hong	Domestic Circulating shares	1,330,000	0.033	Circulating shares	Not applicable
Beijing Buchang Pharm-Biology Technology Company Limited	Domestic Circulating shares	1,140,000	0.029	Circulating shares	Not applicable
Cheung Kwong Kwan	Overseas capital shareholder	1,000,000	0.025	Circulating shares	Not applicable
Zhou Gao-feng	Domestic Circulating shares	856,880	0.021	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**	1,381,643,005	"H" shares
Agricultural Bank of China – China Post Core Well-chosen Share-type Securities Investment Fund	12,376,938	Circulating "A" shares
China Minsheng Banking Corporation – Orient Well-chosen Mix-type Open-end Securities Investment Fund	4,019,847	Circulating "A" shares
Guangzhou Yidian Engineering & equipment Install Corporation	1,599,599	Circulating "A" shares
Lu Bao-hong	1,330,000	Circulating "A" shares
Beijing Buchang Pharm-Biology Technology Company Limited	1,140,000	Circulating "A" shares
Cheung Kwong Kwan	1,000,000	"H" shares
Zhou Gao-feng	856,880	Circulating "A" shares
Xu Xiu-fang	780,000	Circulating "A" shares
Wang Rong-an	737,639	Circulating "A" shares
Explanation of connected relationship or activities in concert among the above shareholders	The Company is not aware of any connected relationship or activities in concert among the above shareholders.	

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

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

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

Report of the Board of Directors

3. *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 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.

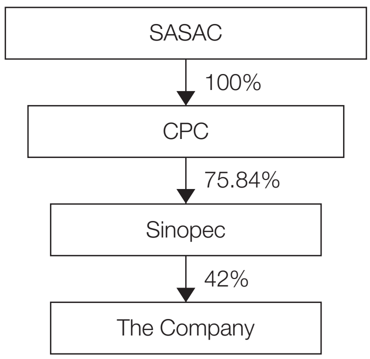
During the reporting period, there was no change in the controlling shareholder of the Company.

4. *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 reorganisation in 2000, CPC injected its principal petroleum and petrochemical operations into Sinopec, and retained operations in certain "small-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 was no change in the controlling company of the controlling shareholder of the Company.

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



5. *Other substantial shareholders*

   (1) *CITIC*

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

Legal representative	:	Kou Dan
Registered capital	:	RMB 30,000,000,000
Date of establishment	:	4 October 1979
Principal activities	:	providing services in banking, securities, insurance, trusts, futures, rent, and engaging in the industries of information, material, engineer, and import and export.

   (2) The shares held by HKSCC (Nominees) Limited are on behalf of its customers. As at 31 December 2008, the Company was not informed of whether any of its individual "H" shareholders held more than 10 per cent of the total shares of the Company.

6. *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 2008, so far as the Directors, Supervisors and Senior Management of the Company are aware each of the following persons, not being a Director, Supervisor or Senior Management of the Company, had an interest in the Company's shares requiring disclosure 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 (%)**	**Per cent of shareholding in the Company's total issued domestic shares (%)**	**Per cent of shareholding in the Company's total issued H shares (%)**	**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 2008, CPC holds 75.48% of the equity interest in Sinopec.*

Except as disclosed above and so far as the Directors, Supervisors and Senior Management of the Company are aware, as at 31 December 2008, no other person had an interest or short position in the Company's shares or underlying shares (as the case may be) requiring disclosure 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

At the EGM of the Company held on 23 December 2008, Mr. Qian Heng-ge, Ms. Sun Zhi-hong, Mr. Xiao Wei-zhen, Ms. Long Xing-ping, Mr. Zhang Hong, Mr. Guan Diao-sheng, Mr. Qin Wei-zhong, Mr. Shen Xi-jun, Mr. Shi Zhen-hua, Mr. Qiao Xu, Mr. Yang Xiong-sheng and Mr. Chen Fang-zheng were elected as Directors of the sixth term Board. Of which, Mr. Shi Zhen-hua, Mr. Qiao Xu, Mr. Yang Xiong-sheng and Mr. Chen Fang-zheng were appointed as independent directors. Mr. Chen Jian, Mr. Shi Gang and Mr. Wang Bing were elected as Supervisors of the sixth term Supervisory Committee, of whom Mr. Shi Gang and Mr. Wang Bing were independent supervisors. Mr. Cao Yong and Mr. Tao Chun-sheng were elected by employees of the Company as the employee representative supervisors at the sixth term of the Supervisory Committee.

Ms. Li Zhong-he, Mr.Wang Hua-cheng, Ms. Yi Ren-ping and Ms. Qian Zhi-hong, the Independent Directors of the Company, retired from their offices as Independent Directors. The Board of Directors expresses its sincere gratitude to Ms. Li, Mr.Wang, Ms. Qian and Ms. Yi for their contributions to the Company during their terms of office.

Profiles of Present Directors, Supervisors and Senior Management

Directors

1. Mr. Qian Heng-ge, aged 58, Chairman of the Company, Secretary of Chinese Communist Party Committee (the "CCPC") of the Company, and Senior Economist (at professor level). Mr. Qian joined Sinopec Asset and Management Corporation (formerly "Yihua Group Corporation") in 1984. From then, he 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. In June 2007, he was also appointed as manager of Yihua. In December 2008, he was re-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 1988, majoring in business administration. He completed an MBA in Nanjing University in 2000.

2. Ms. Sun Zhi-hong, aged 59, 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 has 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 2008. 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 55, Vice Chairman and General Manager of the Company, and Senior Engineer (at professor level). Mr. Xiao receives special subsidies from the State Council of the PRC. Mr. Xiao joined Yihua in 1982. Since then, he has served as Deputy Director and Chief Engineer of Polyester Plant No. 2, and then Director of Polyester Plant No. 4 of the Company. In November 1996, he was appointed as Deputy General Manager of the Company. In December 1997, he was transferred to 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. In December 2008, he was re-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 an MBA in Nanjing University in 2003.

4. Ms. Long Xing-ping, aged 57, 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 2008, 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 50, 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 2008, 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 46, Director of the Company, Deputy Director of Chemicals Segment of Sinopec, Master of Engineering, Senior Engineer. Mr. Guan has worked in the petrochemical industry since 1985. He served as Deputy Director of the Technology Department of Liaoyang Oil & Chemical Fibre Company in 1991, Deputy Director of the 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 was re-elected in December 2008. 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. Qin Wei-zhong, aged 37, Director of the Company, Deputy Director of Development and Plan Department of Sinopec, Master of Engineering, Senior Engineer. Mr. Qin joined the petrochemical industry in 1996. He served as Deputy Director of the Strategic Plan Section of Development and Plan Department of CPC in 1998, Director of the Chemicals Plan Section of Development and Plan Department of CPC in 2000, Manger Assistant of Sinopec Beijing Yanshan Branch in 2003, Deputy Director of Development and Plan Department of Sinopec in October 2004, and served as Director of New Energy Office in 2007. In December 2008, he was elected as Director of the Company. Mr. Qin has extensive experience in planning and management in chemicals industry. Mr. Qin graduated from Tsinghua University in 1993, majoring in macromolecular chemical, and electronics and computer technology, and obtained two bachelor's degrees. Mr. Qin obtained a Masters degree in macromolecular chemical from Tsinghua University in 1996.

8. Mr. Shen Xi-jun, aged 48, 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 served as Deputy Director of Polyester Plant No.3 and 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 2008, 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, the China National Textile Council, the Human Resources Department of Jiangsu Provincial Government and the 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 an MBA in Nanjing University in 1997. Mr. Shen graduated from Research Institute of Petroleum Processing in 2006, majoring in applied chemistry and became Doctor of engineering in 2006.

Report of the Board of Directors

9. Mr. Shi Zhen-hua*, aged 62, Independent Director of the Company and former Chief of Environmental Protection Department of Jiangsu Province. He was appointed as secretary to the Party Committee and the director general of Xuzhou Environmental Protection Bureau in 1984, the vice director general of Jiangsu Environmental Protection Department in 1991, and the secretary to the Party Committee and the deputy chief to the Jiangsu County Environmental Protection Bureau in 1997. In December 2008, he was elected as Independent Director of the Company. Over the years, he has been engaged in various management aspects such as environmental protection, environmental management and environmental resources, and contributed to different environmental reformation and innovation projects. He has been awarded various honours, including the China Environment Award. He is the Delegate of the 10th National People's Congress. Mr. Shi graduated from the Department of Geography of Nanjing University in 1969.

10. Mr. Qiao Xu*, aged 47, Independent Director of the Company and the Vice President of Nanjing University of Technology. He obtained a PhD in engineering, and is a professor and tutor for doctoral students. He has been a tutor, lecturer, assistant professor and professor at the Nanjing Chemical Institute. Since 1993, he has been the vice head of Department of Chemistry, Deputy Dean of the College of Chemistry and Chemical Engineering, Dean of Pujiang Institute and the Chief of the office of school affairs. He took up his current position in July 2007. In December 2008, he was elected as Independent Director of the Company. Mr. Qiao was also appointed as external director of Jiangsu Salt Group Company LTD. Over the years, he was engaged in teaching undergraduates, masters and doctoral students in chemistry engineering and technology specialty as well as professional research, and has obtained various honours and achievements in teaching and research. He was named the outstanding teacher of general high school in Jiangsu, the outstanding technologist of Jiangsu, the academic leader and the Young and Middle-aged Technological Leader. Mr. Qiao graduated from the Department of Biochemistry of Nanjing Chemical Institute in 1982, he obtained his master degree from the Department of Chemical Engineering of Zhejiang University in 1987, and his doctorate degree from the Department of Chemical and Engineering of Nanjing University of Chemistry in 1999.

11. Mr. Yang Xiong-sheng*, aged 49, Independent Director of the Company and the Accounting Professor of Nanjing University. He possesses a doctorate degree in Accounting, and is also a professor and a tutor for doctoral students. At present, Mr. Yang is a part-time professor for tertiary institutions such as Hohai University, Nanjing University of Science and Technology, Anhui University of Finance and Economics, Anhui University of Technology, Zhejiang University of Finance and Economics. He is also an academic member and Vice-Secretary of the Accounting Society of China, a member of the Committee on Internal Control Standards of Enterprises for the Ministry of Finance, an expert consultant on the accounting standards of the Ministry of Finance, and vice president of the Jiangsu Province Accounting Association. In December 2008, he was elected as Independent Director of the Company. Over the years, he has conducted research on internal controls, accounting theories, financial management and accounting management.

12. Mr. Chen Fang-zheng, aged 62, Independent Director of the Company and currently the Director of Social Security Institute of Tongji University and the tutor for doctoral students of the Faculty of Economics and Management of Tongji University. He served as a visiting scholar in the University of Waterloo in Canada from 1993 to 1994. He was the Director of Finance and Investment Institute, the Director of the Finance Department and the Director of the Economy Research Centre in Southeast University. He was also the executive vice president of Commercial Institute, the Dean of the Department of Economy and Finance and the Director of Applied Economics Subcommittee in Tongji University. He was appointed as a tutor for doctoral students majoring in Management Science and Engineering by Tongji University in 1997. He was the member of CPPCC Jiangsu Province and the member of appraisal team of the ninth five-year plan and tenth five-year plan for Jiangsu Philosophical and Social Science. He was appointed the Dean of Economics and Management Institute by Zhejiang Ocean University. He was appointed an expert by the United Nations in 2001 and was also appointed expert by China Development Bank. He has hosted and participated in projects from United Nations Development Programme, the National Natural Science Funds and the National Social Science Funds. In December 2008, he was elected as Independent Director of the Company. Mr. Chen graduated from Hefei University of Technology in 1969, majoring in measurement.

* *Independent Directors*

Supervisors

1. Mr. Cao Yong, aged 50, 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 the Planning and Developing Department, Deputy Director and Director of Polyester Plant No. 3. In December 1997, he was transferred to be Deputy Director of the 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 the 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, and re-elected in December 2008. 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 an MBA in Nanjing University in 2000. In January 2005, he obtained an engineering masters degree from Suzhou University, majoring in material engineering. As a supervisor, Mr. Cao represents the Company's staff.

2. Mr. Tao Chun-sheng, aged 53, Supervisor of the Company, Deputy Secretary of the Discipline and Inspection Commission and Director of the Supervisory Department of the Company, and Senior P&I Engineer. Mr. Tao joined Yihua in 1987, and has 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 the positions of Deputy Director of General Manager Office and Office for the Party Committee. He became Deputy Secretary of the Discipline and Inspection Commission and Deputy Director of the Supervisory Department of the Company and Yihua in September 2004. In March 2005, he was elected as Supervisor of the Company. In January 2006, he was appointed as Director of Supervisory Department of the Company. In December 2008, he was re-elected as Supervisor of the Company. Mr. Tao has extensive experience in large-scale enterprise. Mr. Tao graduated from the Distance Learning College of the Communist Party Central Academy in December 1994, majoring in business administration, and became an undergraduate. As a supervisor, Mr. Tao represents the Company's staff.

3. Mr. Chen Jian, aged 46, Supervisor of the Company and Project Manager of Overall Planning Department of CITIC, and Engineer. Mr. Chen had served as a technician and engineer in chemical fibre enterprise. He was elected as Supervisor of the Company in December 1999 and re-elected in December 2008. 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 48, 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 and re-elected in December 2008. For a long period of time, Mr. Shi has held senior management positions in commercial banks and has extensive experience in banking. Mr. Shi graduated from the Distance Learning College of the Communist Party Central Academy in 1995, majoring in economic administration.

5. Mr. Wang Bing**, aged 37, 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 and re-elected in December 2008. 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*

Report of the Board of Directors

Senior Management

1. Mr. Li Jian-xin, aged 51, 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 has been 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 an MBA at Nanjing University in 2000.

2. Mr. Zhang Zhong-an, aged 48, 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 the Production Department. In January 2002, He served as Deputy General Engineer and Director of the 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 an MBA in Nanjing University in 2000.

3. Mr. Li Jian-ping, aged 46, Chief Financial Officer of the Company, Chief Legal Consultant and Senior Accountant. Mr. Li has been engaged in the audit and financial management of large-scale chemical enterprise for a long period of time. He has 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 the financial management of large-scale chemical enterprise. Mr. Li graduated from Shanghai University of Finance & Economics in 1986, majoring in accounting, and obtained a Master of Economics degree in Shanghai University of Finance & Economics in 1989.

4. Mr. Tom C. Y. Wu, aged 47, 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 operations. 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. Mr. Wu graduated from the Department of Chemical Engineering of Zhejiang University in 1982, majoring in macromolecular chemistry, and obtained an 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 2008 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 third meeting of the sixth term of the Board held on 30 March 2009.

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, the 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	At the end of the year	Stock option of the Company held	Reason for change
Qian Heng-ge	Chairman	Dec. 2008-Dec.2011	2,000	2,000	Nil	No Change
Sun Zhi-hong	Vice Chairwoman	Dec. 2008-Dec.2011	0	0	Nil	No Change
Xiao Wei-zhen	Vice Chairman and General Manager	Dec. 2008-Dec.2011	0	0	Nil	No Change
Long Xing-ping	Director	Dec. 2008-Dec.2011	0	0	Nil	No Change
Zhang Hong	Director	Dec. 2008-Dec.2011	0	0	Nil	No Change
Guan Diao-sheng	Director	Dec. 2008-Dec.2011	0	0	Nil	No Change
Qin Wei-zhong	Director	Dec. 2008-Dec.2011	–	0	Nil	Not applicable
Shen Xi-jun	Director, Deputy General Manager	Dec. 2008-Dec.2011	0	0	Nil	No Change
Shi Zhen-hua	Independent Director	Dec. 2008-Dec.2011	–	0	Nil	Not applicable
Qiao Xu	Independent Director	Dec. 2008-Dec.2011	–	0	Nil	Not applicable
Yang Xiong-sheng	Independent Director	Dec. 2008-Dec.2011	–	0	Nil	Not applicable
Chen Fang-zheng	Independent Director	Dec. 2008-Dec.2011	–	0	Nil	Not applicable
Cao Yong	Chairman of Supervisory Committee	Dec. 2008-Dec.2011	0	0	Nil	No Change
Tao Chun-sheng	Supervisor	Dec. 2008-Dec.2011	0	0	Nil	No Change
Chen Jian	Supervisor	Dec. 2008-Dec.2011	0	0	Nil	No Change
Shi Gang	Independent Supervisor	Dec. 2008-Dec.2011	0	0	Nil	No Change
Wang Bing	Independent Supervisor	Dec. 2008-Dec.2011	0	0	Nil	No Change
Li Jian-xin	Deputy General Manager	From Jul. 2007	0	0	Nil	No Change
Zhang Zhong-an	Deputy General Manager	From Jul. 2004	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
Li Zhong-he	Former Independent Director	Dec. 2005-Dec.2008	0	0	Nil	No Change
Wang Hua-cheng	Former Independent Director	Dec. 2005-Dec.2008	0	0	Nil	No Change
Yi Ren-ping	Former Independent Director	Dec. 2005-Dec.2008	0	0	Nil	No Change
Qian Zhi-hong	Former Independent Director	Dec. 2005-Dec.2008	0	0	Nil	No Change

Report of the Board of Directors

(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
Qin Wei-zhong	Sinopec	Deputy Director of Development and Plan Department	From October 2004	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 2008

Name	Salaries *(RMB ten thousand)*
Qian Heng-ge	26.4
Sun Zhi-hong	26.4
Xiao Wei-zhen	26.4
Long Xing-ping	22.1
Zhang Hong	22.1
Guan Diao-sheng	–
Shen Xi-jun	22.1
Li Zhong-he	4.0
Wang Hua-cheng	4.0
Yi Ren-ping	4.0
Qian Zhi-hong	4.0
Cao Yong	22.1
Tao Chun-sheng	15.8
Chen Jian	22.1
Shi Gang	3.0
Wang Bing	3.0
Li Jian-xin	22.1
Zhang Zhong-an	22.1
Li Jian-ping	22.1
Tom C. Y. Wu	15.8
Total remuneration for the year	RMB309.6 in total
Allowances to Independent Directors	RMB16.0 in total
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 2008.

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

As at 31 December, 2008, 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 positions which any such Director, Supervisor or Senior Management has 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 18 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 sixth term of the Board of the Company entered into a service contract with the Company on 23 December 2008. 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 2009;

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 RMB2,240,000 within the contract term.

Each Independent Director of the sixth term of the Board entered into a service contract with the Company on 23 December 2008. 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 2009;

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 sixth term of the Supervisory Committee entered into a service contract with the Company on 23 December 2008. 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 2009;

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 sixth term of the Supervisory Committee entered into a service contract with the Company on 23 December 2008. 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 2009;

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

As at 31 December 2008, the Company had 7,421 registered employees, a decrease of 510 employees year-on-year. Total retired staff amounted to 2,194.

The Company had 29 employees with masters degrees or higher, 851 employees with bachelors degrees or higher, 1,854 employees with a tertiary or higher education background, and 6,096 employees with senior high school or higher educational background.

The Company had 4,982 production staff, 89 sales staff, 617 engineers, technicians and research staff at the product technology center, 61 financial personnel and 364 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 5 of "Significant Events" of the Annual Report.

Results

The results of the Group for the year ended 31 December 2008 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 loss of the Company for 2008 was RMB1,487,489,000 (the loss attributable to equity shareholders of the Company for 2008 was RMB1,526,800,000 under IFRSs). Accumulated losses, including the accumulated losses of RMB412,287,000 brought forward from the previous year, were RMB1,899,776,000 at the end of 2008.

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

According to the relevant regulations of the PRC and the Articles of Association of the Company, no final dividend was paid for the year ended 31 December 2008. Meanwhile, the Board of Directors proposed to use statutory surplus reserve and discretionary surplus reserve amounting to RMB1,456,004,000 to make good the Company's previous years' losses at 30 March 2009. The proposal is subject to the approval by the shareholders.

The above proposed profit distribution scheme and the proposed scheme of surplus reserve making previous years' losses shall be submitted for approval at the 2008 AGM.

No interim or final dividends were paid for 2005, 2006 or 2007.

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

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

FINANCIAL ASSETS AND FINANCIAL LIABILITIES IN FOREIGN CURRENCY

	At 1 January 2008 *RMB'000*	At 31 December 2008 *RMB'000*
Financial assets		
Comprising: Loans and receivables	164,121	51,666
Cash at hand and on bank	2,124	1,716
Subtotal of financial assets	166,245	53,382
Financial liabilities	1,019,391	398,378

EXPLANATION ON THE ACCOUNTING POLICIES FOR THE ADOPTION OF NEW ACCOUNTING STANDARDS

In accordance with China Accounting Standards Bulletin No. 2 and the Notice on preparing 2008 annual reports of enterprises adopting China Accounting Standards (Caikuaihan [2008] No. 60) , which were newly issued by the Ministry of Finance in 2008, and the Interpretation Guidance of China Accounting Standards published in December 2008, the Group changed some accounting policies in the current year. Please refer to note 4 of the financial statements prepared in accordance with the ASBE (2006).

For detailed explanations of the differences between the financial statements prepared in accordance with the ASBE (2006) and the IFRSs, please refer to the section "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 26 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 had no bank loans and other borrowings as at 31 December 2008.

SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES

Particulars of the Company's subsidiaries and jointly controlled entities as at 31 December 2008 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 28 of the financial statements prepared in accordance with the IFRSs of the Annual Report.

