



# 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 code: 1033)

## Annual Results 2008

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

The content of the annual results for this year is extracted from the Annual Report. In order to understand the detailed content, the investors should read the full text of the Annual Report.

The Board of Sinopec Yizheng Chemical Fibre Company Limited has pleasure in presenting to you the audited annual results of the Company and its subsidiaries (“**the Group**”) for the year ended 31 December 2008.

### 1. COMPANY PROFILE

- (1). **Legal name:** Sinopec Yizheng Chemical Fibre Company Limited  
中国石化仪征化纤股份有限公司  
**Abbreviation:** YCF  
仪征化纤
- (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:** [cs@ycfc.com](mailto:cs@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:** [cs@ycfc.com](mailto:cs@ycfc.com)
- (5). **Domestic Newspapers disclosing information:** China Securities, Shanghai Securities News,  
**Internet website designated by HKSE to disclose information:** <http://www.hkexnews.hk>  
**Internet website designated by the China Securities Regulatory Commission**  
("CSRC") **to publish the annual report:** <http://www.sse.com.cn>  
**Place where the annual report available for inspection:**  
Company Secretary Office  
Sinopec Yizheng Chemical Fibre Company Limited
- (6). **Places of listing, names and codes of the stock:**
- | <i>H share</i>  | <i>A share</i>                             |
|---|--|
| - The Stock Exchange of Hong Kong Limited (“ <b>HKSE</b> ”) | - Shanghai Stock Exchange (“ <b>SSE</b> ”) |
| - Stock name: Yizheng Chemical                              | - Stock name: S Yihua                      |
| - Stock code: 1033  | - Stock code: 600871                       |

## 2. SUMMARY OF THE PRINCIPAL INFORMATION AND FINANCIAL INDICATORS OF THE GROUP

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

For the year ended 31 December or as at 31 December

|  | 2008<br>RMB '000 | 2007<br>RMB '000 | 2006<br>RMB '000<br>(as restated) | 2005<br>RMB '000<br>(as restated) | 2004<br>RMB '000 |
|--|------------------|------------------|-----------------------------------|-----------------------------------|------------------|
| 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)      | RMB 0.006        | RMB 0.010                         | RMB (0.242)                       | RMB 0.060        |
| Net assets per share   | RMB 1.632        | RMB 2.042        | RMB 2.031                         | RMB 2.018                         | RMB 2.280        |
| 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%            |

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

### 2.1 Principal financial data

|   | 2008<br>RMB '000                           | 2007<br>RMB '000                           | Increase/<br>(decrease) from<br>2007 (%)          | 2006                            |  |
|---|--|--|---|---------------------------------|--|
|   |  |  |   | As restated<br>RMB '000         | As previously<br>reported<br>RMB '000          |
| 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   |
| Net cash (outflow) / inflow from operating activities   | (48,043)                                   | (62,106)                                   | (22.6)  | 803,196                         | 792,608  |
|   | <b>As at 31 December 2008<br/>RMB '000</b> | <b>As at 31 December 2007<br/>RMB '000</b> | <b>Increase/<br/>(decrease) from<br/>2007 (%)</b> | <b>As at 31 December 2006</b>   |  |
|   |  |  |   | <b>As restated<br/>RMB '000</b> | <b>As previously<br/>reported<br/>RMB '000</b> |
| 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                                      |

## 2.2 Principal financial indicators

|  | 2008                          | 2007                   | Increase/<br>(decrease) from<br>2007 (%) | 2006                   |                              |
|--|-------------------------------|------------------------|--|------------------------|------------------------------|
|  |                               |                        |  | As restated            | As<br>previously<br>reported |
| Basic (loss) / earnings per share  | (0.411)                       | 0.004                  | (9,334.4)                                | 0.009                  | 0.009                        |
| Diluted (loss) / earnings per share                                      | (0.411)                       | 0.004                  | (9,334.4)                                | 0.009                  | 0.009                        |
| Basic (loss) / earnings per share net of extraordinary gain and loss     | (0.396)                       | 0.017 *                | (2,388.7)                                | 0.005 *                | 0.005                        |
| 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 per share          | RMB (0.012)                   | RMB (0.016)            | RMB (22.6)                               | RMB 0.201              | RMB 0.198                    |
|  | <b>As at 31 December 2008</b> | As at 31 December 2007 | Increase/<br>(decrease) from<br>2007 (%) | As at 31 December 2006 |                              |
|  |                               |                        |  | As restated            | As<br>previously<br>reported |
| Net assets per share attributable to equity shareholders of the Company  | RMB 1.666                     | RMB 2.077              | RMB (19.8)                               | RMB 2.073              | RMB 2.069                    |

\* The above figures for 2007 and 2006 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 Shares No. 1 – Extraordinary Gain and Loss (2008).

## 2.3 Extraordinary gain and loss items and amount

(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.

### (3) 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<br>RMB '000   | 2007<br>RMB '000 | 2008<br>RMB '000  | 2007<br>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      |

Please refer to the section 8.4 of the Financial Report in this announcement for explanations for the related differences.

### 3. INFORMATION ON CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

#### (1) Changes in the Company's share capital

During the reporting period, there was no change in the total amount of shares and the share 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 as well, the number of its shares held by the public met the requirements in the Rules Governing the Listing of Securities on the HKSE (the "Listing Rule")

#### (2) Information on shareholders

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

| Number of shareholders at the end of the year  |                                   | 45,678   |                                       |  |                                     |
|--|-----------------------------------|--|---------------------------------------|--|-------------------------------------|
| <b>Details of the top ten major shareholders</b>   |                                   |  |                                       |  |                                     |
| Names of shareholders  | Nature of shareholders            | Number of shares held at the end of the year<br>(shares) | Percent to total share capital<br>(%) | Number of non-circulating shares<br>(shares) | Number of pledged or frozen shares* |
| China Petroleum & Chemical Corporation ("Sinopec")   | Domestic legal person shareholder | 1,680,000,000  | 42.00                                 | 1,680,000,000                                | Nil                                 |
| Hong Kong Securities Clearing Company ("HKSCC") (Nominees) Limited**                               | Overseas capital Shareholder      | 1,381,643,005  | 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 |
| <b>Details of the top ten circulating shareholders</b>   |                              |   |       |                        |                |
| <b>Names of shareholders</b>   |                              | <b>Number of circulating shares held at the end of year(shares)</b> |       | <b>Classification</b>  |                |
| 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<br>“A” shares |
| Wang Rong-an  | 737,639   | Circulating<br>“A” shares |
| Explanation of connected relationship or activities in concert among the above shareholders | The Company is not aware of that there is any connected relationship or activities in concert among the above shareholders. |                           |

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

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

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

### (3) 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 of, each of the following persons, not being a Director, Supervisor or Senior Management of the Company, had an interest in the Company's shares which is required to be disclosed to the Company and the HKSE under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (“SFO”)

| Name of shareholder | Number of share held (shares) | Per cent of shareholding in the Company's total issued share capital (%) | 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, China Petrochemical Corporation (“CPC”) holds 75.84% of the equity interest in Sinopec.

Save as disclosed above and so far as the Directors, Supervisors and Senior Management of the Company are aware of, 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) which are required to be disclosed to the Company and the HKSE under the provisions of Divisions 2 and 3 of Part XV of the SFO, or was otherwise a substantial shareholder (as such term is defined in the Listing Rules) of the Company.

### (4) The controlling shareholder

Name of the controlling shareholder: Sinopec, holding 42 per cent of the Company's shares

Legal representative: Su Shu-lin

Date of establishment: 25 February 2000

Registered capital: RMB 86,702,439,000

Principal activities: Engaged in exploring for and developing, producing and trading crude oil and natural gas; processing crude oil into refined oil products, producing refined oil products and trading, transporting, distributing and marketing refined oil products; producing, distributing and trading petrochemical products.

