中國石化儀征化纖股份有限公司
Sinopec Yizheng Chemical Fibre Company Limited

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

Annual Report 2010

Contents

IMPORTANT NOTE:

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

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

Company Profile

Sinopec Yizheng Chemical Fibre Company Limited ("**the Company**") and its subsidiary ("**the Group**") is one of the largest modernized manufacturing bases of chemical fibre and chemical fibre raw materials in the People's Republic of China (the "**PRC**"). In terms of polyester capacity in 2010, the Group ranks the sixth largest polyester manufacturer in the world. (Source: PCI Magazine 2010)

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

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

The Company was a major construction project under the PRC's Sixth to Tenth Five-Year Plans. Its production facilities were imported from Germany, Japan, Italy and France etc. The Company's technology has reached an advanced level in the polyester industry through continuous technological improvements. The quality system of the Company's products received an international certificate in respect of ISO9001, and its product quality commands a leading position in the industry. The Company also received an international certificate in respect of ISO14001 environmental management system. At the end of 2010, the Group owned polymerization facilities with an annual capacity of 1,754,000 tonnes, solid-state-polymerization ("**SSP**") facilities with an annual capacity of 455,000 tonnes, spinning and drawing facilities for polyester fibre with an annual capacity of 747,000 tonnes, texturing facilities for polyester filament with an annual capacity of 69,000 tonnes, oxidation and purification facilities for PTA with an annual capacity of 1,000,000 tonnes and ancillary public utility facilities, which had a great advantage on the economies of scale.

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

5.	**Domestic Newspapers disclosing information**	:	China Securities, Shanghai Securities News, Securities Times
	Internet website designated by HKSE to disclose information	:	http://www.hkexnews.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	:	Board Secretary Office Sinopec Yizheng Chemical Fibre Company Limited
6.	**Places of listing, names and codes of the stock**	:	
	H share – HKSE – Stock name: Yizheng Chemical – Stock code: 1033		A share – SSE – Stock name: S Yihua – Stock code: 600871

Financial Summary

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

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

	For the year ended 31 December or as at 31 December				
	2010 **RMB'000**	2009 *RMB'000*	2008 *RMB'000*	2007 *RMB'000*	2006 *RMB'000* (as restated)
Turnover	**16,348,366**	13,225,029	15,224,524	17,175,656	17,307,636
Profit/(loss) before taxation	**1,145,582**	387,257	(1,549,301)	11,366	64,333
Income tax (credit)/expense	**(85,644)**	1,310	92,016	(11,890)	23,450
Minority interests	**–**	–	–	944	415
Profit/(loss) attributable to equity shareholders of the Company	**1,231,226**	385,947	(1,641,317)	22,312	40,468
Total assets	**10,402,200**	9,012,882	8,280,424	9,931,984	10,046,111
Total liabilities	**2,258,495**	2,100,403	1,753,892	1,764,135	1,872,907
Total equity attributable to equity shareholders of the Company	**8,143,705**	6,912,479	6,526,532	8,167,849	8,125,552
Minority interests	**–**	–	–	–	47,652
Basic and diluted earnings/ (loss) per share	**RMB0.308**	RMB0.096	RMB(0.410)	RMB0.006	RMB0.010
Net assets per share	**RMB2.036**	RMB1.728	RMB1.632	RMB2.042	RMB2.031
Ratio of shareholders' equity	**78.29%**	76.70%	78.82%	82.24%	80.88%
Return on net assets	**15.12%**	5.58%	(25.15%)	0.27%	0.50%

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

	For the year ended 31 December or as at 31 December			
	2010 **RMB'000**	2009 *RMB'000*	Increased from 2009 *(%)*	2008 *RMB'000*
Total assets	**10,531,202**	9,145,813	15.1	8,417,284
Total equity attributable to equity shareholders of the Company	**8,312,337**	7,045,410	18.0	6,663,392
Net assets per share attributable to equity shareholders of the Company	**RMB2.078**	RMB1.761	18.0	RMB1.666
Operating income	**16,348,366**	13,225,029	23.6	15,224,524
Profit/(loss) before income tax	**1,139,588**	382,018	198.3	(1,554,592)
Net profit/(loss) attributable to equity shareholders of the Company	**1,226,542**	382,018	221.1	(1,645,285)
Net profit/(loss) deducted extraordinary gain and loss attributable to equity shareholders of the Company	**1,218,221**	363,886	234.8	(1,585,466)
Basic earnings/(loss) per share	**RMB0.307**	RMB0.096	221.1	RMB(0.411)
Diluted earnings/(loss)per share	**RMB0.307**	RMB0.096	221.1	RMB(0.411)
Basic earnings/(loss) per share net of extraordinary gain and loss	**RMB0.305**	RMB0.091	234.8	RMB(0.396)
Weighted average return on net assets	**15.97%**	5.57%	Increased 10.40 percentage points	(21.98%)
Weighted average return on net assets net of extraordinary gain and loss	**15.86%**	5.31%	Increased 10.55 percentage points	(21.18%)
Net cash inflow/(outflow) from operating activities	**1,600,805**	1,308,860	22.3	(48,043)
Net cash inflow/(outflow) from operating activities per share	**RMB0.400**	RMB0.327	22.3	RMB(0.012)

2. Details of the Group's results for the year ended 31 December 2010 (extracted from the financial statements prepared in accordance with the PRC Accounting Standards for Business Enterprises)

(Expressed in RMB'000)

Operating profit	1,131,060
Profit before income tax	1,139,588
Net profit attributable to equity shareholders of the Company	1,226,542
Net profit deducted extraordinary gain and loss attributable to equity shareholders of the Company	1,218,221
Net cash inflow from operating activities	1,600,805

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

(Expressed in RMB'000)

Disposal of non-current assets	8,620
Government grants recognised in profit or loss during the year	2,462
Employee reduction expenses	(592)
Investments income from purchase and disposal of financial assets	832
Gain on changes in fair value of investments held for trading	310
Other non-operating income and expenses excluding the aforesaid items	(2,554)
Tax effect*	(757)
Total	8,321

* *The subsidiary of the Company, YCFC Jingwei Chemical Fibre Co., Ltd. ("YCFC Jingwei") suffered loss before tax during the year and did not recognise deferred tax assets, therefore the above extraordinary gain and loss items relating to YCFC Jingwei did not result in tax effect.*

4. Items to which fair value measurement is applied (extracted from the financial statements prepared in accordance with the PRC Accounting Standards for Business Enterprises)

(Expressed in RMB'000)

Items	Balance at the beginning of the current year	Balance at the end of the current year	Changes in the current year	Amount affecting the profit of the current year
Available-for-sale financial assets	700,000	–	(700,000)	873
Investments held for trading	–	699,713	699,713	310
Total	700,000	699,713	(287)	1,183

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

Item	At 31 December 2010 *RMB'000*	At 31 December 2009 *RMB'000*	Change *(%)*	Reason for change
Cash at bank and on hand	**2,469,388**	1,334,367	85.1	Increase in net cash inflow from operating activities during the current year
Investments held for trading	**699,713**	–	100.0	The Company purchased government bonds at the end of the year
Bills receivable	**1,414,970**	1,000,787	41.4	Increase in operating income during the current year
Accounts receivable	**74,917**	123,022	(39.1)	Increase in accounts receivable turnover rate
Prepayments	**6,208**	2,734	127.1	Increase in prepaying freight and the purchase of spare parts at the end of the year
Available-for-sale financial assets	**–**	700,000	(100.0)	Redemption of bank financial investment purchased at last year end during the current year
Other current assets	**62,443**	242,750	(74.3)	Decrease in the balance of recoverable VAT
Construction in progress	**498,043**	325,812	52.9	Increase in the uncompleted projects at the end of the year
Deferred tax assets	**196,891**	–	100.0	Recognized deferred tax assets for temporary differences
Bills payable	**–**	240,000	(100.0)	Settlement of bills issued at last year end during the current year
Taxes payable	**125,827**	17,673	612.0	Increase in income tax payable at the end of the year
Provisions	**–**	5,198	(100.0)	Wrote off compensation payable on breach of contracts that did not need to pay
Specific reserve	**755**	–	100.0	The Company appropriated safety fund during the current year
Surplus reserve	**116,843**	–	100.0	The Company accrued statutory surplus reserve during the current year
Undistributed profits/ (accumulated losses)	**1,047,945**	(61,754)	Not applicable	The Company recorded a net profit during the current year

Item	For the year ended At 31 December 2010 *RMB'000*	At 31 December 2009 *RMB'000*	Change (%)	Reason for change
Operating income	**16,348,366**	13,225,029	23.6	Increase in the prices of products during the current year
Business taxes and surcharges	**41,656**	31,650	31.6	Increase in urban maintenance and construction tax and education fee surcharge paid during the current year
Net financial income	**35,286**	16,854	109.4	Increase in interest income from deposits during the year
Impairment loss	**273,815**	158,696	72.5	Provision for diminution in value of fixed assets during the current year
Gains from changes in fair value	**310**	–	100.0	Increase in fair value of government bonds
Investment income	**832**	–	100.0	Arise from redemption of bank financial investment purchased at last year and service and charges paid for purchase of government bonds
Non-operating income	**14,658**	24,288	(39.6)	Decrease in government grant during the current year
Non-operating expenses	**6,130**	4,247	44.3	Increase in losses on disposal of assets during the current year
Income tax expenses	**(86,954)**	–	(100.0)	The Company accrued the current income tax and recognized deferred tax assets during the current year

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

	Net profit attributable to equity shareholders of the Company		Total equity attributable to equity shareholders of the Company	
	2010 *RMB'000*	2009 *RMB'000*	**2010** *RMB'000*	2008 *RMB'000*
PRC ASBE	**1,226,542**	382,018	**8,312,337**	7,045,410
IFRSs	**1,231,226**	385,947	**8,143,705**	6,912,479

For detailed explanations of differences, please refer to the section on "**Supplementary information to the financial statements prepared in accordance with the PRC ASBE**" of this Annual Report.

Report of the Chairman

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

To all shareholders:

It is my pleasure to present to you the Group's audited annual results for the year ended 31 December 2010.

In 2010, under the influence of the relatively rapid growth of the Chinese economy and the policy of continuous expansion of domestic demand, the domestic demand for downstream textile industry was steadily increased. Meanwhile, with the gradual recovery of global economy, China's exports of textiles and garments were continuing to improve. Especially after the end of September, the price of domestic cotton rose sharply and rapidly. Hence, affected by the above factors, prices of domestic polyester products have boosted significantly, and correspondingly its profit margin has widely expanded compared with the last year.

In 2010, the operational environment for the domestic polyester industry improved remarkably, and the Group seized this favorable opportunity to fully develop the market, optimize the product mix, strictly implement refined management and strive to lower the costs and expenses. As a result, the Group's operational results throughout the year increased significantly.

In 2010, the Group's consolidated turnover increased by 23.6 per cent to RMB16,348,366,000 (2009: RMB13,225,029,000). The profit attributable to equity shareholders of the Company was RMB1,231,226,000 (2009: RMB385,947,000) and basic earning per share was RMB0.308 (2009: RMB0.096), respectively increasing by 219.0 per cent. In consideration of the Group's profitability and its future developing requirement, the Board proposed that final cash dividend RMB0.03 per share would be paid for the year ended 31 December 2010 (final cash dividend for 2009: Nil).

In 2010, according to the requirements of future development, the Group adjusted the programming and engineering construction management system, enriched the development strength, and reinforced the organization and coordination in order to solidly advance the effective development. The Group has already commenced the construction of 1, 4-Butanediol project with an annual capacity of 100,000 tonnes in May, in which land levelling, basic design formulation and long-periodic facility ordering were fulfilled. The first phase of high performance polyethylene fiber project with an annual capacity of 3,000 tonnes was entering the equipment installation stage. The aramid fiber project with an annual capacity of 100 tonnes basically realized the stable production and operation after the technological upgrade.

Looking into 2011, the global economy will continue to recover, and China's economy will still maintain the good momentum of steady and rapid growth. China's exports of textiles and garments will be expected to increase moderately. Meanwhile, under the drive of the policy to boost domestic demand, demand for domestic polyester products will steadily ascend. The above-mentioned factors will provide favorable opportunities for the Group's production and operation. Meanwhile, the Group will still be confronted with many challenges, such as, numerous uncertainties dwelling in the global economic growth, international crude oil prices remaining high level, expanded polyester production capacity being successively in production in China and market competition intensifying fiercely.

In 2011, with the target to set up an enterprise of “leading in China, first-rate in the world”, the Group will put emphases on accelerating its development to spare no efforts in exploiting the market, strengthen the refined management, explore the potential to improve efficiency and propel the product optimization, in order to further enhance its competitiveness and sustainable profitability. To achieve these goals, the Group will (1) make great efforts to exploit the market, optimize raw materials purchase to expand its profit margin; (2) concentrate on deploying safety and environmental protection to keep facilities operating stably and superiorly; (3) deepen the scientific and technical innovation system and steadily boost product-upgrading and industry-upgrading; (4) strictly carry out the refined management, explore potential to improve efficiency and actively advance energy saving and emission reduction; (5) speed up efficient development and endeavor to cultivate new economic growth points.

In 2011, based upon market conditions and overall development targets, the Group will expend RMB1,653,000,000 as the capital expenditure to accelerate projects under construction, in order to put them into operation early and thus make profits in advance. The construction of 1, 4-Butanediol project with an annual capacity of 100,000 tonnes will progress continually, which is expected to be completed and put into production before the end of 2012. Besides the preliminary work of the second phase, the Group will make sure the first phase construction of high performance polyethylene fiber project with an annual capacity of 3,000 tonnes is about to be completed and enter into commissioning in August of 2011. And the Group will lose no time in improving the aramid fiber project with an annual capacity of 100 tonnes, striving to realize its long-term stable production and operation, upgrading the product quality as well as initiating the construction of 1,000 tonnes-grade aramid fibre project as soon as possible. Furthermore, the Group will actively promote joint venture negotiations on PTA project so as to start the construction as soon as possible.

I was honored to be elected as the Chairman at the fourteenth meeting of the sixth term of the Board held on 28 September 2010. I will do my best, together with the other Board members, the Senior Management team and all the staff, to create a better tomorrow for the Group through our ceaseless efforts and hard work.

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

Lu Li-yong
Chairman

28 March 2011, Nanjing

Business Review and Prospects

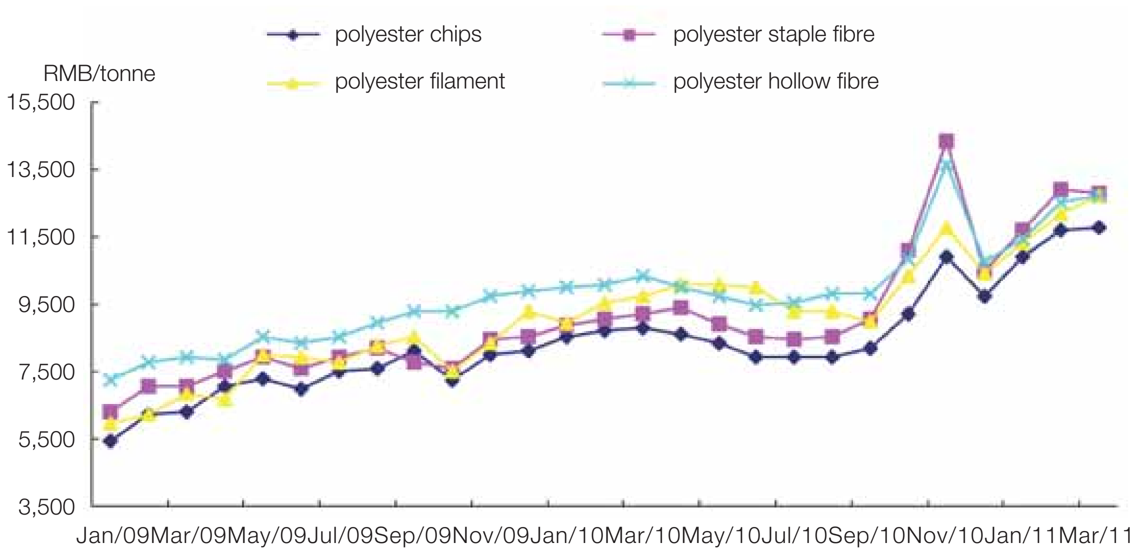
Financial figures, where applicable, contained herein have been extracted from the financial statements prepared in accordance with IFRSs.

In 2010, the operational environment for the domestic polyester industry improved remarkably, and the Group seized this favorable opportunity to fully develop the market, optimize the product mix, strictly implement refined management and strive to lower the costs and expenses. As a result, the Group's operational results throughout the year increased significantly.

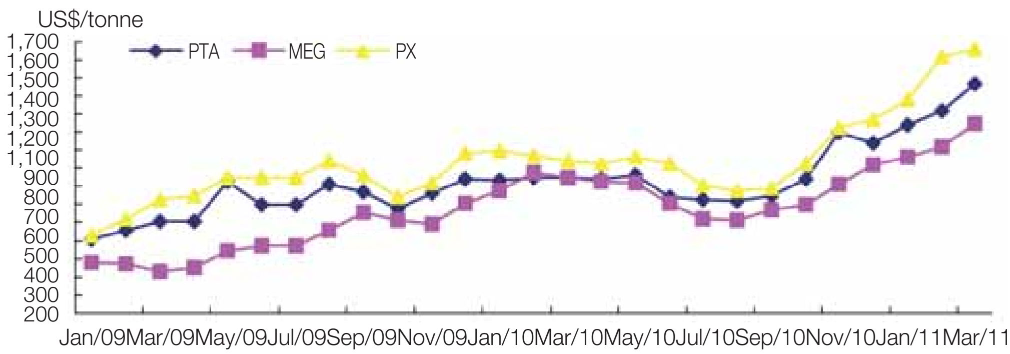
1. MARKET REVIEW

In 2010, the prices of domestic polyester industry chain concussively increased as a whole, profit margin of polyester products was significantly expanded compared with the last year, and the operational environment for polyester industry improved noticeably. Affected by the international crude oil price, prices of domestic polyester raw materials demonstrated the rising momentum on the whole. Under the drive of the policy to boost domestic demand and with the gradual recovery of the global economy, domestic demand for textile increased swiftly and China's exports of textiles and garments improved markedly. Owing to comprehensive influences of steadily growing domestic demands and continuously recovering overseas demands in terms of downstream textile industry, and especially the sharp increase of the cotton prices after the end of September, domestic polyester products prices boosted significantly, and correspondingly its profit margin was widely expanded compared with the last year.

Product Prices Quoted by the Company (Excluding VAT)



Raw Material Contract Price Offered by International Suppliers



In 2010, the newly-added polyester production capacity was almost 2.13 million tonnes and the total polyester production capacity amounted to 29.07 million tonnes at the end of 2010. As a result, the oversupply condition of domestic polyester capacity was not changed and the competition situation for polyester industry was still severe. The volume of the total domestic supply of polyester fibre amounted to 26,226,100 tonnes, an increase of 12.0 per cent over that of 2009, of the total volume, the domestic production volume increased by 14.9 per cent as compared with its amounts in 2009. Meanwhile, driven by the PRC's policies of expanding domestic demand, total domestic consumption volume of polyester fibre amounted to 24,367,600 tonnes, an increase of 12.8 per cent over the 2009 amount. The domestic demand for polyester fibre noticeably increased as compared with that of 2009.

Domestic supply and demand of polyester fibre

	Polyester filament			Polyester staple fibre			Polyester fibre		
	2010	2009	+/ (-)	**2010**	2009	+/(-)	**2010**	2009	+/ (-)
	'000 tonnes	*'000 tonnes*	*(%)*	***'000 tonnes***	*'000 tonnes*	*(%)*	***'000 tonnes***	*'000 tonnes*	*(%)*
Production volume	**16,266.1**	14,152.2	14.9	**8,867.2**	7,891.7	12.4	**25,331.3**	22,043.9	14.9
Import volume	**172.8**	173.3	(0.3)	**143.0**	156.4	(8.6)	**315.8**	329.7	(4.2)
Export volume	**822.5**	632.8	30.0	**597.0**	405.3	47.3	**1,419.5**	1,038.1	36.7
Net import	**(649.7)**	(459.5)	41.4	**(454.0)**	(248.9)	82.4	**(1,103.7)**	(708.4)	55.8
Inventories at beginning of the year	**454.0**	733.1	(38.1)	**323.0**	309.4	4.4	**777.0**	1,042.5	(25.5)
Year-end inventories	**362.0**	454.0	(20.3)	**275.0**	323.0	(14.9)	**637.0**	777.0	(18.0)
Total supply volume	**16,892.9**	15,058.6	12.2	**9,333.2**	8,357.5	11.7	**26,226.1**	23,416.1	12.0
Total consumption volume	**15,708.4**	13,971.8	12.4	**8,461.2**	7,629.2	10.9	**24,367.6**	21,601.0	12.8

Source: The Chemical Fibre Association of China

2. PRODUCTION AND OPERATION REVIEW

(1) Production and Marketing

In 2010, the Group's production facilities maintained safe and stable operations, and main economic and technical indicators steadily increased. The total production volume of polyester products amounted to 2,137,961 tonnes, a decrease of 4.6 per cent compared with the 2,240,467 tonnes produced in 2009. The polyester capacity utilisation rate reached 96.7 per cent. The total production volume of PTA amounted to 1,041,233 tonnes, an increase of 1.7 per cent compared with the 1,023,347 tonnes produced in 2009. In 2010, the Group continued to strengthen the linkage between production and sales, extensively expand market share and improve customer service. The Group's total sales volume of polyester products amounted to 1,728,849 tonnes in 2010, an increase of 0.2 per cent compared with the 1,724,861 tonnes sold in 2009. Excluding self-consumption volume and other factors, the ratio of sales to production reached 99.7 per cent. In 2010, the Group's export volume of polyester products fell to 111,001 tonnes, an increase of 2.5 per cent over the 108,296 tonnes for 2009.

(2) Cost control

In 2010, the weighted average price of the Group's polyester products (excluding VAT) increased by 23.7 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**"), increased by 20.7 per cent. The Group tried to decrease the consumption of raw materials and energy by strengthening fine management and implementing technical reform, resulting in the comprehensive energy consumption for main products decreasing by 2.0 per cent compared with 2009. Measures for reducing cost and increasing efficiency were implemented together by strictly implementing overall budget management. Due to increase in sales service fee and insurance premium, the Group's selling expenses were 16.2 per cent higher than in 2009. Due to increase in bonuses and social insurance, the Group's administrative expenses increased by 11.8 per cent compared with 2009. Due to the increase in interest income from deposits, net finance income increased by 116.1 per cent compared with 2009. The total increase in selling expenses, administrative expenses and net finance income was 10.2 per cent from that of 2009.

(3) R&D

In 2010, the Group further improved the combination of production, sales and research, optimised its products structure by market demand and tried to increase the profit contributions from differential and specialized products. 35 new polyester products were successfully developed and twelve patent rights were obtained. The quality of upgraded bright sewing thread FR211 was steadily increased, and successfully substituted the imported products of the same kind. Specialised staple fibre for cloth end use was successfully developed and was produced and sold in a large scale. In 2010, the Company's total production volume of specialised polyester chips amounted to 895,874 tonnes; the specialised rate was 85.6 per cent, 0.3 percentage points lower than that of last year. The total production volume of differential polyester fibre amounted to 567,157 tonnes and the differential rate of polyester fibre was 82.1 per cent, 1.9 percentage points higher than that of last year.

(4) Internal Reform and Management

In 2010, the Group further strengthened management and its management capacity was further enhanced. The Group continued to deepen comprehensive budget management and strengthen expense control, resulting in implementing together measures for reducing cost and increasing efficiency. The Group continued to strengthen quality management to attain a comprehensive premium grade percentage of 99.0 for main products. Meanwhile, the Group strictly implemented its internal control system to standardise internal management, and further strengthened performance management and further improved performance evaluation so as to effectively raise employee morale.

(5) Capital expenditure

In 2010, the Group's total capital expenditure amounted to RMB586,101,000. With a clearer outlook on sustainable development, the Group's new projects were implemented smoothly. The Group has already commenced the construction of 1, 4-Butanediol project with an annual capacity of 100,000 tonnes in May, in which land levelling, basic design formulation and long-periodic facility ordering were fulfilled. The first phase of high performance polyethylene fiber project with an annual capacity of 3,000 tonnes was entering the equipment installation stage. The aramid fiber project with an annual capacity of 100 tonnes basically realized the stable production and operation after the technological upgrade.

3. BUSINESS PROSPECTS AND WORK PLAN

(1) Market Analysis

According to the 2011 market analysis, the Group considers: firstly, the global economy will continue to recover, and China's economy will still maintain the good momentum of steady and rapid growth. Secondly, China's exports of textiles and garments will be expected to increase moderately. At the same time, driven by the policy of boosting domestic demand, Chinese dwellers' consumption will further expand, which will also motivate the stable increase of domestic polyester product requirements. Thirdly, petrochemical industry has still been in the ascending period and cotton prices in China will maintain at a high level, which will significantly facilitate the business environment for domestic polyester industry. Meanwhile, attentions should also be paid to difficulties and risks we are going to encounter: Firstly, many uncertainties have dwelled in the global economic growth, and the appreciation pressure on the Renminbi has been intensifying, which will bring about disadvantageous impacts on the downstream textile export. Secondly, new-added domestic polyester production capacity will be obviously increased, so the problem of polyester overcapacity has been turning more and more sharply, which means the market competition will intensify fiercely.

(2) Business strategy

In 2011, with the target to set up an enterprise of "leading in China, first-rate in the world", the Group will put emphases on accelerating its development to spare no efforts in exploiting the market, strengthen the refined management, explore the potential to improve efficiency and propel the product optimization, in order to further enhance its competitiveness and sustainable profitability. To achieve these targets, the Group will focus on the following priorities in 2011:

I. *Make great efforts to exploit the market, optimize raw materials purchase to expand its profit margin*

The Group will (1) adhere to the market-oriented principle, strengthen the integral coordination between the production and the marketing, extensively expand market share and try to increase revenue and efficiency; (2) further enhance customer service and improve customer satisfaction to realize win-win between customers and the Group; (3) optimize the logistics pattern, pursue standardized services and endeavor to lower the logistic costs; (4) deepen the follow-up study and analysis of both domestic and overseas raw materials market and analyze the market fluctuation and the raw material inventory structure in a dynamic way, to ensure the supply while reducing purchase costs. To meet the target ratio of 100 per cent sales-to-production, the planned sales volume of polyester products is 1,712,000 tonnes.

II. *Concentrate on deploying safety and environmental protection to maintain safe and stable operation of facilities*

The Group will comprehensively carry out safety and environmental protection responsibility system, continue to strengthen spot management and supervision of key facilities and equipments, implement controls over key facilities so as to reduce unexpected production interruptions and maintain safe and stable operations. Meanwhile, the Group will continue to enhance fine management and improve product quality. In 2011, the planned volume of polyester product production is 2,091,000 tonnes, of which self-consumption volume is 379,000 tonnes. The planned production volume of PTA is 1,017,000 tonnes.

III. *Deepen scientific and technological innovation system, boost product-upgrading and industry-upgrading*

The Group will (1) improve the scientific and technical innovation system and optimize the allocation of resources to stimulate innovative vigor of scientific and technical personnel and the conversion of their achievements to the greatest extent; (2) deepen the coordination mechanism among production, sales and research, accelerate the product upgrading, constantly optimize the product structure and raise product added values; (3) push forward technological development and modification to enhance technical levels of facilities. Meanwhile, technological reserve and prospective studies will be exerted for the sustainable development of the Group. In 2011, there are 34 product items planned for new development. The Company's projected production volume of differentiated fibre and specialised polyester chips products for 2011 will be 616,000 tonnes and 910,000 tonnes, respectively, while the differential rates for differentiated and specialised products are expected to be 82.3 per cent and 88.1 per cent.

IV. *Strict fine management, explore potential to improve efficiency, promote energy conservation and emission reduction*

The Group will (1) further amend and improve the management system, perfect the unified standardization and information system while at the same time focusing on the implementation of these systems and enhancing the executive force; (2) comprehensively strengthen the product quality improvement and raise product quality stability, continuously meeting the market demands; (3) deepen the combination between cost management and comprehensive budget management, improve the cost management evaluation mechanism and incentive mechanism, in order to achieve its expense control targets; (4) actively advance energy saving and emission reduction and enhance the stable operation of environmental protection projects or treatment facilities, such as flue gas desulfurization facilities, air separation plants. Compared with 2010, the comprehensive energy consumption for main products decreased by 2.3 per cent. Total industrial water consumption will be less than 25 million tonnes and total COD emission will also be less than 580 tonnes.

V. *Accelerate efficient development, cultivate new economic growth points*

The Group will accelerate projects under construction, in order to put them into operation early and thus make profits in advance. The construction of 1, 4-Butanediol project with an annual capacity of 100,000 tonnes will progress continually, which is expected to be completed and put into production before the end of 2012. Besides the preliminary work of the second phase, the Group will make sure the first phase construction of high performance polyethylene fiber project with an annual capacity of 3,000 tonnes is about to be completed and enter into commissioning in August of 2011. And the Group will lose no time in improving the aramid fiber project with an annual capacity of 100 tonnes, striving to realize its long-term stable production and operation, upgrading the product quality as well as initiating the construction of 1,000 tonnes-grade aramid fibre project as soon as possible; Furthermore, the Group will actively promote joint venture negotiations on PTA project so as to start the construction as soon as possible.

Management Discussion and Analysis

*The information set out below does not constitute part of the financial statements audited by KPMG or KPMG Huazhen, as set out on pages 53 to 106 and pages 107 to 198, respectively, of this Annual Report, and is included for information purpose. This discussion and analysis should be read in conjunction with the information contained in the Consolidated Financial Statements and Notes thereto (the "**Financial Statements**") presented in this Annual Report. Financial figures, except for specifically noted, contained herein have been extracted from the financial statements prepared in accordance with the IFRSs.*

1. RESULTS OF OPERATIONS

(1) Turnover

In 2010, the Group maintained a safe and stable operation with a relatively high capacity utilization rate. Due to actively optimizing its products structure to meet market demand, the Group's production volume of differentiated and value-added products for 2010 was increased. The total production volume of polyester products was 2,137,961 tonnes, representing a decrease of 4.6 per cent as compared with that of 2,240,467 tonnes for last year. The average capacity utilization rate for polyester facilities reached 96.7 per cent, essentially flatting with that of last year. The total production volume of PTA amounted to 1,041,233 tonnes, an increase of 1.7 per cent as compared with that of 1,023,347 tonnes for last year. The average capacity utilization rate for PTA facilities reached 99.2 per cent, 1.9 percentage points higher than that of last year.

Production volume

	For the year ended 31 December			
	2010		2009	
	Production volume *(tonnes)*	**Per cent of total production volume *(%)***	Production volume *(tonnes)*	Per cent of total production volume *(%)*
Polyester products				
Polyester Chips	**1,046,433**	**48.9**	1,086,910	48.5
Bottle-grade polyester chips	**318,579**	**14.9**	411,681	18.4
Staple fibre	**498,362**	**23.3**	458,884	20.5
Hollow fibre	**55,544**	**2.6**	52,706	2.3
Filament	**219,043**	**10.3**	230,286	10.3
Total	**2,137,961**	**100.0**	2,240,467	100.0

In 2010, the Group's total sales volume of the polyester products was 1,728,849 tonnes, representing an increase of 0.2 per cent from the 1,724,861 tonnes sold in 2009. Excluding the self-consumed volume and other factors, the ratio of sales to production reached 99.7 per cent. The export sales volume of the polyester products was 111,001 tonnes, representing an increase of 2.5 per cent compared with the 108,296 tonnes sold in 2009. In 2010, the weighted average prices (excluding VAT) of the Group's polyester products increased from RMB7,507 per tonne for last year to RMB9,287 per tonne, representing a 23.7 per cent increase. Because the increase in prices of polyester products was more than that of polyester raw material, the profit margin of polyester products was significantly improved.