Report of the Board of Directors

MAJOR SUPPLIERS AND CUSTOMERS

For the year ended 31 December 2008, 29.3 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 2008, aggregate purchase amounts from the top five largest suppliers were RMB7,567,588,000, representing 53.0 per cent of total purchases amounts. The top two of the five largest suppliers were the controlling shareholder of the Company – Sinopec and its connected persons, and had no connected relationship with any of the Company's directors.

For the year ended 31 December 2008, aggregate sales amounts to the top five largest customers were RMB2,212,455,000, representing 14.5 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 2009, is to be proposed at 2008 AGM.

The signing Certified Public Accountants of the Company's domestic auditors, KPMG Huanzhen, are Gong Wei-li and Wu Xiao-lei.

SHAREHOLDERS' GENERAL MEETING

During the reporting period, at its registered place in Yizheng City, Jiangsu Province on 15 January 2008, 28 May 2008 and 23 December 2008, the Company held respectively its the shareholders' meeting of A shares market, 2007 AGM and EGM. 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 43 to the page 49 in the Annual Report.

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

By Order of the Board
Qian Heng-ge
Chairman
30 March 2009, 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 seventh meeting of the fifth term Supervisory Committee was held on 7 April 2008. The meeting mainly considered the explanation of the operation achievements and financial results for 2007, assets disposal and financial budget for 2008. The meeting earnestly talked about the resolution regarding disposal of partial assets. In addition, the meeting approved the 2007 report of the Supervisory Committee and listened to the 2007 report of Independent Supervisors. The annual report of the Group for 2007 was also approved.

2. The eighth meeting of the fifth term Supervisory Committee was held on 25 August 2008. The meeting considered the explanation of interim results for 2008 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 2008 was also approved.

3. The first meeting of the sixth term Supervisory Committee was held on 23 December 2008. The meeting considered and approved the resolution regarding the election of Chairman of the sixth term Supervisory Committee. The Supervisory Committee unanimously agreed that Mr. Cao Yong shall be the Chairman of the sixth term Supervisory Committee.

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 2008, the Company experienced an extremely difficult operational environment. In the first half of 2008, the global market price of crude oil constantly hit new heights, pushing up the prices of raw materials, coal and other fuels by large margins. Meanwhile, owing to the slowing of demand for polyester products from downstream, the profit margin of polyester products was significantly compressed. In the second half of 2008, with the spread of the global financial crisis into the real economy, the global crude oil price slumped, resulting in a drastic drop in the price of polyester raw material and polyester products. This caused considerable losses for the diminution in value of the raw material stock and product inventory. Faced with the unprecedentedly tough situation, the Company earnestly carried out requirements of the Board and exerted great effort to expand business and to fulfill various targets. Firstly, the Group maintained safe and stable operation. The production volume of PTA and polyester products amounted to 987,894 tonnes and 2,050,447 tonnes respectively. The average capacity utilisation rate for polyester facilities and PTA facilities reached 93.9 per cent. The overall energy consumption for main products decreased by 2.3 per cent compared with 2007. Secondly, the Company enhanced control over operational risks. According to the cost and margin situation and market changes, the Group actively optimised operation plans, adjusted facilities operation load and tried to produce and sell more profitable products. Sales volume of polyester products amounted to 1,662,470 tonnes, while export volume amounted to 120,622 tonnes. Thirdly, the Company continued to advance fine management, further deepened individual line accounting, individual facility accounting and individual product accounting, and effectively fulfilled targets for cost and expense reduction. Meanwhile, the Company advanced steadily all reform adjustment work. A new round of "Compete for Appointment" was carried out for management and technology positions. Fourthly, the Company steadily advanced scientific and technological innovation, achieving new effects on product development. In 2008, the specialised rate of polyester chips and the differential rate of polyester fibre were 81.0 per cent and 71.9 per cent respectively. Fifthly, new projects construction went on smoothly. The main construction of the high performance polyethylene project with an annual capacity of 300 tonnes was completed at the end of 2008, and was put into trial operation in early 2009. The aramid fibre project with an annual capacity of 100 tonnes was also put into trial operation in February 2009. Energy saving projects such as using natural gas and the improvements of stove desulphurisation, were put into construction according to plan.

Report of the Supervisory Committee

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 examined the Company's financial position and has reviewed the Financial Statements audited by KPMG and KPMG Huazhen, in which unqualified audit opinions were issued.

   The Supervisory Committee believes that KPMG and KPMG Huazhen follow the basic principles of independence, objectivity and fairness when carrying out their audits. KPMG and KPMG Huazhen issued unqualified audit opinions on the Company's financial statements. 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 relevant regulations.

   The Company treated the connected transactions in compliance with relevant 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 standardised and complete procedures. There was nothing identified that had impaired the interests of shareholders or had caused any reduction of the Company's assets.

   In 2009, the impact of global financial crisis is expected to deepen and uncertainties remain with the global economy. The 2009 market competition situation remains challenging, with various uncertainties. We believe that the Company will earnestly carry out the Board's decisions, further optimise existing assets and upgrade new assets by catching hold of all favourable opportunities, and implementing measures of reform, development, and cost reduction to provide 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
30 March 2009, 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. IMPROVEMENT OF CORPORATE GOVERNANCE

During the reporting period, the Company's relevant work has been orderly carried out in accordance with the corporate governance arrangements of the China Securities Regulatory Commission (the "**CSRC**"). Based on relevant documents issued by the CSRC and the Jiangsu Securities Regulatory Bureau, the Company conducted self-examination to identify problems, and considered and approved the "Report of Self-Examination on Corporate Governance and Improvement Plan" in the twenty-first meeting of the fifth term of the Board, held on 14 September 2007. "A Rectification Report on Corporate Governance of the Company" was considered and approved in the twenty-third meeting of the fifth term of the Board held on 8 November 2007. In 2008, the Company continued to improve its corporate governance and concluded the rectifications regarding corporate governance. On 30 July 2008, the twenty-seventh meeting of the fifth term of the Board approved "Explanation of Completion on rectifying Corporate Governance" and disclosed this in both the domestic and overseas listing markets.

As at the end of the reporting period, except that the Company's Articles of Association has not yet been revised in accordance with the "Guide to Company Article of Listed Companies (2006)", other rectifications have been completed on schedule. Because the Company's Articles of Association were made in accordance with "Necessary Terms for Company Article of Overseas Listed Companies" (hereafter called as "**Necessary Terms**") and the "Necessary Terms" have been revised, the Company is preparing to revise the Articles of Association once the "Necessary Terms" are confirmed. The inconsistency between the "Necessary Terms" and the "Guide to Company Article of Listed Companies" has been specified. Over the half years, the Company has actively communicated with the CSRC and completed the revision of the Company's Articles of Association based on referring to other overseas listed companies. On 30 March 2009, the revision was approved in the third meeting of the sixth term of the Board, and is to be proposed at the 2008 AGM.

Based on "Operation Details of General Manager" (enacted), "Performance System of Independent Director" (revised) and "Performance Rules of Audit Committee" (revised) in 2007, in order to normalising the cash flow between the Company with the controlling shareholders and other related parties, the Company enacted "Measures for Preventing Funds Occupied by the Controlling Shareholders and Other Related Parties" pursuant to the requirement of CSRC company [2006] No. 92 and Su CSRC company [2008] No. 325. Meanwhile, "Rules on Collection, Confidentiality and Disclosure for Sensitive Information" which was the appendix of "Information Disclosure System of Sinopec Yizheng Chemical Fibre Company Limited" was enacted to improve the information disclosure system and to eliminate inside trading. These two rules were approved in the thirty-second meeting of the fifth term of the Board held on 28 November 2008.

The company will take this chance to enhance its system of information disclose and internal control. Furthermore, in light of the "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 and board of directors meetings, enhance duty concept of directors (including independent director) and improve corporate governance.

2. IMPROVEMENT OF INTERNAL CONTROL SYSTEM

The Company set up management and functional departments for 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 out annual and half-yearly checkups and evaluations of the deployment and made appropriate revisions. In light of the new regulatory requirements both locally and overseas, the system was examined and revised by the twenty-fifth meeting of the fifth term held on 7 April 2008.

The Self-evaluation Report on Internal Control System was considered and approved by the third meeting of the sixth term held on 30 March 2009, and was disclosed on the website of the SSE and the HKSE.

Corporate Governance Report

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 the legitimate rights and interests of minority shareholders. The Independent Directors have expressed their independent comments on the Company's connected transactions, the Company's share reform scheme, funds occupied by the controlling shareholders and other related parties, and the candidates for the sixth term Directors and Supervisors during the reporting period.

During the reporting period, in accordance with the requirements of the CSRC, the Company revised the "Performance System of Independent Director", establishing reporting systems on annual report and correspondence. In preparing the 2007 annual report, through on-site examination and face to face communication, the Company enhanced relevant works on reporting to its independent directors. The "Performance System of Independent Director" was approved by the twenty-fifth meeting of the fifth term of the Board on 7 April, 2008 and was implemented.

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

In accordance with the requirement of the announcement of the CSRC [2008] No. 48, the Company further revised "Performance System of Independent Director", which was approved by the third meeting of the sixth term of the Board on 30 March 2009 and was implemented.

4. INFORMATION ON THE FULFILLMENT OF RESPONSIBILITIES BY SPECIAL COMMITTEE UNDER THE BOARD

In 2008, the Audit Committee and the Remuneration Committee under the fifth term of the Board perform its duties earnestly under the guide of the Board.

(1) During the reporting period, according to the requirements of the CSRC, the Company revised the "Performance Rules of Audit Committee" on 7 April 2008, adding several duties and procedures to audit committee for examining annual reports. After communication with auditors, the fifth auditing meeting was held on 16 January 2008. At the meeting, the schedule and scope of audit works were confirmed with the auditors – KPMG Huazhen and KPMG, and the 2007 financial statements were examined. At the sixth auditing meeting held on 20 March 2008, the audit committee reviewed the 2007 financial statements which were examined by the auditors. At the seventh auditing meeting held on 7 April 2008, the 2007 financial statements and a report made by auditors summarising the 2007 audit work were approved. The proposal of re-appointment of KPMG Huazhen and KPMG as the Company's domestic and international auditors in 2008 was also passed and will be submitted to the Board of directors for approval. In the audit committee's opinion, the financial statements for the year 2007 complied with the requirements of China Accounting Standards for Business Enterprises (2006) and presented fairly, in all material respects, the consolidated financial position of the Company as at 31 December 2007, and the consolidated results of operations and the consolidated cash flows of the Company for the year then ended.

In accordance with the requirements of the announcement of the CSRC [2008] No. 48, the Company further revised the "Performance Rules of Audit Committee", which was approved by the third meeting of the sixth term of the Board on 30 March 2009 and was implemented.

(2) In 2008, the Remuneration Committee held its third 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 submitted them to the twenty-fifth meeting of the fifth term of the Board for approval.

In 2009, the Remuneration Committee will further 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 funds or request the Company to guarantee themselves or other parties. The Company has an independent procurement and sales system and senior management and staff are full-time employees and remunerated. The Company's assets are fairly stated, with clear ownership. An independent finance department and independent accounting and financial system have been set up. The Board, the Supervisory Committee and the internal departments of the Company operate independently in accordance with 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, the Company's Remuneration and Assessment Committee 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.

During the reporting period, the Company did not implemented any stock option plan.

7. COMPLIANCE WITH CODE OF CORPORATE GOVERNANCE PRACTICES OF HKSE

During the reporting period, the Company strictly complied with the Code of Corporate Governance of the HKSE. No deviation occurred. The details are as follows:

A.1 The Board

1. The Board meets regularly to fulfill their responsibilities. The fifth term of the Board held four regular meetings and five meetings by written resolutions.

   The Directors' attendance of the Board Meetings

Name	Times in person	Times by Proxies	Absence
Qian Heng-ge	9	–	–
Sun Zhi-hong	9	–	–
Xiao Wei-zhen	9	–	–
Long Xing-ping	9	–	–
Zhang Hong	9	–	–
Guan Diao-sheng	9	–	–
Shen Xi-jun	9	–	–
Li Zhong-he*	9	–	–
Wang Hua-cheng*	9	–	–
Yi Ren-ping*	9	–	–
Qian Zhi-hong*	9	–	–

* *Independent Director*

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

Corporate Governance Report

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.

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. Approaches and ways which Directors acquire necessary information for decision are regulated in the "the Rules and Procedures for the Board" of the Company. Directors may require the General Manger or the relevant department by way of General Manger to provide information and explanation. If Independent Directors consider necessary, Independent Directors may consult independent professionals and the Company shall pay such expenses.

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 sixth term of the Board includes four Independent Directors, of which one Independent Director is a certified public accountant 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 pages 30 to 32 in this annual report.

A.4 Appointment, re-election and removal

1. All Directors are elected by shareholders' general meetings for a term of not more than three 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 six years.

A.5 Responsibilities of Directors

1. All newly elected Director received comprehensive induction on the first occasion of their appointment from the legal advisors of the PRC and Hong Kong of the Company, to ensure that they can be aware of their responsibilities as directors.

2. The detailed responsibilities of Independent Directors are set forth in the Articles of Association and Performance System of Independent Director.

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

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.

A.6 Supply of and access to information

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

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

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

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. The Remuneration Committee under the sixth term of the Board consists of one external Director Ms. Sun Zhi-hong, two Independent Directors — Mr. Qiao Xu and Mr. Chen Fang-zheng and one Supervisor Mr. Tao Chun-sheng who represents the Company Staff; 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 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 on page 36 of this Annual Report.

3. The members of Remuneration Committee can consult the Chairman or the General Manager by regulations, and 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 page 44 in the Annual Report during the reporting period.

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 2008 and of the Group's profit and cash flows for the year. The Directors have selected appropriate accounting policies, made prudent and reasonable judgements and estimates on a going-concern basis.

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

C.2 Internal control

1. The Company has set up an internal control system to guard operational, financial and compliance risks.

2. According to the operating state of the Company's internal monitoring system, the Company has modified its internal control system. During the year, information on the fulfilment of the internal control system during the reporting period is set forth in item 2 "Improvement of Internal Control System" of the "Corporate Governance Report" section in the Annual Report.

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

Corporate Governance Report

C.3 The Audit Committee

1. The Audit Committee under the sixth term of the Board consists of four Independent Directors – Mr. Yang Xiong-Sheng, Mr. Shi Zheng-hua, Mr. Qiao Xu and Mr. Chen Fang-zheng, and one external Director Mr. Zhang Hong, one of whom is an Accountant Professor and certified public accountant of the PRC. Mr. Yang Xiong-Sheng is the head of the Audit Committee.

2. The Company Secretary is also the Secretary of the Audit Committee and provides sustainable services to the members of the Audit Committee.

3. As required under the revised Listing Rules, the Company amended and added the authority and duties of the Audit Committee, including the appointment proposal of the external auditor, the review of the annual report, the interim report and the procedures of the internal control system. The Company revised the "Performance Rules of Audit Committee" on 7 April 2008, adding several duties and procedures for the audit committee to examine the annual report.

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 page 44 in the Annual Report during the reporting period.

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 committee 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 out below is the attendance record of the fifth term of the Board's Committee meeting.

The Audit Committee

Name	Times in person	Times by Proxies	Absence
Wang Hua-cheng	4	–	–
Yi Ren-ping	4	–	–
Li Zhong-he	4	–	–
Qian Zhi-hong	4	–	–
Zhang hong	4	–	–
Shi Gang	3	1	–

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	–	–

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 Company's circulars to the shareholders 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 Chairman attends the shareholders' general meetings as president. The members of the Board and the Senior Management attend the shareholders' general meetings to respond to the inquiries from the shareholders.

The Board has not established a Nomination Committee. In the reporting period, the Company nominated the Director candidates in accordance with its Articles of Association.

Pursuant to the Company's Articles of Association, the candidates for independent directorship may be nominated by the Board, the Supervisory Committee, or one or more shareholders holding in aggregate more than 1 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 5 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 15 of the "Significant Events" section.

Summary of Shareholders' Meetings

1. The shareholders' meeting of A share market relating to the share reform scheme was held at the Conference Centre of Yijing Peninsula Hotel of the Company in Yizheng City, Jiangsu Province, PRC on 15 January 2008. The resolution announcement of the shareholders' meeting of A share market was disclosed in China Securities, Shanghai Securities News, Securities Times and the website of HKSE on 16 January 2008.

2. The 2007 AGM was held at the Conference Centre of Yijing Peninsula Hotel of the Company in Yizheng City, Jiangsu Province, PRC on 28 May 2008. The resolution announcement of the 2007 AGM was disclosed in China Securities, Shanghai Securities News, Securities Times and the website of HKSE on 29 May 2008.

3. The EGM was held at the Conference Centre of Yijing Peninsula Hotel of the Company in Yizheng City, Jiangsu Province, PRC on 23 December 2008. The resolution announcement of the EGM was disclosed in China Securities, Shanghai Securities News, Securities Times and the website of HKSE on 24 December 2008.

Significant Events

1. In accordance with the Articles of Association of the Company, the Board resolved that no interim dividend was paid for the period ended 31 December 2008.

   Because of the significant loss incurred during the reporting period, no final dividend was paid for the year ended 31 December 2008, in accordance with the Company Law and the Articles of Association of the Company.

2. In accordance with the relevant laws and 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 have not brought forward any new share reform proposals at present.

3. During the reporting period, the Group did not have any material litigation or arbitration.

4. During the reporting period, the Group did not acquire or dispose of any assets nor did it conduct any merger or acquisition.

   On 18 February 2009, the Company entered into a conditional Equity Transfer Agreement with UNIFI Asia to acquire UNIFI Asia's 50% equity interest in Yihua UNIFI for a consideration of US$9 million, subject to Chinese regulatory approval and certain customary closing conditions. The regulatory approval and customary closing conditions were completed on 2 March 2009. Following the acquisition, Yihua UNIFI will become a wholly-owned subsidiary of the Company. The excess of the purchase consideration over the Company's additional interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of Yihua UNIFI at the acquisition date was approximately RMB22 million. Yihua UNIFI is an equity joint venture company incorporated in Yizheng City, Jiangsu Province, the PRC, on 28 July 2005 and is owned as to 50% by each of the Company and UNIFI Asia. Yihua UNIFI is principally engaged in the production and processing of differential polyester filament and related products, research and development of polyester and textile products, and after sales services for its products. The total registered capital of Yihua UNIFI is US$60,000,000.

   The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times and the website of HKSE on 19 February 2009.

5. Information on connected transactions

   The Group's material connected transactions entered into during the year ended 31 December 2008 are as follows:

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

Type of transaction	**Transaction parties**	**Amount of transaction** *RMB'000*	**Proportion of the same type of transaction** *%*
Purchase of raw materials	Sinopec and its subsidiaries	7,109,806	49.8
	Of which: Sinopec Yangzi Petrochemical Company Limited	2,950,194	20.7
	China Petroleum & Chemical Corporation, Zhenhai Branch	3,242,969	22.7

Significant Events

The Group is of the opinion that the above-mentioned connected transactions and related connected parties were necessary and continuous, and that the agreements governing these transactions met the requirements of business operation and the 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 prices and had no adverse effect on the Company's profit or independence.

(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, the Company did not supply any non-operating funds to the controlling shareholder or its subsidiaries.

The Board believes that the above transactions were entered into in the ordinary course of business and on normal commercial terms or were 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 41 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 30 March 2009. Auditors of the Company have reviewed the above-mentioned connected transactions and provided a letter to the Board on 30 March 2009.

6. The Company did not lease, contract out or hold in trust any assets for other companies. Furthermore, the Company did not rent or contract any assets from other companies and did not have assets held by other companies.

7. During the reporting period, the Company did not make any guarantees or have any secured assets.

8. As at 31 December 2008, the Group did not have any designated deposits with any financial institutions or any difficulties in collecting deposits upon maturity.

   The Group had no trusted financial matters during the reporting period.

9. 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.

10. 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".

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

    The Company is one of the nine listed companies mentioned above and applied the preferential EIT rate of 15% in prior years. The Company communicated with the relevant tax authorities to assess the situation and was informed that the EIT rate for the Company was adjusted from the original 15% to 33% in 2007. Up till now, the Company has not been requested to pay additional EIT in respect of prior years. The directors of the Company consider that the relevant tax authorities are not likely to request additional EIT from the Company. Consequently, no provision has been made in this financial report in respect of the EIT differences arising from prior years.

12. 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 improvement 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 high performance polyethylene project amounted to RMB101,650,000 has been completed and put into trial operation in early 2009. The estimated investment of the aramid fiber project amounted to RMB62,510,000 and has been put into trial operation in February 2009. The estimated investment of improvement project of stove desulphrization of thermoelectricity center amounted to RMB96,040,000 and is expected to be completed and put into operation in 2009.

13. In view of substantial changes in external factors and after due appraisal, the Company decided to suspend the PTA project with an annual capacity of 1,000,000 tonnes at the end of 2008. At present, the Company has no plans to resume the suspended construction project.

14. In order to refine the core business, during the reporting period, the Company put Yihua Kangqi Chemical Fibre Company Limited ("**Yihua Kangqi**" – the Company's wholly-owned subsidiary) into liquidation. As at 31 December 2008, all the relevant liquidation procedures were completed and all the assets and liabilities of Yihua Kangqi were transferred to the Company at their net book values. As the operation results and financial position of Yihua Kangqi were reflected in each of the Group's prior years' consolidated financial statements, the liquidation had no significant impact on the consolidated income statement for the year ended 31 December 2008. Meanwhile, as investment in Yihua Kangqi was accounted for using the cost method in the Company's financial statements in prior years, a disposal income of RMB158,668,000 has been recognised and included in the Company's income statement for the year ended 31 December 2008.