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

### (5) Controlling company of the controlling shareholder

Name of the controlling company of the controlling shareholder: China Petrochemical Corporation (“CPC”)\*

Legal representative: Su Shu-lin

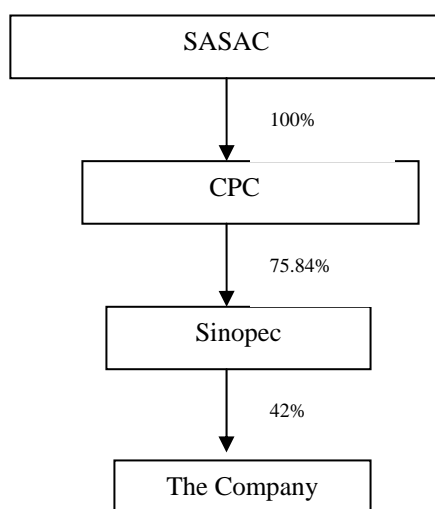
Date of establishment: 24 July 1998

Registered capital: RMB 130,645,104,000

Principal activities: Through reorganization in 2000, CPC injected its principal petroleum and petrochemical operations into Sinopec, and retained operations in certain smaller scale petrochemical facilities and refineries, provision of well drilling services, oil testing services, in-well operation services, manufacture and maintenance of production equipment, engineering construction, utility services and social services.

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

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



#### 4. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

##### (1) Information on interests in share and remuneration of directors, supervisors and senior management

| Name            | Position                          | Sex | Age | Term of office     | Number of "A" shares held for personal interests |                        | Reason for change | Salaries (RMB ten thousand) (before taxation) | Remuneration and allowance received from the corporate shareholders |
|-----------------|-----------------------------------|-----|-----|--------------------|--|------------------------|-------------------|---|---|
|                 |                                   |     |     |                    | At the beginning of the year                     | At the end of the year |                   |   |   |
| Qian Heng-ge    | Chairman                          | M   | 58  | Dec.2008 -Dec.2011 | 2,000  | 2,000                  | No Change         | 26.4  | No  |
| Sun Zhi-hong    | Vice Chairwoman                   | F   | 59  | Dec.2008 -Dec.2011 | 0  | 0                      | No Change         | 26.4  | Yes   |
| Xiao Wei-zhen   | Vice Chairman and General Manager | M   | 55  | Dec.2008 -Dec.2011 | 0  | 0                      | No Change         | 26.4  | No  |
| Long Xing-ping  | Director                          | F   | 57  | Dec.2008 -Dec.2011 | 0  | 0                      | No Change         | 22.1  | Yes   |
| Zhang Hong      | Director                          | M   | 50  | Dec.2008 -Dec.2011 | 0  | 0                      | No Change         | 22.1  | Yes   |
| Guan Diao-sheng | Director                          | M   | 46  | Dec.2008 -Dec.2011 | 0  | 0                      | No Change         | 0   | Yes   |
| Qin Wei-zhong   | Director                          | M   | 37  | Dec.2008 -Dec.2011 | -  | 0                      | Not applicable    | 0   | Yes   |
| Shen Xi-jun     | Director, Deputy General Manager  | M   | 48  | Dec.2008 -Dec.2011 | 0  | 0                      | No Change         | 22.1  | No  |

|                  |                                   |   |    |                    |   |   |                |      |     |
|------------------|-----------------------------------|---|----|--------------------|---|---|----------------|------|-----|
| Shi Zhen-hua     | Independent Director              | M | 62 | Dec.2008 -Dec.2011 | - | 0 | Not applicable | 0    | No  |
| Qiao Xu          | Independent Director              | M | 47 | Dec.2008 -Dec.2011 | - | 0 | Not applicable | 0    | No  |
| Yang Xiong-sheng | Independent Director              | M | 49 | Dec.2008 -Dec.2011 | - | 0 | Not applicable | 0    | No  |
| Chen Fang-zheng  | Independent Director              | M | 62 | Dec.2008 -Dec.2011 | - | 0 | Not applicable | 0    | No  |
| Cao Yong         | Chairman of Supervisory Committee | M | 50 | Dec.2008 -Dec.2011 | 0 | 0 | No Change      | 22.1 | No  |
| Tao Chun-sheng   | Supervisor                        | M | 53 | Dec.2008 -Dec.2011 | 0 | 0 | No Change      | 15.8 | No  |
| Chen Jian        | Supervisor                        | M | 46 | Dec.2008 -Dec.2011 | 0 | 0 | No Change      | 22.1 | Yes |
| Shi Gang         | Independent Supervisor            | M | 48 | Dec.2008 -Dec.2011 | 0 | 0 | No Change      | 3.0  | No  |
| Wang Bing        | Independent Supervisor            | M | 37 | Dec.2008 -Dec.2011 | 0 | 0 | No Change      | 3.0  | No  |
| Li Jian-xin      | Deputy General Manager            | M | 51 | From July 2007     | 0 | 0 | No Change      | 22.1 | No  |
| Zhang Zhong-an   | Deputy General Manager            | M | 48 | From July 2004     | 0 | 0 | No Change      | 22.1 | No  |
| Li Jian-ping     | Chief Financial Officer           | M | 46 | From Dec. 2006     | 0 | 0 | No Change      | 22.1 | No  |
| Tom C.Y. Wu      | Company Secretary                 | M | 47 | From Dec. 2002     | 0 | 0 | No Change      | 15.8 | No  |
| Li Zhong-he      | Former Independent Director       | F | 66 | Dec.2005 -Dec.2008 | 0 | 0 | No Change      | 4.0  | No  |
| Wang Hua-cheng   | Former Independent Director       | M | 45 | Dec.2005 -Dec.2008 | 0 | 0 | No Change      | 4.0  | No  |
| Yi Ren-ping      | Former Independent Director       | F | 64 | Dec.2005 -Dec.2008 | 0 | 0 | No Change      | 4.0  | No  |
| Qian Zhi-hong    | Former Independent Director       | F | 66 | Dec.2005 -Dec.2008 | 0 | 0 | No Change      | 4.0  | No  |

### Information on share incentive provided to directors, supervisors and senior management during the reporting period

The Company has not implemented any share incentive scheme.

### (2) 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 have been 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 which, 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 term of office.



### **(3) 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 the shares, underlying shares and/or debentures (as the case may be) of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be notified to the Company and the HKSE pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and short position which any such Director, Supervisor or Senior Management is taken or deemed to have under such provisions of the SFO) or which was required to be entered in the register kept by the Company pursuant to section 352 of the SFO or which was required to be notified to the Company and the HKSE pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("**Model Code**") as contained in Appendix 10 to the Listing Rules.

## **5. REPORT OF THE BOARD**

*Financial figures, except where specifically noted, contained herein have been extracted from the financial statements prepared in accordance with the IFRSs.*

### **A. Business review and prospect**

The Group is the largest modernized manufacturing base of chemical fibre and chemical fibre raw materials in the PRC. In terms of polyester capacity in 2008, the Group ranks the sixth largest polyester manufacturer in the world, and the Company is the largest one-site polyester manufacturer in the world. (Source: PCI Magazine 2008)

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

#### *1. Market review*

In 2008, domestic polyester industry experienced price fluctuation rising in the first half of 2008 and dropping in the second, resulting in the drastic shrinkage of polyester products' profit margin and extremely difficult business environment. In the first half of 2008, as the global market price of crude oil has been soaring, the costs of polyester raw materials increased substantially. Meanwhile, the increase of the selling prices of polyester products was much lower than the increment of raw material costs because of the severely operational environment and slowing down of demand for downstream textile products. As a result, the profit margin of polyester products was significantly compressed. Since the third quarter, with the spread of global financial crisis into the real economy, global crude oil prices plummeted again and again and the even weaker demand for polyester products, the polyester raw materials' and products' prices dropped dramatically.

In 2008, domestic polyester production capacity increased greatly and the oversupply condition of domestic polyester capacity was not improved. The newly-added polyester production capacity was almost 2.0 million tonnes in 2008 and the 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 slowdown growth of PRC textile and clothes exports drove export volume to 189.62 billion dollars, 8.0 per cent higher than 2007, below 11.1 percentage points 2007 growth rate. Total domestic consumption volume of polyester fibre amounted to 18,685,400 tonnes, an increase of 2.5 per cent over the 2007 amount. The domestic demand for polyester fibre has been slowing down.

#### *2. Production Operational Review*

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.

### *(1) Production and Marketing*

In 2008, the Group maintained a safe and stable operation with a relatively high capacity utilization 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.

### *(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 so as to organize products 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 and the specialised rate was 81.0 per cent, 0.8 percentage points lower than that of 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 so as to standardise internal management and mitigate control operational risks. The quality of management was further strengthened, and quality standards were also enhanced to further regulate and improve product quality. A new round of "Compete for Appointment" was carried out for management and technology positions so as to further optimize position standards and staff allocation. Meanwhile, the Group extended performance evaluation so as to establish an effective stimulating and binding mechanism.