Sales volume

	For the year ended 31 December			
	2010		2009	
	Production volume *(tonnes)*	**Per cent of total production volume *(%)***	Production volume *(tonnes)*	Per cent of total production volume *(%)*
Polyester products				
Polyester chips	**708,186**	**41.0**	634,749	36.8
Bottle-grade polyester chips	**317,207**	**18.3**	410,705	23.8
Staple fibre	**493,487**	**28.5**	457,895	26.5
Hollow fibre	**54,750**	**3.2**	52,709	3.1
Filament	**155,219**	**9.0**	168,803	9.8
Total	**1,728,849**	**100.0**	1,724,861	100.0

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

	For the year ended 31 December		
	2010	2009	Change (%)
Polyester products			
Polyester chips	**8,652**	7,074	22.3
Bottle-grade polyester chips	**8,589**	7,061	21.6
Staple fibre	**9,807**	7,819	25.4
Hollow fibre	**10,652**	9,060	17.6
Filament	**11,472**	8,886	29.1
Weighted average price	**9,287**	7,507	23.7

Turnover

	For the year ended 31 December			
	2010		2009	
	Turnover *RMB'000*	**Per cent of turnover *(%)***	Turnover *RMB'000*	Per cent of turnover *(%)*
Polyester products				
Polyester chips	**6,127,035**	**37.4**	4,490,477	34.0
Bottle-grade polyester chips	**2,724,476**	**16.7**	2,900,094	21.9
Staple fibre	**4,839,829**	**29.6**	3,580,409	27.1
Hollow fibre	**583,208**	**3.6**	477,544	3.6
Filament	**1,780,642**	**10.9**	1,499,963	11.3
Others	**293,176**	**1.8**	276,542	2.1
Total	**16,348,366**	**100.0**	13,225,029	100.0

In 2010, due to the increase in the weighted average prices of polyester products (excluding VAT) and the total sales volume of the polyester products by 23.7 per cent and 0.2 per cent respectively as compared with last year, the Group's turnover amounted to RMB16,348,366,000, representing an increase of 23.6 per cent as compared with RMB13,225,029,000 for last year.

(2) Cost of sales

In 2010, the Group's cost of sales was RMB14,353,315,000, an increase of RMB2,212,270,000 compared with RMB12,141,045,000 for 2009, representing 87.8 per cent of turnover. The increase in cost of sales was mainly due to substantial increase in the costs of raw materials. Total costs of raw materials increased by RMB2,050,348,000, from RMB9,865,232,000 in 2009 to RMB11,915,580,000 in 2010, accounting for 83.0 per cent of the cost of sales in 2010. The increase in the total costs of raw materials was mainly due to the rise in the purchase costs of raw materials. The Group's weighted average purchase prices of polyester raw materials increased by 20.7 per cent as compared with last year. Of which, the average purchase costs of PTA, PX and MEG increased by 19.4 per cent, 13.3 per cent and 34.3 per cent respectively as compared with last year.

In 2010, due to increasing in turnover by 23.6 per cent as compared with last year, and due to the increase in cost of sales by 18.2 per cent as compared with last year, the Group's gross profit increased by RMB911,067,000 to RMB1,995,051,000. The Group's gross profit margin was 12.2 per cent, an increase of 4.0 percentage points compared with last year.

(3) Selling, administrative and net finance income

	For the year ended 31 December		
	2010	2009	Change
	RMB'000	*RMB'000*	*(%)*
Selling expenses	**212,868**	183,227	16.2
Administrative expenses	**457,861**	409,442	11.8
Net finance income	**(36,428)**	(16,854)	116.1
Total	**634,301**	575,815	10.2

In 2010, Due to increase in sales service fee and insurance premium, the Group's selling expenses increased by RMB29,641,000 as compared with last year. Due to increase in bonuses and social insurance, the Group's administrative expenses increased by RMB48,419,000 as compared with last year. Due to the increase in interest income from deposits, the net finance income increased by RMB19,574,000 as compared with last year. The total increase in selling expenses, administrative expenses and net finance income was 10.2 per cent from that of 2009.

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

	For the year ended 31 December		
	2010	2009	Change
	RMB'000	*RMB'000*	*(%)*
Operating profit	**1,109,154**	370,403	199.4
Profit before taxation	**1,145,582**	387,257	195.8
Income tax expense	**(85,644)**	1,310	(6637.7)
Profit attributable to equity shareholders of the Company	**1,231,226**	385,947	219.0
Earnings per share (in RMB)	**0.308**	0.096	219.0

In 2010, by chasing the favor opportunity of improved operational environment for domestic polyester industry, the Group endeavoured to expand its markets, optimised its products structure to meet market demand, strengthened fine management and made efforts to reduce its costs and expenses. As a result, the Group's profit before taxation and profit attributable to equity shareholders of the Company amounted to RMB1,145,582,000 and RMB1,231,226,000 respectively, increased by 195.8 per cent and 219.0 per cent respectively as compared with RMB387,287,000 and RMB385,947,000 in 2009.

(5) Statement of the operations by products

Polyester products contributed more than 10 per cent of the Group's income from operations and operating profit. The following is the statement of operations by products for the year ended 31 December 2010 in accordance with the PRC Accounting Standards for Business Enterprises.

Products	Operating income *RMB'000*	Cost of sales *RMB'000*	Gross profit margin *(%)*	Increase/ (Decrease) in operating income as compared with last year *(%)*	Increase/ (Decrease) in cost of sales as compared with last year *(%)*	Gross profit margin as compared with last year
Polyester products	16,055,190	13,674,837	14.8	24.0	18.5	Increased by 4.0 percentage points
Including: Polyester Chips	6,127,035	5,158,980	15.8	36.4	31.6	Increased by 3.1 percentage points
Bottle-grade polyester chips	2,724,476	2,406,994	11.7	(6.1)	(10.3)	Increased by 4.2 percentage points
Staple and hollow fibre	5,423,037	4,521,089	16.6	33.6	29.4	Increased by 2.7 percentage points
Filament	1,780,642	1,587,774	10.8	18.7	9.9	Increased by 7.1 percentage points

During 2010, the Company did not sell any products or provide any services to its controlling shareholders or their subsidiaries.

(6) Operating income by regions

The following is the statement of operations by products for the year ended 31 December 2010 in accordance with the PRC Accounting Standards for Business Enterprises.

Region	Operating income *RMB'000*	Increase from last year *(%)*
Mainland	15,428,732	23.6
Hong Kong, Macau, Taiwan, and overseas	919,634	23.4

(7) Operations of subsidiary in 2010

YCFC Jingwei, formerly Yihua UNIFI Fibre Industry Company Limited, is a wholly-owned subsidiary of the Company. YCFC Jingwei's registered capital is RMB483,672,000. Its principal activities are the production and sales of differential polyester filament and relative products, research and development of polyester and textile products, and after sales services for its products. As at 31 December 2010, the total assets of YCFC Jingwei were RMB152,207,000. For the year ended 31 December 2010, YCFC Jingwei made a loss of RMB18,124,000.

(8) Acquisition, divestment and investment

The Group did not make any material acquisition, divestment and investment in relation to any of its subsidiaries or associates in 2010.

2. FINANCIAL ANALYSIS

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

(1) Assets, liabilities and shareholders' equity analysis

	At 31 December 2010 *RMB'000*	At 31 December 2009 *RMB'000*	Changes in amount *RMB'000*
Total assets	**10,402,200**	9,012,882	1,389,318
Current assets	**6,076,397**	4,747,905	1,328,492
Non-current assets	**4,325,803**	4,264,977	60,826
Total liabilities	**2,258,495**	2,100,403	158,092
Current liabilities	**2,198,621**	2,079,147	119,474
Non-current liabilities	**59,874**	21,256	38,618
Total equity attributable to equity shareholders of the Company	**8,143,705**	6,912,479	1,231,226

As at 31 December 2010, the Group's total assets were RMB10,402,200,000, total liabilities were RMB2,258,495,000, and total equity attributable to equity shareholders of the Company was RMB8,143,705,000. Compared with the assets and liabilities as at 31 December 2009 (hereinafter referred to as "**as compared with the end of last year**"), the variations and main causes of such changes are described as follows:

Total assets were RMB10,402,200,000, an increase of RMB1,389,318,000 as compared with the end of last year. Current assets were RMB6,076,397,000, an increase of RMB1,328,492,000 as compared with the end of last year. The increase was mainly due to the increase in cash and cash equivalents by RMB1,251,165,000 owing to the rise in net cash inflow from operating activities in 2010. Non-current assets were RMB4,325,803,000, an increase of RMB60,826,000 as compared with the end of last year, which was mainly due to the increase in deferred tax assets by RMB195,581,000 in 2010.

Total liabilities were RMB2,258,495,000, an increase of RMB158,092,000 as compared with the end of last year. Current liabilities were RMB2,198,621,000, an increase of RMB119,474,000 as compared with the end of last year, which was mainly due to the increase of RMB109,937,000 in current taxation in 2010. Non-current liabilities were RMB59,874,000, an increase of RMB38,618,000 compared with the end of last year, which was mainly due to the increase of RMB39,630,000 in receipts of contribution from government in 2010.

Total equity attributable to equity shareholders of the Company was RMB8,143,705,000, an increase of RMB1,231,226,000 as compared with the end of last year, mainly due to RMB1,231,226,000 for profit attributable to equity shareholders of the Group in 2010.

As at 31 December 2010, the ratio of total liabilities to total assets was 21.7 per cent, and 23.3 per cent as at 31 December 2009.

(2) Cash flow analysis

At the end of 2010, cash and cash equivalents increased by RMB1,549,035,000, representing an increase from RMB774,767,000 as at 31 December 2009 to RMB2,323,802,000 as at 31 December 2010 (including investment held for trading with an initial term less than three months amount to RMB297,870,000, and cash and cash equivalents listed in consolidated statement of financial position amount to RMB2,025,932,000). The following table lists major items in the consolidated cash flow statement of the Group for the year 2010 and 2009.

Major items in cash flow statement	**2010**	2009	Change
	RMB'000	*RMB'000*	*RMB'000*
Net cash generated from operating activities	**1,600,805**	1,300,204	300,601
Net cash used in investing activities	**(51,770)**	(1,366,397)	1,314,627
Net cash used in financing activities	**–**	(334)	334
Net increase/(decrease) in cash and cash equivalents	**1,549,035**	(66,527)	1,615,562
Cash and cash equivalents at the beginning of the year	**774,767**	841,294	(66,527)
Less: Investments held for trading with an initial term less than three months	**(297,870)**	–	(297,870)
Cash and cash equivalents at the end of the year	**2,025,932**	774,767	1,251,165

In 2010, the Group's net cash inflow from operating activities was RMB1,600,805,000, representing an increase of RMB300,601,000 as compared with last year, which was mainly due to the increase of RMB911,067,000 in gross profit in 2010.

In 2010, the Group's net cash outflow from investing activities was RMB51,770,000, a decrease of cash outflow by RMB1,314,627,000 as compared with last year. This was mainly due to the following:

(1) Deposits with banks and other financial institutions decreased by RMB116,144,000 in 2010, while there had been an increase of RMB494,600,000 in 2009. As a result, the net cash outflow from investing activities increased by RMB610,744,000.

(2) Financial assets available for sale purchased at the end of last year was redeemed in 2010, resulting in a decrease of the net cash outflow from investing activities by RMB700,873,000.

In 2010, the Group's net cash outflow from financing activities was zero, a decrease of cash outflow by RMB334,000 compared with 2009. It was mainly due to RMB334,000 of cash repayments of borrowings in 2009.

(3) Bank borrowings

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

(4) Assets charges

For the year ended 31 December 2010, there were no any charges on the Group's assets.

(5) Management of foreign exchange risk

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

(6) Debt-equity ratio

The debt-equity ratio of the Group was nil for 2010 (2009: nil). The ratio is computed as long-term borrowings (excluding non-current liability due in one year) divided by the sum of long-term borrowings (excluding non-current liability due in one year) and shareholders' equity.

3. CAPITAL EXPENDITURE

In 2010, the Company's capital expenditure amounted to RMB586,101,000. With a clearer outlook on sustainable development the Company's new projects were implemented smoothly. The Group has already commenced the construction of 1, 4-Butanediol project with an annual capacity of 100,000 tonnes in May, in which land levelling, basic design formulation and long-periodic facility ordering were fulfilled. The first phase of high performance polyethylene fiber project with an annual capacity of 3,000 tonnes was entering the equipment installation stage. The aramid fiber project with an annual capacity of 100 tonnes basically realized the stable production and operation after the technological upgrade.

The Company's capital expenditure for 2011 is expected to be approximately RMB1,653,000,000. It will mainly invest in projects such as the 1,4-butanediol project with an annual capacity of 100,000 tonnes, the first phase of high performance polyethylene fiber project with an annual capacity of 3,000 tonnes, reducing energy consumption, safety and environmental protection, and reducing costs and expenses. To maximise its return on investment, the Group will strengthen its investment management in accordance with the prudence principle. The planned capital expenditures will be funded from cash generated from operations and bank credit facilities.

Report of the Board of Directors

The Board has the pleasure in submitting the Company's Annual Report together with the audited financial statements for the year ended 31 December 2010.

DAILY OPERATION OF THE BOARD

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

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

(1) The tenth meeting of the sixth term of the Board was held on 29 March 2010. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times and the website of HKSE on 30 March 2010.

(2) The eleventh meeting of the sixth term of the Board was held on 29 April 2010. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times and the website of HKSE on 30 April 2010.

(3) The twelfth meeting of the sixth term of the Board was held on 6 August 2010. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times and the website of HKSE on 9 August 2010.

(4) The thirteenth meeting of the sixth term of the Board was held on 23 August 2010. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times and the website of HKSE on 24 August 2010.

(5) The fourteenth meeting of the sixth term of the Board was held on 28 September 2010. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times and the website of HKSE on 29 September 2010.

(6) The fifteenth meeting of the sixth term of the Board was held on 28 October 2010. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times and the website of HKSE on 29 October 2010.

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

During the reporting period, the Board executed the resolutions of the Annual General Meeting for 2009 ("**2009 AGM**") .

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

PRINCIPAL ACTIVITIES

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

FINANCIAL SUMMARY

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

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

CHANGES IN SHARE CAPITAL AND CAPITAL

Changes in share capital

1. Share capital structure

Details of the share structure are as follows:

Unit of share: 1,000 Shares

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

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

The Company acknowledged that, based on information available to the Company immediately before publishing the 2010 Annual Report, and understood by its Directors as well, the number of its shares held by the public met the requirements in the Rules Governing the Listing of Securities on the HKSE (the "**Listing Rule**")

2. Share issue and listings

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

Type of Share	**"A" Share**	**"H" Share**	
Date of issue/ Period for lodging application	18-26 January 1995	14-17 March 1994	25-26 April 1995
Issue price	RMB2.68 per share	HK$2.38 per share	HK$2.45 per share
Number of shares issued	200,000,000 shares	1,000,000,000 shares	400,000,000 shares
Date of listing	11 April 1995	29 March 1994	26 April 1995
Place of listing	Shanghai	Hong Kong	Hong Kong
Number of shares approved for trading	200,000,000 shares	1,000,000,000 shares	400,000,000 shares

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

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

4. Pre-emptive rights

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

5. Internal employee shares

The Company has not issued any internal employee shares.

Shareholders

1. Number of shareholders

The number of shareholders of the Company as at 31 December 2010 is as follows:

Type	**Number of shareholders**
Legal person share ("A" share)	2
Social public share ("A" share)	27,810
"H" share	557
Total	28,369

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

As at 31 December 2010, 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	28,369

Details of the top ten major shareholders

Names of shareholders	Nature of shareholders	Number of shares held at the end of the year *(shares)*	Percent to total share capital *(%)*	Number of non-circulating shares *(shares)*	Number of pledged or frozen shares*
Sinopec	Domestic legal person shareholder	1,680,000,000	42.00	1,680,000,000	Nil
Hong Kong Securities Clearing Company ("**HKSCC**") (Nominees) Limited**	Overseas capital shareholder	1,386,945,005	34.67	Circulating shares	Nil
CITIC Group Corporation ("**CITIC**") ***	Domestic legal person shareholder	720,000,000	18.00	720,000,000	Nil
China Construction Bank-CIFM China Advantage Securities Investment Fund	Domestic circulating shareholders	35,512,600	0.89	Circulating shares	Not applicable
Bank of China-Jiashi Well-chosen Mix-type Securities Investment Fund	Domestic circulating shareholders	17,545,395	0.44	Circulating shares	Not applicable
Founder Securities Company Limited	Domestic circulating shareholders	12,779,692	0.32	Circulating shares	Not applicable
China Construction Bank-Fuligoal Tianbo Share-type Securities Investment Fund	Domestic circulating shareholders	3,078,709	0.08	Circulating shares	Not applicable
Bank of Communications-Tianzhi Core Development Share-type Securities Investment Fund	Domestic circulating shareholders	2,947,900	0.07	Circulating shares	Not applicable
China Construction Bank-ICBC Credit Suisse Mix-type Securities Investment Fund	Domestic circulating shareholders	2,754,680	0.07	Circulating shares	Not applicable
Lin You-ming	Domestic circulating shareholders	1,211,700	0.03	Circulating shares	Not applicable

Details of the top ten circulating shareholders

Names of shareholders	Number of circulating shares held at the end of year *(shares)*	Classification
HKSCC (Nominees) Limited**	1,386,945,005	"H" shares
China Construction Bank-CIFM China Advantage Securities Investment Fund	35,512,600	Circulating "A" shares
Bank of China-Jiashi Well-chosen Mix-type Securities Investment Fund	17,545,395	Circulating "A" shares
Founder Securities Company Limited	12,779,692	Circulating "A" shares
China Construction Bank-Fuligoal Tianbo Share-type Securities Investment Fund	3,078,709	Circulating "A" shares
Bank of Communications-Tianzhi Core Development Share-type Securities Investment Fund	2,947,900	Circulating "A" shares
China Construction Bank-ICBC Credit Suisse Mix-type Securities Investment Fund	2,754,680	Circulating "A" shares
Lin You-ming	1,211,700	Circulating "A" shares
Allianz Global Investors Luxembourg– RCM China A-shares Fund	1,159,980	Circulating "A" shares
Lu Bao-hong	996,600	Circulating "A" shares
Explanation of connected relationship or activities in concert among the above shareholders	The Company is not aware of that there is any connected relationship or activities in concert among the above shareholders.	

Notes: * *It represents the number of pledged or frozen shares held by shareholders who 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 controlling shareholder

Name of the controlling shareholder	:	Sinopec, holding 42 per cent of the Company's shares
Legal representative	:	Su Shu-lin
Date of establishment	:	25 February 2000
Registered capital	:	RMB86,702,527,774
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.

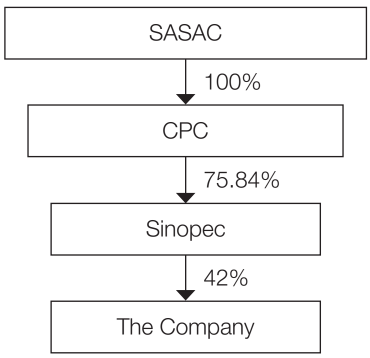
During the reporting period, there has been no change in the controlling shareholder of the Company.

4. Controlling company of the controlling shareholder

Name of the controlling company of the controlling shareholder	:	China Petrochemical Corporation ("**CPC**")*
Legal representative	:	Su Shu-lin
Date of establishment	:	24 July 1998
Registered capital	:	RMB182,029,345,000
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").*



5. Other substantial shareholders

(1) CITIC

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

Legal representative	:	Chang Zhen-ming
Registered capital	:	RMB55,357,720,336.56
Date of establishment	:	4 October 1979
Principal activities	:	Provide services in bank, security, insurance, trust, future, rent, and engage in industries of information, material, engineer, import and export, etc..

(2) The shares held by HKSCC (Nominees) Limited are on behalf of its customers. As at 31 December 2010, the Company was not informed of whether any of its individual "H" shareholder held more than 10 per cent of the total shares of the Company.

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

As at 31 December 2010, 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 2010, 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 2010, 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.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Changes in Directors, Supervisors and Senior Management

Mr. Lu Li-yong was elected as Director of the Company at the first extraordinary general meeting for 2010 held on 28 September 2010, and was elected as Chairman at the fourteenth meeting of the sixth term of the Board held on the same day.

Mr. Qian Heng-ge, a Director of the Company, has resigned from his position as a Director and Chairman as he reached the retirement age, with effect from 6 August 2010.

The Board highly appraises Mr. Qian for his diligent and dedicated work for many years and expresses its sincere gratitude to Mr. Qian for his important contribution to the Company during his term of office.

Profiles of Present Directors, Supervisors and Senior Management

Directors

1. Mr. Lu Li-yong, aged 49, Chairman of the Company, Secretary of Chinese Communist Party Committee (the "**CCPC**") of the Company, and Senior Engineer. Mr. Lu joined petrochemical industry in 1982 and had served as Deputy Director and Director of Dispatching Center, and then Director of Production Department of Shijiazhuang Oil Refinery since April 1991. In December 1994, he was appointed as the Assistant to Head of Shijiazhuang Oil Refinery. He was appointed as Deputy Head of Shijiazhuang Oil Refinery in August 1995 and was elected as Director of Shijiazhuang Refining-Chemical Company Limited in August 2000. In October 2003, he was appointed as Head of Shijiazhuang Oil Refinery. He was appointed as President of Sinopec Cangzhou Branch and Head of China Petrochemical Corporation Cangzhou Oil Refinery in December 2004. In July 2010, he was appointed as Secretary of Chinese Communist Party Committee of the Company and General Manager of Yihua. For a long period of time, Mr. Lu has held leading positions in production and administration of petrochemical enterprises and has extensive experience in overall management in large-scale enterprises. Mr. Lu graduated from Hebei University of Engineering in 1982, majoring in petroleum refining. He graduated from the Communist Party Hebei Academy in January 2001, majoring in administration, and pursued postgraduate studies.

2. Ms. Sun Zhi-hong, aged 61, Vice Chairwoman of the Company, Deputy Director of the Finance Department of CITIC, and Director of CITIC Offshore Helicopter Co. Ltd., Senior Accountant and CPA of the PRC. She held the position of Deputy Director of the Finance Department of CITIC since January 1999. She was elected as Vice Chairwoman of the Company in December 1999, and was re-elected in December 2008. Ms. Sun has extensive experience in financial management in large-scale enterprise. Ms. Sun graduated from China Central Broadcasting and Television University in 1986, majoring in accounting and completed the graduate course of International Business Administration in Beijing Economic College in 1995.

3. Mr. Xiao Wei-zhen, aged 57, Vice Chairman and General Manager of the Company, and Senior Engineer (at professor level). Mr. Xiao receives special subsidies by the State Council of the PRC. Mr. Xiao joined Yihua in 1982. Since then, he had served as Deputy Director and Chief Engineer of Polyester Plant No. 2, and then Director of Polyester Plant No. 4 of the Company. In November 1996, he was appointed as Deputy General Manager of the Company. In December 1997, he was transferred to be Head of Production and Marketing Department in China Eastern United Petrochemical (Group) Company Limited ("**Eastern United**"). In January 1998, he was elected as Executive Director of the Company. In May 1998, he was appointed as Deputy General Manager of the Company. In July 2004, he was appointed as Managing Director of the Company and Director of Yihua. He was re-elected as Managing Director of the Company in December 2005. In February 2007, he was elected as Vice Chairman of the Company. In December 2008, he was re-elected as Vice Chairman of the Company. Mr. Xiao has extensive experience in production, technological improvement and business administration in large-scale chemical fibre enterprise. Mr. Xiao graduated from the Department of Chemical Engineering of Zhejiang University in 1982, majoring in macromolecular chemistry. He completed the course of MBA in Nanjing University in 2003.

4. Ms. Long Xing-ping, aged 59, Director of the Company and Deputy Director of Overall Planning Department of CITIC, and Senior Engineer. She was elected as Director of the Company in December 1999. She was appointed as Deputy Director of Overall Planning Department of CITIC since April 2002. In December 2008, she was re-elected as Director of the Company. Ms. Long was engaged in the designing of chemical fibre machines and scientific research, and has extensive experience in business administration in large-scale industrial enterprise. Ms. Long graduated from Beijing Chemical Engineering College in 1975, majoring in machinery.

5. Mr. Zhang Hong, aged 52, Director of the Company and Deputy Director of Audit Department of CITIC, Senior Accountant and CPA of the PRC. In December 2002, he was elected as Director of the Company. In December 2008, he was re-elected as Director of the Company. He held the position of Deputy Director of Audit Department of CITIC since January 2010. Mr. Zhang was engaged in financial management and internal audit for years, and has extensive experience in internal management systems, financial analysis and auditing in large-scale enterprise. Mr. Zhang graduated from No. 2 Branch, Renmin University of China in 1983, majoring in finance.

6. Mr. Guan Diao-sheng, aged 48, Director of the Company, Deputy Director of Chemicals Segment of Sinopec, Master of Engineering, Senior Engineer. Mr. Guan has joined petrochemical industry since 1985, he served as Deputy Director of Technology Department of Liaoyang Oil & Chemical Fibre Company in 1991, Deputy Director of Technology Section of Production Department of CPC in 1995, Director of Chemical Fibre Section of Refining and Petrochemical Department of CPC in 1998, and Deputy Director of Chemicals Segment of Sinopec in December 2001, in June 2002, he was elected as Director of the Company, and re-elected in December 2008. Mr. Guan has extensive experience in chemical fibre industry management. Mr. Guan graduated from China Textile University in 1985, majoring in chemical fibre.

7. Mr. Qin Wei-zhong, aged 39, Director of the Company, General Manager of Sinopec Jiujiang Company, President and Vice Secretary of CCPC of CPC Jiujiang Petrochemical Complex, Master of Engineering, Senior Engineer. Mr. Qin has joined petrochemical industry since 1996. He served as Deputy Director of Strategic Plan Section of Development and Plan Department of CPC in 1998, Director of Chemicals Plan Section of Development and Plan Department of CPC in 2000, Manger Assistant of Sinopec Beijing Yanshan Branch in 2003, Deputy Director of Development and Plan Department of Sinopec in October 2004, and served as Director of New Energy Office in 2007. In December 2008, he was elected as Director of the Company. In July 2010, he was appointed General Manager of Sinopec Jiujiang Company, and President and Vice Secretary of CCPC of CPC Jiujiang Petrochemical Complex. Mr. Qin also serves in Zhong Tian He Chuang Energy Limited and Guizhou Bi Jie Zhong Cheng Energy Limited. Mr. Qin has extensive experience in planning and management in chemicals industry. Mr. Qin graduated from Tsinghua University in 1993, majoring in macromolecular chemical, and electronics and computer technology, and obtained two bachelor’s degrees. Mr. Qin obtained Master of degree from Tsinghua University in 1996, majoring in macromolecular chemical.

8. Mr. Shen Xi-jun, aged 50, Director and Deputy General Manager of the Company, and Senior Engineer (at professor level). He receives special subsidies awarded by the State Council of the PRC. Mr. Shen joined Yihua in 1982. He had served as Deputy Director of Polyester Plant No.3 and the Assistant to General Manager of Yihua. In January 1996, he was appointed as Deputy General Manager of Yihua. In January 1998, he was appointed as Deputy General Manager of the Company and was re-appointed in December 2002. In August 2004, he was elected as Director of the Company. In December 2008, he was re-elected as Director of the Company. He has extensive experience in production and project management in large-scale enterprises. He has won several titles and awards granted by the Central Committee of the Communist Youth League of the PRC, China National Textile Council, Human Resources Department of Jiangsu Provincial Government and Jiangsu Provincial Communist Party Committee. Mr. Shen graduated from the Department of Chemical Engineering of Dalian Institute of Technology in 1982, specialising in macromolecule chemical engineering. He completed the course of MBA in Nanjing University in 1997. Mr. Shen graduated from Research Institute of Petroleum Processing in 2006, majoring in applied chemistry and became Doctor of engineering in 2006.

9. Mr. Shi Zhen-hua*, aged 64, Independent Director of the Company and former Chief of Environmental Protection Department of Jiangsu Province. He was appointed as the secretary to the Party Committee and the director general of Xuzhou Environmental Protection Bureau in 1984, the vice director general of Jiangsu Environmental Protection Department in 1990, and the secretary to the Party Committee and the deputy chief to the Jiangsu County Environmental Protection Bureau in 1997. In December 2008, he was elected as Independent Director of the Company. Over the years, he has been engaged in various management aspects such as environmental protection, environmental management and environmental resources, and contributed to different environmental reformation and innovation projects. He was awarded with various honors, including the China's Environment Award. He is the Delegate of the 10th National People's Congress. Mr. Shi graduated from the Department of Geography of Nanjing University in 1969.

10. Mr. Qiao Xu*, aged 49, Independent Director of the Company and the Vice President of Nanjing University of Technology. He obtained a Ph.D. in engineering, and is a professor and tutor for for doctoral students. He has been a tutor, lecturer, assistant professor and professor at the Nanjing Chemical Institute. Since 1993, he has been the vice head of Department of Chemistry, Deputy Dean of the College of Chemistry and Chemical Engineering, Dean of Pujiang Institute and the Chief of the office of school affairs. He took up his current position in July 2007. In December 2008, he was elected as Independent Director of the Company. Mr. Qiao was also appointed as external director of Jiangsu Salt Group Company LTD. Over the years, he was engaged in teaching undergraduates, master and doctoral students in chemistry engineering and technology specialty as well as professional research, and has obtained varies honors and achievements in teaching and research aspects. He was named the outstanding teacher of general high school in Jiangsu, the outstanding technologist of Jiangsu, the academic leader and the Young and Middle-aged Technological Leader. Mr. Qiao graduated from the Department of Abiochemistry of Nanjing Chemical Institute in 1982, he obtained his master degree from the Department of Chemical Engineering of Zhejiang University in 1987, and his doctorate degree from the Department of Chemical and Engineering of Nanjing University of Chemistry in 1999.

11. Mr. Yang Xiong-sheng*, aged 51, Independent Director of the Company and the Accounting Professor of Nanjing University. He possessed a doctorate degree in Accounting, and is also a professor and a tutor for doctoral students. At present, Mr. Yang is a part-time professor for tertiary institutions such as Hohai University, Nanjing University of Science and Technology, Anhui University of Finance and Economics, Anhui University of Technology, Zhejiang University of Finance and Economics. He is also an academic member and Vice-Secretary of the Accounting Society of China, a member of the Committee on Internal Control Standards of Enterprises for the Ministry of Finance, an expert consultant on the accounting standards of the Ministry of Finance, and also the vice president of the Jiangsu Province Accounting Association. In December 2008, he was elected as Independent Director of the Company. He also serves in the Jiangsu Hongtu High Technology Co., Ltd., Jiangsu Ninghu Expressway Co., Ltd. and Wuhan Boiler Co., Ltd. as independent director. Over the years, he has been conducting researches on internal controls, accounting theories, financial management and accounting management.

12. Mr. Chen Fang-zheng*, aged 64, Independent Director of the Company and currently the Director of Social Security Institute of Tongji University and the tutor for doctoral students of the Faculty of Economics and Management of Tongji University. He served as a visiting scholar in the University of Waterloo in Canada from 1993 to 1994. He was the Director of Finance and Investment Institute, the Director of Finance Department and the Director of Economy Research Center in Southeast University. He was also the executive vice president of Commercial Institute, the Dean of the Department of Economy and Finance and the Director of Applied Economics Subcommittee in Tongji University. He was appointed as a tutor for doctoral students majoring in Management Science and Engineering by Tongji University in 1997. He was the member of CPPCC Jiangsu Province and the member of appraisal team of the ninth five-year plan and tenth five-year plan for Jiangsu Philosophical and Social Science. He was appointed the Dean of Economics and Management Institute by Zhejiang Ocean University. He was appointed expert by the United Nations in 2001 and was also appointed expert by China Development Bank in 2006. He once hosted or participated the projects from United Nations Development Programme, National Natural Science Funds and National Social Science Funds. In December 2008, he was elected as Independent Director of the Company. He also served as an independent director in Baoji Titanium Industry Co., Ltd. Mr. Chen graduated from Hefei University of Technology in 1969, majoring in measurement.