15. As approved at the 2007 AGM, KPMG Huazhen and KPMG were re-appointed as the Company's domestic and international auditors for 2008, and the Board was authorised to approve their remunerations.

    The amounts of remuneration paid to the domestic and international auditors for the two years ended 31 December 2008 were as follows:

	2008	2007
KPMG Huazhen Audit fee	**RMB1,500,000 yuan (paid)**	RMB1,500,000 yuan (paid)
KPMG Audit fee	**RMB3,300,000 yuan (paid)**	RMB3,300,000 yuan (paid)

Note: The fees included all outlays and business tax.

KPMG Huazhen and KPMG have provided audit services to the Company for 16 years.

Significant Events

16. 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.

17. 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.

18. During the reporting period, neither the fifth term of the Board of the Company nor any of its Directors were subject to investigation by the CSRC, administrative penalties or circulars of criticism released by the CSRC and the Securities and Futures Commission of Hong Kong, nor reprimands published by the SSE or the HKSE.

19. Except for those disclosed above, the Group did not have any major events, or disclosure matters 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 56 to 102, which comprise the consolidated and company balance sheets as at 31 December 2008, 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 requirements 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 2008 and of the Group's loss 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

30 March 2009

Consolidated Income Statement

For the year ended 31 December 2008
(Prepared under International Financial Reporting Standards)

	Note	2008 RMB'000	2007 RMB'000
Turnover	5	**15,224,524**	17,175,656
Cost of sales		**(15,653,672)**	(16,555,142)
Gross (loss)/profit		**(429,148)**	620,514
Other income		**5,308**	19,189
Selling expenses		**(187,146)**	(193,918)
Administrative expenses		**(351,656)**	(295,838)
Other expenses	6	**(493,142)**	(40,386)
Employee reduction expenses	7	**(9,082)**	(101,719)
Operating (loss)/profit before net finance income		**(1,464,866)**	7,842
Financial income	8(a)	**51,729**	36,340
Financial expenses	8(a)	**(5,783)**	(8,289)
Net finance income	8(a)	**45,946**	28,051
Share of loss of jointly controlled entity	18	**(130,381)**	(24,527)
(Loss)/profit before taxation	8	**(1,549,301)**	11,366
Income tax (expense)/credit	9(b)	**(92,016)**	11,890
(Loss)/profit for the year	11	**(1,641,317)**	23,256
Attributable to:			
Equity shareholders of the Company	27	**(1,641,317)**	22,312
Minority interests		**–**	944
(Loss)/profit for the year		**(1,641,317)**	23,256
Basic and diluted (loss)/earnings per share (in RMB)	13	**(0.410)**	0.006

The notes on pages 64 to 102 form part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2008
(Prepared under International Financial Reporting Standards)

	Note	2008 RMB'000	2007 RMB'000
Non-current assets			
Property, plant and equipment	14(a)	**3,970,816**	4,953,561
Construction in progress	15	**272,012**	89,566
Lease prepayments	16	**123,187**	126,430
Interest in jointly controlled entity	18	**25,803**	156,184
Deferred tax assets	9(c)	**45,620**	137,932
		4,437,438	5,463,673
Current assets			
Inventories	19	**831,453**	1,257,187
Trade and other receivables	20	**1,807,778**	2,176,377
Deposits with banks and other financial institutions	21	**362,461**	575,000
Cash and cash equivalents	22	**841,294**	459,747
		3,842,986	4,468,311
Current liabilities			
Trade and other payables	23	**1,733,694**	1,764,126
Provisions	6(a)	**5,198**	–
Income tax payable		**–**	9
		1,738,892	1,764,135
Net current assets		**2,104,094**	2,704,176
Total assets less current liabilities		**6,541,532**	8,167,849
Non-current liabilities			
Deferred income	24	**15,000**	–
Net assets		**6,526,532**	8,167,849

The notes on pages 64 to 102 form part of these financial statements.

Consolidated Balance Sheet (Continued)

As at 31 December 2008
(Prepared under International Financial Reporting Standards)

	Note	**2008** **RMB'000**	2007 RMB'000
Equity			
Share capital	25	**4,000,000**	4,000,000
Share premium		**2,518,833**	2,518,833
Reserves	26	**1,279,928**	1,279,928
(Accumulated losses)/retained profits	27	**(1,272,229)**	369,088
Total equity		**6,526,532**	8,167,849

Approved and authorised for issue by the Board of Directors on 30 March 2009.

Qian Heng-ge
Director

Xiao Wei-zhen
Director

The notes on pages 64 to 102 form part of these financial statements.

Balance Sheet

As at 31 December 2008
(Prepared under International Financial Reporting Standards)

	Note	2008 RMB'000	2007 RMB'000
Non-current assets			
Property, plant and equipment	14(b)	**3,970,816**	4,951,087
Construction in progress	15	**272,012**	89,566
Lease prepayments	16	**123,187**	126,430
Interest in subsidiary	17	**–**	60,456
Interest in jointly controlled entity	18	**25,803**	199,463
Deferred tax assets	9(c)	**45,620**	137,932
		4,437,438	5,564,934
Current assets			
Inventories	19	**831,453**	1,257,187
Trade and other receivables	20	**1,807,778**	2,147,547
Deposits with banks and other financial institutions	21	**362,461**	552,000
Cash and cash equivalents	22	**841,294**	394,953
		3,842,986	4,351,687
Current liabilities			
Trade and other payables	23	**1,733,694**	1,863,289
Provisions	6(a)	**5,198**	–
		1,738,892	1,863,289
Net current assets		**2,104,094**	2,488,398
Total assets less current liabilities		**6,541,532**	8,053,332
Non-current liabilities			
Deferred income	24	**15,000**	–
Net assets		**6,526,532**	8,053,332

The notes on pages 64 to 102 form part of these financial statements.

Balance Sheet (Continued)

As at 31 December 2008
(Prepared under International Financial Reporting Standards)

	Note	2008 RMB'000	2007 RMB'000
Equity			
Share capital	25	**4,000,000**	4,000,000
Share premium		**2,518,833**	2,518,833
Reserves	26	**1,279,928**	1,279,928
(Accumulated losses)/retained profits	27	**(1,272,229)**	254,571
Total equity		**6,526,532**	8,053,332

Approved and authorised for issue by the Board of Directors on 30 March 2009.

Qian Heng-ge
Director

Xiao Wei-zhen
Director

The notes on pages 64 to 102 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008
(Prepared under International Financial Reporting Standards)

	Attributable to equity shareholders of the Company						
	Share capital	Share premium	Reserves	Retained profits/ (accumulated losses)	Total	Minority interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2007	4,000,000	2,518,833	1,259,943	346,776	8,125,552	47,652	8,173,204
Income recognised directly in equity – adjustment of deferred tax on land use rights due to change in income tax rate	–	–	19,985	–	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	–	–	–	–	–	(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
Loss for the year	–	–	–	(1,641,317)	(1,641,317)	–	(1,641,317)
As at 31 December 2008	**4,000,000**	**2,518,833**	**1,279,928**	**(1,272,229)**	**6,526,532**	**–**	**6,526,532**

The notes on pages 64 to 102 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2008
(Prepared under International Financial Reporting Standards)

	2008	2007
	RMB'000	*RMB'000*
Operating activities		
(Loss)/profit before taxation	**(1,549,301)**	11,366
Adjustments for:		
Depreciation charge	**608,361**	643,525
Amortisation of lease prepayments	**3,243**	3,009
Interest income	**(26,123)**	(33,152)
Interest expense	**3,594**	6,243
Share of loss of jointly controlled entity	**130,381**	24,527
Gain on disposal of subsidiaries	**–**	(2,771)
Impairment losses of property, plant and equipment	**441,087**	2,912
Net (gain)/loss on disposal of property, plant and equipment	**(1,991)**	22,337
Gain on disposal of lease prepayments	**(279)**	(8,486)
Operating (loss)/profit before changes in working capital	**(391,028)**	669,510
Decrease in inventories	**425,734**	56,390
Decrease/(increase) in trade and other receivables	**286,029**	(703,619)
Decrease in trade and other payables	**(374,263)**	(69,872)
Increase in provisions	**5,198**	–
Cash used in operations	**(48,330)**	(47,591)
Interest paid	**(3,594)**	(6,243)
Income tax received/(paid)	**287**	(14,515)
Net cash used in operating activities	**(51,637)**	(68,349)

The notes on pages 64 to 102 form part of these financial statements.

Consolidated Cash Flow Statement (Continued)

For the year ended 31 December 2008
(Prepared under International Financial Reporting Standards)

	Note	2008 RMB'000	2007 RMB'000
Investing activities			
Capital expenditure		**(129,735)**	(102,732)
Proceeds from disposal of subsidiaries		**–**	96,952
Proceeds from disposal of property, plant and equipment		**11,517**	16,324
Proceeds from disposal of lease prepayments		**279**	8,486
Interest received		**26,123**	33,152
Government grants received		**15,000**	–
Decrease/(increase) in deposits with banks and other financial institutions		**510,000**	(457,000)
Net cash generated from/(used in) investing activities		**433,184**	(404,818)
Financing activities			
Proceeds from bank loans		**741,000**	329,000
Repayment of bank loans		**(741,000)**	(329,000)
Dividends paid to minority shareholders		**–**	(239)
Net cash used in financing activities		**–**	(239)
Net increase/(decrease) in cash and cash equivalents		**381,547**	(473,406)
Cash and cash equivalents at 1 January		**459,747**	933,153
Cash and cash equivalents at 31 December	22	**841,294**	459,747

The notes on pages 64 to 102 form part of these financial statements.

Notes to the Financial Statements

(Prepared under International Financial Reporting Standards)

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 2008 annual report.

The IASB has issued certain new and revised IFRSs and IASs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 3 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 2008 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)).

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 32.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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)).

(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 and any impairment losses relating to the investment (see accounting policy (s)). The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the jointly controlled entities and any impairment losses 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.

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)).

Notes to the Financial Statements
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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Basis of consolidation (Continued)

(iii) Goodwill

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

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to cash-generating units and is tested annually for impairment (see accounting policy (s)). In respect of jointly controlled entities, the carrying amount of goodwill is included in the carrying amount of the interest in the jointly controlled entity and the investment as a whole is tested for impairment whenever there is objective evidence of impairment (see accounting policy (s)).

Any excess of the group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in profit or loss.

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(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 are carried 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.

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) 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)

(l) 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. Where 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.

(m) Interest-bearing borrowings

Interest bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of borrowings using the effective interest method.

(n) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. 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.

(iv) Government grants

Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in the income statement on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in the income statement over the useful life of the asset by way of reduced depreciation expense.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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) Employee 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 28.

Termination benefits, recorded as employee reduction expenses in the income statement, are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(s) Impairment of assets

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

Investments in equity securities (other than investments in subsidiaries: see accounting policy (s)(ii)) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Impairment of assets (Continued)

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

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

– For investments in jointly controlled entities recognised using the equity method (see accounting policy (c)(ii)), the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with accounting policy (s)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with accounting policy (s)(ii).

– 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, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– construction in progress;

– lease prepayments;

– investments in subsidiaries; and

– goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

  The recoverable amount of an asset is the greater of its fair value less costs to sell 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 first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other 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

  In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

  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.

Notes to the Financial Statements

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Dividends

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

(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 limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) 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.

(w) 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.

(x) 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.

3. CHANGES IN ACCOUNTING POLICIES

The IASB has issued a number of new Interpretations and an amendment to IFRSs that are first effective for the current accounting period of the Group and the Company. However, none of these developments are relevant to the Group's or the Company's operations.

The Group and the Company have not adopted any new standards or interpretations which are not yet effective for the current accounting period (see note 33).

4. SEGMENT REPORTING

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

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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

	2008	2007
	RMB'000	*RMB'000*
Net (gain)/loss on disposal of property, plant and equipment	**(1,991)**	22,337
Impairment losses of property, plant and equipment *(note 14(d))*	**441,087**	2,912
Loss on breach of contracts (note (a))	**34,065**	–
Others	**19,981**	15,137
Other expenses	**493,142**	40,386

(a) During the year ended 31 December 2008, the Group recognised losses on non-cancellable contracts for procurement of equipment amounting to RMB34,065,000, including irrecoverable construction prepayments amounting to RMB28,867,000 and an additional compensation payable on breach of contracts amounting to RMB5,198,000, due to the suspension of the 1,000,000-tonne/year PTA project (see note 15(a)).

7. EMPLOYEE REDUCTION EXPENSES

During the year ended 31 December 2008, the Group recognised employee reduction expenses of RMB9,082,000 (2007: RMB101,719,000) in respect of the reduction of 108 (2007: 1,351) employees.

8. (LOSS)/PROFIT BEFORE TAXATION

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

(a) Net finance income:

	2008	2007
	RMB'000	*RMB'000*
Interest income	**(26,123)**	(33,152)
Net foreign exchange gain	**(25,606)**	(3,188)
Financial income	**(51,729)**	(36,340)
Interest on borrowings	**399**	624
Interest on discounting bills	**3,195**	5,619
Interest expense	**3,594**	6,243
Others	**2,189**	2,046
Financial expenses	**5,783**	8,289
Net finance income	**(45,946)**	(28,051)

8. (LOSS)/PROFIT BEFORE TAXATION (Continued)

(b) Other items:

	2008 RMB'000	2007 RMB'000
Cost of inventories#	**15,653,672**	16,555,142
Staff costs:		
– wages and salaries, welfare and other costs	**446,454**	357,397
– contributions to defined contribution schemes	**127,571**	65,250
Total staff costs#	**574,025**	422,647
Depreciation#	**608,361**	643,525
Repairs and maintenance expenses#	**326,177**	279,587
Research and development expenses	**30,627**	28,611
Auditors' remuneration – audit services	**4,800**	4,800
(Reversal of)/provision for impairment losses of trade and other receivables	**(3,555)**	10,146
Amortisation of lease prepayments	**3,243**	3,009
Gain on disposal of lease prepayments	**(279)**	(8,486)
Gain on disposal of subsidiaries	**–**	(2,771)

Cost of inventories includes RMB1,249,208,000 (2007: RMB1,175,896,000) relating to staff costs, depreciation and repairs and maintenance expenses which amount is also included in the respective total amounts disclosed separately in note 8(b) 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% in 2007. Up till now, the Company has not been requested to pay additional EIT in respect of any prior year. The directors of the Company consider that the relevant tax authorities are not likely to request additional EIT from the Company. Consequently, no provision has been made in these financial statements in respect of the EIT differences arising from prior years.

Pursuant to the PRC enterprise income tax law passed by the Tenth National People's Congress on 16 March 2007, the new enterprise income tax rates for domestic and foreign enterprises were unified at 25% and were effective from 1 January 2008. The EIT rate applicable to the Company changed from 33% in 2007 to 25% in 2008. The charge for PRC income tax for the year is calculated at the rate of 25% (2007: 33%) on the estimated assessable income of the year determined in accordance with relevant tax rules and regulations.

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

9. INCOME TAX (Continued)

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

	2008 RMB'000	2007 RMB'000
Current tax		
– Provision for the year	–	3,231
– (Over)/under-provision in respect of prior years	(296)	2,937
	(296)	6,168
Reversal/(origination) of deferred tax assets *(note (c))*	92,312	(18,058)
	92,016	(11,890)

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

	2008 RMB'000	2007 RMB'000
(Loss)/profit before taxation	(1,549,301)	11,366
Expected income tax using the Company's tax rate of 25% (2007: 33%)	(387,325)	3,751
Tax effect of deductible temporary differences not recognised	120,751	–
Tax effect of unused tax losses not recognised	234,832	–
(Over)/under -provision of income tax in prior years	(296)	2,937
Tax effect of non-deductible expenses	33,065	17,674
Tax effect of deductible expenses not recorded in profit or loss	–	(7,432)
Write-off of deferred tax assets in respect of prior years	90,989	11,839
Effect of change in tax rate on deferred tax	–	(40,659)
Actual income tax	92,016	(11,890)

9. INCOME TAX (Continued)

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

	The Group and the Company					
	Balance at 1 January 2007	Recognised in income statement	Recognised in reserves	Balance at 31 December 2007	Recognised in income statement	**Balance at 31 December 2008**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
Current						
Provisions, primarily for receivables and inventories	9,720	(5,738)	–	3,982	(3,982)	**–**
Non-current						
Land use rights	29,172	(2,214)	19,985	46,943	(1,323)	**45,620**
Property, plant and equipment	7,828	4,583	–	12,411	(12,411)	**–**
Tax losses	53,169	21,427	–	74,596	(74,596)	**–**
	99,889	18,058	19,985	137,932	(92,312)	**45,620**

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 provisions, property, plant and equipment and tax losses in prior years amounting to RMB90,989,000.

In accordance with the accounting policy set out in note 2(u), the Group has not recognised deferred tax assets in respect of deductible temporary differences amounting to RMB548,576,000 (2007: RMB nil) and cumulative unutilised tax losses amounting to RMB1,376,012,000 (2007: RMB138,301,000), as it is not probable that future taxable profits against which the temporary differences can be deducted and the losses can be utilised will be available in the relevant tax jurisdiction.

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

	RMB'000
2010	436,685
2013	939,327
Total	1,376,012

Notes to the Financial Statements

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10. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

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

Name	Fees		Basic salaries, allowance and bonus		Retirement scheme contributions		Total	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Directors:								
Qian Heng-ge	**–**	–	**264**	238	**15**	11	**279**	249
Sun Zhi-hong	**–**	–	**264**	238	**–**	–	**264**	238
Xiao Wei-zhen	**–**	–	**264**	238	**15**	11	**279**	249
Long Xing-ping	**–**	–	**221**	199	**–**	–	**221**	199
Zhang Hong	**–**	–	**221**	199	**–**	–	**221**	199
Shen Xi-jun	**–**	–	**221**	199	**15**	11	**236**	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	**–**	–	**221**	199	**15**	11	**236**	210
Tao Chun-sheng	**–**	–	**158**	127	**15**	11	**173**	138
Chen Jian	**–**	–	**221**	199	**–**	–	**221**	199
Shi Gang	**30**	30	**–**	–	**–**	–	**30**	30
Wang Bing	**30**	30	**–**	–	**–**	–	**30**	30
Senior management:								
Zhang Zhong-an	**–**	–	**221**	199	**15**	11	**236**	210
Li Jian-xin	**–**	–	**221**	199	**15**	11	**236**	210
Li Jian-ping	**–**	–	**221**	199	**20**	11	**241**	210
Wu Chao-yang	**–**	–	**158**	130	**15**	11	**173**	141
	220	220	**2,876**	2,563	**140**	99	**3,236**	2,882

For the years ended 31 December 2008 and 2007, 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 2008 and 2007 were all executive directors whose total emoluments have been shown above.

11. (LOSS)/PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated (loss)/profit attributable to equity shareholders of the Company includes a loss of RMB1,526,800,000 (2007: a profit of RMB10,236,000) which has been dealt with in the financial statements of the Company.

12. DIVIDENDS

No final dividends were proposed after the balance sheet date in respect of the years ended 31 December 2007 and 2008.

13. (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to ordinary equity shareholders of the Company of RMB1,641,317,000 (2007: profit of RMB22,312,000) and the weighted average number of ordinary shares of 4,000,000,000 (2007: 4,000,000,000) in issue during the year.

(b) Diluted (loss)/earnings per share

There were no dilutive potential ordinary shares in existence during the years ended 31 December 2008 and 2007.

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 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
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
At 1 January 2008	1,951,145	9,990,632	748,025	12,689,802
Additions	–	80	4	84
Transfer from construction in progress *(note 15)*	3,298	62,839	10,008	76,145
Disposals	(11,047)	(24,453)	(17,962)	(53,462)
Reclassification	2,123	4,147	(6,270)	–
At 31 December 2008	**1,945,519**	**10,033,245**	**733,805**	**12,712,569**

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	61,790	414,881	83,940	560,611
Valuation – 2004	1,883,729	9,618,364	649,865	12,151,958
	1,945,519	10,033,245	733,805	12,712,569
Accumulated depreciation and impairment losses:				
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	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
At 1 January 2008	825,984	6,357,372	552,885	7,736,241
Depreciation charge for the year	67,299	501,707	39,355	608,361
Impairment loss *(note (d))*	518	435,951	4,618	441,087
Written back on disposal	(3,962)	(23,436)	(16,538)	(43,936)
Reclassification	2,057	4,116	(6,173)	–
At 31 December 2008	**891,896**	**7,275,710**	**574,147**	**8,741,753**
Carrying amounts:				
At 31 December 2007	1,125,161	3,633,260	195,140	4,953,561
At 31 December 2008	**1,053,623**	**2,757,535**	**159,658**	**3,970,816**

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 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
At 1 January 2008	1,946,814	9,990,360	748,025	12,685,199
Additions	4,334	256	97	4,687
Transfer from construction in progress *(note 15)*	3,298	62,839	10,008	76,145
Disposals	(11,047)	(24,453)	(17,962)	(53,462)
Reclassification	2,120	4,243	(6,363)	–
At 31 December 2008	**1,945,519**	**10,033,245**	**733,805**	**12,712,569**
Representing:				
Cost	61,790	414,881	83,940	560,611
Valuation – 2004	1,883,729	9,618,364	649,865	12,151,958
	1,945,519	10,033,245	733,805	12,712,569

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14. PROPERTY, PLANT AND EQUIPMENT (Continued)

(b) The Company (Continued)

	Buildings RMB'000	Plant, machinery and equipment RMB'000	Motor vehicles and other fixed assets RMB'000	Total RMB'000
Accumulated depreciation and impairment losses:				
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
At 1 January 2008	823,955	6,357,272	552,885	7,734,112
Depreciation charge for the year	67,281	501,707	39,346	608,334
Additions due to asset transfer	2,047	109	–	2,156
Impairment loss *(note (d))*	518	435,951	4,618	441,087
Written back on disposal	(3,962)	(23,445)	(16,529)	(43,936)
Reclassification	2,057	4,116	(6,173)	–
At 31 December 2008	**891,896**	**7,275,710**	**574,147**	**8,741,753**
Carrying amounts:				
At 31 December 2007	1,122,859	3,633,088	195,140	4,951,087
At 31 December 2008	**1,053,623**	**2,757,535**	**159,658**	**3,970,816**

(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") ("**Sinopec Asset and Management Corp**"). On the same date, the principal business undertaking of Yihua Group Corporation 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.