## B. Result of Operation and Financial Position

### 1. 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                                   |

### 2. 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                              |

### 3. 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)      |

#### 4. Turnover

|                    | For the year ended 31 December |                              |                     |                              |
|--------------------|--------------------------------|------------------------------|---------------------|------------------------------|
|                    | 2008                           |                              | 2007                |                              |
|                    | Turnover<br>RMB'000            | Per cent of<br>turnover<br>% | Turnover<br>RMB'000 | Per cent of<br>turnover<br>% |
| 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, 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 RMB 1,549,301,000 and RMB 1,641,317,000 respectively. In comparison, the Group's profit before taxation and profit attributable to equity shareholders of the Company for 2007 was RMB 11,366,000 and RMB 22,312,000 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 RMB 425,494,000 for the filament production facilities.

#### 5. 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

As at 31 December 2008, the Group's total assets were RMB 8,280,424,000, total liabilities were RMB 1,753,892,000, and total equity attributable to equity shareholders of the Company was RMB 6,526,532,000. 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 these changes are described as follows:

Total assets were RMB 8,280,424,000, a decrease of RMB 1,651,560,000 as compared with the end of last year. Current assets were RMB 3,842,986,000, a decrease of RMB 625,325,000 as compared with the end of last year. The decrease was mainly due to the decrease in trade and other receivables by RMB 368,599,000 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 RMB 425,734,000 owing to the decline in the prices of raw materials. Non-current assets were RMB 4,437,438,000, a decrease of RMB 1,026,235,000 as compared with the end of last year, which was mainly due to the impairment of RMB 425,494,000 for the filament production facilities and due to ordinary depreciation and amortisation.

Total liabilities were RMB 1,753,892,000, a decrease of RMB 10,243,000 as compared with the end of last year. Current liabilities were RMB 1,738,892,000, a decrease of RMB 25,243,000 as compared with the end of last year, which was mainly due to the decrease of RMB 30,432,000 in trade and other payables. Non-current liabilities were RMB 15,000,000, an increase of RMB 15,000,000 compared with the end of last year, which was mainly due to the increase of RMB 15,000,000 in deferred income in 2008.

Total equity attributable to equity shareholders of the Company was RMB 6,526,532,000, a decrease of RMB 1,641,317,000 as compared with the end of last year, mainly due to RMB 1,641,317,000 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 RMB 381,547,000, representing an increase from RMB 459,747,000 as at 31 December 2007 to RMB 841,294,000 as at 31 December 2008.

In 2008, the Group's net cash outflow from operating activities was RMB 51,637,000, representing a decrease of RMB 16,712,000 as compared with last year. The decrease in interest paid and income tax paid in 2008 led to the decrease in the net cash outflow from operating activities of RMB 17,451,000.

In 2008, the Group's net cash inflow from investing activities was RMB 433,184,000, an increase of cash inflow by RMB 838,002,000 as compared with last year. This was mainly due to the following:

(1) Deposits with banks and other financial institutions decreased by RMB 510,000,000 in 2008, while there had been an increase of RMB 457,000,000 in 2007. As a result, the net cash inflow from investing activities increased by RMB 967,000,000.

(2) In 2007, the proceeds from the disposal of a subsidiary was RMB 96,952,000, while no such income was received in 2008, causing the net cash inflow from investing activities to decrease by RMB 96,952,000.

In 2008, the Group's net cash outflow from financing activities was nil, a decrease of cash outflow by RMB 239,000 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 (as at 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. Receivable and payable items of the Group 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.

*6. Statement of the operations by products (prepared in accordance with the PRC Accounting Standards for Business Enterprises (2006))*

| Products                            | Operating income<br>RMB'000 | Cost of sales<br>RMB'000 | Gross profit margin<br>(%) | Increase /<br>(decrease)<br>in operating<br>income as<br>compared<br>with last<br>year (%) | Increase /<br>(decrease) in<br>cost of<br>sales as<br>compared<br>with last year<br>(%) | Gross profit margin<br>as compared with<br>last year (%) |
|-------------------------------------|-----------------------------|--------------------------|----------------------------|--|---|--|
| Polyester products                  | 14,833,224                  | 14,822,082               | 0.1                        | (11.5)   | (6.7)   | Decreased by 5.2 percentage points                       |
| Of which:<br>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.

## 7. Major suppliers and customers

|  |                      |                             |       |
|--|----------------------|-----------------------------|-------|
| Aggregate purchase amounts from the top five largest suppliers | RMB<br>7,567,588,000 | Per cent of total purchases | 53.0% |
| Aggregate sales amounts to the top five largest customers      | RMB<br>2,212,455,000 | Per cent of total sales     | 14.5% |

## 8. 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 RMB 22 million.

## 9. Capital expenditure

In 2008, the Company's total capital expenditure amounted to RMB 258,591,000. With a clearer outlook on sustainable development, the Company's new projects were implemented smoothly. The 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.

## C. Prospects

### 1. Market Analysis

According to the 2009 market analysis, the Group considers: Firstly, due to the impact of the financial crisis on real economy, the global economy will come into a recession. The PRC's textile export will face even tougher situation which will then weaken the demand for polyester products; Secondly, the expansion of domestic polyester industry will continue and the over capacity will be worse which will not distinctly improve the profit margin of polyester products. On the other hand, Chinese government has taken series of policies and measures in order to stimulate economic growth which we believe would effectively boost domestic consumption and then create opportunities to increase domestic demand for polyester products.

It is expected that global crude oil price will continue to fluctuate immoderately. The short supply 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 very difficult business environment of slowed demand growth on polyester products from downstream textile enterprises.

### 2. Business strategy

In 2009, the Group will stick to market orientation, take profit as a center, will strict the fine management and intensify market development and customer service; will advance science and technology innovation and product research and development; will carry out energy savings and cost and expense reduction; will explore and push forward increment assets restructuring and upgrading for a sustainable development. To achieve those above mentioned targets, the following will be set as priorities in 2009:

#### *1. Actively answer the call of market, strengthen product marketing and raw material purchases so as to expand profit margin*

The Group will actively face up to the market challenges to increase revenue and profit. To realize the goal, the Company will: (1) further strengthen market development and customer service to shift concept from "sell products" to "sell service" and to promote product brand value; (2) balance and optimize inventory structure according to market and customer requirements to ensure a proper ratio between production and sales; (3) closely follow up and analyse raw material market both at home

country and abroad to ensure the supply and reduction of 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 safety and environment management, further put its safety responsibility system into effect, and strengthen spot management and implement controls over key facilities so as to reduce unexpected production interruptions and maintain safe, stable, high-grade, and low energy-consumption operations. Meanwhile, the Group will enhance environment management by implementing clean production and establish 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 science and technology advancement and product development*

The Group will further explore the integrated strength of 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 the science and technology advancement and product development, and further optimize the production technology of 100 ton-grade aramid fiber and high performance polyethylene fiber, and accelerate the research and development on technology and equipment for 1000 ton-grade production. The Group will develop and research on new applications of polyester products in non-fiber fields to realize polyester products structure transformation. In 2009, there are 40 product items 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. Strict the fine management and achieve potential and enhance efficiency*

The Group will further extend overall budget control and firmly manage unplanned expenses so as to realize its cost reduction targets. The Group will reinforce internal control management to control business risk, will push forward energy savings and strengthen the 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 the energy saving projects, such as natural gas replacing heavy oil project, air-separating facility and the second phase of power generating with marsh gas project. Compared with 2008, the comprehensive energy consumption for main products decreased by 3.0 per cent, and total industrial water consumption decreased by 1.0 per cent and total COD emission decreased by 0.8 per cent.

*V. Actively create favorable conditions for industrial upgrading and sustainable development*

With the trial operation of the two projects such as the aramid fiber project with an annual capacity of 100 tonnes and the high performance polyethylene project with an annual capacity of 300 tonnes, the Group will actively do well in the market promotion of the above two products. The 1,000 ton-grade projects on the above two products will be initiated as soon as possible. Meanwhile, the Group will organize all resources to plan new projects. If conditions are mature, new projects will be put into construction in order to enhance the Company's profitability in the future. The main pipeline construction of natural gas/heavy oil replacement project has been completed in the first quarter of 2009 and will be put into operation as early as possible to reduce the fuel costs.

The Company's capital expenditure for the year 2009 is expected to be approximately RMB 753,710,000. It will mainly invest in a branch of project construction such as saving energy consumption, safety and environmental protection, and reducing costs and expenses, and preparation works for the planning new projects. In order to maximize return on investment, the Group will strengthen investment management in accordance with the prudence principle. The planned capital expenditures will be funded from cash generated from operations and bank credit facilities.