* *Independent Directors*

Supervisors

1. Mr. Cao Yong, aged 52, Chairman of Supervisory Committee of the Company, Chairman of Trade Union of the Company, Deputy Secretary of the CCPC, and Secretary of the Discipline and Inspection Commission of the Company, Senior P&I Engineer (at professor level). He joined Yihua in 1981. He served as Deputy Director of Planning and Developing Department, Deputy Director and Director of Polyester Plant No.3. In December 1997, he was transferred to be Deputy Director of Planning and Developing Department in Eastern United and in May 1998 he served as Director of Polyester Plant No.1. In August 2001 he was appointed as Assistant to General Manager of Yihua and in January 2003 he was appointed as Deputy General Manager of Yihua. In March 2003, he was appointed as Director of Yihua. In July 2004 he was appointed as Chairman of Labour Union, Deputy Secretary of the CCPC of the Company and Yihua. In August 2004, he was elected as Director of the Company. In December 2005, he was re-elected as Director of the Company. In February 2007, he was elected Chairman of Supervisory Committee of the Company, and re-elected in December 2008. Mr. Cao has extensive experience in planning, production and development in large-scale enterprises. Mr. Cao graduated from Nanjing Chemical Engineering College in 1981, majoring in chemical engineering. He completed the course of MBA in Nanjing University in 2000. In January 2005, he obtained an engineering master degree in Suzhou University, majoring material engineering. Mr. Cao is the Supervisor who represents the staff of the Company.

2. Mr. Tao Chun-sheng, aged 55, Supervisor of the Company, Deputy Secretary of the Discipline and Inspection Commission and Director of Supervisory Department of the Company, and Senior P&I Engineer. Mr. Tao joined Yihua in 1987, he had been engaged in editing and secretarial affairs in CATV Station, General Manager Office and Office for the Party Committee of the Company successively. In March 1997, he served as Deputy Director of Office for the Party Committee of the Company. In March 2000, he held positions of Deputy Director of General Manager Office and Office for the Party Committee. He became to be Deputy Secretary of the Discipline and Inspection Commission and Deputy Director of Supervisory Department of the Company and Yihua in September 2004. In March 2005, he was elected as Supervisor of the Company. In January 2006, he was appointed as Director of Supervisory Department of the Company. In December 2008, he was re-elected as Supervisor of the Company. Mr. Tao has extensive experience in large-scale enterprise. Mr. Tao graduated from Distance Learning College of the Communist Party Central Academy in December 1994, majoring in business administration, and became an undergraduate. Mr. Tao is the Supervisor who represents the staff of the Company.

3. Mr. Chen Jian, aged 48, Supervisor of the Company and Project Manager of Overall Planning Department of CITIC, and Engineer. Mr. Chen had served as technician and engineer in chemical fibre enterprise. He was elected as Supervisor of the Company in December 1999 and re-elected in December 2008. Mr. Chen has extensive experience in the field of chemical fibre production, international trade of related products and investment project management. Mr. Chen graduated from East China Textile Institute of Science and Technology in 1984, majoring in chemical fibre.

4. Mr. Shi Gang**, aged 50, Independent Supervisor of the Company, Director of Guangdong Branch, Industrial and Commercial Bank of China, and Senior Economist. He was elected as Independent Supervisor of the Company in December 2005 and re-elected in December 2008. For a long period of time, Mr. Shi has held the positions of senior management in commercial banks and has extensive experience in banking. Mr. Shi graduated from Distance Learning College of the Communist Party Central Academy in 1995, majoring in economic administration.

5. Mr. Wang Bing**, aged 39, Independent Supervisor of the Company, Assistant to Governor of Jiangsu Province Branch, Bank of China, Economist and Master. He was elected as Independent Supervisor of the Company in December 2005 and re-elected in December 2008. For a long period of time, Mr. Wang has held the positions of senior management in commercial banks and has extensive experience in banking. Mr. Wang graduated from Suzhou University in 1996, majoring in English Language.

** *Independent Supervisors*

Senior Management

1. Mr. Li Jian-xin, aged 53, Senior Engineer (at professor level). He is engaged in the work of production, technology, operation and administration of large-scale petrochemical enterprises. He had served as Deputy Director of Intermediate Experiment Factory, Polyester Plant No. 4 and Polyester Plant No. 3 of the former Yizheng Joint Corporation of Chemical Fibre Industry (currently Yihua), Administrative Vice General Manager of Yizheng Chemical Fibre Foshan Polyester Company Limited, Director of Yizheng Chemical Fibre Film Factory, General Manager of Yizheng Chemical Fibre Film Company Limited. In 2003, he was appointed as the Assistant to General Manager of Yihua. In June 2004, he was appointed as Deputy General Manager and Director of Yihua. In June 2007, he was appointed as Deputy Manager of Yihua. In July 2007, he was appointed as Deputy General Manager of the Company. He has ample experience in the production, technology, operation and administration of large-scale petrochemical enterprises. He was awarded the national and provincial Science & Technology Progress Prize several times. Mr. Li graduated from the Department of Fibre Engineering and Equipment of the Beijing Chemical Industry Institute in 1982, and completed the course for an MBA at Nanjing University in 2000.

2. Mr. Zhang Zhong-an, aged 50, Deputy General Manager, and Senior Engineer (at professor level). He joined Yihua in 1982, and served as Deputy Director of Polyester Plant No. 1, Deputy Director and Director of Production Department. In January 2002, He served as Deputy General Engineer and Director of Technology Development Department. In July 2004, he was appointed as Deputy General Manager of the Company and Director of Yihua. Mr. Zhang has extensive experience in production, R&D and technical management. Mr. Zhang graduated from East China Petrochemical Institute in 1982, majoring in macromolecular chemistry. He completed the course of MBA in Nanjing University in 2000.

3. Mr. Li Jian-ping, aged 48, Chief Financial Officer of the Company, Chief Legal Consultant and Senior Accountant (at professor level). Mr. Li has been engaged in audit and financial management of large-scale chemical enterprise for a long period of time. He had held the position of Deputy Director of Audit Department, Director of Finance Department of Jinling Petrochemical Company. He was appointed as Deputy Chief Financial Officer of Sinopec Jinling Petrochemical Corporation Limited ("**Jinling Petrochemical**") in 2000. He was also appointed as Chief Financial Officer of China Petroleum & Chemical Corporation Jinling Branch and Director of Jinling Petrochemical in 2000. He was appointed as Chief Financial Officer of the Company in December 2006. Mr. Li has extensive experience in financial management of large-scale chemical enterprise. Mr. Li graduated from Shanghai University Finance & Economics in 1986, majoring in accountant, and obtained Master of Economics degree in Shanghai University Finance & Economics in 1989.

4. Mr. Tom C. Y. Wu, aged 49, Company Secretary of the Company, and Senior Economist. He joined Yihua in 1982. Mr. Wu was engaged in production management, technology management and business administration. He participated in all of the Phase I, Phase II and Phase III Construction Projects of Yihua and is familiar with the Company's overall operation. In 1994, he served as Deputy Director of PET Film Plant of Yihua. He was elected as Board Secretary and appointed as treasurer of the Company in January 2001. In December 2002, he was re-elected as Board Secretary of the Company. Mr. Wu graduated from the Department of Chemical Engineering of Zhejiang University in 1982, majoring in macromolecular chemistry, and obtained MBA degree in Dalian University of Technology in September 2001.

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

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

   Pursuant to the resolution regarding the salaries of the sixth term Directors and Supervisors, approved by the EGM held on 23 December 2008, the resolution regarding revising remuneration of the Company's Independent Directors and Independent Supervisors, and drawing up *"Payment of the remuneration of Independent Directors"*, approved by the 2008 AGM held on 5 June 2009, the resolution regarding the salaries of the Senior Management, approved by the first meeting of the sixth term of the Board held on 23 December 2008, and in accordance with service contract signed between the Company, Directors and Supervisors and with reference to the operating results of the Company in 2010 and the Company's appraisal and assessment system, the Board considered and passed the resolution regarding the Directors', Supervisors' and Senior Management's remuneration in the sixteenth meeting of the sixth term of the Board held on 28 March 2011.

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

   (1) *Information on Directors, Supervisors and Senior Management*

Name	Position	Term of office	Number of "A" shares held for personal interests: At the beginning of the year	Number of "A" shares held for personal interests: At the end of the year	Stock option of the Company held	Reason for change
Lu Li-yong	Chairman	Sep. 2010-Dec.2011	–	–	Nil	No Change
Sun Zhi-hong	Vice Chairwoman	Dec. 2008-Dec.2011	–	–	Nil	No Change
Xiao Wei-zhen	Vice Chairman and General Manager	Dec. 2008-Dec.2011	–	–	Nil	No Change
Long Xing-ping	Director	Dec. 2008-Dec.2011	–	–	Nil	No Change
Zhang Hong	Director	Dec. 2008-Dec.2011	–	–	Nil	No Change
Guan Diao-sheng	Director	Dec. 2008-Dec.2011	–	–	Nil	No Change
Qin Wei-zhong	Director	Dec. 2008-Dec.2011	–	–	Nil	No Change
Shen Xi-jun	Director, Deputy General Manager	Dec. 2008-Dec.2011	–	–	Nil	No Change
Shi Zhen-hua	Independent Director	Dec. 2008-Dec.2011	–	–	Nil	No Change
Qiao Xu	Independent Director	Dec. 2008-Dec.2011	–	–	Nil	No Change
Yang Xiong-sheng	Independent Director	Dec. 2008-Dec.2011	–	–	Nil	No Change
Chen Fang-zheng	Independent Director	Dec. 2008-Dec.2011	–	–	Nil	No Change
Cao Yong	Chairman of Supervisory Committee	Dec. 2008-Dec.2011	–	–	Nil	No Change
Tao Chun-sheng	Supervisor	Dec. 2008-Dec.2011	–	–	Nil	No Change
Chen Jian	Supervisor	Dec. 2008-Dec.2011	–	–	Nil	No Change
Shi Gang	Independent Supervisor	Dec. 2008-Dec.2011	–	–	Nil	No Change
Wang Bing	Independent Supervisor	Dec. 2008-Dec.2011	–	–	Nil	No Change
Li Jian-xin	Deputy General Manager	From Jul. 2007	–	–	Nil	No Change
Zhang Zhong-an	Deputy General Manager	From Jul. 2004	–	–	Nil	No Change
Li Jian-ping	Chief Financial Officer	From Dec. 2006	–	–	Nil	No Change
Tom C. Y. Wu	Board Secretary	From Dec. 2002	–	–	Nil	No Change

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

Name	Name of corporate shareholders	Position held in corporate shareholders	Term of office	Remuneration and allowance received from the corporate shareholders
Sun Zhi-hong	CITIC	Deputy Director of Financial Department	From January 1999	Yes
Long Xing-ping	CITIC	Deputy Director of Overall Planning Department	From April 2002	Yes
Zhang Hong	CITIC	Deputy Director of Audit Department	From January 2010	Yes
Guan Diao-sheng	Sinopec	Deputy Director of Chemical Segment	From December 2001	Yes
Qin Wei-zhong	Sinopec	General Manager of Sinopec Jiujiang Company	From July 2010	Yes
Chen Jian	CITIC	Project Manager of Overall Planning Department	From December 1999	Yes

(3) *Information on the remuneration of the Company's Directors and Supervisors of the sixth term of the Board and Supervisory Committee and Senior Management in 2010*

Name	Salaries *(RMB ten thousand)*
Lu Li-yong	12.0
Sun Zhi-hong	27.6
Xiao Wei-zhen	27.6
Long Xing-ping	23.28
Zhang Hong	23.28
Qin Weizhong	–
Guan Diao-sheng	–
Shen Xi-jun	23.28
Shi Zhen-hua	5.0
Qiao Xu	5.0
Yang Xiong-sheng	5.0
Chen Fang-zheng	5.0
Cao Yong	23.28
Tao Chun-sheng	15.84
Chen Jian	23.28
Shi Gang	4.0
Wang Bing	4.0
Li Jian-xin	23.28
Zhang Zhong-an	23.28
Li Jian-ping	23.28
Tom C. Y. Wu	15.84
Off position:	
Qian Heng-ge	25.3
Total remuneration for the year	RMB338.42 in total
Allowances to Independent Directors	RMB20.0 in total
Other benefits to Independent Directors	Nil
Name of directors or supervisors who did not receive any remuneration from the Company	Guan Diao-sheng, Qin Wei-zhong

Other than as stated above, no Directors, Supervisors and Senior Management had any interests, either beneficial or non-beneficial, in the issued share capital of the Company, and other associated corporations (within the meaning of the SDI Ordinance) as at 31 December 2010.

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

As at 31 December, 2010, none of the Directors, Supervisors and Senior Management of the Company had any interest or short position in shares, underlying shares and/or debentures (as the case may be) of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be notified to the Company and the HKSE pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and short position which any such Director, Supervisor or Senior Management is taken or deemed to have under such provisions of the SFO) or which was required to be entered in the register kept by the Company pursuant to section 352 of the SFO or which was required to be notified to the Company and the HKSE pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("**Model Code**") as contained in Appendix 10 to the Listing Rules.

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

Directors' and Supervisors' service contracts

Mr. Lu Li-yong entered into a service contract with the Company on 28 September 2010, and other Directors (excluding Independent Directors) of the sixth term of the Board of the Company entered into a service contract with the Company on 23 December 2008. Particulars of these contracts are in all material respects identical and are set out below:

1. Each service contract is for a term of three years commencing 1 January 2009 (the term of Mr. Lu Li-yong is from 28 September 2010 to 31 December 2011);

2. Each Director (excluding Independent Directors) is entitled to an annual salary of not less than RMB50,000. The aggregate annual salaries of all Directors (excluding Independent Directors) is not more than RMB2,240,000 within the contract term.

Each Independent Director of the sixth term of the Board entered into a service contract with the Company on 23 December 2008. And consequential amendments were made according to "Independent Director Compensation Payment", the resolution of amending the company's independent directors and independent supervisors' compensation, approved by the annual meeting of shareholders held on 5 June, 2009. Particulars of these contracts are in all material respects identical and are set out below:

1. Each service contract is for a term of three years commencing 1 January 2009;

2. The aggregate annual allowance payable to all Independent Directors is RMB200,000 within the contract term.

Each other Supervisor (excluding Independent Supervisors) of the sixth term of the Supervisory Committee entered into a service contract with the Company on 23 December 2008. Particulars of these contracts are in all material respects identical and are set out below:

1. Each service contract is for a term of three years commencing 1 January 2009;

2. Each Supervisor (excluding Independent Supervisors) is entitled to an annual salary of not less than RMB50,000. The aggregate annual salaries of all Supervisors (excluding Independent Supervisors) are not more than RMB800,000 within the contract term.

Each Independent Supervisor of the sixth term of the Supervisory Committee entered into a service contract with the Company on 23 December 2008. And consequential amendments were made according to "Independent Director Compensation Payment", the resolution of amending the company's independent directors and independent supervisors' compensation, approved by the annual meeting of shareholders held on 5 June, 2009. Particulars of these contracts are in all material respects identical and are set forth below:

1. Each service contract is for a term of three years commencing 1 January 2009;

2. The aggregate annual allowance payable to all Independent Supervisors is RMB80,000 within the contract.

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

Directors' and Supervisors' interests in contracts

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

Special treatment to Directors, Supervisors and Senior Management

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

Staff

As at 31 December 2010, the Group had 8,014 registered employees, a decrease of 300 employees year-on-year. Total retired staff amounted to 2,367.

The Company had 35 employees with masters degrees or higher, 985 employees with bachelor degrees or higher, 2,025 employees with a tertiary or higher education background, and 6,417 employees with senior high school or higher educational background.

The Company had 5,841 production staff, 80 sales staff, 685 engineers, technicians and research staff at the product technology center, 89 financial personnel and 440 administration staff.

Major litigation or arbitration

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

Major events or discloseable circumstances during the year

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

Related transactions

Details of the connected transactions entered into by the Company during the reporting period are set out in item 5 of "Significant Events" of the Annual Report.

Results

The results of the Group for the year ended 31 December 2010 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements prepared in accordance with the IFRSs and the PRC Accounting Standards for Business Enterprises.

Report of the Board of Directors

PROPOSED SCHEME OF PROFIT DISTRIBUTION

In accordance with the PRC Accounting Standards for Business Enterprises, the net profit of the Company for 2010 was RMB1,228,423,000 (the profit attributable to equity shareholders of the Company for 2010 was RMB1,233,107,000 under IFRSs). The total distributable profit, including the accumulated losses of RMB59,992,000 brought forward from the previous year, were RMB1,168,431,000 at the end of 2010.

According to the relevant regulations of the PRC and the Articles of Association of the Company, the Company proposed that RMB116,843,000 was transferred to the statutory surplus reserve.

It is proposed that a final cash dividend of RMB0.03 per share (including tax) for 2010 would be paid, totaling RMB120,000,000.

The above proposed profit distribution scheme shall be submitted for approval at the 2010 AGM.

No interim or final dividends were paid for 2007, 2008 and 2009.

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

In accordance with China Accounting Standards Bulletin No.4 ("**Bulletin No.4**"), and the Notice on preparing 2010 annual reports of listed companies and non-listed enterprises adopting China Accounting Standards (Caikuai [2010]No.25), which was newly issued by the Ministry of Finance in 2010, the Group changed some accounting policies in the current year. Please refer to note 2 (28) of the financial statements prepared in accordance with the ASBE.

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

RESERVES

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

FIXED ASSETS

Movements in fixed assets of the Group, during the reporting period, are set forth in note 13 of the financial statements prepared in accordance with the IFRSs of the Annual Report.

BANK LOANS AND OTHER BORROWINGS

The Company and the Group had no bank loans and other borrowings as at 31 December 2010.

SUBSIDIARIES

Particulars of the Company's subsidiary as at 31 December 2010 is set forth in note 16 of the financial statements prepared in accordance with the IFRSs of the Annual Report.

RETIREMENT PLAN

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

MAJOR SUPPLIERS AND CUSTOMERS

For the year ended 31 December 2010, 61.3 per cent of the total purchases (not including the purchase of items which are of capital nature) were attributable to the Group's largest supplier. The largest supplier is Sinopec and its subsidiaries.

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

For the year ended 31 December 2010, aggregate purchase amounts from the top five largest suppliers were RMB7,355,757,000, representing 63.6 per cent of total purchases amounts. The top one of the five largest suppliers was the controlling shareholder of the Company – Sinopec and its subsidiaries, and had no related relationship with any of the Company's directors.

For the year ended 31 December 2010, aggregate sales amounts to the top five largest customers were RMB1,536,032,000, representing 9.4 per cent of total sales.

AUDITORS

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

A resolution for the re-appointment of KPMG Huazhen and KPMG as domestic and international auditors respectively of the Company for 2011, is to be proposed at 2010 AGM.

The signing Certified Public Accountants of the Company's domestic auditors, KPMG Huazhen, were Gong Wei-li and Chen Jie.

SHAREHOLDERS' GENERAL MEETING

The Company held its 2009 AGM and its first extraordinary general meeting for 2010 at its registered place in Yizheng City, Jiangsu Province on 8 June 2010 and 28 September 2010 respectively during the reporting period. Details are set forth in the section entitled "Summary of Shareholders' Meetings."

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

During the reporting period, the Company has complied with the Code of Corporate Governance Practices as set forth in Appendix 14 to the Listing Rules. The Code of Corporate Governance Practices of the Company is set forth from page 42 to the page 48 in the Annual Report.

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

By Order of the Board
Lu Li-yong
Chairman

28 March 2011, Nanjing

Report of the Supervisory Committee

To all Shareholders:

During the reporting period, all the Supervisors of the Company, following the principle of good faith, diligently fulfilled their supervision responsibilities, actively participated in the supervision process, carefully reviewed significant decisions and protected the interests of the Company and the shareholders according to the Company Law, the Company's Articles of Association and other relevant laws and rules.

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

1. The fifth meeting of the sixth term Supervisory Committee was held on 29 March 2010. The meeting mainly considered the explanation of the operation achievements and financial results for 2009, assets disposal and financial budget for 2010. The meeting earnestly talked about the resolution regarding disposal of partial assets. In addition, the meeting approved the 2009 report of the Supervisory Committee. The annual report of the Group for 2009 was also approved.

2. The sixth meeting of the sixth term Supervisory Committee was held on 23 August 2010. The meeting considered the explanation of interim results for 2010 and assets disposal. The meeting approved the resolution regarding disposal of partial assets and no payment of interim dividend. In addition, the interim report of the Group for 2010 was also approved.

During the reporting period, the Supervisory Committee respectively reviewed the first quarter report and the third quarterly report of the Company by the way of written paper.

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

The Supervisory Committee hold the following beliefs, in 2010, the Company earnestly carried out the deployment and requirement of the Board, chased the favor opportunity of relatively rapid rise in the prices of polyester products, paid more attention to safe production, endeavoured to expand its markets, strengthened fine management and made efforts to reduce its costs and expenses. As a result, the production and operation of the Company was steadily increased and achieved a significant increase in its operational results. In 2010, the Group's operating income was RMB16,348,366,000 and net profit attributable to equity shareholders of the Company was RMB1,226,542,000 in accordance with the PRC Accounting Standards for Business Enterprises, increasing by 23.6 per cent and 221.1 per cent respectively over those of 2009.

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

Secondly, the annual financial reports of the Company have been prepared in accordance with ASBE and IFRS, respectively. The financial reports audited by KPMG and KPMG Huazhen give a true and fair view on the financial position, operating results and cash flows of the Company. The unqualified audit opinions issued are objective and fair.

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

Fourthly, the internal control system of the Company was improved steadily, and the operating procedures were continuously perfected. Technical means were upgraded and risk management was improved incessantly. Remarkable achievements were made in the establishment and operation of internal controls. The Supervisory Committee agreed to the Self-evaluation Report on Internal Control System for 2010 issued by the Board.

In addition, the Company timely disclosed material information according to the regulations of securities supervisory authorities, and the information disclosed was true, accurate and complete.

In the coming year, the Supervisory Committee will continue to implement the scientific outlook of development, stick to the principles of honesty and good faith, focus on significant decision-making, internal controls, connected transactions and information disclosure. The Supervisory Committee will fulfill its duty of supervision, carefully strive to promote the steady growth of the benefits and continuing healthy development of the Company in 2011, and defend the interests the interests of the shareholders and the Company.

By Order of the Supervisory Committee
Cao Yong
Chairman

28 March 2011, Nanjing

Corporate Governance Report

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

1. IMPROVEMENT OF CORPORATE GOVERNANCE

During the reporting period, the Company actively advanced the work of rectifying corporate governance in accordance of the arrangement by China Securities Regulatory Commission concerning corporate governance.

The Company self-examined horizontal competition, connected transactions and trading shares of the Company by inside information insiders in accordance with regulatory requirements. There was not against the relevant regulations.

There was currently horizontal competition between the Company and Sinopec and its subsidiaries on polyester business. The Company will coordinate with Sinopec to ensure competition between the Company and Sinopec and its subsidiaries fair, impartial, reasonable and lawful.

Due to historic changes and features of petrochemical industry, there were connected transactions on purchasing raw materials between the Company and Sinopec and its subsidiaries. These transactions were essential and inevitable in production of the Company due to the relationship of petrochemical chain.

Since the Company listed, the connected transactions between the Company and its related parties have been approved and disclosed in accordance with regulatory rules (details are set forth in “information on connected transactions” of the “Significant Events” section in the Annual Report). The Company will strictly regulate the decision procedure of the related transactions, fulfills the obligations of approval and disclosure, and further put forward connected transactions fair, impartial, reasonable and lawful.

During the reporting period, the Company did not find that inside information insiders traded the Company’s shares before the disclosure of price-sensitive information by self-examination. “Rules on Registration of Inside Information Insiders” has been approved by the sixteenth meeting of the sixth term of the Board and has come into effect. The Company is reviewing the contents of “Information Disclosure System of Sinopec Yizheng Chemical Fibre Company Limited”, and is considering making necessary amendments in order to the fulfill the requirements of establishing the accountability mechanisms of responsible disclosure in annual report.

Furthermore, in strict light of “Company Law of the People’s Republic of China”, “Securities Law of the People’s Republic of China”, “Disclosure of Information by Public Listing Companies” and “Listing Rules of Shanghai Stock Exchange”, the Company will improve internal management and control, standardise the operation of shareholder meeting and board of directors, enhance duty concept of directors (including independent director) and improve corporate governance.

2. IMPROVEMENT OF INTERNAL CONTROL SYSTEM

The Company had set up management and functional departments of the internal control system in March 2003 to lead and develop this special work. In accordance with “Company Law of the People’s Republic of China”, “Securities Law of the People’s Republic of China”, “the Fundamental Principles Government Internal Control, on 1 January 2005, the Company formally implemented its internal control system, which covers the Company’s production and operational chain and key business sectors. The Company carried through annual and semi-annual checkup and evaluation of the deployment and therewith revised it. In light of the new regulatory requirements both domestic and overseas, the system was examined, revised and approved by the tenth meeting of the sixth term of the Board held on 29 March 2010. The Self-evaluation Report on Internal Control System was considered and approved by the sixteenth meeting of the sixth term of the Board held on 28 March 2011, and was disclosed on the website of SSE and HKSE. As at 31 December 2010, the Board of Directors considered that the internal control system of the Company in respect of the preparation of financial statements was sound and effectively implemented.

It is responsibility for the Board and Management to establish, and improve and effectively implement internal control systems. The Company will carry out the Fundamental Principles Governing Internal Control and Supporting Guidelines for Enterprises Internal Control starting from 2011. The Company will regulate and improve its internal control system based on six years practice. The Company designed Work Plan on Implement Internal Control, which was approved by the sixteenth meeting of the sixth term of the Board and was implemented.

3. INFORMATION ON THE FULFILLMENT OF RESPONSIBILITIES BY THE INDEPENDENT DIRECTORS

The Independent Directors are responsible and diligent and have played an important role. They protect the interests of the whole Company and legitimate rights and interests of minority shareholders. The Independent Directors have expressed their independent comments on Annual Report work, director candidate, the connected transaction in relation to the provision of sales agency service, revise the annual cap of financial services, the Company's related transactions for 2009, and funds occupied by the controlling shareholders and other related parties during the reporting period.

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

In 2010, the Audit Committee and the Remuneration Committee under the sixth term of the Board perform its duties earnestly under the guide of the Board.

(1) During the reporting period, after communicating with auditors, the fifth auditing meeting of the sixth term of the Board was held on 14 January 2010. On the meeting, the schedule and scope of auditing works were confirmed with the auditor—KPMG Huazhen and KPMG and the financial statement 2009 were reviewed. At the sixth auditing meeting on 12 March, 2010, the auditing committee reviewed preliminary financial statement 2009 which was examined by auditors. At the seventh auditing meeting on 29 March, 2010, the financial statement 2009, report on auditing works by auditors and the remuneration paid to the domestic and international auditors were approved. The proposal of re-appointing KPMG Huazhen and KPMG as the Company's domestic and overseas auditors in 2010 was also accepted and would be submitted to Board of directors for approval. In the auditing committee's opinion, the financial statements for the year 2009 complied with the requirements of China Accounting Standards for Business Enterprises and presented fairly, in all material respects, the consolidated financial position of the Company as at 31 December 2009, and the consolidated results of operations and the consolidated cash flows of the Company for the year then ended. At the eighth auditing meeting on 23 August, 2010, the resolution regarding the review of the Company's interim report was considered and approved.

(2) In 2010, the sixth term Remuneration Committee of the Board held the second meeting. In according with the resolution regarding the remuneration of the sixth term directors and supervisors approved by the EGM held on 23 December 2008, the resolution regarding revising remuneration of the Company's Independent Directors and Independent Supervisors, and drawing up "*Payment of the remuneration of Independent Directors*", approved by the 2008 AGM held on 5 June 2009, the resolution regarding the salaries of the Senior Management, approved by the first meeting of the sixth term of the Board held on 23 December 2008, and in accordance with service contract signed between the Company, Directors and Supervisors and with reference to the operating results of the Company in 2009 and the Company's appraisal and assessment system, the Remuneration Committee considered and approved proposals relating to the remuneration of the Directors, Supervisors and Senior Management in the year 2009 and would submitted it to the tenth meeting of the sixth term of the Board for approval. Report on the fulfillment of responsibilities by the Remuneration Committee for 2009 was also considered and approved.

5. THE RELATIONSHIP BETWEEN CONTROLLING SHAREHOLDERS AND THE COMPANY

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

6. REGARDING THE PERFORMANCE EVALUATION, STIMULATING AND BINDING MECHANISM

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

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

7. COMPLIANCE WITH CODE OF CORPORATE GOVERNANCE PRACTICES OF HKSE

During the reporting period, the Company has been in strict compliance with the Code of Corporate Governance of HKSE. Violation did not occur. The details are as follows:

A.1 The Board

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

   The Directors' attendance of the Board Meetings

Name	Times in person	Times by Proxies	absence
Lu Li-yong	2	–	–
Sun Zhi-hong	6	–	–
Xiao Wei-zhen	6	–	–
Long Xing-ping	6	–	–
Zhang Hong	4	2	–
Qin Wei-zhong	4	2	–
Guan Diao-sheng	6	–	–
Shen Xi-jun	6	–	–
Shi Zhen-hua*	6	–	–
Qiao Xu*	5	1	–
Yang Xiong-sheng*	5	1	–
Chen Fang-zheng*	6	–	–

* *Independent Director*

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

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

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

A.2 Chairman and Chief Executive Officer

1. Mr. Lu Li-yong was elected as Chairman of the Company by the Board. Nominated by Chairman of the Company, Mr. Xiao Wei-zhen was appointed as General Manager of the Company by the Board.

   The responsibilities between Chairman and General Manager are set out clearly in the Articles of Association.

2. Approaches to acquire necessary information for decision were listed in the "the Rules and Procedures for the Board" of the Company. Directors can require General Manger or relevant departments through General Manger to provide information and explanation. If necessary, Independent Directors can consult independent professionals and the Company should pay such expenses.

A.3 The Board composition

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

2. The sixth term of the Board includes four Independent Directors, including one Independent Directors who is certified public accountants in the PRC. The four Independent Directors have confirmed their independence of the Company to the Stock Exchange.

3. The names and profiles are set forth on the page 29 to page 31 in this annual report.

A.4 Appointment, re-election and removal

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

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

A.5 Responsibilities of Directors

1. Every newly elected Director has received a comprehensive introduction on the first occasion of his appointment from the legal advisors of the PRC and Hong Kong of the Company, to ensure that he can be aware of his responsibilities to be a director. Directors have to receive at least one training course of the CSRC and its agencies within the term of one year after election and the second term.

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

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

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

A.6 Supply of and access to information

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

2. All Directors usually acquire adequate information 3 working days before the Board meetings which can help them to make accurate decisions.

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

B. Remuneration of Directors and Senior Management

1. The Remuneration Committee under the Board has been set up with specific written terms of authority and duties. The Remuneration Committee under the sixth term of the Board consists of one external Director Ms. Sun Zhi-hong, two Independent Directors — Mr. Qiao Xu and Mr. Chen Fang-zheng and one Supervisor Mr. Tao Chun-sheng who represents the Company Staff, and Ms. Sun Zhi-hong is the head of the Remuneration Committee.