Management believes that the carrying amount of property, plant and equipment did not differ materially from their fair values as at 31 December 2008.

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

(d) Impairment losses recognised in respect of the filament production facilities of the Company were RMB425,494,000 for the year ended 31 December 2008. In response to the current market environment for filament products, the Company assessed the recoverable amount of its property, plant and equipment in relation to its filament production facilities as at 31 December 2008 and as a result the carrying amount of the production facilities was written down by such amount. The estimate of the recoverable amount was based on these facilities' value in use. In assessing value in use, the pre-tax discount rate used to calculate the present value of estimated future cash flows is 10%. In addition, as stated in the announcement dated 28 November 2008, the impairment losses were also determined by reference to a revaluation on these facilities performed by an independent valuer registered in the PRC, China United Assets Appraisal Corporation, which was based on an income approach.

Impairment losses recognised in respect of idle property, plant and equipment were RMB15,593,000 for the year ended 31 December 2008. The carrying amount of these assets was written down to their recoverable amount. The estimate of recoverable amounts was based on the property, plant and equipment's fair values less costs to sell, determined by reference to the information about the sales of similar assets within the same industry.

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

15. CONSTRUCTION IN PROGRESS

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Balance at 1 January	**89,566**	114,037	**89,566**	114,037
Additions	**335,883**	116,652	**335,883**	116,109
Transfer to property, plant and equipment *(note 14)*	**(76,145)**	(135,039)	**(76,145)**	(134,496)
Transfer out due to other reasons *(note (a))*	**(77,292)**	(6,084)	**(77,292)**	(6,084)
Balance at 31 December	**272,012**	89,566	**272,012**	89,566

(a) As at 31 December 2008, the construction of 1,000,000-tonne/year PTA project was suspended. Up to the date of issuance of these financial statements, the Group has no plan to resume this suspended construction project.

Based on the analysis of the relevant expenditure incurred, the irrecoverable construction costs amounting to RMB28,867,000 were transferred out from "Construction in progress" accounts and were recognised in "Other expenses", while the construction costs prepaid, considered fully recoverable by management, amounting to RMB34,020,000 were transferred out to "Trade and other receivables".

16. LEASE PREPAYMENTS

	The Group and the Company Land use rights	
	2008	2007
	RMB'000	*RMB'000*
Cost:		
At 1 January	**144,190**	131,398
Additions	**–**	12,792
At 31 December	**144,190**	144,190
Accumulated amortisation:		
At 1 January	**(17,760)**	(14,751)
Charge for the year	**(3,243)**	(3,009)
At 31 December	**(21,003)**	(17,760)
Carrying amounts:		
At 31 December	**123,187**	126,430

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	
	2008	2007
	RMB'000	*RMB'000*
Unlisted shares, at cost	**–**	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 as at 31 December 2007. The class of shares held is ordinary unless otherwise stated.

17. INTEREST IN SUBSIDIARY (Continued)

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

On 29 April 2008, the Company put its wholly-owned subsidiary, Yihua Kangqi into liquidation. As at 31 December 2008, the relevant liquidation procedures were completed and all the assets and liabilities of Yihua Kangqi were transferred to the Company at their net book values. As the operation results and financial position of Yihua Kangqi were reflected in each of the Group's prior years' consolidated financial statements, the liquidation had no significant impact on the consolidated income statement for the year ended 31 December 2008. At 31 December 2008, no subsidiary was included in the consolidated financial statements.

As at 29 April 2008 and 31 December 2007, the carrying amounts of assets and liabilities of Yihua Kangqi were as follows:

	At 29 April 2008 ***RMB'000***	At 31 December 2007 *RMB'000*
Non-current assets	**2,447**	2,474
Current assets	**217,020**	216,969
Current liabilities	**(343)**	(1,191)
Net assets	**219,124**	218,252

The results of operations of Yihua Kangqi for the period from 1 January 2008 to 29 April 2008 and for the year ended 31 December 2007 were as follows:

	For the period ended 29 April 2008 ***RMB'000***	2007 *RMB'000*
Turnover	**–**	1,910,115
Profit for the year	**872**	3,468
Attributable to:		
Equity shareholders of the Company	**872**	2,524
Minority interests	**–**	944

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18. INTEREST IN JOINTLY CONTROLLED ENTITY

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Unlisted shares, at cost	**–**	–	**241,836**	241,836
Share of net assets	**25,803**	156,184	**–**	–
Less: Impairment loss *(note 18(c))*	**–**	–	**(216,033)**	(42,373)
	25,803	156,184	**25,803**	199,463

(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

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

	2008	2007
	RMB'000	*RMB'000*
Non-current assets	**136,161**	238,653
Current assets	**42,848**	71,855
Current liabilities	**(153,206)**	(154,324)
Net assets	**25,803**	156,184
Income	**468,012**	529,945
Expenses	**(598,393)**	(554,472)
Loss for the year	**(130,381)**	(24,527)

18. INTEREST IN JOINTLY CONTROLLED ENTITY (Continued)

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

At 31 December 2008, each of the Company and its joint venture partner, UNIFI Asia Holding SRL ("**UNIFI Asia**"), holds 50% equity interest in Yihua Unifi. The Company announced on 1 August 2008 that it was in negotiation with UNIFI Asia for potential acquisition of UNIFI Asia's 50% equity interest in Yihua Unifi. On 18 February 2009, the Company entered into a conditional Equity Interest Transfer Agreement with UNIFI Asia to acquire UNIFI Asia's 50% equity interest in Yihua Unifi (see note 34(a)).

In response to the current market environment for Yihua Unifi's products, as at 31 December 2008, Yihua Unifi assessed the recoverable amount of its property, plant and equipment in relation to its production facilities and as a result the carrying amount of the production facilities was written down by RMB132,335,000. Of which, 50% of this impairment loss was shared by the Group (i.e RMB66,167,500). The estimate of recoverable amount of the production facilities was based on their value in use. In assessing the value in use, the pre-tax discount rate used to calculate the present value of estimated future cash flows is 10%.

(c) The Company assessed the recoverable amount of the interest in jointly controlled entity and as a result the carrying amount of the Company's interest in the jointly controlled entity was written down by RMB173,660,000 during the year ended 31 December 2008 (2007: RMB42,373,000). The estimate of recoverable amount was based on the present value of estimated future cash flows generated by the jointly controlled entity as a whole. The discount rate used in the estimate is 10% (2007: 8.5%).

19. INVENTORIES

(a) Inventories in the balance sheets comprise:

	The Group and the Company	
	2008	2007
	RMB'000	*RMB'000*
Raw materials	**367,896**	516,955
Work in progress	**53,048**	138,956
Finished goods	**179,822**	319,046
Goods in transit	**119,908**	163,307
	720,674	1,138,264
Spare parts and consumables	**110,779**	118,923
	831,453	1,257,187
Inventories stated at net realisable value	**778,405**	118,923

(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 RMB15,653,672,000 for the year ended 31 December 2008 (2007: RMB16,555,142,000), including a write-down of inventories to net realisable value amounting to RMB38,393,000 (2007: RMB nil).

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20. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade receivables	**91,766**	196,038	**91,766**	195,250
Bills receivable	**1,179,716**	1,583,804	**1,179,716**	1,555,479
Amounts due from parent company and fellow subsidiaries – trade	**30,861**	73,255	**30,861**	73,255
Amounts due from jointly controlled entity – trade	**199,078**	30,561	**199,078**	30,561
	1,501,421	1,883,658	**1,501,421**	1,854,545
Less: Allowance for doubtful debts	**(835)**	(1,258)	**(835)**	(470)
	1,500,586	1,882,400	**1,500,586**	1,854,075
Amounts due from parent company and fellow subsidiaries – non-trade	**10,612**	273	**10,612**	273
Amounts due from jointly controlled entity – non-trade	**–**	480	**–**	480
Other receivables, deposits and prepayments	**299,564**	300,477	**299,564**	299,972
	310,176	301,230	**310,176**	300,725
Less: Allowance for doubtful debts	**(2,984)**	(7,253)	**(2,984)**	(7,253)
	307,192	293,977	**307,192**	293,472
	1,807,778	2,176,377	**1,807,778**	2,147,547

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	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Current	**1,499,980**	1,880,420	**1,499,980**	1,852,095
Less than 1 year past due	**97**	1,980	**97**	1,980
1 to 2 years past due	**509**	–	**509**	–
	1,500,586	1,882,400	**1,500,586**	1,854,075

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	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At 1 January	**8,511**	42,977	**7,723**	70,312
Impairment losses (reversed)/recognised	**(3,555)**	10,146	**(3,555)**	10,317
Uncollectible amounts written off	**(3,123)**	(44,612)	**(2,335)**	(72,906)
Amounts written off in prior years but received during the year	**1,986**	–	**1,986**	–
At 31 December	**3,819**	8,511	**3,819**	7,723

At 31 December 2008, the Group's and the Company's trade and other receivables of RMB3,819,000 was individually determined to be impaired.

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.

(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	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Neither past due nor impaired	**1,499,980**	1,880,420	**1,499,980**	1,852,095
Less than 1 year past due	**97**	1,980	**97**	1,980
1 to 2 years past due	**509**	–	**509**	–
	1,500,586	1,882,400	**1,500,586**	1,854,075

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	
	2008	2007	**2008**	2007
	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**")	**104,603**	50,328	**104,603**	50,328
– China CITIC Bank	**42,030**	56,135	**42,030**	38,854
– Stated-controlled banks in the PRC (excluding China CITIC Bank) *(note (a))*	**1,057,101**	928,278	**1,057,101**	857,765
	1,203,734	1,034,741	**1,203,734**	946,947
Less: Balances with banks and other financial institutions with an initial term of less than three months *(note 22)*	**(841,273)**	(459,741)	**(841,273)**	(394,947)
	362,461	575,000	**362,461**	552,000

(a) As at 31 December 2008, deposits of RMB297,461,000 (2007: RMB nil) were pledged for payables in respect of imported raw materials (see note 23).

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

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Due within three months	**248,693**	315,000	**248,693**	302,000
Due after three months but within six months	**113,768**	10,000	**113,768**	–
Due after six months but within one year	**–**	250,000	**–**	250,000
	362,461	575,000	**362,461**	552,000

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 3.24% to 4.14% per annum (2007: 3.33% to 3.87% per annum).

22. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash in hand	**21**	6	**21**	6
Balances with banks and other financial institutions with an initial term of less than three months *(note 21)*	**841,273**	459,741	**841,273**	394,947
Cash and cash equivalents in the consolidated cash flow statement	**841,294**	459,747	**841,294**	394,953

23. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Bills payable	**115,000**	–	**115,000**	–
Trade payables	**793,866**	1,255,775	**793,866**	1,255,727
Amounts due to parent company and fellow subsidiaries – trade *(note 21(a))*	**449,785**	133,478	**449,785**	133,478
Amounts due to jointly controlled entity – trade	**11,158**	11,067	**11,158**	11,067
	1,369,809	1,400,320	**1,369,809**	1,400,272
Amounts due to parent company and fellow subsidiaries – non-trade	**13,925**	4,908	**13,925**	4,908
Amounts due to subsidiary – non-trade	**–**	–	**–**	100,360
Other payables and accrued expenses	**349,960**	358,898	**349,960**	357,749
	1,733,694	1,764,126	**1,733,694**	1,863,289

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

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Due within 1 month or on demand	**780,121**	1,243,148	**780,121**	1,243,100
Due after 1 month but within 3 months	**115,000**	–	**115,000**	–
Due after 3 months but within 12 months	**13,745**	12,627	**13,745**	12,627
	908,866	1,255,775	**908,866**	1,255,727

23. TRADE AND OTHER PAYABLES (Continued)

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

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Due within 1 month or on demand	**163,482**	144,545	**163,482**	144,545
Due after 1 month but within 3 months	**233,693**	–	**233,693**	–
Due after 3 months but within 6 months	**63,768**	–	**63,768**	–
	460,943	144,545	**460,943**	144,545

24. DEFERRED INCOME

During the year ended 31 December 2008, the Company received government grants totalling RMB15,000,000 related to the projects under construction. The grants were recognised initially as deferred income and will be amortised in the income statement on a straight-line basis over the useful life of the related assets when they are ready for use.

25. SHARE CAPITAL

	The Group and the Company	
	2008	2007
	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 issue new shares, adjust the capital expenditure plan, sell assets to reduce liabilities or adjust the proportion of short-term and long-term loans. 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 to maintain the debt-to-equity ratio and the liability-to-asset ratio at a range considered as reasonable by management. As at 31 December 2008, the debt-to-equity ratio and the liability-to-asset ratio of the Group were nil (2007: nil) and 21.1% (2007: 17.7%) respectively.

The schedule of the capital commitments is disclosed in note 30.

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.

26. 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 2007	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	–	19,985	–	–	–	19,985
At 31 December 2007 and at 31 December 2008	**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.

(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.

27. (ACCUMULATED LOSSES)/RETAINED PROFITS

	The Group	The Company
	RMB'000	*RMB'000*
At 1 January 2007	346,776	244,335
Profit attributable to equity shareholders	22,312	10,236
At 31 December 2007	369,088	254,571
Loss attributable to equity shareholders	(1,641,317)	(1,526,800)
At 31 December 2008	**(1,272,229)**	**(1,272,229)**

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 2008, the amount of accumulated losses, which was the amount determined in accordance with the ASBE (2006), was RMB1,899,776,000 (2007: RMB412,287,000). No dividend (2007: RMB nil) in respect of the financial year 2008 was proposed after the balance sheet date.

28. 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	
		2008	2007
Yizheng Municipal Government, Jiangsu Province	Employees of the Company	**20%**	20%

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

In addition to the above, pursuant to a document "Lao Bu Fa [1995] No. 464" dated 29 December 1995 issued by the Ministry of Labour of the PRC, the Company has set up a supplementary defined contribution retirement scheme for its employees. Assets of the scheme are held separately from those of the Company in an independent fund administered by representatives from the Company. The scheme is funded by contributions from the Company which are calculated at a rate based on the basic salaries of its employees. The contribution rate for 2008 was 9% (2007: 9%).

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

29. 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.

Sinopec Asset and Management Corp, Sinopec Yangzi Petrochemical Company Limited ("**Yangzi**"), China Petroleum & Chemical Corporation, Zhenhai Branch ("**Zhenhai**"), Sinopec Finance, China CITIC Bank, China Petrochemical International Company Limited, Sinopec Chemicals Sales Branch and other subsidiaries of 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:

	2008 *RMB'000*	2007 *RMB'000*
Sinopec Corp and its subsidiaries		
Purchase of raw materials	**7,109,806**	8,970,018
Including: Yangzi	**2,950,194**	3,829,354
Zhenhai	**3,242,969**	3,825,511
Service charges for the purchase of raw materials	**26,710**	25,225
Sinopec Asset and Management Corp and its subsidiaries		
Sales	**230,626**	243,571
Miscellaneous service fee charges *(see note below)*	**15,000**	12,050
Acquisition of lease prepayments	**–**	12,792

Note: The above service fee charges were paid in accordance with the terms of the agreements signed between the Company and Sinopec Asset and Management Corp in December 2008.

	2008 *RMB'000*	2007 *RMB'000*
Sinopec Finance		
Interest income	**868**	16,059
Interest expense	**1,723**	–
CPC and its subsidiaries (excluding Sinopec Corp and its subsidiaries, Sinopec Asset and Management Corp and its subsidiaries and Sinopec Finance)		
Sales	**11,518**	–
Purchase of equipment	**7,560**	–
Insurance premium	**8,228**	17,716

Notes to the Financial Statements

(Prepared under International Financial Reporting Standards)

29. RELATED PARTY TRANSACTIONS (Continued)

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

	2008	2007
	RMB'000	*RMB'000*
China CITIC Bank		
Interest income	**1,115**	1,330
Interest expense	**–**	301
Bills custody fee	**436**	150
Yihua Unifi		
Sales of finished goods	**708,403**	923,147
Interest income of issued commercial acceptance bills	**992**	–

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; and

– discounting bills

These transactions are conducted in the ordinary course of the Group's business on terms comparable to those with other entities that are not state-controlled. The Group has established its approval process for depositing money and discounting bills 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 discounts bills to these banks in the ordinary course of business. The interest rates of the bank deposits 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:

	2008	2007
	RMB'000	*RMB'000*
Interest income	**23,148**	29,499
Interest expense	**1,871**	5,942

29. 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:

	2008	2007
	RMB'000	*RMB'000*
Short-term employee benefits	**3,096**	2,783
Retirement scheme contributions	**140**	99

(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 28.

30. 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 2008 not provided for in the financial statements as follows:

	The Group and the Company	
	2008	2007
	RMB'000	*RMB'000*
Authorised but not contracted for	**137,418**	3,743,753

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES

(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 2008 and 2007.

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

– credit risk;

– liquidity risk;

– interest rate risk; and

– currency 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.

Notes to the Financial Statements
(Prepared under International Financial Reporting Standards)

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (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 deposits with banks and other financial institutions and receivables from customers. To limit exposure to credit risk relating to deposits, the Group primarily places cash deposits only with large financial institutions in the PRC with acceptable credit ratings.

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 product 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. No single customer accounted for greater than 10% of total revenues.

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.

At 31 December 2008, the Group had a certain concentration of credit risk, as 61.0% (2007: 50.6%) of the total trade receivables was due from the Group's five largest 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.

(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.

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(d) Interest rate risk

Except for deposits with banks and other financial institutions with fixed interest rates (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.

The following table details the interest rate profile of the Group's and the Company's interest-bearing financial instruments at the balance sheet date:

	The Group			
	2008		2007	
	Effective interest rate %	***RMB'000***	Effective interest rate %	*RMB'000*
Fixed rate instruments				
Deposits with banks and other financial institutions *(note 21)*	**3.24%~4.14%**	**362,461**	3.33%~3.87%	575,000
Variable rate instruments				
Cash at banks and other financial institutions with an initial term of less than three months *(note 22)*	**0.36%**	**841,273**	0.72%	459,741

	The Company			
	2008		2007	
	Effective interest rate %	***RMB'000***	Effective interest rate %	*RMB'000*
Fixed rate instruments				
Deposits with banks and other financial institutions *(note 21)*	**3.24%~4.14%**	**362,461**	3.33%~3.87%	552,000
Variable rate instruments				
Cash at banks and other financial institutions with an initial term of less than three months *(note 22)*	**0.36%**	**841,273**	0.72%	394,947

At 31 December 2008, it is estimated that a general increase/decrease of 100 basis points in variable interest rates, with all other variables held constant, would decrease/increase the Group's loss for the year and accumulated losses by approximately RMB8,413,000 (2007: increase/decrease the Group's profit for the year and retained profits by approximately RMB4,597,000) (the related income tax impact was not considered). This sensitivity analysis has been determined assuming that the change in interest rates had occurred at the balance sheet date and the change was applied to the Group's variable rate instruments outstanding at that date with exposure to cash flow interest rate risk. The analysis is performed on the same basis for 2007.

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(e) Currency risk

Currency risk arises on financial instruments that are denominated in a currency other than the functional currency in which they are measured. The Group's currency risk exposure primarily relates to trade and other receivables, cash and cash equivalents and trade and other payables denominated in United States Dollars ("**US $**") and Hong Kong Dollars ("**HK $**").

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 US $ and HK $:

	The Group and the Company			
	2008		2007	
	US$'000	***HK$'000***	*US$'000*	*HK$'000*
Trade receivables	**7,559**	**–**	22,467	–
Cash and cash equivalents	**251**	**–**	290	6
Trade payables	**(58,285)**	**–**	(139,547)	–
	(50,475)	**–**	(116,790)	6

A five percent strengthening of Renminbi against the following currencies at 31 December would have decreased loss for the year and accumulated losses of the Group or 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 above, the related income tax impact was not considered, and that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2007.

	2008	2007
	RMB'000	*RMB'000*
US$	**17,248**	42,655
HK$	**–**	–

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.

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.

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(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.

32. 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.

32. ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

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.

33. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 31 DECEMBER 2008

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2008 and which have not been adopted in these financial statements.

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. So far it has concluded that the adoption of them is unlikely to result in a restatement of the Group's results of operations and financial position.