#### **D. 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 RMB 1,487,489,000 (the loss attributable to equity shareholders of the Company for 2008 was RMB 1,526,800,000 under IFRSs). Accumulated losses, including the accumulated losses of RMB 412,287,000 brought forward from the previous year, were RMB 1,899,776,000 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 proposed or 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 RMB 1,456,004,000 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.

#### **E. Financial assets and financial liabilities in foreign currency**

|                                   | At 1 January 2008<br>RMB '000 | At 31 December 2008<br>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                         |

#### **6. REPORT OF THE SUPERVISORY COMMITTEE**

The Supervisory Committee believes that during the reporting period the Board operated in strict compliance with laws and related regulations. There was no unusual situation in connection with the Company's financial affairs and connected transactions.

#### **7. SIGNIFICANT EVENTS**

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

(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 acquire or dispose of any assets nor did it conduct any merger or acquisition during the reporting period.

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 RMB 22 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.

(4) 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   |

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 in normal commercial terms or in accordance with the terms of agreements governing these transactions. For details of connected transactions entered into by the Company during the reporting period, please refer to note 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.

(5) 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.

(6) During the reporting period, the Company did not make any guarantee or did not have any secured assets.

(7) As at 31 December 2008, the Group did not have any designated deposits with any financial institutions or have any difficulties in collecting deposits upon maturity. The Group had no trusted financial matters during the reporting period.

(8) 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.

(9) 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.

(10) 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 desulphurization 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 RMB 101,650,000 has been completed and put into trial operation in early 2009. The estimated investment of the aramid fiber project amounted to RMB 62,510,000 and has been put into trial operation in February 2009. The estimated investment of improvement project of stove desulphurization of thermoelectricity center amounted to RMB 96,040,000 and is expected to be completed and put into operation in 2009.

(11) 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 this suspended construction project.

(12) 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 RMB 158,668,000 has been recognised and included in the Company’s income statement for the year ended 31 December 2008.

(13) During the reporting period, neither the fifth term of the Board of the Company nor its Directors thereof were subject to any investigation by the CSRC, administrative penalty or circular of criticism released by the CSRC and the Securities and Futures Commission of Hong Kong, and reprimand published by SSE and HKSE.

## **8. FINANCIAL REPORT**

### **8.1 Audit Opinion**

The financial statements of Sinopec Yizheng Chemical Fibre Company Limited (“the **Company**”) and its subsidiary (“the **Group**”) prepared under the PRC Accounting Standards for Business Enterprises (2006) (“**ASBE (2006)**”) have been audited by Gong Wei-li and Wu Xiao-lei of KPMG Huazhen and an audit report with an unqualified audit opinion was issued on 30 March 2009. Also, the consolidated financial statements of the Group prepared under International Financial Reporting Standards

("IFRSs") have been audited by KPMG and an audit report with an unqualified audit opinion was issued on 30 March 2009.

## **8.2 Financial statements prepared in accordance with International Financial Reporting Standards**

The following financial information has been extracted from the Group's audited financial statements, prepared in accordance with IFRSs, for the year ended 31 December 2008.

**Consolidated income statement**  
**For the year ended 31 December 2008**

|   |             | <b>2008</b>         | <b>2007</b>         |
|---|-------------|---------------------|---------------------|
|   | <i>Note</i> | <i>RMB'000</i>      | <i>RMB'000</i>      |
| <b>Turnover</b>   | 4           | 15,224,524          | 17,175,656          |
| Cost of sales   |             | <u>(15,653,672)</u> | <u>(16,555,142)</u> |
| <b>Gross (loss)/profit</b>                                      |             | (429,148)           | 620,514             |
| Other income  |             | 5,308               | 19,189              |
| Selling expenses  |             | (187,146)           | (193,918)           |
| Administrative expenses   |             | (351,656)           | (295,838)           |
| Other expenses  | 5           | (493,142)           | (40,386)            |
| Employee reduction expenses                                     | 6           | <u>(9,082)</u>      | <u>(101,719)</u>    |
| <b>Operating (loss)/profit before net<br/>finance income</b>    |             | <u>(1,464,866)</u>  | 7,842               |
| Financial income  |             | 51,729              | 36,340              |
| Financial expenses  |             | <u>(5,783)</u>      | <u>(8,289)</u>      |
| <b>Net finance income</b>                                       |             | <u>45,946</u>       | 28,051              |
| Share of loss of jointly controlled entity                      | 11          | <u>(130,381)</u>    | <u>(24,527)</u>     |
| <b>(Loss)/profit before taxation</b>                            | 7           | (1,549,301)         | 11,366              |
| <b>Income tax (expense)/credit</b>                              | 8           | <u>(92,016)</u>     | <u>11,890</u>       |
| <b>(Loss)/profit for the year</b>                               |             | <u>(1,641,317)</u>  | <u>23,256</u>       |
| <b>Attributable to:</b>   |             |                     |                     |
| Equity shareholders of the Company                              |             | (1,641,317)         | 22,312              |
| Minority interests  |             | <u>-</u>            | <u>944</u>          |
| <b>(Loss)/profit for the year</b>                               |             | <u>(1,641,317)</u>  | <u>23,256</u>       |
| <b>Basic and diluted (loss)/earnings per share<br/>(in RMB)</b> | 10          | <u>(0.410)</u>      | <u>0.006</u>        |

**Consolidated balance sheet  
As at 31 December 2008**

|  | <i>Note</i> | <b>2008</b><br><i>RMB'000</i> | <b>2007</b><br><i>RMB'000</i> |
|--|-------------|-------------------------------|-------------------------------|
| <b>Non-current assets</b>                            |             |                               |                               |
| Property, plant and equipment                        |             | 3,970,816                     | 4,953,561                     |
| Construction in progress                             |             | 272,012                       | 89,566                        |
| Lease prepayments                                    |             | 123,187                       | 126,430                       |
| Interest in jointly controlled entity                | <i>11</i>   | 25,803                        | 156,184                       |
| Deferred tax assets                                  |             | <u>45,620</u>                 | <u>137,932</u>                |
|  |             | 4,437,438                     | 5,463,673                     |
| <b>Current assets</b>                                |             |                               |                               |
| Inventories  |             | 831,453                       | 1,257,187                     |
| Trade and other receivables                          | <i>12</i>   | 1,807,778                     | 2,176,377                     |
| Deposits with banks and other financial institutions |             | 362,461                       | 575,000                       |
| Cash and cash equivalents                            |             | <u>841,294</u>                | <u>459,747</u>                |
|  |             | 3,842,986                     | 4,468,311                     |
| <b>Current liabilities</b>                           |             |                               |                               |
| Trade and other payables                             | <i>13</i>   | 1,733,694                     | 1,764,126                     |
| Provisions   |             | 5,198                         | -                             |
| Income tax payable                                   |             | <u>-</u>                      | <u>9</u>                      |
|  |             | 1,738,892                     | 1,764,135                     |
| <b>Net current assets</b>                            |             |                               |                               |
|  |             | <u>2,104,094</u>              | <u>2,704,176</u>              |
| <b>Total assets less current liabilities</b>         |             |                               |                               |
|  |             | 6,541,532                     | 8,167,849                     |
| <b>Non-current liabilities</b>                       |             |                               |                               |
| Deferred income                                      |             | <u>15,000</u>                 | <u>-</u>                      |
| <b>Net assets</b>                                    |             |                               |                               |
|  |             | <u>6,526,532</u>              | <u>8,167,849</u>              |
| <b>Equity</b>  |             |                               |                               |
| Share capital  |             | 4,000,000                     | 4,000,000                     |
| Share premium  |             | 2,518,833                     | 2,518,833                     |
| Reserves   | <i>14</i>   | 1,279,928                     | 1,279,928                     |
| (Accumulated losses)/retained profits                |             | <u>(1,272,229)</u>            | <u>369,088</u>                |
| <b>Total equity</b>                                  |             |                               |                               |
|  |             | <u>6,526,532</u>              | <u>8,167,849</u>              |