2. Pursuant to the principles approved by the shareholders' general meeting, the Service Contract which was entered into between the Company and each Director or Supervisor, the proposal raised by the Remuneration Committee and with reference to the operating results, the Board considered and approved the remuneration of the Directors, Supervisors and Senior Management. The details of the remuneration of the Directors during the reporting period are set out page 35 of this Annual Report.

3. The members of Remuneration Committee can consult Chairman or General Manager, and can consult independent professionals and the Company shall pay such expenses.

   Information on the fulfillment of responsibilities by the Remuneration Committee is set forth on the pages 43 in the Annual Report during the reporting period.

C.1 Financial reporting

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

2. The Directors are responsible for preparing the accounts for every fiscal year, which can give a view of the state of affairs of the Group as at 31 December 2010 and of the Group's profit and cash flows for the year. The Directors has selected the appropriate accounting policies to carry out, made prudent and reasonable judges and estimates, and prepared accounts on a going concern basis.

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

C.2 Internal control

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

2. According to the operating situation, the Company has modified the internal control system. During the year, information of the fulfillment of internal control system is set forth in item 2 "Improvement of Internal Control System" of the "Corporate Governance Report" section in the Annual Report during the reporting period.

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

C.3 The Audit Committee

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

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

3. Required by the revised Listing Rules, the Company amended and added the authority and duties of the Audit Committee, mainly including the appointment proposal of the external auditor, the review procedures of annual report, interim report and internal control system. In accordance with CSRC's requirements and regulations, the Company revised "Performance Rules of Auditing Committee" on 7 April 2008 and on 30 March 2009, adding several duties and procedures on auditing committee for examining annual report. And was carried out in the audit work of annual reports.

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

   Information on the fulfillment of responsibilities by the Audit Committee of the sixth term of the Board of is set forth on the pages 43 in the Annual Report during the reporting period.

D. Delegation by the Board

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

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

3. The attendance record of the sixth term of the Board's Committee meeting is as follows.

The Audit Committee

Name	Times in Person	Times by Proxies	Absence
Yang Xiong-sheng	4	–	–
Shi Zhen-hua	4	–	–
Qiao Xu	4	–	–
Chen Fang-zheng	4	–	–
Zhang hong	4	–	–

The Remuneration Committee

Name	Times in Person	Times by Proxies	Absence
Sun Zhi-hong	1	–	–
Qiao Xu	1	–	–
Chen Fang-zheng	1	–	–
Tao Chun-sheng	1	–	–

E. Communication with shareholders

1. The Chairman should propose a separate resolution in respect of each substantially separate issue at a shareholders' general meeting.

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

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

The Board has not established Nomination Committee. The Company nominated the Director candidates pursuant to the Articles of Association of the Company.

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

An analysis of remuneration in respect of audit services is set forth in item 12 of the "Significant Events" section.

Summary of Shareholders' Meetings

1. The 2009 AGM was held at the Conference Centre of Yijing Peninsula Hotel of the Company in Yizheng City, Jiangsu Province, PRC on 8 June 2010. The resolution announcement of the 2009 AGM was disclosed in China Securities, Shanghai Securities News, Securities Times and the website of HKSE on 9 June 2010.

2. The first EGM for 2010 was held at the Conference Centre of Yijing Peninsula Hotel of the Company in Yizheng City, Jiangsu Province, PRC on 28 September 2010. The resolution announcement of the first EGM for 2010 was disclosed in China Securities, Shanghai Securities News, Securities Times and the website of HKSE on 29 September 2010.

Significant Events

1. In accordance with the Articles of Association of the Company, the Board resolved that no interim dividend was paid for the year ended 31 December 2010.

   The Board proposed a final cash dividend of RMB0.03 (including tax) to be paid for the year ended 31 December 2010.

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.

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

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

4. During the reporting period, the Group had not acquire or disposals of assets, nor any merger and acquisitions activities.

5. Information on related transactions

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

   The Group's material related transactions entered into during the year ended 31 December 2010 are as follows:

   (a) The significant related transactions relating to ordinary operation during the reporting period is as follow:

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	7,085,054	61.3

   In the opinion of the Group, that the above-mentioned related transactions with related parties were necessary and continuously occurred, and that the agreements governing these transactions met the requirements of business operation of the Company and the market situation. Meanwhile, purchasing from the above related parties ensures a steady and secured supply of raw materials. Therefore, these related transactions provided benefits 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 related 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 related transactions were under the ordinary course of business and on normal commercial terms or were in accordance with the terms of agreements governing these transactions. Details of related transactions entered into by the Company during the reporting period, refer to note 6 of the financial statements prepared in accordance with the PRC Accounting Standards for Business Enterprises. Independent directors have reviewed the above-mentioned connected transactions according to the regulations as stipulated in the Listing Rules, and made necessary confirmation in written submitted to the Board on 28 March 2011. Auditors of the Company have reviewed the above-mentioned related transactions and provided a letter to the Board on 28 March 2011.

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

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

8. As at 31 December 2010, the Group did not have any designated deposits with any financial institutions or any difficulties in collecting deposits upon maturity.

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

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

10. The ninth meeting of the sixth term Board of Directors of the Company held on 31 December 2009 reviewed and approved the resolution regarding that the Company carries out the fund operation within RMB700 million. As at 31 December 2010, the Company's investments held for trading were RMB699,713,000.

11. During the reporting period, the changes in Directors, Supervisors and Senior Management are set forth in the section on "Directors, Supervisors and Senior Management".

12. As approved at the 2009 AGM, KPMG Huazhen and KPMG were re-appointed as the Company's domestic and international auditors for 2010, and the Board was authorised to approve their remunerations.

    The amounts of remuneration paid to the domestic and international auditors for the two years ended 31 December 2010 were as follows:

	2010	2009
KPMG Huazhen Audit fee	**RMB1,500,000 yuan (paid)**	RMB1,500,000 yuan (paid)
KPMG Audit fee	**RMB3,300,000 yuan (paid)**	RMB3,300,000 yuan (paid)

The amounts of remuneration paid to the domestic auditors by the Company's subsidiary YCFC Jingwei for the two years ended 31 December 2010 was as follows:

	2010	2009
KPMG Huazhen Audit fee	**RMB100,000 yuan (paid)**	RMB100,000 yuan (paid)

Note: The fees include the business trip allowance and business tax.

KPMG Huazhen and KPMG have provided continuously audit services to the Company for 18 years.

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

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

15. Except for those disclosed above, the Group did not have any major events, or disclosure matters required by the Article 62 of the Security Law of the PRC, Article 60 of the "Provisional Regulations of Administration of the Issuing and Trading of Shares of the PRC" and the Article 30 of "Disclosure of Information by Public Listing Companies" during the reporting period.

Report of the International Auditors

Independent auditor's report to the shareholders of Sinopec Yizheng Chemical Fibre Company Limited
(Incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Sinopec Yizheng Chemical Fibre Company Limited (the "**Company**") set out on pages 54 to 106, which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

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

28 March 2011

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010
(Prepared under International Financial Reporting Standards)

	Note	2010 RMB'000	2009 RMB'000
Turnover	5	**16,348,366**	13,225,029
Cost of sales		**(14,353,315)**	(12,141,045)
Gross profit		**1,995,051**	1,083,984
Other income		**4,222**	14,541
Distribution costs		**(212,868)**	(183,227)
Administrative expenses		**(457,861)**	(409,442)
Other expenses	6	**(219,390)**	(135,453)
Profit from operations		**1,109,154**	370,403
Finance income	7(a)	**38,719**	27,772
Finance expenses	7(a)	**(2,291)**	(10,918)
Net finance income	7(a)	**36,428**	16,854
Profit before taxation	7	**1,145,582**	387,257
Income tax	8(a)	**85,644**	(1,310)
Profit and total comprehensive income attributable to equity shareholders of the Company for the year	10/26	**1,231,226**	385,947
Basic and diluted earnings per share (in RMB)	12	**0.308**	0.096

The notes on pages 62 to 106 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 11.

Consolidated Statement of Financial Position

At 31 December 2010
(Prepared under International Financial Reporting Standards)

	Note	2010 RMB'000	2009 RMB'000
Non-current assets			
Property, plant and equipment	13(a)	**3,471,168**	3,774,911
Construction in progress	14	**498,043**	325,812
Lease prepayments	15	**116,701**	119,944
Deferred tax assets	8(c)	**239,891**	44,310
		4,325,803	4,264,977
Current assets			
Available-for-sale financial assets		**–**	700,000
Investments held for trading	17	**699,713**	–
Inventories	18	**1,318,769**	1,308,019
Trade and other receivables	19	**1,588,527**	1,405,519
Deposits with banks and other financial institutions	20	**443,456**	559,600
Cash and cash equivalents	21	**2,025,932**	774,767
		6,076,397	4,747,905
Current liabilities			
Trade and other payables	22	**2,088,684**	2,073,949
Current taxation	8(b)	**109,937**	–
Provisions		**–**	5,198
		2,198,621	2,079,147
Net current assets		**3,877,776**	2,668,758
Total assets less current liabilities		**8,203,579**	6,933,735
Non-current liabilities			
Deferred income	23	**59,874**	21,256
Net assets		**8,143,705**	6,912,479

The notes on pages 62 to 106 form part of these financial statements.

Consolidated Statement of Financial Position (Continued)

At 31 December 2010
(Prepared under International Financial Reporting Standards)

	Note	**2010**	2009
		RMB'000	*RMB'000*
Equity			
Share capital	*24*	**4,000,000**	4,000,000
Share premium		**2,518,833**	2,518,833
Reserves	*25*	**(59,233)**	(176,076)
Retained profits	*26*	**1,684,105**	569,722
Total equity attributable to equity shareholders of the Company		**8,143,705**	6,912,479

Approved and authorised for issue by the Board of Directors on 28 March 2011.

Lu Li-yong
Director

Xiao Wei-zhen
Director

The notes on pages 62 to 106 form part of these financial statements.

Statement of Financial Position

At 31 December 2010
(Prepared under International Financial Reporting Standards)

	Note	2010 RMB'000	2009 RMB'000
Non-current assets			
Property, plant and equipment	13(b)	**3,350,819**	3,644,878
Construction in progress	14	**498,043**	325,812
Lease prepayments	15	**116,701**	119,944
Investment in subsidiary	16	**–**	–
Deferred tax assets	8(c)	**239,891**	44,310
		4,205,454	4,134,944
Current assets			
Available-for-sale financial assets		**–**	700,000
Investments held for trading	17	**699,713**	–
Inventories	18	**1,294,415**	1,273,345
Trade and other receivables	19	**1,722,235**	1,580,717
Deposits with banks and other financial institutions	20	**443,456**	559,600
Cash and cash equivalents	21	**2,025,932**	768,385
		6,185,751	4,882,047
Current liabilities			
Trade and other payables	22	**2,074,046**	2,076,296
Current taxation	8(b)	**109,937**	–
Provision		**–**	5,198
		2,183,983	2,081,494
Net current assets		**4,001,768**	2,800,553
Total assets less current liabilities		**8,207,222**	6,935,497
Non-current liabilities			
Deferred income	23	**59,874**	21,256
Net assets		**8,147,348**	6,914,241

The notes on pages 62 to 106 form part of these financial statements.

	Note	2010 *RMB'000*	2009 *RMB'000*
Equity			
Share capital	*24*	**4,000,000**	4,000,000
Share premium		**2,518,833**	2,518,833
Reserves	*25*	**(59,233)**	(176,076)
Retained profits	*26*	**1,687,748**	571,484
Total equity		**8,147,348**	6,914,241

Approved and authorised for issue by the Board of Directors on 28 March 2011.

Lu Li-yong
Director

Xiao Wei-zhen
Director

The notes on pages 62 to 106 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010
(Prepared under International Financial Reporting Standards)

	Share capital RMB'000	Share premium RMB'000	Reserves RMB'000	(Accumulated losses)/ retained profits RMB'000	Total equity attributable to equity shareholders of the Company RMB'000
Balance at 1 January 2009	4,000,000	2,518,833	1,279,928	(1,272,229)	6,526,532
Changes in equity for 2009:					
Make good of losses by surplus reserve *(note 25)*	–	–	(1,456,004)	1,456,004	–
Total comprehensive income for the year	–	–	–	385,947	385,947
Balance at 31 December 2009	4,000,000	2,518,833	(176,076)	569,722	6,912,479
Changes in equity for 2010:					
Appropriation of statutory surplus reserve *(note 25)*	–	–	116,843	(116,843)	–
Total comprehensive income for the year	–	–	–	1,231,226	1,231,226
Balance at 31 December 2010	**4,000,000**	**2,518,833**	**(59,233)**	**1,684,105**	**8,143,705**

The notes on pages 62 to 106 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2010
(Prepared under International Financial Reporting Standards)

	2010 RMB'000	2009 RMB'000
Operating activities		
Profit before taxation	**1,145,582**	387,257
Adjustments for:		
Depreciation charge	**485,054**	535,237
Amortisation of lease prepayments	**3,243**	3,243
Amortisation of deferred income	**(1,012)**	(744)
Interest income	**(33,330)**	(21,896)
Interest expense	**558**	8,656
Impairment losses of property, plant and equipment	**223,696**	140,953
Net gain on disposal of property, plant and equipment	**(8,620)**	(5,984)
Investment income	**(832)**	–
Gain on changes in fair value of investments held for trading	**(310)**	–
Operating profit before changes in working capital	**1,814,029**	1,046,722
Increase in inventories	**(10,750)**	(402,978)
(Increase)/decrease in trade and other receivables	**(247,637)**	344,761
Increase in trade and other payables	**50,919**	320,355
Decrease in provisions	**(5,198)**	–
Cash generated from operations	**1,601,363**	1,308,860
Interest paid	**(558)**	(8,656)
Net cash generated from operating activities	**1,600,805**	1,300,204

The notes on pages 62 to 106 form part of these financial statements.

For the year ended 31 December 2010
(Prepared under International Financial Reporting Standards)

	Note	2010 RMB'000	2009 RMB'000
Investing activities			
Payment for the purchase of available-for-sale financial assets		**–**	(700,000)
Proceeds from sale of available-for-sale financial assets		**700,873**	–
Capital expenditure		**(557,656)**	(192,539)
Proceeds from sale of property, plant and equipment		**17,483**	10,260
Interest received		**33,330**	21,896
Government grants received		**39,630**	7,000
Payment for the acquisition of subsidiary		**–**	(18,414)
Payment for the purchase of investments held for trading		**(401,574)**	–
Decrease/(increase) in deposits with banks and other financial institutions		**116,144**	(494,600)
Net cash used in investing activities		**(51,770)**	(1,366,397)
Financing activities			
Repayment of bank loans		**–**	(334)
Net cash used in financing activities		**–**	(334)
Net increase/(decrease) in cash and cash equivalents		**1,549,035**	(66,527)
Cash and cash equivalents at 1 January		**774,767**	841,294
Cash and cash equivalents at 31 December	21	**2,323,802**	774,767

The notes on pages 62 to 106 form part of these financial statements.

1. BACKGROUND OF THE COMPANY

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

The Company and its subsidiary (the "**Group**") are principally engaged in the production and sale of chemical fibre and chemical fibre raw materials in the PRC.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("**IASs**") and interpretations issued by the International Accounting Standards Board ("**IASB**") and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Group also prepares a set of financial statements which complies with the PRC Accounting Standards for Business Enterprises ("**ASBE**"). Significant differences between the financial statements prepared in accordance with IFRSs and ASBE are summarised in the supplementary information to the financial statements in the 2010 annual report.

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

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

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2010 comprise the Company and its subsidiary.

The financial statements are presented in Renminbi, rounded to the nearest thousand. The measurement basis used in the preparation of the financial statements is historical cost basis except the financial instruments classified as available-for-sale and trading securities are stated at their fair value as explained in the accounting policies set out below (see accounting policy (k)).

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

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

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 32.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Basis of consolidation

(i) Subsidiaries

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

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

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see accounting policy (t)).

(ii) Jointly controlled entities

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

An investment in a jointly controlled entity is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the jointly controlled entity's net assets and any impairment loss relating to the investment (see accounting policy (t)). The Group's share of the post-acquisition, post-tax results of the jointly controlled entity and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of the jointly controlled entity's other comprehensive income is recognised in the consolidated statement of comprehensive income.

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

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

In the Company's statement of financial position, investments in jointly controlled entities are stated at cost less impairment losses (see accounting policy (t)).

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Translation of foreign currencies

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

Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the applicable PBOC rates ruling at the end of the reporting period.

Exchange gain and loss on foreign currency translation, except for the exchange gain and loss directly relating to the construction of property, plant and equipment (see accounting policy (h)), are recognised as an income or expense.

(e) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(f) Trade and other receivables

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

(g) Inventories

Inventories other than spare parts and consummables are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see accounting policy (t)).

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

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

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

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

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

(i) Lease prepayments

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

(j) Construction in progress

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

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

No depreciation is provided in respect of construction in progress.

(k) Investments

Investment in available-for-sale securities are carried at fair value with any change in fair value recognised in other comprehensive income and accumulated separately in equity in other reserve. When these investments are derecognised or impaired, the cumulative gain or loss is reclassified from equity to the consolidated income statement.

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any interest earned on these investments as these are recognized in accordance with the policies set out in accounting policy (o)(iii).

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Trade and other payables

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

(m) Provisions and contingent liabilities

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

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

(n) Interest-bearing borrowings

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

(o) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Rendering of services

Revenue from the rendering of services is recognised in profit or loss upon performance of the services.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iv) Government grants

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Net finance income

Net finance income comprise interest expense on borrowings, interest expense on discounting bills, interest income from bank deposits, foreign exchange gains and losses and bank charges.

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

(q) Repairs and maintenance expenses

Repairs and maintenance expenses are charged to profit or loss as and when they are incurred.

(r) Research and development costs

Research and development expenditures are expensed in the period in which they are incurred.

(s) Employee benefits

The contributions payable under the Group's retirement plans are charged to profit or loss according to the contribution determined by the plans. Further information is set out in note 27.

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

(t) Impairment of assets

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

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Impairment of assets (Continued)

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

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

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

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

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

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

– For available-for-sale financial securities, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

  Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

  Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Impairment of assets (Continued)

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

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

(ii) ***Impairment of other assets***

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

– property, plant and equipment;

– construction in progress; and

– lease prepayments.

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

– Calculation of recoverable amount

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

– Recognition of impairment losses

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

– Reversals of impairment losses

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Dividends

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

(v) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of reporting period, and any adjustment to tax payable in respect of previous years.

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Income tax (Continued)

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

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

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

(w) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

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

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

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(x) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segment are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3. CHANGES IN ACCOUNTING POLICIES

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

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

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

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

- The impact of the majority of the revisions to IFRS 3, IAS 27 and IFRS 5 have not yet had a material effect on the Group's financial statements as these changes will first be effective as and when the Group enters into a relevant transaction (for example, a business combination or a disposal of a subsidiary) and there is no requirement to restate the amounts recorded in respect of previous such transactions.
- The impact of the amendments to IFRS 3 (in respect of recognition of acquiree's deferred tax assets) and IAS 27 (in respect of allocation of losses to non-controlling interests (previously known as minority interests) in excess of their equity interest) have had no material impact as there is no requirement to restate amounts recorded in previous periods and no such deferred tax assets or losses arose in the current period.

3. CHANGES IN ACCOUNTING POLICIES (Continued)

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

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

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

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

  – Contingent consideration will be measured at fair value at the acquisition date. Subsequent changes in the measurement of that contingent consideration unrelated to facts and circumstances that existed at the acquisition date will be recognized in profit or loss, whereas previously these changes were recognised as an adjustment to the cost of the business combination and therefore impacted the amount of goodwill recognised.

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

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

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

3. CHANGES IN ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

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

4. SEGMENT REPORTING

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

(a) Segment results and assets

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

Segment assets represent property, plant and equipment and inventories.

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

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

In addition to receiving segment information concerning "gross profit", management is provided with segment information concerning revenue (including inter-segment revenue), depreciation, amortisation and impairment losses. Inter-segment revenue are priced with reference to market price.

The Group changed the basis of inter-segment measures for internal reporting purpose from 1 January 2010. Before 1 January 2010, revenue and gross profit or loss from external customers only were measured and reviewed by the Group's senior executive management. From 1 January 2010, in addition to revenue and gross profit or loss from external customers, inter-segment revenue priced with reference to market price and inter-segment gross profit or loss were also measured and reviewed by the Group's senior executive management. The Group has restated the comparative amounts on a basis consistent with the revised segment measures.

4. SEGMENT REPORTING (Continued)

(a) Segment results and assets (Continued)

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

	Polyester chips		Bottle-grade polyester chips		Staple fibre and hollow fibre		Filament		PTA		All others#		Total	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
For the year ended 31 December														
Revenue from external customers	**6,127,035**	4,490,477	**2,724,476**	2,900,094	**5,423,037**	4,057,953	**1,780,642**	1,499,963	**-**	–	**293,176**	276,542	**16,348,366**	13,225,029
Inter-segment revenue	**87,491**	124,620	**-**	–	**-**	–	**-**	–	**6,925,492**	5,901,463	**-**	–	**7,012,983**	6,026,083
Reportable segment revenue	**6,214,526**	4,615,097	**2,724,476**	2,900,094	**5,423,037**	4,057,953	**1,780,642**	1,499,963	**6,925,492**	5,901,463	**293,176**	276,542	**23,361,349**	19,251,112
Gross profit/(loss) from external customers	**253,605**	46,245	**20,336**	(97,654)	**379,439**	97,321	**15,835**	(125,281)	**-**	–	**3,206**	15,972	**672,421**	(63,397)
Inter-segment profit	**3,621**	1,283	**-**	–	**-**	–	**-**	–	**1,364,056**	1,160,253	**-**	–	**1,367,677**	1,161,536
Reportable segment profit/(loss)	**257,226**	47,528	**20,336**	(97,654)	**379,439**	97,321	**15,835**	(125,281)	**1,364,056**	1,160,253	**3,206**	15,972	**2,040,098**	1,098,139
Depreciation and amortisation	**62,395**	65,017	**39,454**	44,054	**38,053**	40,161	**14,765**	40,393	**209,223**	229,049	**94,190**	90,395	**458,080**	509,069
Impairment of property, plant and equipment ("PP&E")	**196**	367	**203,506**	230	**588**	189	**-**	130,164	**11,788**	7,224	**637**	1,917	**216,715**	140,091
Write-down of inventories	**-**	–	**-**	–	**-**	–	**-**	19,892	**-**	–	**12,401**	–	**12,401**	19,892
As at 31 December														
Reportable segment assets	**604,359**	647,577	**197,206**	403,198	**496,965**	401,468	**199,942**	231,800	**1,153,730**	1,246,283	**1,029,268**	931,449	**3,681,470**	3,861,775

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

4. SEGMENT REPORTING (Continued)

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

	2010 RMB'000	2009 RMB'000
Revenue		
Revenue for reportable segments excluding other revenue	**23,068,173**	18,974,570
Other revenue	**293,176**	276,542
Elimination of inter-segment revenue	**(7,012,983)**	(6,026,083)
Consolidated turnover	**16,348,366**	13,225,029

	2010 RMB'000	2009 RMB'000
Profit		
Profit for reportable segments excluding other profit	**2,036,892**	1,082,167
Other profit	**3,206**	15,972
Unallocated losses	**(41,426)**	(12,872)
Elimination of inter-segment profit	**(3,621)**	(1,283)
Consolidated gross profit	**1,995,501**	1,083,984
Other income	**4,222**	14,541
Distribution costs	**(212,868)**	(183,227)
Administrative expenses	**(457,861)**	(409,442)
Other expenses	**(219,390)**	(135,453)
Net finance income	**36,428**	16,854
Consolidated profit before taxation	**1,145,582**	387,257

4. SEGMENT REPORTING (Continued)

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

	2010 RMB'000	2009 RMB'000
Assets		
Assets for reportable segments excluding other assets	**2,652,202**	2,930,326
Other assets	**1,029,268**	931,449
Unallocated assets	**1,112,111**	1,222,917
Elimination of inter-segment balances	**(3,644)**	(1,762)
	4,789,937	5,082,930
Other non-current assets	**854,635**	490,066
Available-for-sale financial assets	**–**	700,000
Investments held for trading	**699,713**	–
Trade and other receivables	**1,588,527**	1,405,519
Deposits with banks and other financial institutions	**443,456**	559,600
Cash and cash equivalents	**2,025,932**	774,767
Consolidated total assets	**10,402,200**	9,012,882

	2010 RMB'000	2009 RMB'000
Depreciation and amortisation		
Depreciation and amortisation for reportable segments excluding other depreciation and amortisation	**363,890**	418,674
Other depreciation and amortisation	**94,190**	90,395
Unallocated depreciation and amortisation	**30,217**	29,411
Consolidated total depreciation and amortisation	**488,297**	538,480

4. SEGMENT REPORTING (Continued)

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

	2010 RMB'000	2009 RMB'000
Impairment of PP&E		
Impairment of PP&E for reportable segments excluding other impairment of PP&E	**216,078**	138,174
Other impairment of PP&E	**637**	1,917
Unallocated impairment of PP&E	**6,981**	862
Consolidated total impairment of PP&E	**223,696**	140,953

	2010 RMB'000	2009 RMB'000
Write-down of inventories		
Write-down of inventories for reportable segments excluding other write-down of inventories	**–**	19,892
Other write-down of inventories	**12,401**	–
Unallocated write-down of inventories	**33,230**	–
Consolidated total write-down of inventories	**45,631**	19,892

5. TURNOVER

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

6. OTHER EXPENSES

	2010 RMB'000	2009 RMB'000
Net gain on sale of property, plant and equipment	**(8,620)**	(5,984)
Impairment losses of property, plant and equipment *(note 13(c))*	**223,696**	140,953
Others	**4,314**	484
	219,390	135,453

7. PROFIT BEFORE TAXATION

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

(a) Net finance income

	2010 RMB'000	2009 RMB'000
Interest income	**(33,330)**	(21,896)
Investment income	**(832)**	–
Gain on changes in fair value of investments held for trading	**(310)**	–
Net foreign exchange gain	**(4,247)**	(5,876)
Finance income	**(38,719)**	(27,772)
Interest expense	**558**	8,656
Others	**1,733**	2,262
Finance expenses	**2,291**	10,918
	(36,428)	(16,854)

(b) Other items

	2010 RMB'000	2009 RMB'000
Cost of inventories#	**14,353,315**	12,141,045
Staff costs:		
– wages and salaries, welfare and other costs	**605,907**	557,153
– contributions to defined contribution schemes	**207,445**	171,309
– employee reduction expenses	**592**	1,909
Total staff costs#	**813,944**	730,371
Depreciation#	**485,054**	535,237
Repairs and maintenance expenses#	**316,931**	288,212
Research and development expenses	**54,008**	31,291
Auditors' remuneration – audit services	**4,900**	4,900
Recognition/(reversal) of impairment losses of trade and other receivables	**4,488**	(2,149)
Amortisation of lease prepayments	**3,243**	3,243

Cost of inventories includes RMB 1,269,347,000 (2009: RMB 1,245,437,000) relating to staff costs, depreciation and repairs and maintenance expenses which amount is also included in the respective total amounts disclosed separately in note 7(b) for each of these types of expenses.

8. INCOME TAX

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

	2010 RMB'000	2009 RMB'000
Current tax		
Provision for the year	109,937	–
Deferred tax		
Recognition of deferred tax assets	(196,891)	–
Reversal of deferred tax assets	1,310	1,310
	(85,644)	1,310

The charge for PRC income tax is calculated at the rate of 25% (2009: 25%) on the estimated assessable income of the year determined in accordance with relevant income tax rules and regulations. The Group did not carry out business in Hong Kong or overseas and therefore does not incur Hong Kong Profits Tax or overseas income taxes.

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

	2010 RMB'000	2009 RMB'000
Profit before taxation	1,145,582	387,257
Expected income tax using the Group's tax rate of 25%	286,396	96,815
Recognition of previously unrecognised deductible temporary differences	(166,569)	–
Tax effect of deductible temporary differences not recognised as deferred tax assets	–	29,744
Utilisation of previously unrecognised unused tax losses	(204,916)	(126,427)
Tax effect of non-deductible expenses	672	1,178
Tax effect of additional deductible expenses	(1,227)	–
Actual income tax	(85,644)	1,310

(b) Current taxation in the statement of financial position represents:

	The Group and the Company	
	2010 RMB'000	2009 RMB'000
Income tax provision for the year	109,937	–

8. INCOME TAX (Continued)

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

	The Group and the Company				
	Balance at 1 January 2009 *RMB'000*	Recognised in statement of comprehensive income *RMB'000*	Balance at 31 December 2009 *RMB'000*	Recognised in statement of comprehensive income *RMB'000*	**Balance at 31 December 2010** ***RMB'000***
Current					
Provisions, primarily for receivables and inventories	–	–	–	10,357	**10,357**
Accrued expenses	–	–	–	6,411	**6,411**
Accrued sales rebate	–	–	–	11,783	**11,783**
Non-current					
Revaluation of land use rights	45,620	(1,310)	44,310	(1,310)	**43,000**
Impairment for property, plant and equipment	–	–	–	108,408	**108,408**
Impairment for investment in subsidiary	–	–	–	54,871	**54,871**
Deferred income	–	–	–	5,061	**5,061**
	45,620	(1,310)	44,310	195,581	**239,891**

In accordance with the accounting policy set out in note 2(v), the Group has not recognised deferred tax assets in respect of deductible temporary differences amounting to RMB 275,604,000 (2009: RMB 899,762,000) and cumulative unutilised tax losses amounting to RMB 313,425,000 (2009: RMB 1,054,566,000), as it is not probable that future taxable profits against which the temporary differences can be deducted and the losses can be utilised will be available in the relevant tax jurisdiction.

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

	RMB'000
2011	76,681
2012	49,054
2013	76,159
2014	73,894
2015	37,637
Total	313,425

9. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

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

Name	Fees		Basic salaries, allowance and bonus		Retirement scheme contributions		Total	
	2010 RMB'000	2009 RMB'000	**2010 RMB'000**	2009 RMB'000	**2010 RMB'000**	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
Directors:								
Lu Li-yong	**–**	–	**120**	–	**8**	–	**128**	–
Qian Heng-ge	**–**	–	**253**	264	**19**	15	**272**	279
Sun Zhi-hong	**–**	–	**276**	264	**–**	–	**276**	264
Xiao Wei-zhen	**–**	–	**276**	264	**19**	15	**295**	279
Long Xing-ping	**–**	–	**233**	221	**–**	–	**233**	221
Zhang Hong	**–**	–	**233**	221	**–**	–	**233**	221
Guan Diao-sheng	**–**	–	**–**	–	**–**	–	**–**	–
Qin Wei-zhong	**–**	–	**–**	–	**–**	–	**–**	–
Shen Xi-jun	**–**	–	**233**	221	**19**	15	**252**	236
Independent non-executive directors:								
Shi Zhen-hua	**50**	50	**–**	–	**–**	–	**50**	50
Qiao Xu	**50**	50	**–**	–	**–**	–	**50**	50
Yang Xiong-sheng	**50**	50	**–**	–	**–**	–	**50**	50
Chen Fang-zheng	**50**	50	**–**	–	**–**	–	**50**	50
Supervisors:								
Cao Yong	**–**	–	**233**	221	**19**	15	**252**	236
Tao Chun-sheng	**–**	–	**158**	158	**19**	15	**177**	173
Chen Jian	**–**	–	**233**	221	**–**	–	**233**	221
Shi Gang	**40**	40	**–**	–	**–**	–	**40**	40
Wang Bing	**40**	40	**–**	–	**–**	–	**40**	40
Senior management:								
Zhang Zhong-an	**–**	–	**233**	221	**19**	15	**252**	236
Li Jian-xin	**–**	–	**233**	221	**19**	15	**252**	236
Li Jian-ping	**–**	–	**233**	221	**23**	20	**256**	241
Wu Chao-yang	**–**	–	**158**	158	**19**	15	**177**	173
	280	280	**3,105**	2,876	**183**	140	**3,568**	3,296

For the years ended 31 December 2010 and 2009, no emolument was paid to directors or supervisors as an inducement to join or upon joining the Company or as compensation for loss of office.