In addition, the following developments are expected to result in amended disclosures in the financial statements:

	Effective for accounting periods beginning on or after
IFRS 8, Operating segments	1 January 2009
Revised IAS 1, Presentation of financial statements	1 January 2009
Improvements to IFRSs	1 January 2009 or 1 July 2009

34. NON-ADJUSTING POST BALANCE SHEET EVENTS

(a) Pursuant to the conditional Equity Interest Transfer Agreement dated 18 February 2009 entered into with UNIFI Asia, the Company agreed to acquire UNIFI Asia's 50% equity interest in Yihua Unifi at a consideration of USD9,000,000 (RMB equivalent 61,650,000), subject to Chinese regulatory approval and certain customary closing conditions. The regulatory approval and customary closing conditions were completed on 2 March 2009. Following the acquisition, Yihua Unifi will become a wholly-owned subsidiary of the Company. The excess of the purchase consideration over the Company's additional interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of Yihua Unifi at the acquisition date was approximately RMB22 million, which would be initially recognised as goodwill in accordance with the accounting policy set out in note 2(c)(iii).

(b) The Board of Directors proposed to use the statutory surplus reserve and discretionary surplus reserve amounting to RMB1,456,004,000 to make good the Company's previous years' losses on 30 March 2009. The proposal is subject to the approval by shareholders.

35. IMMEDIATE AND ULTIMATE CONTROLLING PARTY

As at 31 December 2008, 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.

Report of the PRC Auditors

KPMG Huazhen

All Shareholders of Sinopec Yizheng Chemical Fibre Company Limited:

We have audited the accompanying financial statements of Sinopec Yizheng Chemical Fibre Company Limited ("**the Company**"), which comprise the consolidated balance sheet and balance sheet as at 31 December 2008, 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.

AUDITORS' 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 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 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 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 2008, 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

Gong Weili

Beijing, the People's Republic of China

Wu Xiaolei

30 March 2009

Consolidated Balance Sheet

As at 31 December 2008
(Prepared in accordance with the PRC Accounting Standards for Business Enterprises (2006))
(Expressed in thousands of renminbi yuan)

	Note	2008	2007 (Note 42)
Assets			
Current assets			
Cash at bank and on hand	7	**1,203,755**	1,034,747
Bills receivable	8	**1,290,568**	1,612,417
Accounts receivable	9	**190,378**	199,910
Prepayments	10	**23,648**	72,674
Other receivables	11	**107,939**	91,325
Inventories	12	**831,453**	1,257,187
Other current assets	13	**195,245**	200,051
Total current assets		**3,842,986**	4,468,311
Non-current assets			
Long-term equity investments	14	**25,803**	156,184
Fixed assets	15	**3,870,709**	4,831,660
Construction in progress	16	**272,012**	89,566
Intangible assets	17	**405,774**	436,102
Deferred tax assets	18	**–**	90,989
Total non-current assets		**4,574,298**	5,604,501
Total assets		**8,417,284**	10,072,812

The notes on pages 116 to 169 form part of these financial statements.

Consolidated Balance Sheet (Continued)

As at 31 December 2008
(Prepared in accordance with the PRC Accounting Standards for Business Enterprises (2006))
(Expressed in thousands of renminbi yuan)

	Note	2008	2007 (Note 42)
Liabilities and shareholders' equity			
Current liabilities			
Bills payable	20	**115,000**	–
Accounts payable	21	**1,004,018**	1,279,510
Advances from customers	21	**244,437**	109,743
Employee benefits payable	22	**61,345**	136,101
Taxes payable	5(3)	**17,979**	12,211
Other payables	21	**290,915**	226,570
Provisions	23	**5,198**	–
Total current liabilities		**1,738,892**	1,764,135
Non-current liabilities			
Deferred income	24	**15,000**	–
Total non-current liabilities		**15,000**	–
Total liabilities		**1,753,892**	1,764,135
Shareholders' equity			
Share capital	25	**4,000,000**	4,000,000
Capital reserve	26	**3,107,164**	3,107,164
Surplus reserve	27	**1,456,004**	1,456,004
Accumulated losses		**(1,899,776)**	(254,491)
Total equity		**6,663,392**	8,308,677
Total liabilities and shareholders' equity		**8,417,284**	10,072,812

These financial statements have been approved by the Board of Directors of the Company on 30 March 2009.

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 116 to 169 form part of these financial statements.

Balance Sheet

As at 31 December 2008
(Prepared in accordance with the PRC Accounting Standards for Business Enterprises (2006))
(Expressed in thousands of renminbi yuan)

	Note	2008	2007 (Note 42)
Assets			
Current assets			
Cash at bank and on hand	7	**1,203,755**	946,953
Bills receivable	8	**1,290,568**	1,584,092
Accounts receivable	9	**190,378**	199,910
Prepayments	10	**23,648**	72,674
Other receivables	11	**107,939**	90,835
Inventories	12	**831,453**	1,257,187
Other current assets	13	**195,245**	200,036
Total current assets		**3,842,986**	4,351,687
Non-current assets			
Long-term equity investments	14	**25,803**	216,640
Fixed assets	15	**3,870,709**	4,829,186
Construction in progress	16	**272,012**	89,566
Intangible assets	17	**405,774**	436,102
Deferred tax assets	18	**–**	90,989
Total non-current assets		**4,574,298**	5,662,483
Total assets		**8,417,284**	10,014,170

The notes on pages 116 to 169 form part of these financial statements.

Balance Sheet (Continued)

As at 31 December 2008
(Prepared in accordance with the PRC Accounting Standards for Business Enterprises (2006))
(Expressed in thousands of renminbi yuan)

	Note	2008	2007 (Note 42)
Liabilities and shareholders' equity			
Current liabilities			
Bills payable	20	**115,000**	–
Accounts payable	21	**1,004,018**	1,279,510
Advances from customers	21	**244,437**	109,695
Employee benefits payable	22	**61,345**	136,101
Taxes payable	5(3)	**17,979**	12,187
Other payables	21	**290,915**	325,796
Provisions	23	**5,198**	–
Total current liabilities		**1,738,892**	1,863,289
Non-current liabilities			
Deferred income	24	**15,000**	–
Total non-current liabilities		**15,000**	–
Total liabilities		**1,753,892**	1,863,289
Shareholders' equity			
Share capital	25	**4,000,000**	4,000,000
Capital reserve	26	**3,107,164**	3,107,164
Surplus reserve	27	**1,456,004**	1,456,004
Accumulated losses		**(1,899,776)**	(412,287)
Total equity		**6,663,392**	8,150,881
Total liabilities and shareholders' equity		**8,417,284**	10,014,170

These financial statements have been approved by the Board of Directors of the Company on 30 March 2009.

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 116 to 169 form part of these financial statements.

Consolidated Income Statement

For the year ended 31 December 2008
(Prepared in accordance with the PRC Accounting Standards for Business Enterprises (2006))
(Expressed in thousands of renminbi yuan)

	Note	2008	2007
Operating income	28	**15,224,524**	17,175,656
Less: Operating costs		**15,294,088**	16,275,270
Business taxes and surcharges	29	**29,355**	44,141
Selling and distribution expenses		**187,146**	198,558
General and administrative expenses		**661,389**	632,856
Net financial income	30	**(45,946)**	(28,051)
Impairment loss	31	**475,925**	3,935
Add: Investment losses	32	**(130,381)**	(21,756)
(Including: Losses from investment in jointly controlled entity)		**(130,381)**	(24,527)
Operating (loss)/profit		**(1,507,814)**	27,191
Add: Non-operating income	33	**8,165**	20,371
Less: Non-operating expenses	34	**54,943**	42,905
(Including: Losses from disposal of non-current assets)		**897**	27,768
(Loss)/profit before income tax		**(1,554,592)**	4,657
Less: Income tax expenses	35	**90,693**	(14,104)
Net (loss)/profit for the year		**(1,645,285)**	18,761
Attributable to:			
Shareholders of the Company		**(1,645,285)**	17,817
Minority shareholders		**–**	944
(Loss)/earnings per share			
Basic and diluted (loss)/earnings per share (in RMB)	44(1)	**(0.411)**	0.004

These financial statements have been approved by the Board of Directors of the Company on 30 March 2009.

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 116 to 169 form part of these financial statements.

Income Statement

For the year ended 31 December 2008
(Prepared in accordance with the PRC Accounting Standards for Business Enterprises (2006))
(Expressed in thousands of renminbi yuan)

	Note	2008	2007
Operating income	28	**15,224,524**	16,951,183
Less: Operating costs		**15,294,088**	16,086,397
Business taxes and surcharges	29	**29,355**	43,492
Selling and distribution expenses		**187,101**	178,751
General and administrative expenses		**661,305**	624,067
Net financial income	30	**(45,693)**	(30,470)
Impairment loss	31	**475,925**	3,213
Add: Investment income/(losses)	32	**28,287**	(24,527)
(Including: Losses from investment in jointly controlled entity)		**(130,381)**	(24,527)
Operating (loss)/profit		**(1,349,270)**	21,206
Add: Non-operating income	33	**7,672**	17,980
Less: Non-operating expenses	34	**54,902**	40,833
(Including: Losses from disposal of non-current assets)		**897**	26,442
Loss before income tax		**(1,396,500)**	(1,647)
Less: Income tax expenses	35	**90,989**	(20,272)
Net (loss)/profit for the year		**(1,487,489)**	18,625

These financial statements have been approved by the Board of Directors of the Company on 30 March 2009.

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 116 to 169 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2008
(Prepared in accordance with the PRC Accounting Standards for Business Enterprises (2006))
(Expressed in thousands of renminbi yuan)

	Note	2008	2007
Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		**17,158,702**	19,371,103
Refund of taxes		**13,560**	2,177
Other cash received relating to operating activities		**4,536**	7,932
Sub-total of cash inflows		**17,176,798**	19,381,212
Cash paid for goods and services		**(15,722,002)**	(17,745,678)
Cash paid to and for employees		**(657,863)**	(610,580)
Cash paid for all types of taxes		**(399,859)**	(786,445)
Other cash paid relating to operating activities		**(445,117)**	(300,615)
Sub-total of cash outflows		**(17,224,841)**	(19,443,318)
Net cash outflow from operating activities	*36(1)*	**(48,043)**	(62,106)
Cash flows from investing activities:			
Net cash received from disposal of fixed assets and intangible assets		**11,796**	24,810
Net cash received from disposal of subsidiaries		**–**	96,952
Interest received		**26,123**	33,152
Government grants received		**15,000**	–
Sub-total of cash inflows		**52,919**	154,914
Cash paid for acquisition of fixed assets and intangible assets		**(129,735)**	(102,732)
Sub-total of cash outflows		**(129,735)**	(102,732)
Net cash (outflow)/inflow from investing activities		**(76,816)**	52,182

The notes on pages 116 to 169 form part of these financial statements.

Consolidated Cash Flow Statement (Continued)

For the year ended 31 December 2008
(Prepared in accordance with the PRC Accounting Standards for Business Enterprises (2006))
(Expressed in thousands of renminbi yuan)

	Note	**2008**	2007
Cash flows from financing activities:			
Cash received from borrowings		**741,000**	329,000
Sub-total of cash inflows		**741,000**	329,000
Cash repayments of borrowings		**(741,000)**	(329,000)
Cash paid for dividends, profits distribution or interest		**(3,594)**	(6,482)
(Including: Profits paid to minority shareholders of subsidiaries)		**–**	(239)
Sub-total of cash outflows		**(744,594)**	(335,482)
Net cash outflow from financing activities		**(3,594)**	(6,482)
Net decrease in cash and cash equivalents	*36(1)*	**(128,453)**	(16,406)
Add: Cash and cash equivalents at the beginning of the year		**1,034,747**	1,051,153
Cash and cash equivalents at the end of the year		**906,294**	1,034,747

These financial statements have been approved by the Board of Directors of the Company on 30 March 2009.

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 116 to 169 form part of these financial statements.

Cash Flow Statement

For the year ended 31 December 2008
(Prepared in accordance with the PRC Accounting Standards for Business Enterprises (2006))
(Expressed in thousands of renminbi yuan)

	Note	**2008**	2007
Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		**17,130,425**	18,845,432
Refund of taxes		**13,560**	2,177
Other cash received relating to operating activities		**4,536**	7,119
Sub-total of cash inflows		**17,148,521**	18,854,728
Cash paid for goods and services		**(15,722,002)**	(17,224,610)
Cash paid to and for employees		**(657,863)**	(581,801)
Cash paid for all types of taxes		**(399,850)**	(751,676)
Other cash paid relating to operating activities		**(444,931)**	(209,117)
Sub-total of cash outflows		**(17,224,646)**	(18,767,204)
Net cash (outflow)/inflow from operating activities	*36(1)*	**(76,125)**	87,524
Cash flows from investing activities:			
Cash received from disposal of subsidiaries	*36(3)*	**116,170**	–
Net cash received from disposal of fixed assets and intangible assets		**11,796**	21,543
Interest received		**25,829**	30,877
Government grants received		**15,000**	–
Sub-total of cash inflows		**168,795**	52,420
Cash paid for acquisition of fixed assets and intangible assets		**(129,735)**	(102,189)
Sub-total of cash outflows		**(129,735)**	(102,189)
Net cash inflow/(outflow) from investing activities		**39,060**	(49,769)

The notes on pages 116 to 169 form part of these financial statements.

Cash Flow Statement (Continued)

For the year ended 31 December 2008
(Prepared in accordance with the PRC Accounting Standards for Business Enterprises (2006))
(Expressed in thousands of renminbi yuan)

	Note	**2008**	2007
Cash flows from financing activities:			
Cash received from borrowings		**741,000**	329,000
Sub-total of cash inflows		**741,000**	329,000
Cash repayments of borrowings		**(741,000)**	(329,000)
Cash paid for dividends, profits distribution or interest		**(3,594)**	(1,647)
Sub-total of cash outflows		**(744,594)**	(330,647)
Net cash outflow from financing activities		**(3,594)**	(1,647)
Net (decrease)/increase in cash and cash equivalents	*36(1)*	**(40,659)**	36,108
Add: Cash and cash equivalents at the beginning of the year		**946,953**	910,845
Cash and cash equivalents at the end of the year		**906,294**	946,953

These financial statements have been approved by the Board of Directors of the Company on 30 March 2009.

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 116 to 169 form part of these financial statements.

Consolidated Statement of Changes in Shareholder's Equity

For the year ended 31 December 2008
(Prepared in accordance with the PRC Accounting Standards for Business Enterprises (2006))
(Expressed in thousands of renminbi yuan)

2008

	Attributable to shareholders of the Company						
	Share capital	Capital reserve	Surplus reserve	Accumulated losses	Subtotal	Minority interests	Total
Balance at the end of last year	4,000,000	3,107,164	1,456,004	(254,491)	8,308,677	–	8,308,677
Changes in accounting policies	–	–	–	–	–	–	–
Balance at the beginning of the year	4,000,000	3,107,164	1,456,004	(254,491)	8,308,677	–	8,308,677
Changes in equity for the year							
1. Net (loss)/profit for the year	–	–	–	(1,645,285)	(1,645,285)	–	(1,645,285)
2. Shareholder's contributions and decrease of capital							
– Disposal of its subsidiaries by the Company's subsidiary	–	–	–	–	–	–	–
3. Appropriation of profits							
– Distributions to minority shareholders	–	–	–	–	–	–	–
Balance at the end of the year	4,000,000	3,107,164	1,456,004	(1,899,776)	6,663,392	–	6,663,392

2007

	Attributable to shareholders of the Company						
	Share capital	Capital reserve	Surplus reserve	Accumulated losses	Subtotal	Minority interests	Total
Balance at the end of last year	4,000,000	3,116,808	1,456,004	(281,952)	8,290,860	47,652	8,338,512
Changes in accounting policies	–	(9,644)	–	9,644	–	–	–
Balance 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
Changes in equity for the year							
1. Net (loss)/profit for the year	–	–	–	17,817	17,817	944	18,761
2. Shareholder's contributions and decrease of capital							
– Disposal of its subsidiaries by the Company's subsidiary	–	–	–	–	–	(48,357)	(48,357)
3. Appropriation of profits							
– Distributions to minority shareholders	–	–	–	–	–	(239)	(239)
Balance at the end of the year	4,000,000	3,107,164	1,456,004	(254,491)	8,308,677	–	8,308,677

These financial statements have been approved by the Board of Directors of the Company on 30 March 2009.

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 116 to 169 form part of these financial statements.

Statement of Changes in Shareholder's Equity

For the year ended 31 December 2008
((Prepared in accordance with the PRC Accounting Standards for Business Enterprises (2006))
Expressed in thousands of renminbi yuan)

	2008					2007				
	Share capital	**Capital reserve**	**Surplus reserve**	**Accumulated losses**	**Total**	Share capital	Capital reserve	Surplus reserve	Accumulated losses	Total
Balance at the end of last year	**4,000,000**	**3,107,164**	**1,456,004**	**(412,287)**	**8,150,881**	4,000,000	3,126,453	1,456,004	(283,627)	8,298,830
Changes in accounting policies	**–**	**–**	**–**	**–**	**–**	–	(19,289)	–	(147,285)	(166,574)
Balance at the beginning 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
Changes in equity for the year										
Net (loss)/profit for the year	**–**	**–**	**–**	**(1,487,489)**	**(1,487,489)**	–	–	–	18,625	18,625
Balance at the end of the year	**4,000,000**	**3,107,164**	**1,456,004**	**(1,899,776)**	**6,663,392**	4,000,000	3,107,164	1,456,004	(412,287)	8,150,881

These financial statements have been approved by the Board of Directors of the Company on 30 March 2009.

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 116 to 169 form part of these financial statements.

Notes to the Financial Statements

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

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 ("Sinopec Asset and Management Corp") (formerly "Yihua Group Corporation" ("Yihua")).

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

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

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

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

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

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

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

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

2. BASIS OF PREPARATION

(1) Statement of compliance with the Accounting Standards for Business Enterprises ("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" as revised by the China Securities Regulatory Commission ("CSRC") in 2007.

(2) Accounting year

The accounting year of the Group and the Company 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 Group's and the Company'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 combined 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 one combining enterprise effectively obtains control of the other combining enterprises.

(b) Business combination of 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 acquirer is the aggregate of the fair value at the acquisition date of assets given, liabilities incurred or assumed, and equity securities issued by the acquirer, 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 acquirer effectively obtains control of the acquiree.

The acquirer, at the acquisition date, allocates the cost of the business combination by recognising the acquiree's identifiable asset, liabilities and contingent liabilities at their fair value at that date.

Any excess of the cost of a business combination over the acquirer's interest in the fair value of the acquiree's identifiable net assets is recognised as goodwill (see Note 3(8)).

Any excess of the acquirer'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.

Notes to the Financial Statements

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

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 operating activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Where a subsidiary was acquired during the reporting period, through a business combination involving entities under common control, the financial statements of the subsidiary are included in the consolidated financial statements as if the combination had occurred 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 from the date that common control was established.

Where a subsidiary was acquired during the reporting period, through a business combination involving entities not under common control, the identifiable assets, liabilities and results of operations of the subsidiaries are consolidated into the consolidated financial statements from the date that control commences, 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 shareholders' equity. Net profit or loss attributable to minority shareholders is presented separately in the consolidated income statement below the net profit line item.

Where losses attributable to the minority shareholders of a subsidiary exceed the minority shareholders' interest in the equity of the subsidiary, the excess, and any further losses attributable to the minority shareholders, are allocated against the equity attributable to the Company except to the extent that the minority shareholders have a binding obligation under the articles of association or an agreement and are able to make additional investment to cover the losses. If the subsidiary subsequently reports profits, such profits are allocated to the equity attributable to the Company until the minority shareholders' share of losses previously absorbed by the Company has been recovered.

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

(2) Translation of foreign currencies

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

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

Monetary items denominated in foreign currencies are translated to renminbi at the PBOC rates at the balance sheet date. The resulting exchange differences are recognised in profit or loss, except those arising from the principals and interests on foreign currency borrowings specially for the purpose of acquisition, construction of qualifying assets (see Note 3(16)). Non-monetary items denominated in foreign currencies that are measured at historical cost are translated to renminbi using the foreign exchange rates at the transaction dates.

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 include low-value consumables, packaging materials and other materials, which can be used repeatedly but do not meet the definition of fixed assets. Reusable 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 Group and the Company maintain a perpetual inventory system.

(5) Long-term equity investments

(a) Investments in subsidiaries

In the Group's consolidated financial statements, investments 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(10)(b)) 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 Company'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 value stipulated in the investment contract or agreement if an investment is contributed by shareholders.

Notes to the Financial Statements

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

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 Group and the Company 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.

At year-end, the Group and the Company make provision for impairment loss of investments in jointly controlled entities (see Note 3(10)(b)).

An investment in a jointly controlled entity is initially recognised at actual payment cost if the Group and the Company acquire the investment by cash, or at the fair value of the assets given up if the long-term equity investment is acquired through an exchange of non-monetary assets. The difference between the fair value and the carrying amount of the assets given up is charged to the income statement.

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

– Where the initial investment cost of a long-term equity investment exceeds the Group's and the Company's interest in the fair value of the investee's identifiable net assets at the date of acquisition, the investment is initially recognised at the initial investment cost. Where the initial investment cost is less than the Group's and the Company's interest in the fair value of the investee's identifiable net assets at the date 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 Group and the Company recognise its share of the investee's net profits or losses as investment income or losses, 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 Group and the Company.