**Consolidated Statement of Changes in Equity  
For the year ended 31 December 2008**

|  | <u>Attributable to equity shareholders of the Company</u> |  |                                   |   | <b>Total</b><br><i>RMB'000</i> | <b>Minority</b><br><b>interests</b><br><i>RMB'000</i> | <b>Total</b><br><b>equity</b><br><i>RMB'000</i> |
|--|---|--|-----------------------------------|---|--------------------------------|---|---|
|  | <b>Share</b><br><b>capital</b><br><i>RMB'000</i>          | <b>Share</b><br><b>premium</b><br><i>RMB'000</i> | <b>Reserves</b><br><i>RMB'000</i> | <b>Retained</b><br><b>profits</b><br><b>/(accumulated</b><br><b>losses)</b><br><i>RMB'000</i> |                                |   |   |
| <b>As at 1 January 2007</b>  | 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<br>on land use rights due to change<br>in income tax rate | -   | -  | 19,985                            | -   | 19,985                         | -   | 19,985  |
| Profit for the year  | -   | -  | -                                 | 22,312  | 22,312                         | 944   | 23,256  |
| Total recognised income<br>for the year  | -   | -  | 19,985                            | 22,312  | 42,297                         | 944   | 43,241  |
| Dividends paid to<br>minority shareholders   | -   | -  | -                                 | -   | -                              | (239)   | (239)   |
| Disposal of subsidiaries   | -   | -  | -                                 | -   | -                              | (48,357)  | (48,357)  |
| <b>As at 31 December 2007</b>  | 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)                                     |
| <b>As at 31 December 2008</b>  | <u>4,000,000</u>  | <u>2,518,833</u>                                 | <u>1,279,928</u>                  | <u>(1,272,229)</u>  | <u>6,526,532</u>               | <u>-</u>  | <u>6,526,532</u>                                |

*Notes:*

**1 Principal activities and basis of preparation**

The Group is principally engaged in the production and sale of chemical fibre and chemical fibre raw materials in the People's Republic of China ("**the PRC**"). China Petroleum & Chemical Corporation is the Company's immediate parent company and China Petrochemical Corporation is the Company's ultimate controlling company.

The consolidated financial statements have been prepared in accordance with 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 ASBE (2006). Significant differences between the financial statements prepared in accordance with IFRSs and ASBE (2006) are summarised in section 8.4.

**2 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 standard or interpretation which are not yet effective for the current accounting period.

**3 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.

**4 Turnover**

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

## 5 Other expenses

|   | 2008<br>RMB'000 | 2007<br>RMB'000 |
|---|-----------------|-----------------|
| Net (gain)/loss on disposal of property, plant and equipment          | (1,991)         | 22,337          |
| Impairment losses of property, plant and equipment ( <i>note(a)</i> ) | 441,087         | 2,912           |
| Loss on breach of contracts ( <i>note (b)</i> )                       | 34,065          | -               |
| Others  | <u>19,981</u>   | <u>15,137</u>   |
| Other expenses  | <u>493,142</u>  | <u>40,386</u>   |

- (a) Impairment losses recognised in respect of the filament production facilities of the Company were RMB 425,494,000 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 RMB 15,593,000 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.

- (b) 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 Group recognised losses on non-cancellable contracts for procurement of equipment amounting to RMB 34,065,000 during the year ended 31 December 2008, including irrecoverable construction prepayments amounting to RMB 28,867,000 and an additional compensation payable on breach of contracts amounting to RMB 5,198,000.



## 6 Employee reduction expenses

In accordance with the Group's employee reduction plan, the Group recorded employee reduction expenses of RMB 9,082,000 (2007: RMB 101,719,000) during the year ended 31 December 2008 in respect of the reduction of 108 (2007: 1,351) employees.

## 7 (Loss)/Profit before taxation

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

|   | <b>2008</b><br><i>RMB'000</i> | <b>2007</b><br><i>RMB'000</i> |
|---|-------------------------------|-------------------------------|
| Interest on borrowings  | 399                           | 624                           |
| Interest on discounting bills   | <u>3,195</u>                  | <u>5,619</u>                  |
| Interest expense, net   | 3,594                         | 6,243                         |
| Cost of inventories   | 15,653,672                    | 16,555,142                    |
| Depreciation  | 608,361                       | 643,525                       |
| Auditors' remuneration - audit services   | 4,800                         | 4,800                         |
| Amortisation of lease prepayments   | 3,243                         | 3,009                         |
| Interest income   | (26,123)                      | (33,152)                      |
| Net foreign exchange gain   | (25,606)                      | (3,188)                       |
| (Reversal of)/provision for impairment losses<br>of trade and other receivables | (3,555)                       | 10,146                        |
| Gain on disposal of lease prepayments   | (279)                         | (8,486)                       |
| Gain on disposal of subsidiaries  | <u>-</u>                      | <u>(2,771)</u>                |

## 8 Income tax

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

## **8**      **Income tax (continued)**

- (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.

- (b)      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 RMB 90,989,000.

The Group has not recognised deferred tax assets in respect of deductible temporary differences amounting to RMB 548,576,000 (2007: RMB nil) and cumulative unutilised tax losses amounting to RMB 1,376,012,000 (2007: RMB 138,301,000), 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.

## **9**      **Dividends**

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

## **10 (Loss)/earnings per share**

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

The calculation of basic (loss)/earnings per share is based on the loss attributable to ordinary equity shareholders of the Company of RMB 1,641,317,000 (2007: profit of RMB 22,312,000) 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.

## **11 Interest in jointly controlled entity**

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 15(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 RMB 132,335,000. Of which, 50% of this impairment loss was shared by the Group (i.e RMB 66,167,500). 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%.

## 12 Trade and other receivables

|   | <b>2008</b><br><i>RMB'000</i> | <b>2007</b><br><i>RMB'000</i> |
|---|-------------------------------|-------------------------------|
| Trade receivables   | 91,766                        | 196,038                       |
| Bills receivable  | 1,179,716                     | 1,583,804                     |
| Amounts due from parent company and fellow subsidiaries - trade     | 30,861                        | 73,255                        |
| Amounts due from jointly controlled entity - trade                  | <u>199,078</u>                | <u>30,561</u>                 |
|   | 1,501,421                     | 1,883,658                     |
| Less: Allowance for doubtful debts                                  | <u>(835)</u>                  | <u>(1,258)</u>                |
|   | 1,500,586                     | 1,882,400                     |
| Amounts due from parent company and fellow subsidiaries - non-trade | 10,612                        | 273                           |
| Amounts due from jointly controlled entity - non-trade              | -                             | 480                           |
| Other receivables, deposits and prepayments                         | <u>299,564</u>                | <u>300,477</u>                |
|   | 310,176                       | 301,230                       |
| Less: Allowance for doubtful debts                                  | <u>(2,984)</u>                | <u>(7,253)</u>                |
|   | 307,192                       | 293,977                       |
|   | <u>1,807,778</u>              | <u>2,176,377</u>              |

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

The ageing analysis of trade receivables, bills receivable, 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:

|                           | <b>2008</b><br><i>RMB'000</i> | <b>2007</b><br><i>RMB'000</i> |
|---------------------------|-------------------------------|-------------------------------|
| Current                   | 1,499,980                     | 1,880,420                     |
| Less than 1 year past due | 97                            | 1,980                         |
| 1 to 2 years past due     | <u>509</u>                    | <u>-</u>                      |
|                           | <u>1,500,586</u>              | <u>1,882,400</u>              |

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.

### 13 Trade and other payables

|   | <b>2008</b><br><i>RMB'000</i> | <b>2007</b><br><i>RMB'000</i> |
|---|-------------------------------|-------------------------------|
| Bills payable   | 115,000                       | -                             |
| Trade payables  | 793,866                       | 1,255,775                     |
| Amounts due to parent company and fellow subsidiaries - trade     | 449,785                       | 133,478                       |
| Amounts due to jointly controlled entity - trade                  | <u>11,158</u>                 | <u>11,067</u>                 |
|   | 1,369,809                     | 1,400,320                     |
| Amounts due to parent company and fellow subsidiaries - non-trade | 13,925                        | 4,908                         |
| Other payables and accrued expenses                               | <u>349,960</u>                | <u>358,898</u>                |
|   | <u><u>1,733,694</u></u>       | <u><u>1,764,126</u></u>       |

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

|   | <b>2008</b><br><i>RMB'000</i> | <b>2007</b><br><i>RMB'000</i> |
|---|-------------------------------|-------------------------------|
| Due within one month or on demand       | 780,121                       | 1,243,148                     |
| Due after 1 month but within 3 months   | 115,000                       | -                             |
| Due after 3 months but within 12 months | <u>13,745</u>                 | <u>12,627</u>                 |
|   | <u><u>908,866</u></u>         | <u><u>1,255,775</u></u>       |

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

|  | <b>2008</b><br><i>RMB'000</i> | <b>2007</b><br><i>RMB'000</i> |
|--|-------------------------------|-------------------------------|
| Due within one month or on demand      | 163,482                       | 144,545                       |
| Due after 1 month but within 3 months  | 233,693                       | -                             |
| Due after 3 months but within 6 months | <u>63,768</u>                 | <u>-</u>                      |
|  | <u><u>460,943</u></u>         | <u><u>144,545</u></u>         |

### 14 Reserves

For the year ended 31 December 2008, no transfers were made to the statutory surplus reserve, or the discretionary surplus reserve (2007: RMB nil).