(b) Five individuals with highest emoluments

The five individuals with highest emoluments of the Company in 2010 and 2009 were executive directors, supervisors and senior management whose total emoluments have been shown above.

10. PROFIT AND TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit and total comprehensive income attributable to equity shareholders of the Company includes a profit of RMB 1,233,107,000 (2009: RMB 387,709,000) which has been dealt with in the financial statements of the Company.

11. DIVIDENDS

Pursuant to a resolution passed at the directors' meeting on 28 March 2011, a final dividend of RMB 0.03 per share totaling RMB 120,000,000 (2009: nil) was proposed for shareholders' approval at the Annual General Meeting. The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

12. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB 1,231,226,000 (2009: RMB 385,947,000) and the weighted average number of ordinary shares of 4,000,000,000 (2009: 4,000,000,000) in issue during the year.

(b) Diluted earnings per share

There were no dilutive potential ordinary shares in existence during the years ended 31 December 2010 and 2009.

13. PROPERTY, PLANT AND EQUIPMENT

(a) The Group

	Buildings RMB'000	Plant, machinery and equipment RMB'000	Motor vehicl and other fixed assets RMB'000	Total RMB'000
Cost:				
At 1 January 2009	1,945,519	10,033,245	733,805	12,712,569
Additions	–	1,242	4,865	6,107
Transferred from construction in progress *(note 14)*	22,473	159,771	7,846	190,090
Disposals	(11,340)	(173,465)	(28,925)	(213,730)
Additions through acquisition of a subsidiary	153,789	384,887	13,114	551,790
At 31 December 2009	2,110,441	10,405,680	730,705	13,246,826
Transferred from construction in progress *(note 14)*	44,982	285,160	83,728	413,870
Disposals	(978)	(120,576)	(15,627)	(137,181)
At 31 December 2010	2,154,445	10,570,264	798,806	13,523,515
Accumulated depreciation and impairment loss:				
At 1 January 2009	891,896	7,275,710	574,147	8,741,753
Depreciation additions through acquisition of a subsidiary	17,309	86,314	7,415	111,038
Depreciation charge for the year	70,218	427,729	37,290	535,237
Impairment loss additions through acquisition of a subsidiary	6,543	124,237	1,555	132,335
Impairment loss for the year	786	138,104	2,063	140,953
Written back on disposals	(2,250)	(159,559)	(27,592)	(189,401)
At 31 December 2009	984,502	7,892,535	594,878	9,471,915
Depreciation charge for the year	73,025	378,616	33,413	485,054
Impairment loss for the year *(note c)*	485	222,311	900	223,696
Written back on disposals	(289)	(112,809)	(15,220)	(128,318)
At 31 December 2010	**1,057,723**	**8,380,653**	**613,971**	**10,052,347**
Carrying amounts:				
At 31 December 2010	**1,096,722**	**2,189,611**	**184,835**	**3,471,168**
At 31 December 2009	1,125,939	2,513,145	135,827	3,774,911

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

(b) The Company

	Buildings	Plant, machinery and equipment	Motor vehicle and other fixed assets	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost:				
At 1 January 2009	1,945,519	10,033,245	733,805	12,712,569
Additions	–	1,242	4,865	6,107
Transferred from construction in progress *(note 14)*	21,542	159,741	5,813	187,096
Disposals	(3,001)	(161,353)	(26,634)	(190,988)
At 31 December 2009	1,964,060	10,032,875	717,849	12,714,784
Transferred from construction in progress *(note 14)*	44,876	284,660	83,622	413,158
Disposals	(978)	(103,846)	(15,590)	(120,414)
At 31 December 2010	2,007,958	10,213,689	785,881	13,007,528
Accumulated depreciation and impairment loss:				
At 1 January 2009	891,896	7,275,710	574,147	8,741,753
Depreciation charge for the year	63,633	401,686	34,867	500,186
Impairment loss for the year	786	8,941	1,062	10,789
Written back on disposals	(1,287)	(155,421)	(26,114)	(182,822)
At 31 December 2009	955,028	7,530,916	583,962	9,069,906
Depreciation charge for the year	64,415	378,606	32,139	475,160
Impairment loss for the year *(note c)*	485	222,311	900	223,696
Written back on disposals	(289)	(96,580)	(15,184)	(112,053)
At 31 December 2010	**1,019,639**	**8,035,253**	**601,817**	**9,656,709**
Carrying amounts:				
At 31 December 2010	**988,319**	**2,178,436**	**184,064**	**3,350,819**
At 31 December 2009	1,009,032	2,501,959	133,887	3,644,878

(c) In response to the current market environment of bottle-grade polyester chip products, the Group assessed the recoverable amount of its property, plant and equipment in relation to bottle-grade polyester production facilities as at 31 December 2010 and as a result the carrying amount of the production facilities was written down by RMB 201,650,000. The estimate of recoverable amount was based on the value in use of these facilities. In assessing value in use, the pre-tax discount rate used to calculate the present value of estimated future cash flows is 14%.

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

(c) (Continued)

The Group assessed the recoverable amount of certain idle property, plant and equipment as at 31 December 2010 and as a result, the carrying amount of these assets was written down by RMB 22,046,000. The estimate of recoverable amounts was based on the fair values less costs to sell of these assets, determined by reference to the information about the sales of similar assets within the same industry.

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

14. CONSTRUCTION IN PROGRESS

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At 1 January	**325,812**	272,012	**325,812**	272,012
Additions through acquisition of a subsidiary	**–**	1,699	**–**	–
Additions	**586,101**	242,191	**585,389**	240,896
Transferred to property, plant and equipment *(note 13)*	**(413,870)**	(190,090)	**(413,158)**	(187,096)
At 31 December	**498,043**	325,812	**498,043**	325,812

15. LEASE PREPAYMENTS

	The Group and the Company Land use rights	
	2010	2009
	RMB'000	*RMB'000*
Cost:		
At 1 January	**144,190**	144,190
Accumulated amortisation:		
At 1 January	**(24,246)**	(21,003)
Charge for the year	**(3,243)**	(3,243)
At 31 December	**(27,489)**	(24,246)
Net book value:		
At 31 December	**116,701**	119,944

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

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

16. INVESTMENT IN SUBSIDIARY

	The Company	
	2010	2009
	RMB'000	*RMB'000*
Unlisted shares, at cost	**303,361**	303,361
Less: impairment loss	**(303,361)**	(303,361)
	–	–

The following list contains only the particulars of the subsidiary, which is established and operating in the PRC and principally affected the results, assets or liabilities of the Group as at 31 December 2010. The class of shares held is ordinary unless otherwise stated.

Name of company	**Place of incorporation and operation**	**Registered capital** *RMB'000*	**Percentage of equity held by the Company**	**Type of legal entity**	**Principal activity**
YCFC Jingwei Fibre Company Limited ("**YCFC Jingwei**")	PRC	483,672	100%	Limited company	Manufacturing and processing of differentiated polyester textile filament products; conducting research in polyester textile products; sales of self-produced chemical plastic materials and provision of after-sales service

17. INVESTMENTS HELD FOR TRADING

	The Group and the Company	
	2010	2009
	RMB'000	*RMB'000*
Other investments	**699,713**	–

Investments held for trading of the Group and the Company as at 31 December 2010 represents marketable bonds at quoted market price.

18. INVENTORIES

(a) Inventories in the statement of financial position comprise:

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Raw materials	**557,822**	417,496	**553,230**	414,057
Work in progress	**98,159**	95,970	**95,548**	92,040
Finished goods	**462,540**	298,695	**445,389**	272,894
Goods in transit	**124,624**	380,968	**124,624**	380,968
	1,243,145	1,193,129	**1,218,791**	1,159,959
Spare parts and consumables	**75,624**	114,890	**75,624**	113,386
	1,318,769	1,308,019	**1,294,415**	1,273,345
Carrying amounts of inventories stated at net realisable value	**110,220**	148,060	**85,866**	113,386

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

The cost of inventories recognised as an expense in the consolidated statement of comprehensive income amounted to RMB 14,353,315,000 for the year ended 31 December 2010 (2009: RMB 12,141,045,000), which includes the write-down of inventories of RMB 45,631,000 (2009: RMB 19,892,000), and the reversal of write-down of inventories of RMB 27,892,000 (2009: RMB 38,393,000), that mainly was due to the sales of inventories. The write-down of inventories and the reversal of write-down of inventories were recorded in cost of sales in the consolidated statement of comprehensive income.

19. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade receivables	**71,692**	119,614	**69,772**	118,648
Bills receivable	**1,414,970**	1,000,787	**1,414,970**	1,000,787
Amounts due from the parent company and fellow subsidiaries-trade	**3,225**	4,118	**3,225**	4,118
Amounts due from a subsidiary-trade	**–**	–	**267,832**	290,655
	1,489,887	1,124,519	**1,755,799**	1,414,208
Less: allowance for doubtful debts	**–**	–	**(132,154)**	(114,030)
	1,489,887	1,124,519	**1,623,645**	1,300,178
Amounts due from the parent company and fellow subsidiaries – non-trade	**8,688**	10,532	**8,688**	10,532
Other receivables, deposits and prepayments	**95,792**	271,820	**95,742**	271,359
	104,480	282,352	**104,430**	281,891
Less: allowance for doubtful debts	**(5,840)**	(1,352)	**(5,840)**	(1,352)
	98,640	281,000	**98,590**	280,539
	1,588,527	1,405,519	**1,722,235**	1,580,717

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

(a) Ageing analysis

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

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Current	**1,489,887**	1,124,519	**1,623,645**	1,300,178

Trade receivables, amounts due from the parent company and fellow subsidiaries-trade and amounts due from a subsidiary-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.

19. TRADE AND OTHER RECEIVABLES (Continued)

(b) Impairment of trade receivables and bills receivable

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

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

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At 1 January	**1,352**	3,819	**115,382**	3,819
Impairment losses recognized/(reversed)	**4,488**	(2,149)	**22,612**	111,881
Uncollectible amounts written off	**–**	(318)	**–**	(318)
At 31 December	**5,840**	1,352	**137,994**	115,382

At 31 December 2010, the Group's trade and other receivables of RMB 5,840,000 was collectively determined to be impaired (2009: RMB 1,352,000).

At 31 December 2010, the Company's trade and other receivables of RMB 132,154,000 was individually determined to be impaired (2009: RMB 114,030,000) and RMB 5,840,000 was collectively determined to be impaired (2009: RMB 1,352,000).

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

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

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Neither past due nor impaired	**1,489,887**	1,124,519	**1,623,645**	1,300,178

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

20. DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Balances with banks and other financial institutions, which are related parties				
– Sinopec Finance Company Limited ("**Sinopec Finance**")	**–**	200,000	**–**	200,000
– China CITIC Bank	**–**	–	**–**	–
Balances with banks in the PRC (excluding China CITIC Bank)	**443,456**	359,600	**443,456**	359,600
	443,456	559,600	**443,456**	559,600

As at 31 December, maturity analysis of deposits with banks and other financial institutions is as follows:

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Due within three months	**295,000**	270,600	**295,000**	270,600
Due after three months but within six months	**148,456**	268,000	**148,456**	268,000
Due after six months but within one year	**–**	21,000	**–**	21,000
	443,456	559,600	**443,456**	559,600

The above deposits with banks and other financial institutions are with an initial term of more than three months and bear fixed interest rates ranging from 1.98% to 2.25% per annum (2009: 1.71% to 2.25% per annum).

21. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash in hand	**23**	90	**23**	90
Balances with banks and other financial institutions with an initial term less than three months	**2,025,909**	774,677	**2,025,909**	768,295
Cash and cash equivalents in the statement of financial position	**2,025,932**	774,767	**2,025,932**	768,385
Investments held for trading with an initial term less than three months	**297,870**	–		
Cash and cash equivalents in the consolidated cash flow statement	**2,323,802**	774,767		

22. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Bills payable	**–**	240,000	**–**	240,000
Trade payables	**563,091**	524,906	**539,950**	503,726
Amounts due to the parent company and fellow subsidiaries-trade	**1,079,833**	926,871	**1,079,833**	926,871
Amounts due to a subsidiary-trade	**–**	–	**1,893**	22,729
	1,642,924	1,691,777	**1,621,676**	1,693,326
Amounts due to the parent company and fellow subsidiaries-non-trade	**11,865**	15,575	**11,865**	15,575
Other payables and accrued expenses	**433,895**	366,597	**440,505**	367,395
	2,088,684	2,073,949	**2,074,046**	2,076,296

22. TRADE AND OTHER PAYABLES (Continued)

As at 31 December, the maturity analysis of bills payable and trade payables is as follows:

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Due within 1 month or on demand	**563,091**	644,906	**539,950**	623,726
Due after 1 month but within 3 months	**–**	120,000	**–**	120,000
	563,091	764,906	**539,950**	743,726

As at 31 December, the maturity analysis of amounts due to the parent company and fellow subsidiaries-trade and amounts due to a subsidiary-trade is as follows:

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Due within 1 month or on demand	**1,079,833**	926,871	**1,081,726**	949,600

23. DEFERRED INCOME

	The Group and the Company	
	2010	2009
	RMB'000	*RMB'000*
At 1 January	**21,256**	15,000
Government grants received during the year	**39,630**	7,000
Recognised in the statement of comprehensive income for the year	**(1,012)**	(744)
At 31 December	**59,874**	21,256

The grants were recognised initially as deferred income and were amortised in profit or loss on a straight line basis over the useful life of the related assets when they were ready for use.

24. SHARE CAPITAL

	The Group and the Company	
	2010	2009
	RMB'000	*RMB'000*
Registered, issued and paid up capital:		
2,400,000,000 "Domestic non-public legal person A" shares of RMB 1 each	**2,400,000**	2,400,000
200,000,000 "Social public A" shares of RMB 1 each	**200,000**	200,000
1,400,000,000 "H" shares of RMB 1 each	**1,400,000**	1,400,000
	4,000,000	4,000,000

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

Capital management

In order to maintain or adjust the capital structure, the Group may issue new shares, adjust the capital expenditure plan, sell assets to reduce liabilities or adjust the proportion of short-term and long-term loans. The Group monitors capital on the basis of debt-to-equity ratio, which is calculated by dividing long-term loans (excluding current portion) by the total of equity attributable to equity shareholders of the Company and long-term loans (excluding current portion), and liability-to-asset ratio, which is calculated by dividing total liabilities by total assets. The Group's strategy is to make appropriate adjustments according to the operating and investment needs and the changes of market conditions, and to maintain the debt-to-equity ratio and the liability-to-asset ratio at a range considered as reasonable by management. As at 31 December 2010, the debt-to-equity ratio and the liability-to-asset ratio of the Group were nil (2009: nil) and 21.7% (2009: 23.3%) respectively.

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

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

25. RESERVES

	The Group and the Company				
	Capital reserve	**Excess over share capital**	**Statutory surplus reserve**	**Discretionary surplus reserve**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(note (a))	*(note (b),(d))*	*(note (c),(d))*	
At 1 January 2009	28,339	(204,415)	861,457	594,547	1,279,928
Make good of losses by surplus reserve	–	–	(861,457)	(594,547)	(1,456,004)
At 1 January 2010 and 31 December 2009	28,339	(204,415)	–	–	(176,076)
Appropriation of statutory surplus reserve	–	–	116,843	–	116,843
At 31 December 2010	**28,339**	**(204,415)**	**116,843**	**–**	**(59,233)**

Notes:

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

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

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

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

(d) Pursuant to the resolution by the shareholders on 5 June 2009, the Group and the Company used the statutory surplus reserve and discretionary surplus reserve under the PRC ASBE amounting to RMB 1,456,004,000 to make good of previous years' losses.

26. RETAINED PROFITS

	The Group RMB'000	The Company RMB'000
Accumulated losses at 1 January 2009	(1,272,229)	(1,272,229)
Make good of losses by surplus reserve	1,456,004	1,456,004
Total comprehensive income for the year	385,947	387,709
Retained profits at 31 December 2009	569,722	571,484
Total comprehensive income for the year	1,231,226	1,233,107
Statutory surplus reserve appropriated	(116,843)	(116,843)
Retained profits at 31 December 2010	**1,684,105**	**1,687,748**

According to the Company's Articles of Association, the amount of retained profits available for distribution to shareholders of the Company is the lower of the amount determined in accordance with the PRC ASBE and the amount determined in accordance with IFRSs. As at 31 December 2010, the amount of retained profits, which was the amount determined in accordance with the PRC ASBE, was RMB 1,051,588,000 (2009: accumulated losses RMB 59,992,000). Final dividend for the year ended 31 December 2010 of RMB 120,000,000 (2009: nil) proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

27. RETIREMENT BENEFITS

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

Administrator	Beneficiary	Contribution rate 2010	2009
Yizheng Municipal Government, Jiangsu Province	Employees of the Company	**20%**	20%

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

In addition, the Group provides a supplementary retirement plan for its staff at rate 5% of the salaries. The Group has no other material obligation for the payment of retirement benefits associated with this scheme beyond the annual contributions described above.

28. RELATED PARTY TRANSACTIONS

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

Sinopec Finance, China CITIC Bank and other subsidiaries of CPC, Sinopec Corp. and CITIC Group are considered to be related parties as they are subject to the common control and/or significant influence of CPC, Sinopec Corp. or CITIC Group.

YCFC Jingwei was considered to be a related party prior to 2 March 2009 as it was a jointly controlled entity of which the Company and the other venture have the ability to exercise jointly control over it.

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

	2010	2009
	RMB'000	*RMB'000*
Sinopec Corp. and its subsidiaries		
Purchase of raw materials	**7,085,054**	6,551,403
Service fee charges paid	**60,492**	24,400
Sinopec Finance		
Interest income received	**5,879**	3,107
CPC and its subsidiaries (excluding Sinopec Corp. and its subsidiaries and Sinopec Finance)		
Sales of goods	**235,068**	204,110
Miscellaneous service fee charges paid	**5,990**	12,050
Construction and overhaul fee paid	**13,886**	34,000
Insurance premium paid	**2,902**	7,390
China CITIC Bank		
Interest income received	**735**	1,672
Interest expense paid	**–**	4
YCFC Jingwei		
Sales of goods	**–**	90,348

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

28. RELATED PARTY TRANSACTIONS (Continued)

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

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

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

– depositing money;

– borrowing loans; and

– discounting bills.

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

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

	2010	2009
	RMB'000	*RMB'000*
Interest income received	**26,716**	17,118
Interest expense paid	**558**	8,652

(c) Key management personnel compensation

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

	2010	2009
	RMB'000	*RMB'000*
Short-term employee benefits	**3,385**	3,156
Retirement scheme contributions	**183**	140

(d) Contributions to defined contribution retirement schemes

The Group participates in various defined contribution retirement schemes organised by municipal governments for its staff. The details of the Group's employee benefits plans are disclosed in note 27.

29. CAPITAL COMMITMENTS

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

	The Group and the Company	
	2010	2009
	RMB'000	*RMB'000*
Contracted for	**445,056**	–
Authorised but not contracted for	**967,743**	118,103
	1,412,799	118,103

30. CONTINGENT LIABILITY

With respect to uncertainties about enterprise income tax differences arising from 2006 and before as originated from a tax circular (Circular No.664) issued by the State Administrative of Taxation in June 2007, the Company has been informed by the relevant tax authority to settle the enterprise income tax ("EIT") for 2007 at a rate of 33 percent and for 2008 and thereafter at a rate of 25 percent. To date, the Company has not been requested to pay additional EIT in respect of any years prior to 2007. There is no further development of this matter during the year ended 31 December 2010. No provision has been made in the annual financial report for this uncertainty for tax years prior to 2007 because management believes it cannot reliably estimate the amount of the obligation, if any, that might exist.

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES

(a) Overview

Financial assets of the Group include cash and cash equivalents, deposits with banks and other financial institutions, available-for-sale financial assets, investments held for trading and trade and other receivables. Financial liabilities of the Group include trade and other payables. The Group has no derivative instruments that are designated and qualified as hedging instruments at 31 December 2010 and 2009.

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

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

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

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

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(b) Credit risk

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

The majority of the Group's trade and other receivables relate to sales of chemical fibre products to related parties and third parties operating in the consumer product industries. The Group performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on trade receivables. The Group maintains an impairment loss for doubtful debts and actual losses have been within management's expectations. No single customer accounted for greater than 10% of total revenues.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 19.

At 31 December 2010, the Group had a certain concentration of credit risk, as 53.1% (2009: 72.9%) of the total trade receivables was due from the Group's five largest customers.

The carrying amounts of cash and cash equivalents, deposits with banks and other financial institutions, available-for-sale financial assets, investments held for trading and trade and other receivables represent the Group's maximum exposure to credit risk in relation to financial assets.

(c) Liquidity risk

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

The maturity analysis of trade and other payables is disclosed in note 22. Trade and other payables are normally expected to be settled within one year after receipt of goods or services.

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(d) Interest rate risk

Except for deposits with banks and other financial institutions with fixed interest rates (note 20), the Group has no other significant interest-bearing assets and liabilities. The Group's income and operating cash flows are substantially independent of changes in market interest rates.

The following table details the interest rate profile of the Group's and the Company's interest-bearing financial instruments at the end of the reporting period:

The Group

	2010		2009	
	Effective interest rate		Effective interest rate	
	%	***RMB'000***	*%*	*RMB'000*
Fixed rate instruments				
Deposits with banks and other financial institutions *(note 20)*	**1.98%~2.25%**	**443,456**	1.71%~2.25%	559,600
Variable rate instruments				
Cash at banks and other financial institutions with an initial term of less than three months *(note 21)*	**0.36%**	**2,025,909**	0.36%	774,677

The Company

	2010		2009	
	Effective interest rate		Effective interest rate	
	%	***RMB'000***	*%*	*RMB'000*
Fixed rate instruments				
Deposits with banks and other financial institutions *(note 20)*	**1.98%~2.25%**	**443,456**	1.71%~2.25%	559,600
Variable rate instruments				
Cash at banks and other financial institutions with an initial term of less than three months *(note 21)*	**0.36%**	**2,025,909**	0.36%	768,295

At 31 December 2010, it is estimated that a general increase/decrease of 100 basis points in variable interest rates, with all other variables held constant, would increase/decrease the Group's profit for the year and retained profits by approximately RMB 20,259,000 (2009: RMB 7,747,000) (the related income tax impact was not considered). This sensitivity analysis has been determined assuming that the change in interest rates had occurred at the end of the reporting period and the change was applied to the Group's variable rate instruments outstanding at that date with exposure to cash flow interest rate risk. The analysis is performed on the same basis for 2009.

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(e) Currency risk

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

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

The following table details the Group's and the Company's exposure at the end of the reporting period to currency risk relating principally to its trade and other receivables, cash and cash equivalents and trade and other payables denominated in US$:

The Group

	2010	2009
	US$'000	*US$'000*
Trade and other receivables	**7,584**	12,428
Cash and cash equivalents	**4,851**	6,244
Trade and other payables	**(143,662)**	(116,985)
	(131,227)	(98,313)

The Company

	2010	2009
	US$'000	*US$'000*
Trade and other receivables	**7,297**	12,287
Cash and cash equivalents	**4,851**	6,140
Trade and other payables	**(143,662)**	(116,985)
	(131,514)	(98,558)

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(e) Currency risk (Continued)

A five percent strengthening of Renminbi against US$ at 31 December would have increased profit for the year and retained profits of the Group. This analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period and had been applied to the foreign currency balances to which the Group had significant exposure as stated above, the related income tax impact was not considered, and that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2009.

The Group

	2010	2009
	RMB'000	*RMB'000*
US$	**43,456**	33,565

The Company

	2010	2009
	RMB'000	*RMB'000*
US$	**43,551**	33,649

A five percent weakening of Renminbi against US$ at 31 December would have had the equal but opposite effect to the above, on the basis that all other variables remain constant.

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

(f) Fair values

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

The following table presents the carrying value of financial instruments measured at fair value at the end of the reporting period across the three levels of the fair value hierarchy defined in IFRS 7, Financial Instruments: Disclosures, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments
- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data
- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(f) Fair values (Continued)

	The Group and the Company			
	Level 1	Level 2	Level 3	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Investments held for trading	699,713	–	–	699,713

During the year there were no significant transfers between instruments in Level 1 and Level 2.

(g) Estimation of fair values

The fair value of investments held for trading is determined by reference to the price quoted by active markets.

32. ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

Impairments

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

Depreciation

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

32. ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

Impairment for doubtful debts

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

Allowance for diminution in value of inventories

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

33. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2010

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and interpretations and one new standard which are not yet effective for the year ended 31 December 2010 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Revised IAS 24, *Related party disclosures*	1 January 2011
IFRS 9, *Financial Instruments*	1 January 2013
Improvements to IFRS 2010	1 July 2010 or 1 January 2011
Amendments to IAS 12, *Income taxes*	1 January 2012

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

34. IMMEDIATE AND ULTIMATE CONTROLLING PARTY

As at 31 December 2010, the directors consider the immediate parent and the ultimate controlling party of the Group to be Sinopec Corp. and CPC respectively, which are established in the PRC. The immediate parent produces financial statements available for public use.

Report of the PRC Auditors

KPMG Huazhen

All Shareholders of Sinopec Yizheng Chemical Fibre Company Limited:

We have audited the accompanying financial statements of Sinopec Yizheng Chemical Fibre Company Limited ("the Company"), which comprise the consolidated balance sheet and balance sheet as at 31 December 2010, the consolidated income statement and income statement, the consolidated statement of changes in equity and statement of changes in equity, the consolidated cash flow statement and cash flow statement for the year then ended, and notes to the financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

OPINION

In our opinion, the financial statements comply with the requirements of China Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China and present fairly, in all material respects, the consolidated financial position and financial position of the Company as at 31 December 2010, and the consolidated results of operations and results of operations and the consolidated cash flows and cash flows of the Company for the year then ended.

KPMG Huazhen

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

Beijing, the People's Republic of China

Gong Weili

Chen Jie

28 March 2011

Consolidated Balance Sheet

As at 31 December 2010
(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of renminbi yuan)

Item	Note	2010	2009
Current assets:			
Cash at bank and on hand	5(1)	**2,469,388**	1,334,367
Investments held for trading	5(2)	**699,713**	–
Bills receivable	5(3)	**1,414,970**	1,000,787
Accounts receivable	5(4)	**74,917**	123,022
Prepayments	5(6)	**6,208**	2,734
Other receivables	5(5)	**29,985**	36,224
Inventories	5(7)	**1,318,769**	1,308,019
Available-for-sale financial assets		**–**	700,000
Other current assets	5(8)	**62,443**	242,750
Total current assets		**6,076,393**	4,747,903
Non-current assets:			
Fixed assets	5(9)	**3,413,109**	3,695,828
Construction in progress	5(10)	**498,043**	325,812
Intangible assets	5(11)	**346,766**	376,270
Deferred tax assets	5(12)	**196,891**	–
Total non-current assets		**4,454,809**	4,397,910
Total assets		**10,531,202**	9,145,813

The notes on pages 120 to 198 form part of these financial statements.

Consolidated Balance Sheet (Continued)

As at 31 December 2010
(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of renminbi yuan)

Item	Note	2010	2009
Current liabilities:			
Bills payable	5(14)	**–**	240,000
Accounts payable	5(15)	**1,343,835**	1,181,716
Advances from customers	5(16)	**297,828**	258,915
Employee benefits payable	5(17)	**71,444**	72,122
Taxes payable	5(18)	**125,827**	17,673
Other payables	5(19)	**359,687**	303,523
Provisions	5(20)	**–**	5,198
Total current liabilities		**2,198,621**	2,079,147
Non-current liabilities:			
Deferred income	5(21)	**20,244**	21,256
Total non-current liabilities		**20,244**	21,256
Total liabilities		**2,218,865**	2,100,403
Shareholders' equity:			
Share capital	5(22)	**4,000,000**	4,000,000
Capital reserve	5(23)	**3,146,794**	3,107,164
Specific reserve	5(24)	**755**	–
Surplus reserve	5(25)	**116,843**	–
Retained earnings/(Accumulated losses)	5(26)	**1,047,945**	(61,754)
Total equity		**8,312,337**	7,045,410
Total liabilities and shareholders' equity		**10,531,202**	9,145,813

These financial statements have been approved by the Board of Directors of the Company on 28 March 2011.

Lu Li-yong
Legal Representative

Xiao Wei-zhen
General Manager

Li Jian-ping
Chief Financial Officer

Xu Xiu-yun
Supervisor of the Asset and Accounting Department

The notes on pages 120 to 198 form part of these financial statements.

Balance Sheet

As at 31 December 2010
(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of renminbi yuan)

Item	Note	2010	2009
Current assets:			
Cash at bank and on hand		**2,469,388**	1,327,985
Investments held for trading		**699,713**	–
Bills receivable		**1,414,970**	1,000,787
Accounts receivable	*11(1)*	**208,675**	298,681
Prepayments		**6,208**	2,698
Other receivables	*11(2)*	**29,935**	36,141
Inventories		**1,294,415**	1,273,345
Available-for-sale financial assets		**–**	700,000
Other current assets		**62,443**	242,408
Total current assets		**6,185,747**	4,882,045
Non-current assets:			
Long-term equity investments	*11(3)*	**–**	–
Fixed assets		**3,292,760**	3,565,795
Construction in progress		**498,043**	325,812
Intangible assets		**346,766**	376,270
Deferred tax assets		**196,891**	–
Total non-current assets		**4,334,460**	4,267,877
Total assets		**10,520,207**	9,149,922

The notes on pages 120 to 198 form part of these financial statements.

Balance Sheet (Continued)

As at 31 December 2010
(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of renminbi yuan)

Item	Note	2010	2009
Current liabilities:			
Bills payable		**–**	240,000
Accounts payable		**1,340,094**	1,172,554
Advances from customers		**279,131**	255,284
Employee benefits payable		**71,265**	71,943
Taxes payable		**122,449**	17,347
Other payables		**371,044**	319,168
Provisions		**–**	5,198
Total current liabilities		**2,183,983**	2,081,494
Non-current liabilities:			
Deferred income		**20,244**	21,256
Total non-current liabilities		**20,244**	21,256
Total liabilities		**2,204,227**	2,102,750
Shareholders' equity:			
Share capital		**4,000,000**	4,000,000
Capital reserve		**3,146,794**	3,107,164
Specific reserve		**755**	–
Surplus reserve		**116,843**	–
Retained earnings/(Accumulated losses)		**1,051,588**	(59,992)
Total equity		**8,315,980**	7,047,172
Total liabilities and shareholders' equity		**10,520,207**	9,149,922

These financial statements have been approved by the Board of Directors of the Company on 28 March 2011.

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

The notes on pages 120 to 198 form part of these financial statements.

Consolidated Income Statement

For the year ended 31 December 2010
(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of renminbi yuan)

Item			Note	2010	2009
1.	Operating income		5(27)	**16,348,366**	13,225,029
2.	Operating costs		5(27)	**13,949,852**	11,801,291
	Business taxes and surcharges		5(28)	**41,656**	31,650
	Selling and distribution expenses		5(29)	**212,868**	183,227
	General and administrative expenses		5(30)	**775,543**	705,042
	Net financial income		5(31)	**(35,286)**	(16,854)
	Impairment losses		5(34)	**273,815**	158,696
	Add:	Gains from changes in fair value	5(32)	**310**	–
		Investment income	5(33)	**832**	–
3.	Operating profit			**1,131,060**	361,977
	Add:	Non-operating income	5(35)	**14,658**	24,288
	Less:	Non-operating expenses	5(36)	**6,130**	4,247
		Including: Losses from disposal of non-current assets		**1,816**	1,702
4.	Profit before income tax			**1,139,588**	382,018
	Less:	Income tax expenses	5(37)	**(86,954)**	–
5.	Net profit for the year			**1,226,542**	382,018
	Attributable to shareholders of the Company			**1,226,542**	382,018
6.	Earnings per share				
	(1)	Basic earnings per share (in RMB)	5(38)	**0.307**	0.096
	(2)	Diluted earnings per share (in RMB)	5(38)	**0.307**	0.096
7.	Other comprehensive income for the year			**–**	–
8.	Total comprehensive income for the year			**1,226,542**	382,018
	Attributable to shareholders of the Company			**1,226,542**	382,018

These financial statements have been approved by the Board of Directors of the Company on 28 March 2011.