  The Group and the Company recognise their share of the investee's net profits or losses after making appropriate adjustments to align the accounting policies or accounting periods with those of the Group and the Company based on the fair values of the investee's identifiable net assets at the date of acquisition. Unrealised profits and losses resulting from transactions between the Group and the Company and its jointly controlled entities are eliminated to the extent of the Group's and the Company's interest in the jointly controlled entities. Unrealised losses resulting from transactions between the Group and the Company and its jointly controlled entities are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

– The Group and the Company discontinue recognising their share of net losses 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 Group's and the Company's net investment in the jointly controlled entity is reduced to zero, except to the extent that the Group and the Company have an obligation to assume additional losses. Where net profits are subsequently made by the jointly controlled entity, the Group and the Company resume recognising their share of those profits only after their share of the profits equals the share of losses not recognised.

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(6) Fixed assets and construction in progress

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

Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see Note 3(10)(b)). Construction in progress is stated in the balance sheet at cost less impairment losses (see Note 3(10)(b)).

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(16)), 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 parts of an item of fixed asset have different useful lives or provide benefits to the Group and the Company in different patterns thus necessitating use of different depreciation rates, each part is recognised as a separate fixed asset.

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

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

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

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

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

Notes to the Financial Statements

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

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(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 (see Note 3(10)(b)). For an intangible asset with finite useful lives, its cost less residual value and impairment loss is amortised on the straight-line method over its estimated useful life. The respective amortisation periods for such intangible assets are as follows:

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

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

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

Expenditures on research phase are recognised in profit or loss when incurred. Expenditures on development phase are capitalised if development costs can be measured reliably, the product or process is technically and commercially feasible, and the Group and the Company intend to and have sufficient resources to complete development. Capitalised development costs are stated at cost less impairment losses (see Note 3(10)(b)). Other development expenditures are recognised as expenses in the period in which they are incurred.

(8) Good will

Goodwill represents the excess of cost of acquisition over the acquirer's interest in the fair value of the identifiable net assets of the acquiree under the business combination involving entities not under common control.

Goodwill is not amortised and is stated at cost less accumulated impairment losses (see Note 3(10)(b)). On disposal of an asset group or a set of asset groups, any attributable amount of purchased goodwill is written off and included in the calculation of the profit or loss on disposal.

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES
(Continued)

(9) Financial instruments

Financial instruments comprise cash at bank and on hand, receivables, payables, loans and borrowings, 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 Group and the Company become a party to the contractual provisions of a financial instrument.

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

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

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

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

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

– Receivables

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

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

– Held-to-maturity investments

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

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

Notes to the Financial Statements

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

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

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

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

Other than investments in equity instruments whose fair value cannot be measured reliably as described above, subsequent to initial recognition, other available-for-sale financial assets are measured at fair value and changes therein, except for impairment losses and foreign exchange gains and losses from monetary financial assets, which are recognised directly in profit or loss, are 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) Determination of fair values

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

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

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES
(Continued)

(9) Financial instruments (Continued)

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

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

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

– carrying amount of the financial asset transferred

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

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

(d) *Equity instrument*

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

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

(10) Impairment of financial assets and non-financial long-term assets

(a) *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 observable figures reflecting present economic conditions.

If, after an impairment loss has been recognised on receivables, there is objective evidence of a recovery in value of the financial asset which can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss. A reversal of an impairment loss will not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Notes to the Financial Statements
(Prepared in accordance with the PRC Accounting Standards for Business Enterprises (2006))

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES
(Continued)

(10) Impairment of financial assets and non-financial long-term assets (Continued)

(b) Impairment of other 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

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

If any indication exists that an asset may be impaired, the recoverable amount of the asset is estimated. In addition, the Group and the Company estimate the recoverable amounts of goodwill at no later than each year-end, irrespective of whether there is any indication of impairment or not. Goodwill is tested for impairment together with its related asset groups or set of asset groups.

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

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.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES
(Continued)

(11) Employee benefits

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

(a) Pension benefits

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

(b) Housing fund and other social insurance

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

(c) Termination benefits

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(12) 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.

At the balance sheet date, current tax assets and liabilities are offset if the taxable entity has a legally enforceable right to set off them and the entity intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

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 recovery or settlement of the carrying amount of the assets and liabilities, using tax rates that are expected to be applied in the period when the asset is recovered or the liability is settled in accordance with tax laws.

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

- the taxable entity has a legally enforceable right to set off current tax assets against current tax liabilities, and
- they relate to income taxes levied by the same tax authority on either:
  - the same taxable entity; or
  - different taxable entities which either to intend to settle the current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

(13) Provisions and contingent liabilities

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

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

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES
(Continued)

(14) Revenue recognition

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

(a) Sale of goods

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

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

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

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

(b) Rendering of services

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

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

(c) Interest income

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

(15) Government grants

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

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

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

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

Notes to the Financial Statements

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

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(16) Borrowing costs

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

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

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

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

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

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

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

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

(17) 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)

(18) Related parties

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

(a) the Company's parent;

(b) the Company's subsidiaries;

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

(d) investors that have joint control or exercise significant influence over the Group;

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

(f) jointly controlled entities of the Group;

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

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

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

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

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

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:

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(19) Segment reporting

A business segment is a distinguishable component of the Group and the Company 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 Group and the Company 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 Group's and the Company's losses or profits are almost entirely attributable to the production and sales of chemical fibre and chemical fibre raw materials in mainland China. Accordingly, no segmental analysis is provided by the Group and the Company.

(20) Significant accounting estimates and judgements

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 22 and 38 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(10)(a), receivables that are measured at amortisation cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is provided. Objective evidence of impairment includes observable data that comes to the attention of the Group and the Company about loss events such as a significant decline in the estimated future cash flow of an individual debtor or the portfolio of debtors, and significant changes in the financial condition that have an adverse effect on the debtor. If there is an indication that there has been a change in the factors used to determine the provision for impairment, the impairment loss recognised in prior years is reversed.

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

As described in Note 3(10)(b), 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 (asset group) cannot be obtained reliably, the fair value of the asset (asset group) cannot be estimated reliably. In assessing present value of expected future cash flows, significant judgements are exercised over the asset (asset group)'s production, selling price, related operating expenses and discounting rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the production, selling price and related operating expenses based on reasonable and supportable assumption.

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(20) Significant accounting estimates and judgements (Continued)

(c) Depreciation and amortisation

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

(d) Provision for diminution in value of inventories

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

4. CHANGES IN ACCOUNTING POLICIES

(1) Changes in accounting policies and their effects

(a) Description of and reasons for changes in accounting policies

In accordance with China Accounting Standards Bulletin No.2 and the Notice on preparing 2008 annual reports of enterprises adopting China Accounting Standards (Caikuaihan [2008]No.60), which were newly issued by the Ministry of Finance in 2008, and the Interpretation Guidance of China Accounting Standards published in December 2008, the Group and the Company changed the following significant accounting policies in the current accounting year:

– Deferred tax assets are offset against deferred tax liabilities

Before 2008, deferred tax assets and liabilities were presented separately from each other and were not offset. As at 31 December 2008, they were presented on a net basis on the balance sheet if specific conditions were met (see Note 3(12)).

The relevant comparative items have been adjusted accordingly for the above change on the presentation of deferred tax assets and liabilities. The effect of this change of accounting policy on the prior and current years has been disclosed in Note 4(2) and Note 4(1)(b), respectively.

(b) Effect of change in accounting policy on the current year

The change in accounting policy has no effect on the 2008 consolidated income statement and income statement and has no significant effect on the consolidated balance sheet and balance sheet as at 31 December 2008.

4. CHANGES IN ACCOUNTING POLICIES (Continued)

(2) Effect of the above change in accounting policy on the prior years

The above change has no effect on the Group's and the Company's net profit and shareholders' equity as at and for the year ended 31 December 2007.

Affected asset and liability items in the balance sheet as at 31 December 2007:

		The Group and the Company		
		Before adjustment	Adjustment	After adjustment
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Deferred tax assets	*(1)(a)*	95,449	(4,460)	90,989
Deferred tax liabilities	*(1)(a)*	(4,460)	4,460	–
Total		90,989	–	90,989

5. TAXATION

(1) The taxes applicable to the Group's and the Company's sale of goods and rendering of services include business tax, value-added tax ("VAT"), city maintenance and construction tax, education surcharge and land use tax.

Business tax rate:	3% or 5%
VAT rate:	17%
Urban maintenance and construction tax rate:	7%
Education fee surcharge rate:	4%
Land use tax rate:	RMB4 per square meter

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

Pursuant to the PRC enterprise income tax law passed by the Tenth National People's Congress on 16 March 2007, the new enterprise income tax rates for domestic and foreign enterprises are unified at 25% and were effective from 1 January 2008. The EIT rate applicable to the Group changed from 33% in 2007 to 25% in 2008. The charge for PRC income tax for the year is calculated at the rate of 25% (2007: 33%) on the estimated assessable income of the year determined in accordance with relevant tax rules and regulations.

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

5. TAXATION (Continued)

(3) Taxes payable

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Note 42)		*(Note 42)*
VAT payable	**–**	9	**–**	–
Education fee surcharge payable	**4,192**	1,834	**4,192**	1,834
Land use tax payable	**4,618**	3,472	**4,618**	3,472
Others	**9,169**	6,896	**9,169**	6,881
Total	**17,979**	12,211	**17,979**	12,187

6. BUSINESS COMBINATIONS AND THE CONSOLIDATED FINANCIAL STATEMENTS

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

Subsidiary established not through business combinations:

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

On 29 April 2008, the Company put its wholly-owned subsidiary, Yihua Kangqi into liquidation. As at 31 December 2008, the relevant liquidation procedures were completed and all the assets and liabilities of Yihua Kangqi were transferred to the Company at their net book values. As the operation results and financial position of Yihua Kangqi were reflected in each of the Group's prior years' consolidated financial statements, the liquidation had no significant impact on the consolidated income statement for the year ended 31 December 2008. Meanwhile, as investment in subsidiary was accounted for using the cost method in the Company's financial statements in prior years, a disposal income of RMB158,668,000 has been recognised and included in the Company's income statement for the year ended 31 December 2008. Please see Note 36(3) for the information of the disposal. At 31 December 2008, no subsidiary was included in the consolidated financial statements.

Notes to the Financial Statements

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

6. BUSINESS COMBINATIONS AND THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at 29 April 2008 and 31 December 2007, the carrying amounts of assets and liabilities of Yihua Kangqi were as follows:

	As at 29 April 2008 *RMB'000*	As at 31 December 2007 *RMB'000*
Current assets	**217,020**	216,969
Non-current assets	**2,447**	2,474
Total assets	**219,467**	219,443
Liabilities	**(343)**	(1,191)
Net assets	**219,124**	218,252

The results of operations of Yihua Kangqi for the period from 1 January 2008 to 29 April 2008 and for the year ended 31 December 2007 were as follows:

	For the period ended 29 April 2008 *RMB'000*	2007 *RMB'000*
Operating income	**–**	1,910,115
Net profit	**872**	3,468
Attributable to: Shareholders of the Company	**872**	2,524
Minority shareholders	**–**	944

7. CASH AT BANK AND ON HAND

	The Group and the Company 2008		
	Original currency *'000*	**Exchange rate**	**RMB/RMB equivalents** *'000*
Cash on hand			
– Renminbi			**21**
Cash at bank			
– Renminbi			**1,055,385**
– US Dollars	**251**	**6.835**	**1,716**
Cash at bank and on hand			**1,057,122**
Deposits with related companies			
– Renminbi			**146,633**
Total			**1,203,755**

7. CASH AT BANK AND ON HAND (Continued)

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

As at 31 December 2008, deposits of RMB297,461,000 (31 December 2007: RMB nil) were pledged for payables in respect of imported raw materials.

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

Notes to the Financial Statements

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

8. BILLS RECEIVABLE

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Bank acceptance bills	**1,179,716**	1,583,804	**1,179,716**	1,555,479
Commercial acceptance bills *(Note 41(4))*	**110,852**	28,613	**110,852**	28,613
Total	**1,290,568**	1,612,417	**1,290,568**	1,584,092

All of the above bills are due within six months.

As at 31 December 2008, the Group's and the Company's outstanding discounted bank acceptance bills (with recourse) amounted to RMB18,738,000 (31 December 2007: RMB nil). The Group's and the Company's outstanding endorsed bank acceptance bills (with recourse) amounted to RMB283,280,000 (31 December 2007: RMB215,835,000). These discounted or endorsed bills are due by 30 June 2009 (31 December 2007: due by 30 June 2008) and were not included in the above bank acceptance bills balances.

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

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

9. ACCOUNTS RECEIVABLE

(1) Accounts receivable by customer type:

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Amounts due from related parties	**99,447**	5,130	**99,447**	5,130
Amounts due from other customers	**91,766**	196,038	**91,766**	195,250
Subtotal	**191,213**	201,168	**191,213**	200,380
Less: Provision for bad and doubtful debts	**835**	1,258	**835**	470
Total	**190,378**	199,910	**190,378**	199,910

The Group's and the Company's accounts receivable due from related parties amounted to RMB99,447,000 (31 December 2007: RMB5,130,000), 52.01% (31 December 2007: 2.55% and 2.56% respectively) of the total accounts receivable.

Except for the balances disclosed in Note 41, 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)

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

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 1 year (inclusive)	**189,772**	197,641	**189,772**	197,641
1 and 2 years (inclusive)	**97**	3,241	**97**	2,453
2 and 3 years (inclusive)	**1,344**	–	**1,344**	–
Over 3 years	**–**	286	**–**	286
Subtotal	**191,213**	201,168	**191,213**	200,380
Less: Provision for bad and doubtful debts	**835**	1,258	**835**	470
Total	**190,378**	199,910	**190,378**	199,910

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

Details of movement of provision for bad and doubtful debts of the Group and the Company are set out in Note 19.

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

The Group

	As at 31 December 2008				As at 31 December 2007			
	Amount	**Percentage of total accounts receivable**	**Bad debts provision**	**Rate of provision**	Amount	Percentage of total accounts receivable	Bad debts provision	Rate of provision
	RMB'000	**%**	***RMB'000***	**%**	*RMB'000*	%	*RMB'000*	%
Other immaterial items	**191,213**	**100.00**	**835**	**0.44**	201,168	100.00	1,258	0.63

The Company

	As at 31 December 2008				As at 31 December 2007			
	Amount	**Percentage of total accounts receivable**	**Bad debts provision**	**Rate of provision**	Amount	Percentage of total accounts receivable	Bad debts provision	Rate of provision
	RMB'000	**%**	**RMB'000**	**%**	*RMB'000*	%	*RMB'000*	%
Other immaterial items	**191,213**	**100.00**	**835**	**0.44**	200,380	100.00	470	0.23

During the year ended 31 December 2008, the Group and the Company had no individually significant accounts receivable been fully or substantially provided for. The Group and the Company had no individually significant recovery of bad debts which were fully or substantially provided for in prior years. As at 31 December 2008, the Group and the Company had no individually significant accounts receivable due over 3 years.

Notes to the Financial Statements
(Prepared in accordance with the PRC Accounting Standards for Business Enterprises (2006))

10. PREPAYMENTS

(1) Prepayments by category:

	The Group and the Company	
	2008	2007
	RMB'000	*RMB'000*
Prepayments to related parties	**19,640**	70,073
Prepayments to others	**4,170**	2,601
Subtotal	**23,810**	72,674
Less: Provision for bad and doubtful debts	**162**	–
Total	**23,648**	72,674

The Group's and the Company's prepayments to related parties amounted to RMB19,640,000 (31 December 2007: RMB70,073,000), 82.49% of the total prepayments (31 December 2007: 96.42%).

Except for the balances disclosed in Note 41, no amount prepaid to shareholders who hold 5% or more of the voting rights of the Company is included in the above balance of prepayments.

(2) The ageing analysis of prepayments is as follows:

	The Group and the Company	
	2008	2007
	RMB'000	*RMB'000*
Within 1 year (inclusive)	**23,480**	71,950
1 and 2 years (inclusive)	**300**	–
2 and 3 years (inclusive)	**–**	544
Over 3 years	**30**	180
Subtotal	**23,810**	72,674
Less: Provision for bad and doubtful debts	**162**	–
Total	**23,648**	72,674

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

Details of movement of provision for bad and doubtful debts of the Group and the Company are set out in Note 19.

10. PREPAYMENTS (Continued)

(2) The ageing analysis of prepayments is as follows: (Continued)

At 31 December 2008, an analysis of the Group's and the Company's individual prepayments that are 30% or more of the total amount is as follows:

Entity's name	Reasons for prepayment	Amount	Percentage of total prepayments
		RMB'000	
Sinopec Chemicals Sales Branch	Purchase of raw materials	14,245	59.83%

11. OTHER RECEIVABLES

(1) Other receivables by customer type:

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Amounts due from related parties	**10,612**	753	**10,612**	753
Amounts due from other customers	**100,149**	97,825	**100,149**	97,335
Subtotal	**110,761**	98,578	**110,761**	98,088
Less: Provision for bad and doubtful debts	**2,822**	7,253	**2,822**	7,253
Total	**107,939**	91,325	**107,939**	90,835

The Group's and the Company's other receivables due from related parties amounted to RMB10,612,000 (31 December 2007: RMB753,000), 9.58% of the total other receivables (31 December 2007: 0.76%).

Except for the balances disclosed in Note 41, 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.

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

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 1 year (inclusive)	**103,139**	91,330	**103,139**	90,840
1 and 2 years (inclusive)	**3,159**	2,539	**3,159**	2,539
2 and 3 years (inclusive)	**2,447**	2,353	**2,447**	2,353
Over 3 years	**2,016**	2,356	**2,016**	2,356
Subtotal	**110,761**	98,578	**110,761**	98,088
Less: Provision for bad and doubtful debts	**2,822**	7,253	**2,822**	7,253
Total	**107,939**	91,325	**107,939**	90,835

The ageing is counted starting from the date 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 19.

11. OTHER RECEIVABLES (Continued)

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

The Group

	As at 31 December 2008				As at 31 December 2007			
	Amount RMB'000	Percentage of total other receivables %	Bad debts provision RMB'000	Rate of provision %	Amount RMB'000	Percentage of total other receivables %	Bad debts provision RMB'000	Rate of provision %
Other immaterial items	110,761	100.00	2,822	2.55	98,578	100.00	7,253	7.36

The Company

	As at 31 December 2008				As at 31 December 2007			
	Amount RMB'000	Percentage of total other receivables %	Bad debts provision RMB'000	Rate of provision %	Amount RMB'000	Percentage of total other receivables %	Bad debts provision RMB'000	Rate of provision %
Other immaterial items	110,761	100.00	2,822	2.55	98,088	100.00	7,253	7.39

During the year ended 31 December 2008, the Group and the Company had no individually significant other receivables 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 2008, the Group and the Company had no individually significant other receivables due over 3 years.

12. INVENTORIES

(1) An analysis of inventories is as follows:

	The Group and the Company	
	2008 RMB'000	2007 RMB'000
Raw materials	490,795	680,262
Work in progress	53,048	138,956
Finished goods	215,224	319,046
Spare parts and consumables	128,629	131,522
Subtotal	887,696	1,269,786
Less: Provision for diminution in value of inventories	56,243	12,599
Total	831,453	1,257,187

All the above inventories were purchased or self-manufactured.

As at 31 December 2008 and 31 December 2007, no borrowing costs of the Group and the Company were capitalised in the closing balance of inventories.

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

12. INVENTORIES (Continued)

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

	Opening balance at the beginning of the year	Increase during the year		Closing balance at the end of the year
		Charge for the year	Other increases	
	RMB'000	*RMB'000*	*RMB'000*	***RMB'000***
The Group and the Company				
Raw materials	–	2,991	–	**2,991**
Finished goods	–	35,402	–	**35,402**
Spare parts and consumables	12,599	–	5,251	**17,850**
Total	12,599	38,393	5,251	**56,243**

(3) During the year ended 31 December 2008, the Group and the Company recognised the cost of inventories as costs and expenses amounting to RMB15,332,481,000 (2007: RMB16,266,147,000 and RMB16,077,274,000 respectively).

13. OTHER CURRENT ASSETS

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Note 42)		*(Note 42)*
Prepaid VAT	**191,698**	196,190	**191,698**	196,175
Prepaid urban maintenance and construction tax	**3,547**	3,861	**3,547**	3,861
Total	**195,245**	200,051	**195,245**	200,036

14. LONG-TERM EQUITY INVESTMENTS

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Investment in subsidiary	**–**	–	**–**	60,456
Investment in jointly controlled entity	**25,803**	156,184	**25,803**	156,184
Total	**25,803**	156,184	**25,803**	216,640

Notes to the Financial Statements
(Prepared in accordance with the PRC Accounting Standards for Business Enterprises (2006))

14. LONG-TERM EQUITY INVESTMENTS (Continued)

As at 31 December 2008, the Group's and the Company's investment in jointly controlled entity was as follows:

	The Group and the Company
	RMB'000
Initial investment cost	241,836
Movement of investment cost	
Carrying amount at the beginning of the year	156,184
Less: Adjustments under equity method *(Note 32)*	130,381
Carrying amount at the end of year	25,803

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 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%	RMB380,628	RMB306,412	RMB935,818	RMB260,762

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

At 31 December 2008, each of the Company and its joint venture partner, UNIFI Asia Holding SRL ("UNIFI Asia"), holds 50% equity interest in Yihua Unifi. The Company announced on 1 August 2008 that it was in negotiation with UNIFI Asia for the potential acquisition of UNIFI Asia's 50% equity interest in Yihua Unifi. On 18 February 2009, the Company entered into a conditional Equity Interest Transfer Agreement with UNIFI Asia to acquire UNIFI Asia's 50% equity interest in Yihua Unifi (see Note 40(1)).