## **15 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 USD 9,000,000 (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 RMB 22 million, which would be initially recognised as goodwill in accordance with the Group's accounting policy.
- (b)** The Board of Directors proposed to use the statutory surplus reserve and discretionary surplus reserve amounting to RMB 1,456,004,000 to make good the Company's previous years' losses on 30 March 2009. The proposal is subject to the approval by shareholders.

### 8.3 Financial statements prepared in accordance with the PRC Accounting Standards for Business Enterprises (2006)

The following financial information has been extracted from the Group's audited financial statements, prepared in accordance with ASBE (2006) for the year ended 31 December 2008.

#### Balance sheets

(Expressed in thousands of renminbi yuan)

|                                 | <i>The Group</i>                      |  | <i>The Company</i>                    |  |
|---------------------------------|---------------------------------------|--|---------------------------------------|--|
|                                 | <i>As at<br/>31 December<br/>2008</i> | <i>As at<br/>31 December<br/>2007<br/>(note 2)</i> | <i>As at<br/>31 December<br/>2008</i> | <i>As at<br/>31 December<br/>2007<br/>(note 2)</i> |
| <b>Assets</b>                   |                                       |  |                                       |  |
| <b>Current assets</b>           |                                       |  |                                       |  |
| Cash at bank and on hand        | 1,203,755                             | 1,034,747  | 1,203,755                             | 946,953  |
| Bills receivable                | 1,290,568                             | 1,612,417  | 1,290,568                             | 1,584,092  |
| Accounts receivable             | 190,378                               | 199,910  | 190,378                               | 199,910  |
| Prepayments                     | 23,648                                | 72,674   | 23,648                                | 72,674   |
| Other receivables               | 107,939                               | 91,325   | 107,939                               | 90,835   |
| Inventories                     | 831,453                               | 1,257,187  | 831,453                               | 1,257,187  |
| Other current assets            | 195,245                               | 200,051  | 195,245                               | 200,036  |
| <b>Total current assets</b>     | <b>3,842,986</b>                      | <b>4,468,311</b>                                   | <b>3,842,986</b>                      | <b>4,351,687</b>                                   |
| <b>Non-current assets</b>       |                                       |  |                                       |  |
| Long-term equity investments    | 25,803                                | 156,184  | 25,803                                | 216,640  |
| Fixed assets                    | 3,870,709                             | 4,831,660  | 3,870,709                             | 4,829,186  |
| Construction in progress        | 272,012                               | 89,566   | 272,012                               | 89,566   |
| Intangible assets               | 405,774                               | 436,102  | 405,774                               | 436,102  |
| Deferred tax assets             | -                                     | 90,989   | -                                     | 90,989   |
| <b>Total non-current assets</b> | <b>4,574,298</b>                      | <b>5,604,501</b>                                   | <b>4,574,298</b>                      | <b>5,662,483</b>                                   |
| <b>Total assets</b>             | <b>8,417,284</b>                      | <b>10,072,812</b>                                  | <b>8,417,284</b>                      | <b>10,014,170</b>                                  |

## Balance sheets (continued)

(Expressed in thousands of renminbi yuan)

|  | <i>The Group</i>                      |  | <i>The Company</i>                    |  |
|--|---------------------------------------|--|---------------------------------------|--|
|  | <i>As at<br/>31 December<br/>2008</i> | <i>As at<br/>31 December<br/>2007<br/>(note 2)</i> | <i>As at<br/>31 December<br/>2008</i> | <i>As at<br/>31 December<br/>2007<br/>(note 2)</i> |
| Liabilities and shareholders' equity       |                                       |  |                                       |  |
| Current liabilities                        |                                       |  |                                       |  |
| Bills payable                              | 115,000                               | -  | 115,000                               | -  |
| Accounts payable                           | 1,004,018                             | 1,279,510  | 1,004,018                             | 1,279,510  |
| Advances from customers                    | 244,437                               | 109,743  | 244,437                               | 109,695  |
| Employee benefits payable                  | 61,345                                | 136,101  | 61,345                                | 136,101  |
| Taxes payable                              | 17,979                                | 12,211   | 17,979                                | 12,187   |
| Other payables                             | 290,915                               | 226,570  | 290,915                               | 325,796  |
| Provisions                                 | 5,198                                 | -  | 5,198                                 | -  |
| Total current liabilities                  | 1,738,892                             | 1,764,135  | 1,738,892                             | 1,863,289  |
| Non-current liabilities                    |                                       |  |                                       |  |
| Deferred income                            | 15,000                                | -  | 15,000                                | -  |
| Total non-current liabilities              | 15,000                                | -  | 15,000                                | -  |
| Total liabilities                          | 1,753,892                             | 1,764,135  | 1,753,892                             | 1,863,289  |
| Shareholders' equity                       |                                       |  |                                       |  |
| Share capital                              | 4,000,000                             | 4,000,000  | 4,000,000                             | 4,000,000  |
| Capital reserve                            | 3,107,164                             | 3,107,164  | 3,107,164                             | 3,107,164  |
| Surplus reserve                            | 1,456,004                             | 1,456,004  | 1,456,004                             | 1,456,004  |
| Accumulated losses                         | (1,899,776)                           | (254,491)  | (1,899,776)                           | (412,287)  |
| Total equity                               | 6,663,392                             | 8,308,677  | 6,663,392                             | 8,150,881  |
| Total liabilities and shareholders' equity | 8,417,284                             | 10,072,812   | 8,417,284                             | 10,014,170   |



## Income statement and profit appropriation statement

(Expressed in thousands of renminbi yuan)

|   | <u>The Group</u>                          |                 | <u>The Company</u>                        |                 |
|---|---|-----------------|---|-----------------|
|   | <i>For the year<br/>ended 31 December</i> |                 | <i>For the year<br/>ended 31 December</i> |                 |
|   | 2008                                      | 2007            | 2008                                      | 2007            |
| Operating income  | 15,224,524                                | 17,175,656      | 15,224,524                                | 16,951,183      |
| Less: Operating costs   | 15,294,088                                | 16,275,270      | 15,294,088                                | 16,086,397      |
| Business taxes and surcharges                                       | 29,355                                    | 44,141          | 29,355                                    | 43,492          |
| Selling and distribution expenses                                   | 187,146                                   | 198,558         | 187,101                                   | 178,751         |
| General and administrative expenses                                 | 661,389                                   | 632,856         | 661,305                                   | 624,067         |
| Net financial income  | (45,946)                                  | (28,051)        | (45,693)                                  | (30,470)        |
| Impairment loss   | 475,925                                   | 3,935           | 475,925                                   | 3,213           |
| Add: Investment (losses)/income                                     | (130,381)                                 | (21,756)        | 28,287                                    | (24,527)        |
| (Including: Losses from investment in<br>jointly controlled entity) | <u>(130,381)</u>                          | <u>(24,527)</u> | <u>(130,381)</u>                          | <u>(24,527)</u> |
| Operating (loss)/profit   | (1,507,814)                               | 27,191          | (1,349,270)                               | 21,206          |
| Add: Non-operating income   | 8,165                                     | 20,371          | 7,672                                     | 17,980          |
| Less: Non-operating expenses  | 54,943                                    | 42,905          | 54,902                                    | 40,833          |
| (Including: Losses from disposal of<br>non-current assets)          | <u>897</u>                                | <u>27,768</u>   | <u>897</u>                                | <u>26,442</u>   |
| (Loss)/profit before income tax                                     | (1,554,592)                               | 4,657           | (1,396,500)                               | (1,647)         |
| Less: Income tax expenses   | <u>90,693</u>                             | <u>(14,104)</u> | <u>90,989</u>                             | <u>(20,272)</u> |
| Net (loss)/profit for the year                                      | <u>(1,645,285)</u>                        | <u>18,761</u>   | <u>(1,487,489)</u>                        | <u>18,625</u>   |
| Attributable to:  |   |                 |   |                 |
| Shareholders of the Company   | (1,645,285)                               | 17,817          |   |                 |
| Minority shareholders   | <u>-</u>                                  | <u>944</u>      |   |                 |
| (Loss)/earnings per share   |   |                 |   |                 |
| Basic and diluted (loss)/earnings<br>per share (in RMB)             | <u>(0.411)</u>                            | <u>0.004</u>    |   |                 |