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

The notes on pages 120 to 198 form part of these financial statements.

Income Statement

For the year ended 31 December 2010
(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of renminbi yuan)

Item			Note	2010	2009
1.	Operating income		11(4)	**16,164,673**	13,068,874
	Less:	Operating costs	11(4)	**13,773,821**	11,629,474
		Business taxes and surcharges		**40,030**	30,797
		Selling and distribution expenses		**201,699**	171,741
		General and administrative expenses		**754,401**	683,978
		Net financial income		**(35,236)**	(20,652)
		Impairment losses		**291,939**	209,998
	Add:	Gains from changes in fair value		**310**	–
		Investment income	11(5)	**832**	–
2.	Operating profit			**1,139,161**	363,538
	Add:	Non-operating income		**8,012**	24,123
	Less:	Non-operating expenses		**5,704**	3,881
		Including: Losses from disposal of non-current assets		**1,816**	1,702
3.	Profit before income tax			**1,141,469**	383,780
	Less:	Income tax expenses		**(86,954)**	–
4.	Net profit for the year			**1,228,423**	383,780
5.	Other comprehensive income for the year			**–**	–
6.	Total comprehensive income for the year			**1,228,423**	383,780

These financial statements have been approved by the Board of Directors of the Company on 28 March 2011.

Lu Li-yong
Legal Representative

Xiao Wei-zhen
General Manager

Li Jian-ping
Chief Financial Officer

Xu Xiu-yun
Supervisor of the Asset and Accounting Department

The notes on pages 120 to 198 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2010
(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of renminbi yuan)

Item		Note	2010	2009
1.	**Cash flows from operating activities:**			
	Cash received from sale of goods and rendering of services		**17,320,331**	14,966,706
	Refund of taxes		**3,851**	16,823
	Sub-total of cash inflows		**17,324,182**	14,983,529
	Cash paid for goods and services		**(13,913,129)**	(11,970,533)
	Cash paid to and for employees		**(757,965)**	(721,919)
	Cash paid for all types of taxes		**(439,679)**	(364,183)
	Cash paid relating to other operating activities	*5(39)(a)*	**(612,604)**	(618,034)
	Sub-total of cash outflows		**(15,723,377)**	(13,674,669)
	Net cash inflow from operating activities	*5(40)(a)*	**1,600,805**	1,308,860
2.	**Cash flows from investing activities:**			
	Cash received from disposal of investment		**700,873**	–
	Net cash received from disposal of fixed assets		**17,483**	10,260
	Cash received relating to other investing activities	*5(39)(b)*	**33,330**	28,896
	Sub-total of cash inflows		**751,686**	39,156
	Cash paid for acquisition of fixed assets		**(557,656)**	(192,539)
	Cash paid for acquisition of investments held for trading		**(401,574)**	–
	Cash paid for acquisition of available-for-sale financial assets		**–**	(700,000)
	Net cash paid for acquisition of a subsidiary		**–**	(18,414)
	Sub-total of cash outflows		**(959,230)**	(910,953)
	Net cash outflow from investing activities		**(207,544)**	(871,797)

The notes on pages 120 to 198 form part of these financial statements.

(Expressed in thousands of renminbi yuan)

Item		Note	2010	2009
3.	**Cash flows from financing activities:**			
	Cash received from government		**39,630**	–
	Sub-total of cash inflows		**39,630**	–
	Cash repayments of borrowings		**–**	(334)
	Cash paid for interest		**–**	(8,656)
	Sub-total of cash outflows		**–**	(8,990)
	Net cash inflow/(outflow) from financing activities		**39,630**	(8,990)
4.	**Effect of exchange rate change on cash and cash equivalents**		**–**	–
5.	**Net increase in cash and cash equivalents**	*5(40)(a)*	**1,432,891**	428,073
	Add: Cash and cash equivalents at the beginning of the year		**1,334,367**	906,294
6.	**Cash and cash equivalents at the end of the year**		**2,767,258**	1,334,367

These financial statements have been approved by the Board of Directors of the Company on 28 March 2011.

Lu Li-yong
Legal Representative

Xiao Wei-zhen
General Manager

Li Jian-ping
Chief Financial Officer

Xu Xiu-yun
Supervisor of the Asset and Accounting Department

The notes on pages 120 to 198 form part of these financial statements.

Cash Flow Statement

For the year ended 31 December 2010
(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of renminbi yuan)

Item		Note	2010	2009
1.	**Cash flows from operating activities:**			
	Cash received from sale of goods and rendering of services		**17,002,277**	14,629,701
	Refund of taxes		**216**	14,180
	Sub-total of cash inflows		**17,002,493**	14,643,881
	Cash paid for goods and services		**(13,702,510)**	(11,775,398)
	Cash paid to and for employees		**(672,769)**	(650,242)
	Cash paid for all types of taxes		**(425,602)**	(348,567)
	Cash paid relating to other operating activities		**(588,926)**	(534,213)
	Sub-total of cash outflows		**(15,389,807)**	(13,308,420)
	Net cash inflow from operating activities	*11(6)*	**1,612,686**	1,335,461
2.	**Cash flows from investing activities:**			
	Cash received from disposal of investment		**700,873**	–
	Net cash received from disposal of fixed assets		**11,637**	16,211
	Cash received relating to other investing activities		**32,964**	28,432
	Sub-total of cash inflows		**745,474**	44,643
	Cash paid for acquisition of fixed assets		**(556,943)**	(192,011)
	Cash paid for acquisition of investments held for trading		**(401,574)**	–
	Cash paid for acquisition of available-for-sale financial assets		**–**	(700,000)
	Net cash paid for acquisition of a subsidiary		**–**	(61,525)
	Sub-total of cash outflows		**(958,517)**	(953,536)
	Net cash outflow from investing activities		**(213,043)**	(908,893)

The notes on pages 120 to 198 form part of these financial statements.

Cash Flow Statement (Continued)

For the year ended 31 December 2010
(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of renminbi yuan)

Item		Note	2010	2009
3.	**Cash flows from financing activities:**			
	Cash received from government		**39,630**	–
	Sub-total of cash inflows		**39,630**	–
	Cash paid for interest		**–**	(4,877)
	Sub-total of cash outflows		**–**	(4,877)
	Net cash inflow/(outflow) from financing activities		**39,630**	(4,877)
4.	**Effect of exchange rate change on cash and cash equivalents**		**–**	–
5.	**Net increase in cash and cash equivalents**	*11(6)*	**1,439,273**	421,691
	Add: Cash and cash equivalents at the beginning of the year		**1,327,985**	906,294
6.	**Cash and cash equivalents at the end of the year**		**2,767,258**	1,327,985

These financial statements have been approved by the Board of Directors of the Company on 28 March 2011.

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

The notes on pages 120 to 198 form part of these financial statements.

Consolidated Statement of Changes in Shareholder's Equity

For the year ended 31 December 2010
(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of renminbi yuan)

Item	2010						2009					
	Attributable to shareholders of the Company						Attributable to shareholders of the Company					
	Share capital	Capital reserve	Specific reserve	Surplus reserve	(Accumulated losses)/ Retained earnings	Total equity	Share capital	Capital reserve	Specific reserve	Surplus reserve	Accumulated losses	Total equity
1. Balance at the beginning of the year	4,000,000	3,107,164	-	-	(61,754)	7,045,410	4,000,000	3,107,164	–	1,456,004	(1,899,776)	6,663,392
2. Changes in equity for the year												
(1) Net profit for the year	-	-	-	-	1,226,542	1,226,542	–	–	–	–	382,018	382,018
(2) Other comprehensive income	-	-	-	-	-	-	–	–	–	–	–	–
(3) Transfer within equity												
Loss covered by surplus reserve	-	-	-	-	-	-	–	–	–	(1,456,004)	1,456,004	–
(4) Shareholders' contribution												
Others	-	39,630	-	-	-	39,630	–	–	–	–	–	–
(5) Appropriation of profit												
Appropriation for surplus reserve	-	-	-	116,843	(116,843)	-	–	–	–	–	–	–
(6) Specific reserve												
Accrued for the year	-	-	755	-	-	755	–	–	–	–	–	–
3. Balance at the end of the year	4,000,000	3,146,794	755	116,843	1,047,945	8,312,337	4,000,000	3,107,164	–	–	(61,754)	7,045,410

These financial statements have been approved by the Board of Directors of the Company on 28 March 2011.

Lu Li-yong
Legal Representative

Xiao Wei-zhen
General Manager

Li Jian-ping
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Xu Xiu-yun
Supervisor of the Asset and Accounting Department

The notes on pages 120 to 198 form part of these financial statements.

Statement of Changes in Shareholder's Equity

For the year ended 31 December 2010
(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of renminbi yuan)

Item	2010						2009					
	Share capital	Capital reserve	Specific reserve	Surplus reserve	(Accumulated losses)/ Retained earnings	Total equity	Share capital	Capital reserve	Specific reserve	Surplus reserve	Accumulated losses	Total equity
1. Balance at the beginning of the year	4,000,000	3,107,164	-	-	(59,992)	7,047,172	4,000,000	3,107,164	–	1,456,004	(1,899,776)	6,663,392
2. Changes in equity for the year												
(1) Net profit for the year	-	-	-	-	1,228,423	1,228,423	–	–	–	–	383,780	383,780
(2) Other comprehensive income	-	-	-	-	-	-	–	–	–	–	–	–
(3) Transfer within equity Loss covered by surplus reserve	-	-	-	-	-	-	–	–	–	(1,456,004)	1,456,004	–
(4) Shareholders' contribution Others	-	39,630	-	-	-	39,630	–	–	–	–	–	–
(5) Appropriation of profit Appropriation for surplus reserve	-	-	-	116,843	(116,843)	-	–	–	–	–	–	–
(6) Specific reserve Accrued for the year	-	-	755	-	-	755	–	–	–	–	–	–
3. Balance at the end of the year	4,000,000	3,146,794	755	116,843	1,051,588	8,315,980	4,000,000	3,107,164	–	–	(59,992)	7,047,172

These financial statements have been approved by the Board of Directors of the Company on 28 March 2011.

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

The notes on pages 120 to 198 form part of these financial statements.

1. COMPANY STATUS

Sinopec Yizheng Chemical Fibre Company Limited ("**the Company**"), headquartered in Yizheng, Jiangsu Province, was established in the People's Republic of China ("**PRC**") on 31 December 1993 as a joint stock limited company. The immediate parent of the Company is China Petroleum & Chemical Corporation, and the ultimate controlling party of the Company is China Petrochemical Corporation.

The company was a part of the restructuring of Sinopec Asset and Management Corporation Yizheng Branch ("**Yihua Group**") (formerly "Yihua Group Corporation" ("**Yihua**")). On the same date, the principal business undertakings of Yihua together with the relevant assets and liabilities were taken over by the Company.

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(1) Basis of preparation of the financial statements

The financial statements are prepared on a going concern basis.

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

The financial statements have been prepared in accordance with the requirements of "Accounting Standards for Business Enterprises – Basic Standard" and 38 specific accounting standards issued by the Ministry of Finance ("**MOF**") on 15 February 2006, and the application guidance of accounting standards, interpretation of ASBE, and other relevant provisions (hereinafter collectively referred to as "**ASBE**"). These financial statements present truly and completely the consolidated financial position and financial position, the consolidated results of operations and results of operations and the consolidated cash flows and cash flows of the Group and the Company.

These financial statements also comply with the disclosure requirements of "Regulation on the Preparation of Information Disclosures of Companies Issuing Public Shares, No. 15: General Requirements for Financial Reports" as revised by the China Securities Regulatory Commission ("**CSRC**") in 2010.

(3) Accounting year

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

(4) Functional currency

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

(5) Business combination involving entities not under common control

A business combination involving enterprises not under common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties both before and after the business combination. Where 1) the aggregate of the fair value at the acquisition date of assets transferred (including the acquirer's previously held equity interest in the acquiree), liabilities incurred or assumed, and equity securities issued by the acquirer, in exchange for control of the acquiree, exceeds 2) the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised as goodwill. Where 1) is less than 2), the difference is recognised in profit or loss for the current period. Acquisition-related costs arising from the business combination are recognised as expenses in the periods in which the costs are incurred. The difference between the fair value and the carrying amount of the assets transferred is recognised in profit or loss. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

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

In a business combination, the acquiree's deductible temporary differences obtained by the Group are not recognised if the deductible temporary differences do not satisfy the criteria for recognition of deferred tax assets at the acquisition date. The Group recognises the relevant deferred tax assets and reduces goodwill accordingly if within 12 months of the acquisition date, new or updated information indicates that at the acquisition date, the obtained deferred tax benefit is expected to be realised in future periods. If the goodwill is insufficient to be deducted, any remaining deferred tax benefits shall be recognised in profit or loss for the current period. All other acquired deferred tax benefit shall be included in profit or loss for the current period.

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(6) Consolidated financial statements

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

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

For a business combination not involving enterprises under common control and achieved in stages, the Group remeasures its previously-held equity interest in the acquiree to its fair value at the acquisition date. The difference between the fair value and the carrying amount is recognised as investment income for the current period; the amount recognised in other comprehensive income relating to the previously-held equity interest in the acquiree is reclassified as investment income for the current period.

Where the Company acquires a minority interest from a subsidiary's minority shareholders or disposes a portion of an interest in a subsidiary without a change in control, the difference between the amount by which the minority interests are adjusted and the amount of the consideration paid or received is adjusted to the capital reserve in the consolidated balance sheet. If the credit balance of capital reserve is insufficient, any excess is adjusted to retained earnings.

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

(7) Cash and cash equivalents

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

(8) Translation of foreign currencies

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

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

Monetary items denominated in foreign currencies are translated to Renminbi at the spot exchange rate at the balance sheet date. The resulting exchange differences are recognised in profit or loss, except those arising from the principals and interests on foreign currency borrowings specially for the purpose of acquisition, construction of qualifying assets (see Note 2(15)). Non-monetary items denominated in foreign currencies that are measured at historical cost are translated to Renminbi using the foreign exchange rates at the transaction dates.

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(9) Financial instruments

Financial instruments include cash at bank and on hand, investments in debt securities, receivables, available-for-sale financial assets, payables, loans and borrowings, and share capital, etc.

(a) Financial assets and financial liabilities

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

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

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

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

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

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

– Receivables

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

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

– Held-to-maturity investments

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

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

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(9) Financial instruments (Continued)

(a) ***Financial assets and financial liabilities*** (Continued)

– Available-for-sale financial assets

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

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

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

– Other financial liabilities

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

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

Financial assets and financial liabilities are presented separately in balance sheet and are not offset. However, financial assets are offset against financial liabilities if both of criteria are met:

– The Group and the Company has the legally enforceable right to offset financial asset against financial liabilities, and the legal right is currently executable;

– The Group and the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(b) ***Determination of fair values***

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

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

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(9) Financial instruments (Continued)

(c) Derecognition of financial assets and financial liabilities

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

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

– carrying amount of the financial asset transferred;

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

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

(d) Impairment of financial assets

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

Objective evidences of impairment are but not limited to as follows :

(a) significant financial distress of the debtor;

(b) a breach of contract, such as a default or delinquency in interest or principal payments;

(c) it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

(d) the financial assets cannot be trade in active market any more, subject to issuer's financial distress;

(e) the investors of equity instruments may not recover investment cost due to significant changes in the technological, market, economic or legal environment that have an adverse effect on the issuer of equity instruments ; and

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

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(9) Financial instruments (Continued)

(d) *Impairment of financial assets* (Continued)

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

– Held-to-maturity investments

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

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

– Available-for-sale financial assets

Available-for-sale financial assets are assessed for impairment on an individual basis. When an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value that has been recognised directly in equity is removed from equity and recognised in profit or loss even though the financial asset has not been derecognised.

If, after an impairment loss has been recognised on an available-for-sale debt instrument, the fair value of the debt instrument increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. An impairment loss recognised for an investment in an equity instrument classified as available-for-sale is not reversed through profit or loss.

(e) *Equity instruments*

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

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

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(10) Impairment of receivables

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

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

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

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

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

Material items are assessed for impairment on an individual basis.

Recognition or amount criteria of provision for bad and doubtful debts for individually significant receivables	Larger than 5 percent of total receivables
Accrual method of provision for bad and doubtful debts of individually significant receivables	Impairment loss in respect of individually significant receivables is calculated and provided as the excess of its carrying amount over the present value of the estimated future cash flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate.

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

Reasons for providing provision individually for insignificant receivables	Uncollectible receivables due over 1 year or special receivables
Accrual method of provision for bad and doubtful debts of individually insignificant receivables	Impairment loss in respect of individually significant receivables is calculated and provided as the excess of its carrying amount over the present value of the estimated future cash flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate.

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(10) Impairment of receivables (Continued)

(c) Recognition criteria and providing method of provision for bad and doubtful debts of collectively receivables

Receivables with no impairment losses provided on an individual basis in (a) and (b) mentioned above, will be assessed with receivables with similar credit risk characteristics collectively.

Receivables with impairment losses provided on collective group basis are provided by ageing analysis:

Category	Accounts receivable	Other receivables	Prepayments
	(%)	*(%)*	*(%)*
Within 1 year	–	–	–
1 and 2 years (inclusive)	30%	30%	30%
2 and 3 years (inclusive)	60%	60%	60%
Over 3 years	100%	100%	100%

(11) Inventories

(a) Classification of inventories

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

(b) Measurement of cost of inventories

Cost of inventories is calculated using the weighted average method.

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

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

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

Net realisable value is the estimated selling price in the normal course of business less the estimated costs to completion and the estimated expenses and related taxes necessary to make the sale. Net realizable value of raw materials held for production is estimated based on the net realisable value of products produced with the materials. For the inventories held for the implementation of the sales contract or service contract, the net realisable value is calculated on the basis of contract price. When inventories on hand exceed relative contractual orders, net realisable value of the excess part is calculated based on normal price.

Any excess of the cost over the net realisable value of each item of inventories is recognised as a provision for diminution in the value of inventories.

(d) Inventory count

The Group and the Company maintain a perpetual inventory system.

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(11) Inventories (Continued)

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

Reusable materials (including low-value consumables, packaging materials, etc.) are amortised in full when received for use. The amounts of the amortisation are included in the cost of the related assets or profit or loss.

(12) Long-term equity investments

(a) Determination of initial investment cost

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

For a long-term equity investment obtained through a business combination not involving enterprises under common control and achieved in stages, the initial cost comprises the carrying value of previously-held equity investment in the acquire immediately before the acquisition date, and the additional investment cost at the acquisition date. Any amounts recognised in other comprehensive income relating to the previously-held equity interest in the acquiree, are reclassified to profit or loss as investment income when the equity investment is disposed of.

For other long-term equity investments obtained through a business combination involving enterprises not under common control, the initial investment cost represents the aggregate of the fair values of assets transferred, liabilities assumed, and equity securities issued by the Company, in exchange for control of the acquiree.

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

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

(b) Subsequent measurement

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

In the Group's consolidated financial statements, investments in subsidiaries are accounted for in accordance with the principles described in Note 2(6).

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(12) Long-term equity investments (Continued)

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

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

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

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

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

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

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

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

– Whether having significant transactions with the investee;

– Whether having representative in the investee's management;

– Whether providing key technique to investee, and etc.

(d) Impairment of long-term equity investments

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

(13) Fixed assets

(a) Recognition of fixed assets

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

The cost of a purchased fixed asset comprises the purchase price, related taxes, and any directly attributable expenditure for bringing the asset to working condition for its intended use. The recognition of initial cost for self-constructed fixed assets is described Note 2(14).

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(13) Fixed assets (Continued)

(a) Recognition of fixed assets (Continued)

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

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

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

(b) Depreciation method of fixed assets

Fixed assets are depreciated using the straight-line method over their estimated useful lives.

The estimated useful lives, residual values and depreciation rates of each class of fixed assets are as follows:

Category	Estimated useful lives	Residual values	Depreciation rates
Plants and buildings	25-40 years	3%	2.4%-3.9%
Machinery and equipment	8-22 years	3%	4.4%-12.1%
Motor vehicles and other fixed assets	4-10 years	3%	9.7%-24.3%

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

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

(d) Disposal of fixed assets

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

– on disposal; or

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

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

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(14) Construction in progress

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

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

(15) Borrowing costs

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

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

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(16) Intangible assets

Intangible assets are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note 2(17)). For an intangible asset with finite useful life, its cost less residual value and impairment loss is amortised on a straight-line method over its estimated useful life.

The respective amortisation periods for such intangible assets are as follows:

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

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

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

Expenditures on research phase are recognised in profit or loss when incurred. Expenditures on development phase are capitalised if development costs can be measured reliably, the product or process is technically and commercially feasible, and the Group and the Company intend to and have sufficient resources to complete the development. Capitalised development costs are stated at cost less impairment losses (see Note 2(17)). Other development expenditures are recognised as expenses in the period in which they are incurred.

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

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

– fixed assets

– construction in progress

– intangible assets

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

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

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

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

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

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

(18) Provision

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

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(19) Revenue

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

(a) Sale of goods

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

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

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

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

(b) Rendering of services

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

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

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

(c) Interest income

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

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(20) Employee benefits

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

(a) Pension benefits

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

(b) Housing fund and other social insurance

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

(c) Termination benefits

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

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

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

(21) Specific reserve

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

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(22) Government grants

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

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

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

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

(23) Deferred tax assets and liabilities

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(24) Dividends appropriated to investors

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

(25) Related parties

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

(a) the Company's parent;

(b) the Company's subsidiaries;

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

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

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

(f) jointly controlled entities of the Group;

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(25) Related parties (Continued)

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

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

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

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

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

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

(26) Segment reporting

Reportable segments are identified based on operating segments which are determined based on the structure of the Group's and the Company's internal organisation, management requirements and internal reporting system. An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the Group's and the Company's management to make decisions about resource to be allocated to the segment and assess its performance, and for which financial information regarding financial position, results of operations and cash flows is available.

Two or more operating segments may be aggregated into a single operating segment if the segments have same or similar economic characteristics and are similar in respect of the nature of each products and service, the nature of production processes, the type or class of customers for the products and services, the methods used to distribute the products or provide the services, and the nature of the regulatory environment.

Inter-segment revenues are measured on the basis of comparable market price for such transactions for segment reporting, and segment accounting policies are consistent with those for the consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES
(Continued)

(27) Significant accounting estimates and judgments

The preparation of financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Notes 10(2) contain information about the assumptions and their risk factors relating to termination benefits and fair value of financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Impairment of receivables

As described in Note 2(10), receivables that are measured at amortisation cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is provided. Objective evidence of impairment includes observable data that comes to the attention of the Group and the Company about loss events such as a significant decline in the estimated future cash flow of an individual debtor or the portfolio of debtors, and significant changes in the financial condition that have an adverse effect on the debtor. If there is an indication that there has been a change in the factors used to determine the provision for impairment, the impairment loss recognised in prior years is reversed.

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

As described in Note 2(17), other assets other than inventories, financial assets and other long-term equity investments are reviewed at each balance sheet date to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, impairment loss is provided.

The recoverable amount of an asset (asset group) is the greater of its net selling price and its present value of expected future cash flows. Since a market price of the asset (asset group) cannot be obtained reliably, the fair value of the asset cannot be estimated reliably. In assessing present value of expected future cash flows, significant judgments are exercised over the asset (asset group)'s production, selling price, related operating expenses and discount rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the production, selling price and related operating expenses based on reasonable and supportable assumption.

(c) Depreciation and amortisation

As described in Note 2(13) and (16) fixed assets and intangible assets are depreciated and amortised using the straight-line method over their estimated useful lives after taking into account residual value. The useful lives are regularly reviewed to determine the depreciation and amortisation costs charged in each reporting period. The useful lives are determined based on historical experiences of similar assets and the estimated technical changes. If there is an indication that there has been a change in the factors used to determine the depreciation or amortisation, the rate of depreciation or amortisation is revised.

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(27) Significant accounting estimates and judgments (Continued)

(d) Provision for diminution in value of inventories

As described in Note 2(11), if the costs of inventories fall below their net realisable values, a provision for diminution in value of inventories is recognised. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs to completion and the estimated expenses and related taxes necessary to make the sale. The Group and the Company base the estimates on all available information, including the current market prices of the finished goods and raw materials, and historical operating costs. If the actual selling prices were to be lower or the costs of completion were to be higher than estimated, the actual provision for diminution in value of inventories could be higher than estimated.

(28) Changes in significant accounting policies

The Group changed the following significant accounting policies in the current accounting year, in accordance with China Accounting Standards for Business Enterprises Bulletin No. 4, which was issued by the Ministry of Finance in 2010:

Description of and reasons for changes in accounting policies	*Note*	**Procedures for approval**	**Items affected in financial report**	**Amount affected**
The change in accounting treatment for the expenditure of the acquirer in business combinations not involving enterprises under common control	*(i)*	In accordance with relevant laws and regulations	Not applicable	This change of accounting policy has no effect on the financial reports of the Group and the Company on the current or comparative periods.
The change in accounting treatment at the acquisition date for the previously-held equity interests in an acquiree which was acquired through business combinations not involving enterprises under common control and achieved in stages	*(ii)*	Ibid	Not applicable	This change of accounting policy has no effect on the financial reports of the Group and the Company on the current or comparative periods.
The change in accounting treatment for deferred tax assets arising from a business combination	*(iii)*	Ibid	Not applicable	This change of accounting policy has no effect on the financial reports of the Group and the Company on the current or comparative periods.

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(28) Changes in significant accounting policies (Continued)

Notes:

(i) *The change in accounting treatment for the expenditure of the acquirer in business combinations not involving enterprises under common control*

Before 1 January 2010, the Group, as the acquirer, in a business combination not involving enterprises under common control accounted for acquisition-related costs (excluding transaction costs of the issuance of equity or debt securities, same as below) as a part of cost of acquisition. Since 1 January 2010, the Group accounts for these acquisition-related costs as expenses in the periods in which the costs are incurred.

The above change in accounting policy is with effect from 1 January 2010, and no retrospective adjustment has been made by the Group.

(ii) *The change in accounting treatment at the acquisition date for the previously-held equity interests in an acquiree which was acquired through business combinations not involving enterprises under common control and achieved in stages*

Before 1 January 2010, for a business combination not involving enterprises under common control and achieved in stages, the Group adjusted the carrying value of its previously-held equity interest in the acquiree at the acquisition date, which was accounted for using the equity method before the acquisition date, to its initial cost.

As of 1 January 2010, in the Company's separate financial statements, the initial cost of such investment comprises the carrying value of previously-held equity investments in an acquiree immediately before the acquisition date, and the additional investment cost at the acquisition date. Any amounts recognised in other comprehensive income relating to the previously-held equity interest in the acquiree, are reclassified in profit or loss as investment income when the equity investment is disposed of. In the consolidated financial statements, the Group remeasures its previously-held equity interest in the acquiree to its fair value at the acquisition date. The difference between the fair value and the carrying amount are recognised as investment income for the current period; the amount recognised in other comprehensive income relating to the previously-held equity interest in the acquiree is reclassified as investment income for the current period.

The above change in accounting policy is with effect from 1 January 2010, and no retrospective adjustment has been made by the Group.

(iii) *The change in accounting treatment for deferred tax assets arising from a business combination*

Before 1 January 2010, in a business combination, the acquiree's deductible temporary differences obtained by the Group were not recognised if the deductible temporary differences did not satisfy the criteria for recognition of deferred tax assets at the acquisition date. The Group subsequently recognised the relevant deferred tax assets, reduced the income tax expense and reduced the goodwill as if the deferred tax assets were recognised at the acquisition date if the facts proved that the obtained deferred tax benefit was expected to be realised in future periods. The deduction of goodwill was accounted for as an impairment loss in profit or loss for the current period.

Since 1 January 2010, for the situation as mentioned above, the Group recognises the relevant deferred tax assets and reduces goodwill if, within 12 months of the acquisition date, new or updated information indicates that at the acquisition date, the deferred tax benefit obtained is expected to be realised in future periods. If the goodwill is insufficient to be deducted, any remaining deferred tax benefits are recognised in profit or loss for the current period. All other acquired deferred tax benefits reduce the income tax expense.

In consideration that the temporary deductible differences of YCFC Jingwei Chemical Fibre Company Limited ("YCFC Jingwei") (formerly "Yihua UNIFI Fibre Industry Company Limited" ("Yihua UNIFI")) fail to meet the recognition criteria for deferred tax assets at the acquisition date, the Group does not recognise any deferred tax asset relating to YCFC Jingwei's temporary deductible differences at 31 December 2010. Therefore, no retrospective adjustment is applied for the aforesaid change of accounting policy.

The Group's and the Company's changes of accounting policies have no effect on any item in consolidated income statement and income statement of the current period, and the consolidated balance sheet and balance sheet as at 31 December 2010, compared with items in these financial statements assumed that no change of accounting policy has been made.

3. TAXATION

Major taxes and tax rates

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

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

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

4. BUSINESS COMBINATIONS AND THE CONSOLIDATED FINANCIAL STATEMENTS

Status of subsidiary

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

YCFC Jingwei was established in Yizheng City, Jiangsu Province on 28 July 2005, and is principally engaged in manufacturing, processing and sale of differentiated polyester textile filament products, conducting research in polyester textile products, sales of self-produced chemical plastic materials and provision of after-sales service.

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Cash at bank and on hand

Item	2010 Foreign Currency RMB'000	2010 Exchange Rate	2010 RMB equivalents RMB'000	2009 Foreign Currency RMB'000	2009 Exchange Rate	2009 RMB equivalents RMB'000
Cash on hand:						
Renminbi			**23**			90
Cash at bank:						
Renminbi			**1,759,018**			871,655
US Dollars	**4,851**	**6.623**	**32,128**	6,244	6.828	42,634
Deposits with related companies:						
Renminbi			**678,219**			419,988
Total			**2,469,388**			1,334,367

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

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

(2) Investments held for trading

Category	2010 RMB'000	2009 RMB'000
Debt investments held for trading	**699,713**	–

Investment held for trading as at 31 December 2010 represented short-term interest bearing and discounting national bonds that due within one year. The fair value of investments held for trading is determined by reference to the open market price of short-term national bonds as at balance sheet date.

(3) Bills receivable

(a) Bills receivable by category:

Category	2010 RMB'000	2009 RMB'000
Bank acceptance bills	**1,414,970**	1,000,787

All of the above bills are due within six months.

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) Bills receivable (Continued)

(a) Bills receivable by category: (Continued)

At 31 December 2010, the Group did not have outstanding discounted bank acceptance bills (with recourse) (31 December 2009: RMB144,579,000). The Group's outstanding endorsed bank acceptance bills (with recourse) amounted to RMB465,658,000 (31 December 2009: RMB329,656,000). These discounted or endorsed bills are due by 30 June 2011 (31 December 2009: due by 30 June 2010).

As at 31 December 2010 and 31 December 2009, the above bills were not pledged.