In response to the current market environment for Yihua Unifi's products, as at 31 December 2008, Yihua Unifi assessed the recoverable amount of its fixed assets in relation to its production facilities and as a result the carrying amount of the production facilities was written down by RMB132,335,000. Of which, 50% of this impairment loss was shared by the Group (i.e RMB66,167,500). The estimate of recoverable amount of the production facilities was based on their value in use. In assessing the value in use, the discount rate used to calculate the present value of estimated future cash flows is 10%.

15. 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:				
Balance at the beginning of the year	1,951,148	9,639,208	748,118	12,338,474
Additions during the year	–	80	4	84
Transfer from construction in progress *(Note 16)*	3,298	62,839	10,008	76,145
Reclassification	2,120	4,243	(6,363)	–
Disposals during the year	(11,047)	(24,453)	(17,962)	(53,462)
Balance at the end of the year	**1,945,519**	**9,681,917**	**733,805**	**12,361,241**
Less: Accumulated depreciation:				
Balance at the beginning of the year	824,846	6,118,422	551,244	7,494,512
Charge for the year	67,299	497,913	39,355	586,567
Reclassification	2,057	4,116	(6,173)	–
Written back on disposal	(3,046)	(21,546)	(15,385)	(39,977)
Balance at the end of the year	**891,156**	**6,580,905**	**569,041**	**8,041,102**
Less: Provision for impairment:				
Balance at the beginning of the year	1,140	10,540	622	12,302
Charge for the year *(Note (1))*	518	435,951	4,618	441,087
Written back on disposal	(918)	(2,907)	(134)	(3,959)
Balance at the end of the year	**740**	**443,584**	**5,106**	**449,430**
Carrying amounts:				
At the end of the year	**1,053,623**	**2,657,428**	**159,658**	**3,870,709**
At the beginning of the year	1,125,162	3,510,246	196,252	4,831,660

15. 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:				
Balance at the beginning of the year	1,946,814	9,639,031	748,025	12,333,870
Additions during the year	4,334	257	97	4,688
Transfer from construction in progress *(Note 16)*	3,298	62,839	10,008	76,145
Reclassification	2,120	4,243	(6,363)	–
Disposals during the year	(11,047)	(24,453)	(17,962)	(53,462)
Balance at the end of the year	**1,945,519**	**9,681,917**	**733,805**	**12,361,241**
Less: Accumulated depreciation:				
Balance at the beginning of the year	823,708	6,117,304	552,263	7,493,275
Additions due to asset transfers	2,047	110	–	2,157
Charge for the year	67,281	479,913	39,346	586,540
Reclassification	2,057	4,116	(6,173)	–
Written back on disposal	(3,937)	(20,538)	(16,395)	(40,870)
Balance at the end of the year	**891,156**	**6,580,905**	**569,041**	**8,041,102**
Less: Provision for impairment:				
Balance at the beginning of the year	247	10,540	622	11,409
Charge for the year *(Note (1))*	518	435,951	4,618	441,087
Written back on disposal	(25)	(2,907)	(134)	(3,066)
Balance at the end of the year	**740**	**443,584**	**5,106**	**449,430**
Carrying amounts:				
At the end of the year	**1,053,623**	**2,657,428**	**159,658**	**3,870,709**
At the beginning of the year	1,122,859	3,511,187	195,140	4,829,186

(1) In response to the current market environment for filament products, the Company assessed the recoverable amount of its fixed assets in relation to its filament production facilities as at 31 December 2008 and recognised impairment losses in respect of the filament production facilities amounting to RMB425,494,000. The estimate of the recoverable amount was based on these facilities' value in use. In assessing value in use, the discount rate used to calculate the present value of estimated future cash flows is 10%. In addition, as stated in the announcement dated 28 November 2008, the impairment losses were also determined by reference to a revaluation on these facilities performed by an independent valuer registered in the PRC, China United Assets Appraisal Corporation, which was based on an income approach.

15. FIXED ASSETS (Continued)

(1) (Continued)

Impairment losses recognised in respect of idle fixed assets were RMB15,593,000 for the year ended 31 December 2008. The carrying amount of these assets was written down to their recoverable amount. The estimate of recoverable amounts was based on fixed assets' fair values less costs to sell, determined by reference to the information about the sales of similar assets within the same industry. As at 31 December 2008, the carrying amount of idle fixed assets was RMB9,774,000.

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

(3) As at 31 December 2008, there were no significant fixed assets to be disposed of.

16. CONSTRUCTION IN PROGRESS

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cost				
Balance at the beginning of the year	**89,566**	114,037	**89,566**	114,037
Additions during the year	**335,883**	116,652	**335,883**	116,109
Transfer to fixed assets *(Note 15)*	**(76,145)**	(135,039)	**(76,145)**	(134,496)
Decrease due to other reasons	**(77,292)**	(6,084)	**(77,292)**	(6,084)
Balance at the end of the year	**272,012**	89,566	**272,012**	89,566

As at 31 December 2008 and 31 December 2007, no borrowing costs of the Group and the Company were capitalised in the closing balance of construction in progress.

As at 31 December 2008, the Group's and the Company's major construction projects in progress were set out as follows:

Project	Budget	Balance at the beginning of the year	Additions	Transfer to fixed assets	Decrease due to other reasons	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 *(Note (1))*	–	37,800	37,643	–	(75,443)	–	–	Own fund
100 tonne/year aramid fibre project	62,506	–	54,000	–	–	**54,000**	86%	Own fund
300 tonne/year high performance polyethylene project	101,650	–	80,000	–	–	**80,000**	79%	Own fund
Improvements of existing plants and equipment	376,783	51,766	164,240	(76,145)	(1,849)	**138,012**	37%	Own fund
Total for the Group and the Company		89,566	335,883	(76,145)	(77,292)	**272,012**		

(1) As at 31 December 2008, the construction of 1,000,000-tonne/year PTA project was suspended. Up to the date of issuance of these financial statements, the Company has no plan to resume this suspended construction project. Based on the analysis of the relevant expenditure incurred, the irrecoverable construction costs amounting to RMB28,867,000 were transferred out from "Construction in progress" accounts and were recognised in "Non-operating expenses", while the construction costs prepaid, considered fully recoverable by management, amounting to RMB34,020,000 were transferred out to "Other receivables".

Notes to the Financial Statements

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

17. INTANGIBLE ASSETS

	The Group and the Company			
	Land use right	Technology right	Patent right	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost or valuation				
Balance at the beginning of the year	406,166	208,893	142,435	757,494
Decrease for the year	(43)	–	–	(43)
Balance at the end of the year	**406,123**	**208,893**	**142,435**	**757,451**
Less: Accumulated amortisation				
Balance at the beginning of the year	91,965	91,824	137,603	321,392
Charge for the year	8,503	20,889	905	30,297
Written back on disposal	(12)	–	–	(12)
Balance at the end of the year	**100,456**	**112,713**	**138,508**	**351,677**
Carrying amounts				
At the end of the year	**305,667**	**96,180**	**3,927**	**405,774**
At the beginning of the year	314,201	117,069	4,832	436,102

As at 31 December 2008 and 31 December 2007, no borrowing costs of the Group and the Company were capitalised in the carrying amounts of intangible assets at the end of the year.

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

The Group and the Company obtained land use right through purchase from third parties and contribution from investors. The average remaining amortisation period is 36 years.

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

The Company acquired patent right from third parties in 2001 and 2005 respectively and the average remaining amortisation period is 4 years.

18. DEFERRED TAX ASSETS

The analysis of deferred tax assets(liabilities) is as follows:

	The Group and the Company		
	Balance at the beginning of the year	Current year increase/ decrease charged to profit or loss	Balance at the end of the year
	RMB'000	*RMB'000*	*RMB'000*
Provisions for bad and doubtful debts	832	(832)	–
Provisions for diminution in value of inventories	3,150	(3,150)	–
Provisions for impairment of fixed assets	2,852	(2,852)	–
Differences in depreciation arising between accounting and tax policy	14,019	(14,019)	–
Tax losses	74,596	(74,596)	–
Capitalisation of general borrowing costs	(4,460)	4,460	–
Total	90,989	(90,989)	–

At 31 December, the deferred tax assets and liabilities in the balance sheet, after offsetting each other, were as follows:

	The Group and the Company	
	2008	2007
	RMB'000	*RMB'000*
Deferred tax assets, net	**–**	95,449
Deferred tax liabilities, net	**–**	(4,460)
Total	**–**	90,989

(1) The Group and the Company assessed the future taxable profits that would allow the deferred tax assets to be recovered. Based on the assessment, the Group and the Company reduced the carrying amount of deferred tax assets to nil as at 31 December 2008.

(2) Unrecognised deferred tax assets

In accordance with the accounting policy set out in Note 3(12), the Company has not recognised deferred tax assets in respect of deductible temporary differences amounting to RMB548,576,000 (31 December 2007: RMB nil) and cumulative unutilised tax losses amounting to RMB1,376,012,000 (31 December 2007: RMB138,301,000), as it is not probable that future taxable profits against which the temporary differences can be deducted and the losses can be utilised will be available in the relevant tax jurisdiction.

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

18. DEFERRED TAX ASSETS (Continued)

(2) Unrecognised deferred tax assets (Continued)

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

	RMB'000
2010	436,685
2013	939,327
Total	1,376,012

19. PROVISIONS FOR IMPAIRMENT

As at 31 December 2008, the provisions for impairment losses of the Group are set out as follows:

			Increase during the year		Decrease during the year		
Item	*Note*	**Balance at the beginning of the year** *RMB'000*	**Charge for the year** *RMB'000*	**Other increases** *RMB'000*	**Reversal** *RMB'000*	**Sold/ disposal** *RMB'000*	**Balance at the end of the year** ***RMB'000***
Provisions for bad and doubtful debts							
– Accounts receivable	*9*	1,258	–	1,986	1,338	1,071	**835**
– Prepayments	*10*	–	315	–	–	153	**162**
– Other receivables	*11*	7,253	–	–	2,532	1,899	**2,822**
Provisions for diminution in value of inventories	*12*	12,599	38,393	5,251	–	–	**56,243**
Provisions for impairment of fixed assets	*15*	12,302	441,087	–	–	3,959	**449,430**
Total		33,412	479,795	7,237	3,870	7,082	**509,492**

As at 31 December 2008, the provisions for impairment losses of the Company are set out below:

			Increase during the year		Decrease during the year		
Item	*Note*	**Balance at the beginning of the year** *RMB'000*	**Charge for the year** *RMB'000*	**Other increases** *RMB'000*	**Reversal** *RMB'000*	**Sold/ disposal** *RMB'000*	**Balance at the end of the year** ***RMB'000***
Provisions for bad and doubtful debts							
– Accounts receivable	*9*	470	–	1,986	1,338	283	**835**
– Prepayments	*10*	–	315	–	–	153	**162**
– Other receivables	*11*	7,253	–	–	2,532	1,899	**2,822**
Provisions for diminution in value of inventories	*12*	12,599	38,393	5,251	–	–	**56,243**
Provisions for impairment of fixed assets	*15*	11,409	441,087	–	–	3,066	**449,430**
Total		31,731	479,795	7,237	3,870	5,401	**509,492**

20. BILLS PAYABLE

	The Group and the Company	
	2008	2007
	RMB'000	*RMB'000*
Bank acceptance bills	**115,000**	–

The above bills are due within one year.

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

21. ACCOUNTS PAYABLE, ADVANCES FROM CUSTOMERS AND OTHER PAYABLES

As at 31 December 2008, there were no individually significant balances aged over one year included in the Group's and the Company's accounts payable, advances from customers and other payables.

Except for the balances disclosed in Note 41, 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.

22. EMPLOYEE BENEFITS PAYABLE

	The Group and 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	135,332	368,903	446,502	**57,733**
Staff welfare fees	–	16,566	16,452	**114**
Social insurances				
– Basic pension insurance premium	–	59,063	59,063	**–**
– Basic medical insurance premium	–	21,192	21,192	**–**
– Unemployment insurance premium	–	5,427	5,427	**–**
– Work injury insurance premium	–	2,404	1,964	**440**
– Supplementary pension insurance premium	–	5,626	5,626	**–**
– Supplementary medical insurance premium	–	7,745	7,745	**–**
Housing fund	–	30,050	28,335	**1,715**
Labour union fee, staff and workers' education fee	769	10,506	10,660	**615**
Termination benefits	–	9,082	9,082	**–**
Short-term workers' service charges	–	20,429	20,429	**–**
Subsidies for retired employees	–	26,114	25,386	**728**
Total	136,101	583,107	657,863	**61,345**

Notes to the Financial Statements

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

22. EMPLOYEE BENEFITS PAYABLE (Continued)

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

Administrator	Beneficiary	Contribution rate 2008	2007
Yizheng Municipal Government, Jiangsu Province	Employees of the Company	**20%**	20%

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

In addition to the above, pursuant to a document "Lao Bu Fa [1995] No. 464" dated 29 December 1995 issued by the Ministry of Labour of the PRC, the Group and the Company have set up a supplementary defined contribution retirement scheme for its employees. Assets of the scheme are held separately from those of the Group and the Company in an independent fund administered by representatives from the Group and the Company. The scheme is funded by contributions from the Group and the Company which are calculated at a rate based on the basic salaries of its employees. The contribution rate for 2008 was 9% (2007: 9%).

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

During the year ended 31 December 2008, in accordance with the Group's employee reduction plans, the Group incurred RMB9,082,000 (2007: RMB101,719,000) on the reduction of 108 (2007: 1,351) employees, which were mainly included in "General and administrative expenses".

During the year ended 31 December 2008, in accordance with the Company's employee reduction plans, the Company incurred RMB9,082,000 (2007: RMB97,079,000) on the reduction of 108 (2007: 1,259) employees, which were mainly included in "General and administrative expenses".

23. PROVISIONS

	The Group and the Company		
	Balance at the beginning of the year	**Increase during the year**	**Balance at the end of the year**
	RMB'000	*RMB'000*	***RMB'000***
Compensation payable on breach of contracts *(Note 34(1))*	–	5,198	**5,198**

24. DEFERRED INCOME

During the year ended 31 December 2008, the Group and the Company received government grants totalling RMB15,000,000 for the construction of projects such as the high performance polyethylene project with an annual capacity of 300 tonnes and the liquid air separation project. As at 31 December 2008, all of the above projects remained under construction. The grants were recognised initially as deferred income and will be amortised to profit or loss on a straight-line basis over the useful life of the related assets when they are ready for use.

25. SHARE CAPITAL

The Company's share capital status at 31 December is as follows:

	2008	2007
	RMB'000	*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.

26. 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

27. SURPLUS RESERVE

	The Group and the Company		
	Statutory surplus reserve	Discretionary surplus reserve	Total
	RMB'000	*RMB'000*	*RMB'000*
As at 1 January 2008 and 31 December 2008	861,457	594,547	1,456,004

Notes to the Financial Statements

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

28. OPERATING INCOME

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Operating income from principal activities	**15,104,105**	17,042,590	**15,104,105**	16,816,657
Other operating income	**120,509**	133,066	**120,509**	134,526
Total	**15,224,524**	17,175,656	**15,224,524**	16,951,183

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 2008, the Group's and the Company's sales to the top five customers amounted to RMB2,212,455,000 (2007: RMB2,282,441,000), which accounted for 14.53% (2007: 13.29% and 13.46% respectively) of the total operating income of the Group and the Company.

29. BUSINESS TAXES AND SURCHARGES

		The Group		The Company	
		2008	2007	**2008**	2007
	Taxation basis and rates	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Business tax	3% or 5% of taxable income	**227**	243	**227**	243
Urban maintenance and construction tax	7% of VAT and business tax paid	**23,380**	27,935	**23,380**	27,522
Education fee surcharge	4% of VAT and business tax paid	**5,748**	15,963	**5,748**	15,727
Total		**29,355**	44,141	**29,355**	43,492

30. NET FINANCIAL INCOME

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Interest expenses from loans and discounting bills	**3,594**	6,243	**3,594**	1,647
Less: Borrowing costs capitalised	**–**	–	**–**	–
Net interest expenses	**3,594**	6,243	**3,594**	1,647
Interest income from deposits and receivables	**(26,123)**	(33,152)	**(25,829)**	(30,877)
Net exchange gains	**(25,606)**	(3,188)	**(25,606)**	(3,188)
Other financial expenses	**2,189**	2,046	**2,148**	1,948
Total	**(45,946)**	(28,051)	**(45,693)**	(30,470)

31. IMPAIRMENT LOSS

Items of assets	The Group 2008 RMB'000	The Group 2007 RMB'000	The Company 2008 RMB'000	The Company 2007 RMB'000
Reversal of bad and doubtful debts of accounts receivable	**(1,338)**	(171)	**(1,338)**	–
Provisions for bad and doubtful debts of prepayments	**315**	–	**315**	–
(Reversal of)/provisions for bad and doubtful debts of other receivables	**(2,532)**	10,317	**(2,532)**	10,317
Provisions for/(reversal of) diminution in value of inventories	**38,393**	(9,123)	**38,393**	(9,123)
Provisions for fixed asset impairment	**441,087**	2,912	**441,087**	2,019
Total	**475,925**	3,935	**475,925**	3,213

32. INVESTMENT (LOSSES)/INCOME

	The Group 2008 RMB'000	The Group 2007 RMB'000	The Company 2008 RMB'000	The Company 2007 RMB'000
Long-term equity investments – accounted for under the equity method *(Note 14)*	**(130,381)**	(24,527)	**(130,381)**	(24,527)
Gain on disposal of the subsidiary *(Note 6)*	**–**	2,771	**158,668**	–
Total	**(130,381)**	(21,756)	**28,287**	(24,527)

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

33. NON-OPERATING INCOME

	The Group 2008 RMB'000	The Group 2007 RMB'000	The Company 2008 RMB'000	The Company 2007 RMB'000
Gains on disposal of fixed assets	**2,888**	5,431	**2,888**	3,853
Gains on disposal of intangible assets	**248**	7,008	**248**	7,008
Total gains on disposal of non-current assets	**3,136**	12,439	**3,136**	10,861
Forfeited deposit	**–**	61	**–**	61
Others	**5,029**	7,871	**4,536**	7,058
Total	**8,165**	20,371	**7,672**	17,980

34. NON-OPERATING EXPENSES

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Loss on breach of contracts *(Note (1))*	**34,065**	–	**34,065**	–
Losses on disposal of fixed assets	**897**	27,768	**897**	26,442
Flood prevention fees	**–**	2,000	**–**	2,000
Others	**19,981**	13,137	**19,940**	12,391
Total	**54,943**	42,905	**54,902**	40,833

(1) As mentioned in Note 16(1), the construction of 1,000,000-tonne/year PTA project was suspended as at 31 December 2008. During the year ended 31 December 2008, the Company recognised losses on non-cancellable contracts for procurement of equipment amounting to RMB34,065,000, including irrecoverable construction prepayments amounting to RMB28,867,000 and an additional compensation payable on breach of contracts amounting to RMB5,198,000.