## Cash flow statement

(Expressed in thousands of renminbi yuan)

| Note  | <u>The Group</u>                          |                     | <u>The Company</u>                        |                     |
|---|---|---------------------|---|---------------------|
|   | <i>For the year<br/>ended 31 December</i> |                     | <i>For the year<br/>ended 31 December</i> |                     |
|   | 2008                                      | 2007                | 2008                                      | 2007                |
| Cash flows from operating activities:                                 |   |                     |   |                     |
| Cash received from sale of goods and rendering of services            | 17,158,702                                | 19,371,103          | 17,130,425                                | 18,845,432          |
| Refund of taxes   | 13,560                                    | 2,177               | 13,560                                    | 2,177               |
| Other cash received relating to operating activities                  | <u>4,536</u>                              | <u>7,932</u>        | <u>4,536</u>                              | <u>7,119</u>        |
| Sub-total of cash inflows   | <u>17,176,798</u>                         | <u>19,381,212</u>   | <u>17,148,521</u>                         | <u>18,854,728</u>   |
| Cash paid for goods and services                                      | (15,722,002)                              | (17,745,678)        | (15,722,002)                              | (17,224,610)        |
| Cash paid to and for employees  | (657,863)                                 | (610,580)           | (657,863)                                 | (581,801)           |
| Cash paid for all types of taxes                                      | (399,859)                                 | (786,445)           | (399,850)                                 | (751,676)           |
| Other cash paid relating to operating activities                      | <u>(445,117)</u>                          | <u>(300,615)</u>    | <u>(444,931)</u>                          | <u>(209,117)</u>    |
| Sub-total of cash outflows  | <u>(17,224,841)</u>                       | <u>(19,443,318)</u> | <u>(17,224,646)</u>                       | <u>(18,767,204)</u> |
| Net cash (outflow)/inflow from operating activities (1)               | <u>(48,043)</u>                           | <u>(62,106)</u>     | <u>(76,125)</u>                           | <u>87,524</u>       |
| Cash flows from investing activities:                                 |   |                     |   |                     |
| Net cash received from disposal of fixed assets and intangible assets | 11,796                                    | 24,810              | 11,796                                    | 21,543              |
| Net cash received from disposal of subsidiaries (3)                   | -   | 96,952              | 116,170                                   | -                   |
| Interest received   | 26,123                                    | 33,152              | 25,829                                    | 30,877              |
| Government grants received  | <u>15,000</u>                             | <u>-</u>            | <u>15,000</u>                             | <u>-</u>            |
| Sub-total of cash inflows   | <u>52,919</u>                             | <u>154,914</u>      | <u>168,795</u>                            | <u>52,420</u>       |
| Cash paid for acquisition of fixed assets and intangible assets       | <u>(129,735)</u>                          | <u>(102,732)</u>    | <u>(129,735)</u>                          | <u>(102,189)</u>    |
| Sub-total of cash outflows  | <u>(129,735)</u>                          | <u>(102,732)</u>    | <u>(129,735)</u>                          | <u>(102,189)</u>    |
| Net cash (outflow)/inflow from investing activities                   | <u>(76,816)</u>                           | <u>52,182</u>       | <u>39,060</u>                             | <u>(49,769)</u>     |

## Cash flow statements (*continued*)

(Expressed in thousands of renminbi yuan)

|  | Note | <u>The Group</u>                                   |                  | <u>The Company</u>                                 |                  |
|--|------|--|------------------|--|------------------|
|  |      | <i>For the year<br/>ended 31 December<br/>2008</i> | <i>2007</i>      | <i>For the year<br/>ended 31 December<br/>2008</i> | <i>2007</i>      |
| Cash flows from financing activities:  |      |  |                  |  |                  |
| Cash received from borrowings  |      | <u>741,000</u>                                     | <u>329,000</u>   | <u>741,000</u>                                     | <u>329,000</u>   |
| Sub-total of cash inflows  |      | <u>741,000</u>                                     | <u>329,000</u>   | <u>741,000</u>                                     | <u>329,000</u>   |
| Cash repayments of borrowings  |      | (741,000)  | (329,000)        | (741,000)  | (329,000)        |
| Cash paid for dividends, profits<br>distribution or interest<br>(Including: Profits paid to<br>minority shareholders of<br>subsidiaries) |      | (3,594)  | (6,482)          | (3,594)  | (1,647)          |
|  |      | <u>-</u>   | <u>(239)</u>     | <u>-</u>   | <u>-</u>         |
| Sub-total of cash outflows   |      | <u>(744,594)</u>                                   | <u>(335,482)</u> | <u>(744,594)</u>                                   | <u>(330,647)</u> |
| Net cash outflow from financing activities   |      | <u>(3,594)</u>                                     | <u>(6,482)</u>   | <u>(3,594)</u>                                     | <u>(1,647)</u>   |
| Net (decrease)/increase in cash<br>and cash equivalents  | (1)  | (128,453)  | (16,406)         | (40,659)   | 36,108           |
| Add: Cash and cash equivalents at<br>the beginning of the year   |      | <u>1,034,747</u>                                   | <u>1,051,153</u> | <u>946,953</u>                                     | <u>910,845</u>   |
| Cash and cash equivalents at the<br>end of the year  |      | <u>906,294</u>                                     | <u>1,034,747</u> | <u>906,294</u>                                     | <u>946,953</u>   |

## Notes to cash flow statement

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

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

|   | <u>The Group</u>                      |                 | <u>The Company</u>                    |               |
|---|---------------------------------------|-----------------|---------------------------------------|---------------|
|   | <i>For the year ended 31 December</i> |                 | <i>For the year ended 31 December</i> |               |
|   | 2008                                  | 2007            | 2008                                  | 2007          |
|   | RMB'000                               | RMB'000         | RMB'000                               | RMB'000       |
| Net (loss)/profit   | (1,645,285)                           | 18,761          | (1,487,489)                           | 18,625        |
| Add: (Reversal of)/provisions for bad and doubtful debts of accounts receivable | (1,338)                               | 10,146          | (1,338)                               | 10,317        |
| Provisions for bad and doubtful debts of prepayments                            | 315                                   | -               | 315                                   | -             |
| Reversal of bad and doubtful debts of other receivables                         | (2,532)                               | -               | (2,532)                               | -             |
| Provisions for/(reversal of) diminution in value of inventories                 | 38,393                                | (9,123)         | 38,393                                | (9,123)       |
| Fixed assets 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                             | <u>(48,043)</u>                       | <u>(62,106)</u> | <u>(76,125)</u>                       | <u>87,524</u> |

#### (b) Change in cash and cash equivalents:

|  | <u>The Group</u>                      |                  | <u>The Company</u>                    |                |
|--|---------------------------------------|------------------|---------------------------------------|----------------|
|  | <i>For the year ended 31 December</i> |                  | <i>For the year ended 31 December</i> |                |
|  | 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(c))                              | <u>297,461</u>                        | <u>-</u>         | <u>297,461</u>                        | <u>-</u>       |
| 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 | <u>1,034,747</u>                      | <u>1,051,153</u> | <u>946,953</u>                        | <u>910,845</u> |
| Net (decrease)/increase in cash and cash equivalents         | <u>(128,453)</u>                      | <u>(16,406)</u>  | <u>(40,659)</u>                       | <u>36,108</u>  |

(c) As at 31 December 2008, deposits of RMB 297,461,000 (31 December 2007: RMB nil) were pledged for payables in respect of imported raw materials.