35. INCOME TAX EXPENSES

(1) Income tax expenses for the year represent:

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Current tax expenses for the year	**–**	3,231	**–**	–
(Over)/under-provision of income tax in respect of prior years	**(296)**	2,937	**–**	–
Reversal/(origination) of deferred tax assets	**90,989**	(20,272)	**90,989**	(20,272)
Total	**90,693**	(14,104)	**90,989**	(20,272)

(2) Reconciliation between income tax expenses and accounting profits is as follows:

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
(Loss)/profit before income tax	**(1,554,592)**	4,657	**(1,396,500)**	(1,647)
Tax rate	**25%**	33%	**25%**	33%
Expected income tax expenses	**(388,648)**	1,537	**(349,125)**	(544)
Write-off of deferred tax assets in respect of prior years	**90,989**	11,839	**90,989**	11,839
Tax effect of deductible temporary differences not recognised	**120,751**	–	**120,751**	–
Tax effect of unused tax losses not recognised	**234,832**	–	**234,976**	–
Tax effect of non-deductible expenses	**33,065**	17,674	**33,065**	16,524
Tax effect of non-taxable income	**–**	–	**(39,667)**	–
Effect of change in tax rate on deferred tax	**–**	(40,659)	**–**	(40,659)
(Over)/under-provision of income tax in prior years	**(296)**	2,937	**–**	–
Tax effect of deductible expenses not recorded in profit or loss	**–**	(7,432)	**–**	(7,432)
Income tax expenses	**90,693**	(14,104)	**90,989**	(20,272)

36. SUPPLEMENT TO CASH FLOW STATEMENT

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

(a) Reconciliation of net (loss)/profit to cash (outflow)/inflow from operating activities:

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Note 42)		*(Note 42)*
Net (loss)/profit	**(1,645,285)**	18,761	**(1,487,489)**	18,625
Add: Reversal of bad and doubtful debts of accounts receivable	**(1,338)**	(171)	**(1,338)**	–
Provisions for bad and doubtful debts of prepayments	**315**	–	**315**	–
(Reversal of)/provisions for bad and doubtful debts of other receivables	**(2,532)**	10,317	**(2,532)**	10,317
Provisions for/(reversal of) diminution in value of inventories	**38,393**	(9,123)	**38,393**	(9,123)
Fixed asset impairment	**441,087**	2,912	**441,087**	2,019
Depreciation of fixed assets	**586,567**	618,450	**586,540**	617,610
Amortisation of intangible assets	**30,297**	33,315	**30,297**	33,315
Net (gains)/losses on disposal of fixed assets and intangible assets	**(2,239)**	15,329	**(2,239)**	15,581
Financial income	**(22,529)**	(26,909)	**(22,235)**	(29,230)
Losses/(gains) arising from investments	**130,381**	21,756	**(28,287)**	24,527
Decrease/(increase) in deferred tax assets	**90,989**	(20,272)	**90,989**	(20,272)
Decrease in gross inventories	**387,341**	65,513	**387,341**	73,086
Decrease/(increase) in gross operating receivables	**289,584**	(713,765)	**260,754**	(630,949)
Decrease in operating payables	**(374,272)**	(78,219)	**(372,919)**	(17,982)
Increase in provisions	**5,198**	–	**5,198**	–
Net cash (outflow)/inflow from operating activities	**(48,043)**	(62,106)	**(76,125)**	87,524

(b) Change in cash and cash equivalents:

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash at bank and on hand at the end of the year	**1,203,755**	1,034,747	**1,203,755**	946,953
Less: Pledged deposit *(Note 7)*	**297,461**	–	**297,461**	–
Cash and cash equivalents at the end of the year	**906,294**	1,034,747	**906,294**	946,953
Less: Cash and cash equivalents at the beginning of the year	**1,034,747**	1,051,153	**946,953**	910,845
Net (decrease)/increase in cash and cash equivalents	**(128,453)**	(16,406)	**(40,659)**	36,108

Notes to the Financial Statements

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

36. SUPPLEMENTAL INFORMATION TO THE CASH FLOW STATEMENTS (Continued)

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

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash				
– Cash on hand	**21**	6	**21**	6
– Bank deposits available on demand	**906,273**	1,034,741	**906,273**	946,947
Closing balance of cash and cash equivalents available on demand	**906,294**	1,034,747	**906,294**	946,953

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

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

37. SEGMENT REPORTING

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

38. RISK ANALYSIS, SENSITIVITY ANALYSIS, AND DETERMINATION OF FAIR VALUES FOR FINANCIAL INSTRUMENTS

Overview

Financial assets of the Group and the Company include cash at bank and on hand, accounts receivable, bills receivable, prepayments and other receivables. Financial liabilities of the Group and the Company include loans, bills payable, accounts payable, advances from customers and other payables. The Group and the Company have no derivative instruments that are designated and qualified as hedging instruments at 31 December 2008 and 2007.

The Group and the Company have exposure to the following risks from the 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 and the Company's risk management framework, and developing and monitoring the Group's risk management policies.

The Group's and the Company's risk management policies are established to identify and analyse the risks faced by the Group and the Company, 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 and the Company's activities. The Group and the Company, 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 Group and the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's and the Company's deposits with banks and other financial institutions and receivables from customers. To limit exposure to credit risk relating to deposits, the Group and the Company primarily place cash deposits only with large financial institutions in the PRC with acceptable credit rating. The majority of the Group's and the Company'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 and the Company perform ongoing credit evaluations of their customers' financial condition and generally do not require collateral on trade debtors. Impairment provision for doubtful debts is made by the Group and the Company and actual losses have been within management's expectations. No single customer accounted for greater than 10% of total revenues.

The carrying amounts of cash at bank and on hand, time deposits with banks and other financial institutions, accounts receivable, bills receivable and other receivables represent the Group's and the Company's maximum exposure to credit risk in relation to financial assets.

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

	The Group and the Company	
Ageing	**2008**	2007
	RMB'000	*RMB'000*
Past due within 1 year (inclusive)	**97**	1,980
Past due 1 to 2 years	**509**	–

38. RISK ANALYSIS, SENSITIVITY ANALYSIS, AND DETERMINATION OF FAIR VALUES FOR FINANCIAL INSTRUMENTS (Continued)

(1) Credit risk (Continued)

The Group's and the Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry, country or area in which the customers operate and therefore significant concentrations of credit risk arise primarily when the Group and the Company have significant exposure to individual customers. At the balance sheet date, the Group and the Company had a certain concentration of credit risk, as 61.03% (2007: 50.61% and 50.81% respectively) of the total accounts receivable were due from the five largest customers of the Group and the Company.

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

(2) Liquidity risk

Liquidity risk is the risk that the Group and the Company will not be able to meet its financial obligations as they fall due. The Group's and the Company'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 and the Company's reputation. The Group and the Company prepare monthly cash flow budget to ensure that they will always have sufficient liquidity to meet its financial obligation as they fall due. The Group and the Company 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

Except for time deposits with banks with fixed interest rates, the Group and the Company have no other significant interest-bearing assets and liabilities. The Group's and the Company's income and operating cash flows are substantially independent of changes in market interest rates.

The following table details the interest rate profile of the Group's and the Company's interest-bearing financial instruments at the balance sheet date:

	The Group		**The Company**	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Fixed rate instruments				
– Time deposits	**362,461**	575,000	**362,461**	552,000
Variable rate instruments				
– Bank deposits available on demand	**841,273**	459,741	**841,273**	394,947

38. RISK ANALYSIS, SENSITIVITY ANALYSIS, AND DETERMINATION OF FAIR VALUES FOR FINANCIAL INSTRUMENTS (Continued)

(3) Market risk (Continued)

(a) Interest rate risk (Continued)

At 31 December 2008, it is estimated that a general increase/decrease of 100 basis points in variable interest rates, with all other variables held constant, would increase/decrease the Group's and the Company's shareholders' equity and decrease/increase the Group's and the Company's net loss by approximately RMB8,413,000 (2007: increase/decrease the Group's shareholders' equity and net profit by approximately RMB4,597,000, increase/decrease the Company's shareholders' equity and net profit by approximately RMB3,949,000) (the related income tax impact was not considered). This sensitivity analysis has been determined assuming that the change in interest rates had occurred at the balance sheet date and that the change was applied to the Group's and the Company's variable rate instruments outstanding at that date with exposure to cash flow interest rate risk. The analysis is performed on the same basis for 2007.

(b) Currency risk

Currency risk arises on financial instruments that are denominated in a currency other than the functional currency in which they are measured. The Group's and the Company's currency risk exposure primarily relates to cash at bank and on hand, accounts receivable and accounts payable denominated in United States Dollars ("US$") and Hong Kong Dollars ("HK$")

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

The following table details the Group's and the Company's exposure at the balance sheet date to currency risk relating principally to their cash at bank and on hand, accounts receivable and accounts payable denominated in US $ and HK$:

	The Group and the Company			
	2008		2007	
	US $'000	***HK $'000***	*US $'000*	*HK $'000*
Cash at bank and on hand	**251**	**–**	290	6
Accounts receivable	**7,559**	**–**	22,467	–
Accounts payable	**(58,285)**	**–**	(139,547)	–
	(50,475)	**–**	(116,790)	6

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

Assuming all other risk variables remained constant and the related income tax impact was not considered, a 5% strengthening of renminbi against the US$ and HK$ at 31 December would have increased shareholders' equity and decreased net loss for the year or increased net profit for the year of the Group and the Company by the amount shown below, whose effect is in renminbi and translated using the spot rate at the balance sheet date.

	2008	2007
	RMB'000	*RMB'000*
US$	**17,248**	42,655
HK$	**–**	–

38. RISK ANALYSIS, SENSITIVITY ANALYSIS, AND DETERMINATION OF FAIR VALUES FOR FINANCIAL INSTRUMENTS (Continued)

(3) Market risk (Continued)

(b) Currency risk (Continued)

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

This analysis above assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group and the Company which expose the Group and the Company to currency risk at the balance sheet date. The analysis is performed on the same basis for 2007.

(4) Capital Management

In order to maintain or adjust the capital structure, the Group and the Company may issue new shares, adjust the capital expenditure plan, sell assets to reduce liabilities or adjust the proportion of short-term and long-term loans. The Group and the Company monitor capital on the basis of debt-to-equity ratio, which is calculated by dividing long-term loans by the total equity attributable to 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 and the Company's strategy 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 as reasonable by management.

There were no changes in the Group's and the Company'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 2008, the fair values of the Group's and the Company's financial assets and liabilities are not materially different from their carrying amounts.

39. CAPITAL COMMITMENTS

As at 31 December, capital commitments of the Group and the Company are summarised as follows:

	2008		2007	
	Book value	**Fair value**	Book value	Fair value
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Authorised but not contracted for	**137,418**	**137,418**	3,743,753	3,743,753

40. NON-ADJUSTING POST BALANCE SHEET EVENTS

(1) Pursuant to the conditional Equity Interest Transfer Agreement dated 18 February 2009 entered into with UNIFI Asia, the Company agreed to acquire UNIFI Asia's 50% equity interest in Yihua Unifi at a consideration of USD9,000,000 (RMB equivalent 61,650,000), subject to Chinese regulatory approval and certain customary closing conditions. The regulatory approval and customary closing conditions were completed on 2 March 2009. Following the acquisition, Yihua Unifi will become a wholly-owned subsidiary of the Company. The excess of the purchase consideration over the Company's additional interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of Yihua Unifi at the acquisition date was approximately RMB22 million which would be initially recognised as goodwill in accordance with the accounting policy set out in Note 3(8).

(2) The Board of Directors proposed to use the surplus reserve amounting to RMB1,456,004,000 to make good the Company's previous years' losses on 30 March 2009. The proposal is subject to the approval by shareholders.

41. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(1) Information on the parent of the Company is listed as follows:

Name of company:	China Petroleum & Chemical Corporation
Registered address:	No. 6 Hui Xin Dong Jie Jia, Chao Yang Qu, Beijing
Principal activities:	Exploring for, extracting and selling crude oil and natural gas; oil refining; production, sale and transport of petro-chemical, chemical fibres and other chemical products; pipe transport of crude oil and natural gas; research, development and application of new technologies and information
Relationship with the Company:	The immediate holding company
Types of legal entity:	Joint stock limited company
Legal representative	Su Shu-lin
Registered capital:	RMB86.7 billion (2007: RMB86.7 billion)
Percentage of equity interest:	42%
Percentage of voting interest:	42%

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

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

(3) Transactions with key management personnel:

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

	The Group and the Company	
	2008	2007
	RMB'000	*RMB'000*
Remuneration of key management personal	**3,096**	2,783
Retirement scheme contributions	**140**	99

(4) Transactions with related parties other than key management personnel:

(a) Relationships with related parties without immediate controlling relationships

Name of company	**Relationship with the Company**
CPC	Ultimate holding company
CITIC	Shareholder
Sinopec Asset and Management Corp	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 14.

Notes to the Financial Statements

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

41. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(4) Transactions with related parties other than key management personnel: (Continued)

(b) Transaction amounts with related parties:

	The Group	
	2008	2007
	Amounts	Amounts
	RMB'000	*RMB'000*
Sinopec Corp and its subsidiaries		
Purchase of raw materials	**7,109,806**	8,970,018
Including: Yangzi	**2,950,194**	3,829,354
Zhenhai	**3,242,969**	3,825,511
Service charges for the purchase of raw materials	**26,710**	25,225
Sinopec Asset and Management Corp and its subsidiaries		
Sales	**230,626**	243,571
Miscellaneous service fee charges (see note below)	**15,000**	12,050
Acquisition of land use rights	**–**	12,792
Sinopec Finance		
Interest income	**868**	16,059
Interest expenses	**1,723**	–
CPC and its subsidiaries (excluding Sinopec Corp and its subsidiaries, Sinopec Asset and Management Corp and its subsidiaries and Sinopec Finance)		
Sales	**11,518**	–
Purchase of equipment	**7,560**	–
Insurance premium	**8,228**	17,716
China CITIC Bank		
Interest income	**1,115**	1,330
Interest expenses	**–**	301
Bills custody fee	**436**	150
Yihua Unifi		
Sales of finished goods	**708,403**	923,147
Interest income of issued commercial acceptance bills	**992**	–

41. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(4) Transactions with related parties other than key management personnel: (Continued)

(b) Transaction amounts with related parties: (Continued)

	The Company	
	2008	2007
	Amounts	Amounts
	RMB'000	*RMB'000*
Sinopec Corp and its subsidiaries		
Purchase of raw materials	**7,109,806**	8,850,011
Including: Yangzi	**2,950,194**	3,829,354
Zhenhai	**3,242,969**	3,825,511
Service charges for the purchase of raw materials	**26,710**	25,225
Sinopec Asset and Management Corp and its subsidiaries		
Sales	**230,626**	243,571
Miscellaneous service fee charges (see note below)	**15,000**	12,050
Acquisition of land use rights	**–**	12,792
Sinopec Finance		
Interest income	**868**	16,059
Interest expenses	**1,723**	–
CPC and its subsidiaries (excluding Sinopec Corp and its subsidiaries, Sinopec Asset and Management Corp and its subsidiaries and Sinopec Finance)		
Sales	**11,518**	–
Purchase of equipment	**7,560**	–
Insurance premium	**8,228**	17,716
China CITIC Bank		
Interest income	**1,029**	1,007
Interest expenses	**–**	301
Bills custody fee	**436**	150
Yihua Unifi		
Sales of finished goods	**708,403**	923,147
Interest income of issued commercial acceptance bills	**992**	–

Note: The above service fee charges were paid in accordance with the terms of the agreements signed between the Company and Sinopec Asset and Management Corp in December 2008.

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.

Notes to the Financial Statements

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

41. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(4) Transactions with related parties other than key management personnel: (Continued)

(c) The balances of transactions with related parties:

Details of amounts due from/(to) CPC and its subsidiaries (excluding Sinopec Asset and Management Corp and its subsidiaries) are as follows:

	The Group and the Company	
	2008	2007
	RMB'000	*RMB'000*
Accounts receivable	**8,024**	–
Prepayments	**19,640**	70,073
Other receivables	**10,612**	228
Accounts payable	**(443,106)**	(131,025)
Other payables	**(13,925)**	(4,519)
Advances from customers	**(2,456)**	(2,453)
	(421,211)	(67,696)

Details of amounts due from/(to) Sinopec Asset and Management Corp and its subsidiaries are as follows:

	The Group and the Company	
	2008	2007
	RMB'000	*RMB'000*
Accounts receivable	**3,197**	3,182
Other receivables	**–**	45
Advances from customers	**(4,223)**	–
Other payables	**–**	(389)
	(1,026)	2,838

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

	The Group and the Company	
	2008	2007
	RMB'000	*RMB'000*
Accounts receivable	**88,226**	1,948
Bill receivable	**110,852**	28,613
Other receivables	**–**	480
Advances from customers	**(4,804)**	–
Other payables	**(6,354)**	(11,067)
	187,920	(19,974)

42. COMPARATIVE FIGURES

The accounting policy in respect of deferred tax was changed. Relevant adjustments of comparative figures have been made and are disclosed in Note 4. Meanwhile, certain items in these comparative figures have been reclassified to confirm with the current year's presentation to facilitate comparison.

43. EXTRAORDINARY GAIN AND LOSS

In accordance with Interpretive Pronouncement on the Preparation of Information Disclosures of Companies Issuing Public Shares, No. 1 – Extraordinary Gain and Loss (2008), extraordinary gain and loss of the Group is listed as follows:

	2008 ***RMB'000***	2007 *RMB'000* *(Note (1))*
Extraordinary gain and loss for the year:		
Disposal of non-current assets	**1,720**	28,530
Employee reduction expenses	**9,082**	101,719
Effect of change in tax rate on deferred tax	**–**	(40,659)
Other non-operating expenses excluding losses on disposal of fixed assets	**54,046**	15,137
Other non-operating income excluding gains on disposal of fixed assets and intangible assets	**(5,029)**	(7,932)
Sub-total	**59,819**	96,975
Less: Effect on taxation *(Note (2))*	**–**	45,360
Total	**59,819**	51,435
Attributable to:		
Shareholders of the Company	**59,819**	51,458
Minority interests	**–**	(23)

Note:

(1) The above figures for 2007 have been adjusted. The Group made these retrospective adjustments in accordance with the Interpretive Pronouncement on the Preparation of Information Disclosures of Companies Issuing Public Share No. 1 – Extraordinary Gain and Loss (2008).

(2) As the Group suffered tax losses during the current year and has not recognised deferred tax assets in respect of the current tax losses, the above extraordinary gain and loss items have no effect on taxation.

44. 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) issued by the CSRC, the Group's return on net assets and earnings per share are summarised as follows:

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

	2008	2007 *(Note 43(1))*
(a) (Loss)/earnings per share inclusive of extraordinary gain and loss (in RMB)	**(0.411)**	0.004
– (Loss)/profit attributable to the Company's ordinary equity shareholders (RMB'000)	**(1,645,285)**	17,817
– Weighted average number of the Company's ordinary shares	**4,000,000,000**	4,000,000,000
(b) (Loss)/earnings per share net of extraordinary gain and loss (in RMB)	**(0.396)**	0.017
– (Loss)/profit deducted extraordinary gain and loss attributable to the Company's ordinary equity shareholders (RMB'000)	**(1,585,466)**	69,275
– Weighted average number of the Company's ordinary shares	**4,000,000,000**	4,000,000,000

During the twelve months ended 31 December 2008, there were no dilutive potential ordinary shares in existence.

(2) Return on net assets of the Group

	2008		2007	
	Fully diluted	**Weighted average**	Fully diluted *(Note 43(1))*	Weighted average *(Note 43(1))*
(a) Return on net assets inclusive of extraordinary gain and loss	**(24.691%)**	**(21.978%)**	0.214%	0.215%
– Net (loss)/profit attributable to the Company's ordinary equity shareholders (RMB'000)	**(1,645,285)**	**(1,645,285)**	17,817	17,817
– Year-end equity attributable to the Company's ordinary equity shareholders (RMB'000)	**6,663,392**	**6,663,392**	8,308,677	8,308,677
– Weighted average of equity attributable to the Company's ordinary equity shareholders (RMB'000)	**7,486,035**	**7,486,035**	8,299,769	8,299,769

44. EARNINGS PER SHARE AND RETURN ON NET ASSETS (Continued)

(2) Return on net assets of the Group (Continued)

	2008 Fully diluted	2008 Weighted average	2007 Fully diluted *(Note 43(1))*	2007 Weighted average *(Note 43(1))*
(b) Return on net assets net of extraordinary gain and loss	**(23.794%)**	**(21.179%)**	0.834%	0.835%
– Net (loss)/profit deducted extraordinary gain and loss attributable to the Company's ordinary equity shareholders (RMB'000)	**(1,585,466)**	**(1,585,466)**	69,275	69,275
– Year-end equity attributable to the Company's ordinary equity shareholders (RMB'000)	**6,663,392**	**6,663,392**	8,308,677	8,308,677
– Weighted average of equity attributable to the Company's ordinary equity shareholders (RMB'000)	**7,486,035**	**7,486,035**	8,299,769	8,299,769

Supplementary Information to the Financial Statements

1. RECONCILIATION STATEMENT OF DIFFERENCES IN THE FINANCIAL STATEMENTS PREPARED UNDER DIFFERENT GAAPS

(1) The effect of the significant difference between ASBE (2006) and International Financial Reporting Standards ("IFRSs") on net (loss)/profit attributable to shareholders of the Company is analysed as follows:

		The Group	
		2008	2007
	Note	***RMB'000***	*RMB'000*
Net (loss)/profit attributable to shareholders of the Company under ASBE (2006)		**(1,645,285)**	17,817
Adjustments:			
Reversal of amortisation of revaluation surplus of land use rights	*(a)*	**5,291**	6,709
Effects of the above adjustments on taxation		**(1,323)**	(2,214)
Total		**3,968**	4,495
Net (loss)/profit attributable to equity shareholders of the Company under IFRSs		**(1,641,317)**	22,312

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

		The Group	
		As at 31 December 2008	As at 31 December 2007
	Note	***RMB'000***	*RMB'000*
Total equity attributable to shareholders of the Company under ASBE (2006)		**6,663,392**	8,308,677
Adjustments:			
Revaluation surplus of land use rights	*(a)*	**(182,480)**	(187,771)
Effects of the above adjustments on taxation		**45,620**	46,943
Total		**(136,860)**	(140,828)
Total equity attributable to equity shareholders of the Company under IFRSs		**6,526,532**	8,167,849

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
320000400000997	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

– UBS Warburg (Asia) Limited
  Address: 52/F, Two International Finance Centre
  8 Finance Street
  Central, Hong Kong

"A" Share

– Shenyin & Wanguo Securities Corporation Ltd.
  Address: 99 East Nanjing Road, Shanghai

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 1712-1716, 17th 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

China CITIC Bank

Documents for Inspection

The following documents are available for inspection at the legal address of the Company from 31 March 2009 (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 auditors' report on the financial statements prepared in accordance with the PRC Accounting Standards for Business Enterprises (2006) signed by the PRC Certified Public Accountants under the seal of KPMG Huazhen;

   The original auditors' report on 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 2008 and the First Quarter Report and the Third Quarter Report from 2002 to 2008 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 IFRSs and the auditors' report thereon, the Chinese version is considered to be more accurate.