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

|  | <u>The Group</u>                      |                  | <u>The Company</u>                    |                |
|--|---------------------------------------|------------------|---------------------------------------|----------------|
|  | <i>For the year ended 31 December</i> |                  | <i>For the year ended 31 December</i> |                |
|  | <i>2008</i>                           | <i>2007</i>      | <i>2008</i>                           | <i>2007</i>    |
|  | RMB'000                               | RMB'000          | RMB'000                               | RMB'000        |
| Cash   |                                       |                  |                                       |                |
| - Cash on hand   | 21                                    | 6                | 21                                    | 6              |
| - Bank deposits available on demand                              | <u>906,273</u>                        | <u>1,034,741</u> | <u>906,273</u>                        | <u>946,947</u> |
| Closing balance of cash and cash equivalents available on demand | <u>906,294</u>                        | <u>1,034,747</u> | <u>906,294</u>                        | <u>946,953</u> |

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

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

## Consolidated statement of changes in equity

(Expressed in thousands of renminbi yuan)

|  | 2008  |                            |                            |                               |                     |                               | 2007  |                          |                            |                            |                               |                     |                               |                  |
|--|---|----------------------------|----------------------------|-------------------------------|---------------------|-------------------------------|---|--------------------------|----------------------------|----------------------------|-------------------------------|---------------------|-------------------------------|------------------|
|  | Attributable to shareholders of the Company |                            |                            |                               |                     |                               | Attributable to shareholders of the Company |                          |                            |                            |                               |                     |                               |                  |
|  | Share capital<br>RMB'000                    | Capital reserve<br>RMB'000 | Surplus reserve<br>RMB'000 | Accumulated losses<br>RMB'000 | Subtotal<br>RMB'000 | Minority interests<br>RMB'000 | Total<br>RMB'000                            | Share capital<br>RMB'000 | Capital reserve<br>RMB'000 | Surplus reserve<br>RMB'000 | Accumulated losses<br>RMB'000 | Subtotal<br>RMB'000 | Minority interests<br>RMB'000 | Total<br>RMB'000 |
| Balance at the end of last year                              | 4,000,000                                   | 3,107,164                  | 1,456,004                  | (254,491)                     | 8,308,677           | -                             | 8,308,677                                   | 4,000,000                | 3,116,808                  | 1,456,004                  | (281,952)                     | 8,290,860           | 47,652                        | 8,338,512        |
| Changes in accounting policies                               | -   | -                          | -                          | -                             | -                   | -                             | -   | -                        | (9,644)                    | -                          | 9,644                         | -                   | -                             | -                |
| Balance at the beginning of the year                         | 4,000,000                                   | 3,107,164                  | 1,456,004                  | (254,491)                     | 8,308,677           | -                             | 8,308,677                                   | 4,000,000                | 3,107,164                  | 1,456,004                  | (272,308)                     | 8,290,860           | 47,652                        | 8,338,512        |
| Changes in equity for the year                               |   |                            |                            |                               |                     |                               |   |                          |                            |                            |                               |                     |                               |                  |
| 1. Net (loss)/profit for the year                            | -   | -                          | -                          | (1,645,285)                   | (1,645,285)         | -                             | (1,645,285)                                 | -                        | -                          | -                          | 17,817                        | 17,817              | 944                           | 18,761           |
| 2. Shareholders' contributions and decrease of capital       |   |                            |                            |                               |                     |                               |   |                          |                            |                            |                               |                     |                               |                  |
| - Disposal of its subsidiaries by the Company's subsidiaries | -   | -                          | -                          | -                             | -                   | -                             | -   | -                        | -                          | -                          | -                             | -                   | (48,357)                      | (48,357)         |
| 3. Appropriation of profits                                  |   |                            |                            |                               |                     |                               |   |                          |                            |                            |                               |                     |                               |                  |
| - Distributions to minority shareholders                     | -   | -                          | -                          | -                             | -                   | -                             | -   | -                        | -                          | -                          | -                             | -                   | (239)                         | (239)            |
| Balance at the end of the year                               | <u>4,000,000</u>                            | <u>3,107,164</u>           | <u>1,456,004</u>           | <u>(1,899,776)</u>            | <u>6,663,392</u>    | <u>-</u>                      | <u>6,663,392</u>                            | <u>4,000,000</u>         | <u>3,107,164</u>           | <u>1,456,004</u>           | <u>(254,491)</u>              | <u>8,308,677</u>    | <u>-</u>                      | <u>8,308,677</u> |

## Statement of changes in equity

(Expressed in thousands of renminbi yuan)

|                                      | 2008                     |                            |                            |                               |                  | 2007                     |                            |                            |                               |                  |
|--------------------------------------|--------------------------|----------------------------|----------------------------|-------------------------------|------------------|--------------------------|----------------------------|----------------------------|-------------------------------|------------------|
|                                      | Share capital<br>RMB'000 | Capital reserve<br>RMB'000 | Surplus reserve<br>RMB'000 | Accumulated losses<br>RMB'000 | Total<br>RMB'000 | Share capital<br>RMB'000 | Capital reserve<br>RMB'000 | Surplus reserve<br>RMB'000 | Accumulated losses<br>RMB'000 | Total<br>RMB'000 |
| 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       | <u>4,000,000</u>         | <u>3,107,164</u>           | <u>1,456,004</u>           | <u>(1,899,776)</u>            | <u>6,663,392</u> | <u>4,000,000</u>         | <u>3,107,164</u>           | <u>1,456,004</u>           | <u>(412,287)</u>              | <u>8,150,881</u> |

## Notes to the financial report

### 1. 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 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.

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 have been disclosed in Note 1(2) and Note 1(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.

#### (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:

|                          | Note   | The Group and the Company           |                              |                                    |
|--------------------------|--------|-------------------------------------|------------------------------|------------------------------------|
|                          |        | <u>Before adjustment</u><br>RMB'000 | <u>Adjustment</u><br>RMB'000 | <u>After adjustment</u><br>RMB'000 |
| Deferred tax assets      | (1)(a) | 95,449                              | (4,460)                      | 90,989                             |
| Deferred tax liabilities | (1)(a) | <u>(4,460)</u>                      | <u>4,460</u>                 | <u>-</u>                           |
| Total                    |        | <u>90,989</u>                       | <u>-</u>                     | <u>90,989</u>                      |

### 2. Comparative figures

The accounting policy in respect of deferred tax has been changed. Relevant adjustments of comparative figures have been made and are disclosed in Note 1. Meanwhile, certain items in these comparative figures have been reclassified to confirm with the current year's presentation to facilitate comparison.



#### 8.4 Reconciliation statement of differences in financial statements prepared under different GAAPs:

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

|  | Note | The Group                 |                        |
|--|------|---------------------------|------------------------|
|  |      | <u>2008</u><br>RMB'000    | <u>2007</u><br>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                                     |      | <u>(1,323)</u>            | <u>(2,214)</u>         |
| Total  |      | <u>3,968</u>              | <u>4,495</u>           |
| Net (loss)/profit attributable to equity shareholders of the Company under IFRSs |      | <u><u>(1,641,317)</u></u> | <u><u>22,312</u></u>   |

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

|   | Note | The Group  |  |
|---|------|--|--|
|   |      | <u>As at 31</u><br><u>December 2008</u><br>RMB'000 | <u>As at 31</u><br><u>December 2007</u><br>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                                |      | <u>45,620</u>                                      | <u>46,943</u>                                      |
| Total   |      | <u>(136,860)</u>                                   | <u>(140,828)</u>                                   |
| Total equity attributable to equity shareholders of the Company under IFRSs |      | <u><u>6,526,532</u></u>                            | <u><u>8,167,849</u></u>                            |

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.

## 9. OTHER ITEMS

### (1) Annual Report

The Company will dispatch the 2008 Annual Report to all “H” shareholders as soon as possible.

### (2) Compliance with the Code of Corporate Governance Practices and the Model Code

The Company has complied with the Code of Corporate Governance Practices as set out by Appendix 14 to the Listing Rules during the reporting period.

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

The Audit Committee under the fifth term of the Board held four meetings and reviewed the Company’s 2007 Financial Statements, Interim Report for 2008, procedures of internal control system and formed its independent opinion during the reporting period.

The Audit Committee under the sixth term of the Board held the third meeting on 30 March 2009 and reviewed the resolution regarding the 2008 Financial Statements, re-appointing of the auditors of the Company and performance report of the Audit Committee of the Company for 2008.

### (3) Purchase, sale or redemption of the Company’s listed securities

During the year under review, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

(4) A detailed results announcement of the Company containing all the information required by Paragraphs 45(1) to (3) inclusive of Appendix 16 to the HKSE Listing Rules will be published on the website of the HKSE at appropriate time.

By Order of the Board  
**Qian Heng-ge**  
Chairman  
30 March, 2009

*As of the date of this announcement, the directors of the Company include 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\*, Mr. Chen Fang-zheng\*.*

*\* Independent Directors*