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

(b) As at 31 December 2010, the top five items of bills receivable with largest amounts that have been endorsed but still undue are as follows:

	Issuer	Date of issuance	Due date	Amount *RMB'000*	Note
1.	Entity A	10/11/2010	10/02/2011	12,820	Bank acceptance bills
2.	Entity B	12/11/2010	12/02/2011	9,084	Bank acceptance bills
3.	Entity C	23/08/2010	15/01/2011	9,000	Bank acceptance bills
4.	Entity D	26/11/2010	24/02/2011	8,500	Bank acceptance bills
5.	Entity E	15/10/2010	15/01/2011	8,209	Bank acceptance bills
	Total			47,613	

(4) Accounts receivable

(a) Accounts receivable by customer type:

Category	2010 *RMB'000*	2009 *RMB'000*
Amounts due from related parties	**3,225**	3,408
Amounts due from third parties	**71,692**	119,614
Subtotal	**74,917**	123,022
Less: Provision for bad and doubtful debts	**–**	–
Total	**74,917**	123,022

Except for listed in Note 6, no amount due from shareholders who hold 5% or more of the voting rights of the Company is included in the above balance of accounts receivable.

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(4) Accounts receivable (Continued)

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

Category	2010 RMB'000	2009 RMB'000
Within 1 year (inclusive)	**74,917**	123,022
1 and 2 years (inclusive)	**–**	–
2 and 3 years (inclusive)	**–**	–
Over 3 years	**–**	–
Less: Provision	**–**	–
Total	**74,917**	123,022

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

(c) Accounts receivable by category:

Category	Note	2010 Carrying amount Amount RMB'000	2010 Carrying amount Percentage (%)	2010 Provision Amount RMB'000	2010 Provision Percentage (%)	2009 Carrying amount Amount RMB'000	2009 Carrying amount Percentage (%)	2009 Provision Amount RMB'000	2009 Provision Percentage (%)
Accounts receivable with provision provided collectively*		**74,917**	**100**	**–**	**–**	123,022	100	–	–

Note:* The category includes accounts receivable without impairment by individual testing.

Accounts receivable by currency:

	2010 Foreign Currency RMB'000	2010 Exchange Rate	2010 RMB equivalents RMB'000	2009 Foreign Currency RMB'000	2009 Exchange Rate	2009 RMB equivalents RMB'000
RMB			**24,688**			38,164
USD	**7,584**	**6.623**	**50,229**	12,428	6.828	84,858
Total			**74,917**			123,022

During the year ended 31 December 2010, the Group had no individually significant accounts receivable fully or substantially provided for.

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

There is no actual write-off of accounts receivable during the year.

As at 31 December 2010, the Group had no individually significant accounts receivable due over 3 years.

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(4) Accounts receivable (Continued)

(d) ***As at 31 December 2010, accounts receivable due from five biggest debtors are as follows:***

	Name	Relationship	Amount *RMB'000*	Ageing	Percentage of total accounts receivable *(%)*
1.	Entity A	Third Party	13,061	Within 6 months	17.44
2.	Entity B	Third Party	10,432	Within 6 months	13.92
3.	Entity C	Third Party	5,856	Within 6 months	7.82
4.	Entity D	Third Party	5,397	Within 6 months	7.20
5.	Entity E	Third Party	5,062	Within 6 months	6.76
	Total		39,808		53.14

(e) ***Amounts due from related parties:***

Name	Relationship	Amount *RMB'000*	Percentage *(%)*
CPC and its subsidiaries	With a common ultimate holding company	3,225	4.30

(5) Other receivables

(a) ***Other receivables by customer type:***

Category	**2010** ***RMB'000***	2009 *RMB'000*
Amounts due from related parties	**8,688**	10,532
Amounts due from third parties	**27,137**	27,044
Subtotal	**35,825**	37,576
Less: Provision for bad and doubtful debts	**5,840**	1,352
Total	**29,985**	36,224

Except for listed in Note 6, no amount due from shareholders who hold 5% or more of the voting rights of the Company is included in the above balance of other receivables.

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Other receivables (Continued)

(b) The ageing analysis of other receivable is as follows:

Category	2010 RMB'000	2009 RMB'000
Within 1 year (inclusive)	**20,765**	35,588
1 and 2 years (inclusive)	**13,172**	54
2 and 3 years (inclusive)	**–**	1,496
Over 3 years	**1,888**	438
Less: Provision	**5,840**	1,352
Total	**29,985**	36,224

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

(c) Other receivables by category:

		2010				2009			
		Carrying amount		Provision		Carrying amount		Provision	
Category	Note	Amount RMB'000	Percentage (%)	Amount RMB'000	Percentage (%)	Amount RMB'000	Percentage (%)	Amount RMB'000	Percentage (%)
Other receivables with provision provided collectively*	(d)	**35,825**	**100**	**5,840**	**100**	37,576	100	1,352	100

Note:* The category includes other receivables without impairment by individual testing.

The Group had no pledge for other receivables with provision mentioned above.

During the year ended 31 December 2010, the Group had no individually significant other receivables fully or substantially provided for.

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

There is no actual write-off of other receivables during the year.

As at 31 December 2010, the Group had no individually significant other receivables due over 3 years.

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Other receivables (Continued)

(d) ***Other receivables with provision provided collectively by aging analysis:***

Ageing	2010 Carrying amount Amount RMB'000	2010 Carrying amount Percentage (%)	2010 Provision	2009 Carrying amount Amount RMB'000	2009 Carrying amount Percentage (%)	2009 Provision
Within 1 year (inclusive)	**20,765**	**57.96**	**–**	35,588	94.71	–
1 and 2 years (inclusive)	**13,172**	**36.77**	**3,952**	54	0.14	22
2 and 3 years (inclusive)	**–**	**–**	**–**	1,496	3.98	898
Over 3 years	**1,888**	**5.27**	**1,888**	438	1.17	432
Total	**35,825**		**5,840**	37,576		1,352

(e) ***As at 31 December 2010, other receivables due from five biggest debtors are as follows:***

	Name	Relationship	Amount RMB'000	Ageing	Percentage (%)
1.	Entity A	With a common ultimate holding company	7,560	1 and 2 years	21.10
2.	Entity B	Third party	5,612	1 and 2 years	15.66
3.	Entity C	With a common ultimate holding company	1,128	Within 6 months	3.15
4.	Entity D	Third party	522	Within 6 months	1.46
5.	Entity E	Third party	426	Within 6 months	1.19
	Total		15,248		42.56

(f) ***Amounts due from related parties:***

Name	Relationship	Amount RMB'000	Percentage (%)
CPC and its subsidiaries A	With a common ultimate holding company	7,560	21.10
CPC and its subsidiaries B	With a common ultimate holding company	1,128	3.15
Total		8,688	24.25

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(6) Prepayments

(a) Prepayments by category:

Item	2010 RMB'000	2009 RMB'000
Prepayments to related parties	**–**	710
Prepayments to third parties	**6,208**	2,024
Subtotal	**6,208**	2,734
Less: Provision for bad and doubtful debts	**–**	–
Total	**6,208**	2,734

Except for listed in Note 6, no amount due from shareholders who hold 5% or more of the voting rights of the Company is included in the above balance of prepayments.

(b) Prepayments by ageing:

Ageing	2010 Amount RMB'000	2010 Percentage (%)	2009 Amount RMB'000	2009 Percentage (%)
Within 1 year (inclusive)	**6,208**	**100**	2,734	100
1 and 2 years (inclusive)	**–**	**–**	–	–
2 and 3 years (inclusive)	**–**	**–**	–	–
Over 3 years	**–**	**–**	–	–
Total	**6,208**		2,734	

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

(c) As at 31 December 2010, prepayments due from five biggest debtors are as follows:

	Name	Relationship	Amount RMB'000	Percentage (%)	Ageing	Note
1.	Entity A	Third party	1,583	25.50	Within 1 year	Prepayment of freight
2.	Entity B	Third party	1,559	25.11	Within 1 year	Prepayment of project construction
3.	Entity C	Third party	1,380	22.23	Within 1 year	Prepayment of spare parts
4.	Entity D	Third party	1,025	16.51	Within 3 months	Prepayment of project construction
5.	Entity E	Third party	628	10.12	Within 3 months	Prepayment of natural gas
	Total		6,175	99.47		

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(7) Inventories

(a) Inventories by category:

Item	2010 Cost RMB'000	2010 Provision RMB'000	2010 Carrying amount RMB'000	2009 Cost RMB'000	2009 Provision RMB'000	2009 Carrying amount RMB'000
Raw materials	**686,522**	**4,076**	**682,446**	800,940	2,476	798,464
Work in progress	**98,159**	**–**	**98,159**	95,970	–	95,970
Finished goods	**483,436**	**20,896**	**462,540**	307,190	8,495	298,695
Spare parts and consumables	**106,133**	**30,509**	**75,624**	141,661	26,771	114,890
Total	**1,374,250**	**55,481**	**1,318,769**	1,345,761	37,742	1,308,019

All the above inventories are purchased or self-manufactured.

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

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

(b) An analysis of the movements of inventories for the year is as follows:

Inventory category	Balance at the beginning of the year RMB'000	Additions during the year RMB'000	Reductions during the year RMB'000	Balance at the end of the year RMB'000
Raw materials	800,940	12,404,330	12,518,748	686,522
Work in progress	95,970	13,981,608	13,979,419	98,159
Finished goods	307,190	13,979,419	13,803,173	483,436
Spare parts and consumables	141,661	716,378	751,906	106,133
Subtotal	1,345,761	41,081,735	41,053,246	1,374,250
Less: Provision for diminution in value of inventories	37,742	45,631	27,892	55,481
Total	1,308,019	41,036,104	41,025,354	1,318,769

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(7) Inventories (Continued)

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

Inventory category	Balance at the beginning of the year	Provision made for the year	Written back during the year		Balance at the end of the year
			Reversal	Write off	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	2,476	1,600	–	–	4,076
Work in progress	–	–	–	–	–
Finished goods	8,495	12,401	–	–	20,896
Spare parts and consumables	26,771	31,630	–	27,892	30,509
Total	37,742	45,631	–	27,892	55,481

Spare parts that were with over long-term ageing and cannot be used were made provision for diminution in value of inventories of RMB31,630,000. The excess of the cost over the net realisable value of each item of finished goods is recognised as a provision for diminution in the value of inventories of RMB12,401,000, and raw materials that cannot be used were made provision for diminution in value of inventories of RMB1,600,000. The Group also wrote off provision of RMB27,892,000 as a result of sales of spares parts that had been made provision.

(8) Other current assets

Item	2010	2009
	RMB'000	*RMB'000*
Prepaid VAT	**58,896**	239,203
Prepaid urban maintenance and construction tax	**3,547**	3,547
Total	**62,443**	242,750

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(9) Fixed Assets

(a) Fixed assets movement:

Item	Balance at the beginning of the year *RMB'000*		Additions during the year *RMB'000*	Reductions during the year *RMB'000*	Balance at the end of the year *RMB'000*
Cost	12,895,498		413,870	137,181	13,172,187
Plant and buildings	2,110,441		44,982	978	2,154,445
Machinery and equipment	10,054,352		285,160	120,576	10,218,936
Motor vehicles, and other fixed assets	730,705		83,728	15,627	798,806
		Increase	**Accrue**		
Accumulated depreciation	8,544,888	–	464,030	96,234	8,912,684
Plant and buildings	976,511	–	73,025	280	1,049,256
Machinery and equipment	6,982,055	–	357,592	81,110	7,258,537
Motor vehicles, and other fixed assets	586,322	–	33,413	14,844	604,891
Net carrying amounts	4,350,610				4,259,503
Plant and buildings	1,133,930				1,105,189
Machinery and equipment	3,072,297				2,960,399
Motor vehicles, and other fixed assets	144,383				193,915
Provision for impairment	654,782		223,696	32,084	846,394
Plant and buildings	7,991		485	9	8,467
Machinery and equipment	638,235		222,311	31,699	828,847
Motor vehicles, and other fixed assets	8,556		900	376	9,080
Carrying amounts	3,695,828				3,413,109
Plant and buildings	1,125,939				1,096,722
Machinery and equipment	2,434,062				2,131,552
Motor vehicles, and other fixed assets	135,827				184,835

The depreciation charge of the Group is RMB464,030,000 during the year.

The amount of fixed assets transferred from construction in progress during the year was RMB413,870,000.

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(9) Fixed Assets (Continued)

(a) *Fixed assets movement:* (Continued)

In response to the current market environment for bottle-grade polyester chips products, the Group assessed the recoverable amount of its fixed assets in relation to its bottle-grade polyester chips production facilities as at 31 December 2010 and recognised impairment losses in respect of the bottle-grade polyester chips production facilities amounting to RMB201,650,000. The estimate of the recoverable amount was based on these facilities' value in use. In assessing value in use, the discount rate used to calculate the present value of estimated future cash flows is 14%.

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

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

(b) *Temporarily idle fixed assets:*

Item	Cost	Accumulated depreciation	Provision for impairment	Carrying amounts
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Plant and buildings	382	250	120	12
Machinery and equipment	58,682	32,268	24,567	1,847
Motor vehicles, and other fixed assets	9,051	7,891	888	272
Total	68,115	40,409	25,575	2,131

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(10) Construction in progress

(a) Construction in progress:

Item	2010 Cost RMB'000	2010 Provision for impairment RMB'000	2010 Carrying amount RMB'000	2009 Cost RMB'000	2009 Provision for impairment RMB'000	2009 Carrying amount RMB'000
Thermoelectricity manufacturing center desulfurize project-II	–	–	–	80,000	–	80,000
Natural gas improvement project	–	–	–	38,000	–	38,000
Differentiated staple project	–	–	–	25,000	–	25,000
100 tonne/year aramid fiber project	–	–	–	62,506	–	62,506
Energy-saving air separation project	–	–	–	67,659	–	67,659
100 thousand tone/year 1,4-butanediol project	350,019	–	350,019	–	–	–
3,000 tonne/year high performance PV Polyvinyl fibre project-I	79,981	–	79,981	–	–	–
Improvements of existing plants and equipment	68,043	–	68,043	52,647	–	52,647
Total	498,043	–	498,043	325,812	–	325,812

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(10) Construction in progress (Continued)

(b) Movement of significant construction in progress:

Item	Budget	Balance at the beginning of the year	Addition during the year	Transfer to fixed assets	Other decrease	Percentage of input to budget	Progress	Sources of funds	Balance at the end of the year
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*(%)*	*(%)*		*RMB'000*
Thermoelectricity manufacturing center desulfurize project-II	115,280	80,000	7,304	87,304	–	76	100	Own fund	–
Natural gas improvement project	45,370	38,000	–	29,085	8,915	64	100	Own fund	–
Differentiated staple project	56,580	25,000	30,560	55,560	–	98	100	Own fund	–
100 tonne/year aramid fiber project	62,506	62,506	–	61,119	1,387	98	100	Own fund	–
Energy-saving air separation project	77,680	67,659	745	68,404	–	88	100	Own fund	–
3,000 tonne/year high performance PV Polyvinyl fibre project-I	240,580	–	79,981	–	–	33	33	Own fund	79,981
100 thousand tone/ year 1,4-butanediol project	1,580,630	–	350,019	–	–	22	22	Own fund	350,019
Improvements of existing plants and equipment	355,410	52,647	127,794	112,398	–	51	–	Own fund	68,043
Total		325,812	596,403	413,870	10,302				498,043

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

(c) Project progress of significant construction in progress

Item	Project progress	Note
3,000 tonne/year high performance PV Polyvinyl fibre project I	33%	Building construction has been completed, and equipment installing is being carried out.
100 thousand tone/year 1,4-butanediol project	22%	Land clearing and leveling has been completed, and equipment purchasing is being carried out.

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(11) Intangible assets

Item	Balance at the beginning of the year RMB'000	Additions during the year RMB'000	Reductions during the year RMB'000	Balance at the end of the year RMB'000
Cost	757,451	–	–	757,451
Land use right	406,123	–	–	406,123
Technology right	208,893	–	–	208,893
Patent right	142,435	–	–	142,435
Accumulated amortisation	381,181	29,504	–	410,685
Land use right	108,937	8,481	–	117,418
Technology right	133,602	20,889	–	154,491
Patent right	138,642	134	–	138,776
Net carrying amounts	376,270			346,766
Land use right	297,186			288,705
Technology right	75,291			54,402
Patent right	3,793			3,659
Provision for impairment	–	–	–	–
Land use right	–	–	–	–
Technology right	–	–	–	–
Patent right	–	–	–	–
Carrying Amounts	376,270			346,766
Land use right	297,186			288,705
Technology right	75,291			54,402
Patent right	3,793			3,659

The amortisation charge of the Group is RMB29,504,000 during the year.

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

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

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(12) Deferred tax assets

(a) Recognised deferred assets

Item	2010 Deductable temporary difference RMB'000	2010 Deferred tax assets RMB'000	2009 Deductable temporary difference RMB'000	2009 Deferred tax assets RMB'000
Deferred tax asset:				
Bad debts provisions for other receivables	**5,840**	**1,460**	–	–
Provision for diminution in value of inventories	**35,589**	**8,897**	–	–
Provision for long-term equity investment in and receivables from the subsidiary	**219,483**	**54,871**	–	–
Provision for impairment against fixed assets	**433,632**	**108,408**	–	–
Deferred income	**20,244**	**5,061**	–	–
Sales discount	**46,820**	**11,705**	–	–
Gain on changes in fair value	**310**	**78**	–	–
Accrued expense that cannot be deducted before tax	**25,645**	**6,411**	–	–
Total	**787,563**	**196,891**	–	–

(b) Unrecognised deferred assets

Item	2010 The Company RMB'000	2010 YCFC Jingwei RMB'000	2009 The Company RMB'000	2009 YCFC Jingwei RMB'000
Deductible temporary differences	**–**	**275,604**	607,390	292,372
Cumulative unutilised tax losses	**–**	**313,425**	755,816	298,750
Total	**–**	**589,029**	1,363,206	591,122

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(12) Deferred tax assets (Continued)

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

Years	2010 RMB'000	2009 RMB'000
2010	–	22,962
2011	**76,681**	76,681
2012	**49,054**	49,054
2013	**76,159**	831,975
2014	**73,894**	73,894
2015	**37,637**	–
Total	**313,425**	1,054,566

(13) Provisions for impairment

Item	Note	Balance at the beginning of the year RMB'000	Charge for the year RMB'000	Decrease during the year: Reversal RMB'000	Decrease during the year: Write off RMB'000	Balance at the end of the year RMB'000
Provisions for bad and doubtful debts	5 (5)	1,352	4,488	–	–	5,840
Provisions for diminution in value of inventories	5 (7)	37,742	45,631	–	27,892	55,481
Provisions for impairment of fixed assets	5 (9)	654,782	223,696	–	32,084	846,394
Total		693,876	273,815	–	59,976	907,715

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

(14) Bills payable

Category	2010 RMB'000	2009 RMB'000
Bank acceptance bills	–	240,000

The above bills are due within one year.

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

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(15) Accounts payable

Accounts payable by category:

Item	2010 RMB'000	2009 RMB'000
Amounts due to related parties	1,075,252	895,742
Amounts due to third parties	268,583	285,974
Total	1,343,835	1,181,716

Accounts payable by currency:

	2010			2009		
	Foreign currency RMB'000	Exchange rate	RMB equivalents RMB'000	Foreign currency RMB'000	Exchange rate	RMB equivalents RMB'000
RMB			392,362			382,943
USD	143,662	6.623	951,473	116,985	6.828	798,773
Total			1,343,835			1,181,716

As at 31 December 2010, there were no individually significant balances aged over one year included in the Group's accounts payable.

Except for listed in Note 6, no amount due to shareholders who hold 5% or more of the voting rights of the Company is included in the balances of accounts payable.

(16) Advances from customers

Advances from customers by category:

Item	2010 RMB'000	2009 RMB'000
Amounts due to related parties	3,320	19,983
Amounts due to third parties	294,508	238,932
Total	297,828	258,915

As at 31 December 2010, there were no individually significant balances aged over one year included in the Group's advances from customers.

Except for listed in Note 6, no amount due to shareholders who hold 5% or more of the voting rights of the Company is included in the balances of advances from customers.

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(17) Employee benefits payable

Item	Balance at the beginning of the year *RMB'000*	Additions through acquisition of subsidiary *RMB'000*	Paid during the year *RMB'000*	Balance at the end of the year *RMB'000*
Salaries, bonuses and allowances	57,912	506,621	506,621	57,912
Staff welfare fees	–	20,148	20,148	–
Social insurances				
– Basic medical insurance premium	–	32,874	32,874	–
– Basic pension insurance premium	–	79,543	79,543	–
– Unemployment insurance premium	–	7,840	7,840	–
– Work injury and maternity insurance premium	–	1,904	1,904	–
– Supplementary pension insurance premium	13,430	23,521	23,521	13,430
– Supplementary medical insurance premium	–	11,027	11,027	–
Housing fund	–	52,282	52,282	–
Termination benefits (including internal retirement fees)	–	592	592	–
Others				
– Labour union fee and staff education fee	780	15,985	16,663	102
– Non-monetary staff welfare	–	–	–	–
– Others	–	61,607	61,607	–
Total	72,122	813,944	814,622	71,444

Employee benefits payable of the Group did not include any delayed payment as at 31 December 2010.

Termination benefit includes compensation of RMB592,000 for termination of labour relations as at 31 December 2010.

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(17) Employee benefits payable (Continued)

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

Administrator	Beneficiary	Contribution rate	
		2010	2009
Yizheng Municipal Government, Jiangsu Province	Employees of the Group and the Company	**20%**	20%

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

In addition to the above, pursuant to PRC laws and regulations and relevant rules of CPC, the Group and the Company have set up a supplementary defined contribution retirement scheme for its employees. Assets of the scheme are held separately from those of the Group and the Company in an independent fund administered by representatives from the Group and the Company. The scheme is funded by contributions from the Group and the Company which are calculated at a rate based on the basic salaries of its employees. The contribution rate for 2010 was 5% (2009: 5%).

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

During the year ended 31 December 2010, in accordance with the Group's employee reduction plans, the Group incurred RMB592,000 (2009: RMB1,909,000) on the reduction of 11 (2009: 33) employees, which were mainly included in "General and administrative expenses".

During the year ended 31 December 2010, in accordance with the Company's employee reduction plans, the Company incurred RMB424,000 (2009: RMB1,824,000) on the reduction of 9 (2009: 28) employees, which were mainly included in "General and administrative expenses".

(18) Taxes payable

Item	**2010** ***RMB'000***	2009 *RMB'000*
EIT	**109,937**	–
Business tax	**100**	65
Individual income tax	**5,900**	6,464
Property tax	**2,788**	2,721
Education fee surcharge	**4,091**	3,982
Land use tax	**–**	4,299
Others	**3,011**	142
Total	**125,827**	17,673

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(19) Other payables

Other payables by category:

Item	2010 *RMB'000*	2009 *RMB'000*
Amount due to related parties	**13,126**	26,722
Amount due to third parties	**346,561**	276,801
Total	**359,687**	303,523

As at 31 December 2010, there were no individually significant balances aged over one year included in the Group's other payables.

Except for listed in Note 6, no amount due to shareholders who hold 5% or more of the voting rights of the Company is included in the balances of other payables.

(20) Provisions

Item	Balance at the beginning of the year *RMB'000*	Charges for the year *RMB'000*	Payments during the year *RMB'000*	Balance at the end of the year *RMB'000*
Compensation payable on breach of contracts	5,198	–	5,198	–

(21) Deferred income

Item	Balance at the beginning of the year *RMB'000*	Additions during the year *RMB'000*	Reductions during the year *RMB'000*	Balance at the end of the year *RMB'000*
Government grants	21,256	–	1,012	20,244

Deferred income mainly includes government grants received in relation to assets, and is recognised evenly in the income statement over the assets' useful lives.

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(22) Share capital

	Balance at the beginning of the year	Increase/Decrease for the year (+/-)					Balance at the end of the year
		New issue	Stock dividend	Equity fund	Others	Subtotal	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2,400,000,000 "Domestic non-public legal person A" shares	2,400,000	–	–	–	–	–	2,400,000
200,000,000 "Social public A" shares	200,000	–	–	–	–	–	200,000
1,400,000,000 "H" shares	1,400,000	–	–	–	–	–	1,400,000
Total	4,000,000	–	–	–	–	–	4,000,000

KPMG Huazhen has verified the above paid-in capital. The capital verification reports were issued on 20 July 1994, 28 March 1995 and 15 May 1995 respectively.

(23) Capital reserve

Item	Balance at the beginning of the year	Increase during the year	Decrease during the year	Balance at the end of the year
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Share premium	3,078,825	–	–	3,078,825
Other capital reserve	28,339	39,630	–	67,969
Including: government capital contribution	–	39,630	–	39,630
Total	3,107,164	39,630	–	3,146,794

The Group and the Company received capital contribution from government of RMB39,630,000 for adjustment and improvement for traditional industry base within central budget for expanding internal demand (2009: nil).

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(24) Specific reserve

Item	Balance at the beginning of the year RMB'000	Increase during the year RMB'000	Decrease during the year RMB'000	Balance at the end of the year RMB'000
Specific reserve	–	755	–	755

In accordance with PRC regulations, the Group and the Company appropriated Safety Fund to "**specific reserve**" account for manufacturing equipments in high-risk environment, which was recognised as part of the cost of related products. During the year, the Group and the Company had not used any part of Safety Fund.

(25) Surplus reserve

Item	Balance at the beginning of the year RMB'000	Increase during the year RMB'000	Decrease during the year RMB'000	Balance at the end of the year RMB'000
Statutory surplus reserve	–	116,843	–	116,843
Discretionary surplus reserve	–	–	–	–
Total	–	116,843	–	116,843

According to the Articles of Association of the Company, the Group and the Company made appropriation to statutory surplus reserve by 10% of profit after taxation after covering previous years' losses.

(26) Retained earnings/(Accumulated losses)

Item	Amount RMB'000	The proportion of extraction or distribution
Accumulated losses at the beginning of the year	(61,754)	
Add: Profit attribute to parent company's shareholders	1,226,542	
Less: Statutory surplus reserve accrued	116,843	10% of profit after taxation after covering previous years' losses
Accumulated profit at the end of the year	1,047,945	

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(27) Operating income and operating costs

(a) Operating income and operating costs

Item	2010 RMB'000	2009 RMB'000
Operating income from principal activities	16,216,583	13,100,819
Other operating income	131,783	124,210
Operating costs	13,949,852	11,801,291

(b) Operating income and operating costs by industries:

Industry	2010 Operating income RMB'000	2010 Operating costs RMB'000	2009 Operating income RMB'000	2009 Operating costs RMB'000
Chemical fibre	16,348,366	13,949,852	13,225,029	11,801,291

(c) Operating income and operating costs by products:

Product	2010 Operating income RMB'000	2010 Operating costs RMB'000	2009 Operating income RMB'000	2009 Operating costs RMB'000
Polyester chips	6,127,035	5,158,980	4,490,477	3,921,293
Bottle-grade polyester chips	2,724,476	2,406,994	2,900,094	2,684,008
Staple fibre and hollow fibre	5,423,037	4,521,089	4,057,953	3,493,058
Filament	1,780,642	1,587,774	1,499,963	1,444,609
Others	293,176	275,015	276,542	258,323
Total	16,348,366	13,949,852	13,225,029	11,801,291

(d) Operating income and operating costs by regions:

Region's name	2010 Operating income RMB'000	2010 Operating costs RMB'000	2009 Operating income RMB'000	2009 Operating costs RMB'000
Mainland	15,428,732	13,122,351	12,479,555	11,100,363
Hong Kong, Macau, Taiwan, and overseas	919,634	827,501	745,474	700,928
Total	16,348,366	13,949,852	13,225,029	11,801,291

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(27) Operating income and operating costs (Continued)

(e) Revenue from the top five customers for 2010 is set out as follows:

	Name	Operating income *RMB'000*	Percentage of total operating income *(%)*
1.	Customer A	518,258	3.17
2.	Customer B	382,336	2.34
3.	Customer C	272,321	1.67
4.	Customer D	186,226	1.14
5.	Customer E	176,891	1.08
	Total	1,536,032	9.40

(28) Business taxes and surcharges

Item	**2010** ***RMB'000***	2009 *RMB'000*	Taxation basis and rates
Business tax	**894**	346	3% or 5% of taxable income
Urban maintenance and construction tax	**25,940**	19,878	7% of VAT and business tax paid
Education fee surcharge	**14,822**	11,426	4% of VAT and business tax paid
Total	**41,656**	31,650	

(29) Selling and distribution expenses

Item	**2010** ***RMB'000***	2009 *RMB'000*
Freight	**150,424**	153,133
Commission fee	**44,504**	13,946
Other selling expenses	**17,940**	16,148
Total	**212,868**	183,227

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(30) General and administrative expenses

Item	2010 RMB'000	2009 RMB'000
Repair and Maintenance fee	**316,931**	288,212
Salary	**222,660**	190,242
Technology development fee	**54,008**	31,291
Community service fee	**38,382**	46,308
Tax	**33,916**	33,013
Depreciation and amortisation	**30,761**	31,819
Other general and administrative expenses	**78,885**	84,157
Total	**775,543**	705,042

(31) Net financial income

Item	2010 RMB'000	2009 RMB'000
Interest expenses from loans and discounting bills	**558**	8,656
Interest income from deposits	**(33,330)**	(21,896)
Net exchange gains	**(4,247)**	(5,876)
Other financial expenses	**1,733**	2,262
Total	**(35,286)**	(16,854)

(32) Gains from changes in fair value

Source of gains from changes in fair value	2010 RMB'000	2009 RMB'000
Investments held for trading		
– changes in fair value during the year	**310**	–

(33) Investment income/(losses)

Investment income by category:

Item	2010 RMB'000	2009 RMB'000
Proceeds from sale of available-for-sale financial assets	**873**	–
Transaction cost paid for the purchase of investments held for trading	**(41)**	–
Total	**832**	–

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(34) Impairment losses/(reversal)

Item	2010 RMB'000	2009 RMB'000
Provision of bad and doubtful debts of accounts receivable, prepayments and other receivables	**4,488**	(2,149)
Provisions for diminution in value of inventories	**45,631**	19,892
Provisions for fixed assets impairment	**223,696**	140,953
Total	**273,815**	158,696

(35) Non-operating income

(a) ***Non-operating income by category:***

Item	Note	2010 RMB'000	2009 RMB'000	Non-operating income/ expense for current year
Gains on disposal of non-current assets		**10,436**	9,747	10,436
Including: Gains on disposal of fixed assets		**10,436**	9,747	10,436
Government grants	*(b)*	**2,462**	10,866	2,462
Others		**1,760**	3,675	1,760
Total		**14,658**	24,288	14,658

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(35) Non-operating income (Continued)

(b) Details of government grants:

Item	2010 RMB'000	2009 RMB'000	Description
Allowance for high performance polyethylene project	**929**	661	Amortisation of Hi-tech achievement transformation project of Jiangsu Science and Technology Department
Allowance for project of stove desulphurization	**83**	83	Amortisation of specific project of Yizheng Finance Bureau
Prize for air separation project	**1,360**	–	Special funds received on liquid separation project
Return of urban maintenance and construction tax	**–**	9,622	Return of urban maintenance and construction tax by Yizheng local taxation bureau
Others	**90**	500	Special funds received on energy-saving
Total	**2,462**	10,866	

(36) Non-operating expenses

Item	2010 RMB'000	2009 RMB'000	Non-operating income/ expense for current year
Losses on disposal of non-current assets	**1,816**	1,702	1,816
Including: Losses on disposal of fixed assets	**1,816**	1,702	1,816
Others	**4,314**	2,545	4,314
Total	**6,130**	4,247	6,130

(37) Income tax expense

Item	2010 RMB'000	2009 RMB'000
Current tax expense for the year	**109,937**	–
Deferred taxation	**(196,891)**	–
Total	**(86,954)**	–

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(37) Income tax expense (Continued)

(a) Reconciliation between income tax expense and accounting profits is as follows:

Item	**2010** *RMB'000*	2009 *RMB'000*
Profit before taxation	**1,139,588**	382,018
Expected income tax expense at tax rate of 25%	**284,897**	95,505
Add: Adjustment of deductible temporary differences	**(166,569)**	–
Tax effect of deductible temporary differences not recognised	**–**	29,744
Tax effect of unused tax losses not recognised	**(204,916)**	(126,427)
Tax effect of non-deductible expenses	**861**	1,178
Additional deduction for R&D expenses	**(1,227)**	–
Income tax expense	**(86,954)**	–

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

(a) Basic earnings per share

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

	2010 *RMB'000*	2009 *RMB'000*
Consolidated profit attributable to the Company's ordinary equity shareholders	**1,226,542**	382,018
Weighted average number of the Company's ordinary shares	**4,000,000,000**	4,000,000,000
Basic earnings per share (in RMB)	**0.307**	0.096

Weighted average number of ordinary shares is calculated as follows:

	2010	2009
Number of the Company's ordinary shares at the beginning of the year	**4,000,000,000**	4,000,000,000
Weighted average number of the Company's ordinary shares at the end of the year	**4,000,000,000**	4,000,000,000

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(38) Calculation procedures of basic and diluted earnings per share (Continued)

(b) Diluted earnings per share

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

	2010	2009
	RMB'000	*RMB'000*
Consolidated profit attributable to the Company's ordinary equity shareholders (diluted)	**1,226,542**	382,018
Weighted average number of the Company's ordinary shares (diluted)	**4,000,000,000**	4,000,000,000
Diluted earnings per share (in RMB)	**0.307**	0.096

Adjusted consolidated profit attributable to ordinary shareholders of the Company (diluted) is calculated as follows:

	2010	2009
	RMB'000	*RMB'000*
Profit attributable to ordinary shareholders	**1,226,542**	382,018
Consolidated profit attributable to ordinary shareholders of the Company (diluted)	**1,226,542**	382,018

Weighted average number (diluted) of ordinary shares is calculated as follows:

	2010	2009
Number of the Company's ordinary shares at the beginning of the year	**4,000,000,000**	4,000,000,000
Weighted average number of the Company's ordinary shares at the end of the year (diluted)	**4,000,000,000**	4,000,000,000

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(39) Notes to cash flow statement

(a) Cash paid relating to other operating activities

Item	2010 RMB'000	2009 RMB'000
Repair and maintenance expenses	316,931	288,212
Freight expenses	150,424	153,133
Technology development expenses	54,008	31,291
Commission fee	44,504	13,946
Community service fee	38,382	46,308
Net exchange gains	(4,247)	(5,876)
Decrease in other operating receivables and increase in other operating payables	(121,663)	(36,853)
Others	134,265	127,873
Total	612,604	618,034

(b) Cash received relating to other investing activities

Item	2010 RMB'000	2009 RMB'000
Interests received	33,330	21,896
Government grants received	–	7,000
Total	33,330	28,896

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(40) Supplementary information to cash flow statement (Continued)

(a) Supplementary information to cash flow statement

Supplementary information	2010 RMB'000	2009 RMB'000
1. Reconciliation of net profit to cash flows from operating activities:		
Net profit	**1,226,542**	382,018
Add: Impairment provision for assets	**245,923**	119,985
Depreciation of fixed assets	**464,030**	514,213
Amortisation of intangible assets	**29,504**	29,504
Amortisation of deferred income	**(1,012)**	(744)
Net gains on disposal of fixed assets	**(8,620)**	(5,984)
Net financial income	**(33,330)**	(13,241)
Investment income	**(832)**	–
Gains from changes in fair value	**(310)**	–
Increase in deferred tax assets	**(196,891)**	–
Decrease in provisions	**(5,198)**	–
Increase in gross inventories	**(28,489)**	(384,477)
Specific reserve accrued	**755**	–
(Increase)/decrease in operating receivables	**(252,124)**	347,229
Increase in operating payables	**160,857**	320,357
Net cash inflow from operating activities	**1,600,805**	1,308,860
2. Change in cash and cash equivalents:		
Cash at the end of the year	**2,025,932**	774,767
Less: Cash at the beginning of the year	**774,767**	543,833
Add: Cash equivalents at the end of the year	**741,326**	559,600
Less: Cash equivalents at the beginning of the year	**559,600**	362,461
Net increase in cash and cash equivalents	**1,432,891**	428,073

(b) Cash and cash equivalents are as follows:

Item	2010 RMB'000	2009 RMB'000
1. Cash at bank and on hand	**2,025,932**	774,767
Including: Cash on hand	**23**	90
Bank deposits available on demand	**2,025,909**	774,677
2. Cash equivalents	**741,326**	559,600
Including: Bonds investment with maturity of 3 months or less	**297,870**	–
3. Cash and cash equivalents at the end of the year	**2,767,258**	1,334,367

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

6. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(1) Information of the parent company is as follows:

Name	Relationship with the Company	Types of legal entity	Registed place	Legal representative	Principal activities	Registered capital	Percentage of equity interest (%)	Percentage of voting interest (%)	Ultimate holding company	Organisation Code
Sinopec Corp.	The immediate holding company	Joint stock limited company	No. 6 Hui Xin Dong Jie Jia, Chao Yang Qu, Beijing	Su Shu-lin	Exploring for, extracting and selling crude oil and natural gas; oil refining; production, sale and transport of petro-chemical, chemical fibres and other chemical products; pipe transport of crude oil and natural gas; research, development and application of new technologies and information	RMB86.7 billion	42	42	CPC	71092609-4

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

Name	Type of subsidiary	Types of legal entity	Registered place	Legal representative	Principal activities	Registered Capital	Percentage of equity interest (%)	Percentage of voting interest (%)	Organisation Code
YCFC Jingwei	Wholly-owned subsidiary	Limited liability company	Yangzhou, Jiangsu Province	Shen Xi-jun	Manufacturing ,processing and sale of differentiated polyester textile filaments and other related products	RMB483,672 thousand	100	100	77644167-1

6. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(3) Information of other related parties is as follows:

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

(4) Transactions with related parties

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

(a) Transactions with related parties on purchasing of goods and receiving of services

The Group

Related parties	Contents of transactions	Pricing and decision-making process of transactions with related parties	**2010** Amount RMB'000	**2010** Percentage (%)	2009 Amount RMB'000	2009 Percentage (%)
Sinopec Corp. and its subsidiaries	Purchase of raw materials	Based on normal commercial terms or by the relevant agreements	**7,085,054**	**61.29**	6,551,403	60.69
Key management personal	Remuneration	Based on normal commercial terms or by the relevant agreements	**3,385**	**0.64**	3,156	0.68
Ibid	Retirement scheme contributions	Based on normal commercial terms or by the relevant agreements	**183**	**0.18**	140	0.15

6. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(4) Transactions with related parties (Continued)

(a) *Transactions with related parties on purchasing of goods and receiving of services* (Continued)

The Company

Related parties	Contents of transactions	Pricing and decision-making process of transactions with related parties	2010 Amount RMB'000	2010 Percentage (%)	2009 Amount RMB'000	2009 Percentage (%)
Sinopec Corp. and its subsidiaries	Purchase of raw materials	Based on normal commercial terms or by the relevant agreements	**7,085,054**	**61.74**	6,551,403	61.14
Key management personal	Remuneration	Based on normal commercial terms or by the relevant agreements	**3,385**	**0.71**	3,156	0.74
Ibid	Retirement scheme contributions	Based on normal commercial terms or by the relevant agreements	**183**	**0.20**	140	0.16

(b) *Transactions with related parties on sales of goods and rendering of services*

The Group

Related parties	Contents of transactions	Pricing and decision-making process of transactions with related parties	2010 Amount RMB'000	2010 Percentage (%)	2009 Amount RMB'000	2009 Percentage (%)
CPC and its subsidiaries (Sinopec Corp. and its subsidiaries and Sinopec Finance are excluded)	Sales of goods	Based on normal commercial terms or by the relevant agreements	**235,068**	**1.44**	204,110	1.54
YCFC Jingwei	Sales of goods	Based on normal commercial terms or by the relevant agreements	**–**	**–**	90,348	0.68

6. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(4) Transactions with related parties (Continued)

(b) Transactions with related parties on sales of goods and rendering of services (Continued)

The Company

Related parties	Contents of transactions	Pricing and decision-making process of transactions with related parties	2010 Amount RMB'000	2010 Percentage (%)	2009 Amount RMB'000	2009 Percentage (%)
CPC and its subsidiaries (Sinopec Corp. and its subsidiaries and Sinopec Finance are excluded)	Sales of goods	Based on normal commercial terms or by the relevant agreements	**235,068**	**1.45**	204,110	1.56
YCFC Jingwei	Sales of goods	Based on normal commercial terms or by the relevant agreements	**693,202**	**4.29**	597,843	4.57

(c) Other related parties transactions

The Group

Contents of transactions	Related parties	2010 RMB'000	2009 RMB'000
Agency fee	Sinopec Corp. and its subsidiaries	**60,492**	24,400
Construction and installing fee	CPC and its subsidiaries (Sinopec Corp. and its subsidiaries and Sinopec Finance are excluded)	**13,886**	34,000
Miscellaneous service fee charges	CPC and its subsidiaries (Sinopec Corp. and its subsidiaries and Sinopec Finance are excluded)	**5,990**	12,050
Insurance premium	CPC and its subsidiaries (Sinopec Corp. and its subsidiaries and Sinopec Finance are excluded)	**2,902**	7,390
Interest income	Sinopec Finance	**5,879**	3,107
Interest income	China CITIC Bank	**735**	1,672
Interest expenses	China CITIC Bank	**–**	4

6. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(4) Transactions with related parties (Continued)

(c) Other related parties transactions (Continued)

The Company

Type of transactions	Related parties	2010 RMB'000	2009 RMB'000
Agency fee	Sinopec Corp. and its subsidiaries	**60,492**	24,400
Construction and installing fee	CPC and its subsidiaries (Sinopec Corp. and its subsidiaries and Sinopec Finance are excluded)	**13,886**	34,000
Miscellaneous service fee charges	CPC and its subsidiaries (Sinopec Corp. and its subsidiaries and Sinopec Finance are excluded)	**5,990**	12,050
Insurance premium	CPC and its subsidiaries (Sinopec Corp. and its subsidiaries and Sinopec Finance are excluded)	**2,902**	7,390
Interest income	Sinopec Finance	**5,879**	3,107
Interest income	China CITIC Bank	**735**	1,670

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

The balance of receivables with related parties

The Group

Item	Related parties	2010 Carrying amount RMB'000	2010 Provision RMB'000	2009 Carrying amount RMB'000	2009 Provision RMB'000
Prepayments	Sinopec Corp. and its subsidiaries	**–**	**–**	710	–
Accounts receivable	CPC and its subsidiaries	**3,225**	**–**	3,408	–
Other receivables	CPC and its subsidiaries	**8,688**	**2,268**	10,532	–

6. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

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

The balance of receivables with related parties (Continued)

The Company

Item	Related parties	2010 Carrying amount RMB'000	2010 Provision RMB'000	2009 Carrying amount RMB'000	2009 Provision RMB'000
Prepayments	Sinopec Corp. and its subsidiaries	**–**	**–**	710	–
Accounts receivable	CPC and its subsidiaries	**3,225**	**–**	3,408	–
Other receivables	CPC and its subsidiaries	**8,688**	**2,268**	10,532	–
Accounts receivable	YCFC Jingwei	**267,832**	**132,154**	290,655	114,030

The balance of payables with related parties

The Group

Item	Related parties	2010 RMB'000	2009 RMB'000
Accounts payable	Sinopec Corp. and its subsidiaries	**1,074,560**	895,699
Advances from customers	Sinopec Corp. and its subsidiaries	**–**	16,905
Other payables	Sinopec Corp. and its subsidiaries	**9,393**	16,575
Accounts payable	CPC and its subsidiaries	**692**	43
Advances from customers	CPC and its subsidiaries	**3,320**	3,078
Other payables	CPC and its subsidiaries	**3,733**	10,147

6. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

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

The balance of payables with related parties (Continued)

The Company

Item	**Related parties**	**2010** *RMB'000*	2009 *RMB'000*
Accounts payable	Sinopec Corp. and its subsidiaries	**1,074,560**	895,699
Advances from customers	Sinopec Corp. and its subsidiaries	**–**	16,905
Other payables	Sinopec Corp. and its subsidiaries	**9,393**	16,575
Accounts payable	CPC and its subsidiaries	**692**	43
Advances from customers	CPC and its subsidiaries	**3,320**	3,078
Other payables	CPC and its subsidiaries	**3,733**	10,147
Advances from customers	YCFC Jingwei	**703**	8,387
Other payables	YCFC Jingwei	**1,190**	14,342

7. CONTINGENCY

Other contingent liabilities and relevant financial effects

With respect to uncertainties about enterprise income tax differences arising from 2006 and before as originated from a tax circular (Circular No.664) issued by the State Administrative of Taxation in June 2007, the Company has been informed by the relevant tax authority to settle the enterprise income tax ("EIT") for 2007 at a rate of 33 percent. To date, the Company has not been requested to pay additional EIT in respect of any years prior to 2007. There is no further development of this matter during the period ended 31 December 2010. No provision has been made in the financial statements for this uncertainty for tax years prior to 2007 because management believes it cannot reliably estimate the amount of the obligation, if any, that might exist.

8. COMMITMENTS

Capital commitments

Item	**2010** *RMB'000*	2009 *RMB'000*
Authorised and contracted for	**445,056**	–
Authorised but not contracted for	**967,743**	118,103
Total	**1,412,799**	118,103

9. POST BALANCE SHEET EVENTS

Explanations for profit distribution after reporting period

		RMB'000
Profits or dividends proposed to appropriate	Note (1)	120,000

(1) Ordinary share dividend proposed to appropriate after the balance sheet date

Pursuant to a resolution passed at the directors' meeting on 28 March 2011, a final dividend of RMB 0.03 per share totaling RMB 120,000,000 (2009: nil) was proposed for shareholders' approval at the Annual General Meeting. The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

10. OTHER SIGNIFICANT MATTERS

(1) Segment reporting

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

(a) Operating results and assets information of reportable segments

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

Segment assets represent property, plant and equipment and inventories.

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

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

In addition to receiving segment information concerning "**gross profit**", management is provided with segment information concerning revenue (including inter-segment revenue), depreciation, amortisation and impairment losses. Inter-segment revenue are priced with reference to market price.

The Group changed the basis of inter-segment measures for internal reporting purpose from 1 January 2010. Before 1 January 2010, revenue and gross profit or loss from external customers only were measured and reviewed by the Group's senior executive management. From 1 January 2010, in addition to revenue and gross profit or loss from external customers, inter-segment revenue priced with reference to market price and inter-segment gross profit or loss were also measured and reviewed by the Group's senior executive management. The Group has restated the comparative amounts on a basis consistent with the revised segment measures.

10. OTHER SIGNIFICANT MATTERS (Continued)

(1) Segment reporting (Continued)

(a) *Operating profits and losses and assets information of reportable segments* (Continued)

During the year ended 31 December 2010, information regarding the Group's reportable segments set out below is the measure of segment revenue and segment assets reviewed by the chief operating decision maker or is otherwise regularly provided to the chief operating decision maker, even if not included in the measure of segment revenue and segment assets:

Item	Polyester chips *RMB'000*	Bottle-grade polyester chips *RMB'000*	Staple fibre and hollow fibre *RMB'000*	Filament *RMB'000*	PTA *RMB'000*	Others *RMB'000*	Offset *RMB'000*	Unallocated items *RMB'000*	Total *RMB'000*
Revenue from external customers	6,127,035	2,724,476	5,423,037	1,780,642	–	293,176	–	–	16,348,366
Inter-segment revenue	87,491	–	–	–	6,925,492	–	(7,012,983)	–	–
Reportable segments revenue	6,214,526	2,724,476	5,423,037	1,780,642	6,925,492	293,176	(7,012,983)	–	16,348,366
Reportable segments cost	5,858,173	2,667,427	4,952,137	1,724,656	5,480,410	275,015	(7,007,966)	–	13,949,852
Reportable segments profits/ (losses)	356,353	57,049	470,900	55,986	1,445,082	18,161	(5,017)	–	2,398,514
Other important items:									
– Depreciation and amortisation	62,395	39,454	38,053	14,765	209,223	94,190	–	35,454	493,534
– Impairment of fixed assets	196	203,506	588	–	11,788	637	–	6,981	223,696
– Write-down of inventories	–	–	–	–	–	12,401	–	33,230	45,631
– Reportable segments assets	604,359	197,206	493,306	199,942	1,099,330	1,029,268	(3,644)	1,112,111	4,731,878

During the year ended 31 December 2009, information regarding the Group's reportable segments set out below is the measure of segment revenue and segment assets reviewed by the chief operating decision maker or is otherwise regularly provided to the chief operating decision maker, even if not included in the measure of segment revenue and segment assets:

Item	Polyester chips *RMB'000*	Bottle-grade polyester chips *RMB'000*	Staple fibre and hollow fibre *RMB'000*	Filament *RMB'000*	PTA *RMB'000*	Others *RMB'000*	Offset *RMB'000*	Unallocated items *RMB'000*	Total *RMB'000*
Revenue from external customers	4,490,477	2,900,094	4,057,953	1,499,963	–	276,542	–	–	13,225,029
Inter-segment revenue	124,620	–	–	–	5,901,463	–	(6,026,083)	–	–
Reportable segments revenue	4,615,097	2,900,094	4,057,953	1,499,963	5,901,463	276,542	(6,026,083)	–	13,225,029
Reportable segments cost	4,486,576	2,961,729	3,890,014	1,564,431	4,662,831	258,323	(6,022,613)	–	11,801,291
Reportable segments profits/ (losses)	128,521	(61,635)	167,939	(64,468)	1,238,632	18,219	(3,470)	–	1,423,738
Other important items:									
– Depreciation and amortisation	65,017	44,054	40,161	40,393	229,049	90,395	–	34,648	543,717
– Impairment of fixed assets	367	230	189	130,164	7,224	1,917	–	862	140,953
– Write-down of inventories	–	–	–	19,892	–	–	–	–	19,892
– Reportable segments assets	647,577	403,198	401,468	231,800	1,167,200	931,449	(1,762)	1,222,917	5,003,847

The Group's principal activities are production and sale of chemical fiber and chemical fiber raw materials, mainly in China.

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

10. OTHER SIGNIFICANT MATTERS (Continued)

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

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

– credit risk;

– liquidity risk;

– interest rate risk;

– foreign currency risk.

This note presents information about the Group's exposure to each of the above risks and their sources, the Group's objectives, policies and processes for measuring and managing risks, etc..

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

(a) Credit Risk

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

The majority of the Group's trade and other receivables relate to sales of chemical fibre products to related parties and third parties operating in the consumer products industries. The Group performs ongoing credit evaluations of its customers' financial condition and generally do not require collateral on receivables. The Group maintains an impairment loss for doubtful debts and actual losses have been within management's expectations. No single customer accounted for greater than 10% of total revenues.

The carrying amounts of cash and cash equivalents, deposits with banks and other financial institutions, accounts receivable and other receivables represent the Group's maximum exposure to credit risk in relation to financial assets.

10. OTHER SIGNIFICANT MATTERS (Continued)

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

(a) *Credit Risk* (Continued)

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

Ageing	**2010** *RMB'000*	2009 *RMB'000*
Not past due	**74,917**	123,022
Past due within 3 months (inclusive)	**–**	–
Past due within 3–6 months (inclusive)	**–**	–
Past due within 6–12 months (inclusive)	**–**	–
More than one year past due	**–**	–
Total	**74,917**	123,022

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry, country or area in which the customers operate and therefore significant concentrations of credit risk arise primarily when the Group has significant exposure to individual customers. At the balance sheet date, 53.14% (2009: 72.94%) of the total accounts receivable were due from the five largest customers of the Group. In addition, receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. The Group does not provide any other guarantees which would expose the Group to credit risk.

(b) *Liquidity Risk*

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

10. OTHER SIGNIFICANT MATTERS (Continued)

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

(c) Interest rate risk

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

(i) The Group's interest-bearing financial instruments at 31 December are as follow:

Item	2010 Annual interest rate (%)	2010 Amount RMB'000	2009 Annual interest rate (%)	2009 Amount RMB'000
Fixed rate instruments				
Financial assets				
– Cash at bank and on hand	**1.98–2.25**	**443,456**	1.71–2.25	559,600

Item	2010 Annual interest rate (%)	2010 Amount RMB'000	2009 Annual interest rate (%)	2009 Amount RMB'000
Variable rate instruments				
Financial assets				
– Cash at bank and on hand	**0.36**	**2,025,909**	0.36	774,677

(ii) Sensitivity analysis

As at 31 December 2010, it is estimated that a general increase/decrease of 100 basis points in variable interest rates, with all other variables held constant, would increase/decrease the Group's shareholders' equity by approximately RMB 20,259,000 respectively (2009: RMB 7,747,000), and net profit by approximately RMB 20,259,000 (2009: RMB 7,747,000) (the related income tax impact was not considered). This sensitivity analysis has been determined assuming that the change in interest rates had occurred at the balance sheet date and that the change was applied to the Group's variable rate instruments outstanding at that date with exposure to cash flow interest rate risk. The analysis is performed on the same basis for 2009.

10. OTHER SIGNIFICANT MATTERS (Continued)

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

(d) Foreign currency risk

In respect of accounts receivables and payables denominated in foreign currencies other than the functional currency, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

(i) As at 31 December, the Group's exposure to currency risk arising from recognised assets or liabilities denominated in foreign currencies is presented in the following tables. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at the balance sheet date.

Item	**2010 USD *RMB'000***	2009 USD *RMB'000*
Cash at bank and on hand	**32,128**	42,634
Accounts receivable	**50,229**	84,858
Accounts payable	**(951,473)**	(798,773)
Gross balance sheet exposure	**(869,116)**	(671,281)
Notional amounts of forward exchange contracts used as economic hedges	**–**	–
Net balance sheet exposure	**(869,116)**	(671,281)

(ii) The following are the significant exchange rates applied by the Group:

Item	**Average rate**		**Reporting date mid-spot rate**	
	2010	2009	**2010**	2009
USD	**6.770**	6.831	**6.623**	6.828

(iii) Sensitivity analysis

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

Item	**Shareholders' equity** *RMB'000*	**Net profit** *RMB'000*
As at 31 December 2010		
USD	43,456	43,456
As at 31 December 2009		
USD	33,565	33,565

10. OTHER SIGNIFICANT MATTERS (Continued)

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

(d) Foreign currency risk (Continued)

(iii) Sensitivity analysis (Continued)

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

The sensitivity analysis has been determined assuming that the change in exchange rate has occurred at the balance sheet date and the changed exchange rate was applied to the Group's financial instruments outstanding at that date with exposure to currency risk. The analysis is performed on the same basis and method for 2009.

(e) Fair values

(i) Financial instruments carried at fair values

The following table presents the carrying value of financial instruments measured at fair value as at 31 December 2010 across the three levels of the fair value hierarchy. The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The levels are defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: inputs other than quoted prices that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices);

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Asset	*Note*	**Level 1**	**Level 2**	**Level 3**	**Total**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Investments held for trading					
Debt investments held for trading	*5(2)*	699,713	–	–	699,713
Total		699,713	–	–	699,713

During the year ended 31 December 2010, there were no significant transfers between instruments in Level 1 and Level 2.

During the year ended 31 December 2010, there were no changes in valuation technique of fair value.

(ii) Fair value of other financial instruments (carried at other than fair value)

As at 31 December, all financial instruments are carried at amounts not materially different from their fair values.

10. OTHER SIGNIFICANT MATTERS (Continued)

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

(f) Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of investments held for trading and items set out in 10 (2) (e) above that measured at fair value on the balance sheet date.

(i) Debts investments

Fair value is based on quoted market prices at the balance sheet date for investments held for trading if there is an active market.

(ii) Receivables

The fair value is estimated at the present value of the future cash flows, discounted at the market interest rates at the balance sheet date.

(3) Assets and liabilities carried at fair values

Item	Balance at the beginning of the year	Purchased during the year	Change in fair value	Investment income from disposal	Disposal during the year	Balance at the end of the year
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Financial asset						
1. Investment held for trading	–	699,403	310	–	–	699,713
2. Available-for-sale financial assets	700,000	–	–	873	700,873	–
Total	700,000	699,403	310	873	700,873	699,713

As at 31 December 2010, the Group's investments held for trading represented the short-term interest-bearing and discounted national bonds with maturity term within one year. The fair value is determined by reference to the open market price of short-term national bonds at the balance sheet date.

11. MAJOR NOTES TO FINANCIAL STATEMENTS OF THE COMPANY

(1) Accounts receivable

(a) Accounts receivable by customer type:

Category	2010 RMB'000	2009 RMB'000
Amounts due from related parties	**271,057**	294,063
Amounts due from third parties	**69,772**	118,648
Subtotal	**340,829**	412,711
Less: Provision for bad and doubtful debts	**132,154**	114,030
Total	**208,675**	298,681

Except for listed in Note 6, no amount due from shareholders who hold 5% or more of the voting rights of the Company is included in the above balance of accounts receivable.

11. MAJOR NOTES TO FINANCIAL STATEMENTS OF THE COMPANY (Continued)

(1) Accounts receivable (Continued)

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

Category	2010	2009
	RMB'000	*RMB'000*
Within 1 year (inclusive)	**72,997**	412,711
1 and 2 years (inclusive)	**267,832**	–
2 and 3 years (inclusive)	**–**	–
Over 3 years	**–**	–
Less: Provision for bad and doubtful debts	**132,154**	114,030
Total	**208,675**	298,681

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

(c) Accounts receivable by category:

Category		2010				2009			
		Carrying amounts		Provision		Carrying amounts		Provision	
		Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
	Note	*RMB'000*	*(%)*	*RMB'000*	*(%)*	*RMB'000*	*(%)*	*RMB'000*	*(%)*
Individually significant accounts receivable with provision provided	*(d)*	**267,832**	**78.58**	**132,154**	**100**	290,655	70.43	114,030	100
Accounts receivable with provision provided collectively*		**72,997**	**21.42**	**-**	**-**	122,056	29.57	–	–
Total		**340,829**		**132,154**		412,711		114,030	

Note: The category includes accounts receivable without impairment by individual testing.*

The Company had no pledge for accounts receivable with provisions mentioned above.

Accounts receivable by currency:

	2010			2009		
	Foreign currency	Exchange rate	RMB equivalent	Foreign currency	Exchange rate	RMB equivalent
			RMB'000			*RMB'000*
RMB			**292,501**			328,815
USD	**7,297**	**6.623**	**48,328**	12,287	6.828	83,896
Total			**340,829**			412,711

11. MAJOR NOTES TO FINANCIAL STATEMENTS OF THE COMPANY (Continued)

(1) Accounts receivable (Continued)

(c) *Accounts receivable by category:* (Continued)

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

There is no actual write-off of accounts receivable during the year.

As at 31 December 2010, the Company had no individually significant accounts receivable due over 3 years.

(d) Provisions provided individually for individually significant accounts receivable at the end of the year

Content	Carrying amount	Provision	Percentage	Note
	RMB'000	*RMB'000*	*(%)*	
Individually significant accounts receivable	267,832	132,154	49.34	Since full impairment provision to YCFC Jingwei's long-term equity investment can't offset the effect of its accumulated loss, the Company provided impairment of the accounts receivables from YCFC Jingwei.

(e) As at 31 December 2010, accounts receivable due from five biggest debtors are as follows:

	Name	Relationship	Amount	Ageing	Percentage of total accounts receivable
			RMB'000		*(%)*
1.	Entity A	Wholly-owned subsidiary	267,832	1 and 2 years	78.58
2.	Entity B	Third party	13,061	Within 6 months	3.83
3.	Entity C	Third party	10,432	Within 6 months	3.06
4.	Entity D	Third party	5,856	Within 6 months	1.72
5.	Entity E	Third party	5,397	Within 6 months	1.59
	Total		302,578		88.78

(f) Amounts due from related parties:

Name	Relationship	Amount	Percentage
		RMB'000	*(%)*
YCFC Jingwei	Wholly-owned subsidiary	267,832	78.58
CPC and its subsidiaries	With a common ultimate holding company	3,225	0.95
Total		271,057	79.53

11. MAJOR NOTES TO FINANCIAL STATEMENTS OF THE COMPANY (Continued)

(2) Other receivables

(a) Other receivables by customer type:

Category	2010 RMB'000	2009 RMB'000
Amounts due from related parties	**8,688**	10,532
Amounts due from third parties	**27,087**	26,961
Subtotal	**35,775**	37,493
Less: Provision for bad and doubtful debts	**5,840**	1,352
Total	**29,935**	36,141

Except for listed in Note 6, no amount due from shareholders who hold 5% or more of the voting rights of the Company is included in the above balance of other receivables.

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

Category	2010 RMB'000	2009 RMB'000
Within 1 year (inclusive)	**20,715**	35,505
1 and 2 years (inclusive)	**13,172**	54
2 and 3 years (inclusive)	**–**	1,496
Over 3 years	**1,888**	438
Less: Provision for bad and doubtful debts	**5,840**	1,352
Total	**29,935**	36,141

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

(c) Other receivables by category:

Category		2010				2009			
		Carrying amount		Provision		Carrying amount		Provision	
	Note	Amount RMB'000	Percentage (%)	Amount RMB'000	Percentage (%)	Amount RMB'000	Percentage (%)	Amount RMB'000	Percentage (%)
Other receivables with provision provided collectively*	(d)	**35,775**	**100**	**5,840**	**100**	37,493	100	1,352	100

Note:* *The category includes other receivables without impairment by individual testing.*

11. MAJOR NOTES TO FINANCIAL STATEMENTS OF THE COMPANY (Continued)

(2) Other receivables

(c) Other receivables by category: (Continued)

The Company had no pledge for other receivables with provision mentioned above.

During the year ended 31 December 2010, the Company had no individually significant other receivables fully or substantially provided for.

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

There is no actual write-off of any other receivables during the year.

As at 31 December 2010, the Company had no individually significant other receivables due over 3 years.

(d) Other receivables with provision provided collectively by aging analysis:

Category	**2010**			2009		
	Carrying amount		**Provision**	Carrying amount		Provision
	Amount	**Percentage**		Amount	Percentage	
	RMB'000	***(%)***	***RMB'000***	*RMB'000*	*(%)*	*RMB'000*
Within 1 year (inclusive)	**20,715**	**57.90**	**–**	35,505	94.70	–
1 and 2 years (inclusive)	**13,172**	**36.82**	**3,952**	54	0.14	22
2 and 3 years (inclusive)	**–**	**–**	**–**	1,496	3.99	898
Over 3 years	**1,888**	**5.28**	**1,888**	438	1.17	432
Total	**35,775**		**5,840**	37,493		1,352

(e) As at 31 December 2010, other receivables due from five biggest debtors are as follows:

	Name	**Relationship**	**Amount**	**Ageing**	**Percentage**
			RMB'000		*(%)*
1.	Entity A	With a common ultimate holding company	7,560	1 and 2 years	21.13
2.	Entity B	Third party	5,612	1 and 2 years	15.69
3.	Entity C	With a common ultimate holding company	1,128	Within 6 months	3.15
4.	Entity D	Third party	522	Within 6 months	1.46
5.	Entity E	Third party	426	Within 6 months	1.19
	Total		15,248		42.62

11. MAJOR NOTES TO FINANCIAL STATEMENTS OF THE COMPANY (Continued)

(2) Other receivables (Continued)

(f) *Amounts due from related parties* (Continued)

Name	Relationship	Amount *RMB'000*	Percentage *(%)*
CPC and its subsidiaries A	With a common ultimate holding company	7,560	21.13
CPC and its subsidiaries B	With a common ultimate holding company	1,128	3.15
Total		8,688	24.28

(3) Long-term equity investments

(a) *Long-term equity investments by category:*

Item	**2010** ***RMB'000***	2009 *RMB'000*
Investment in subsidiaries	**303,361**	303,361
Less: Provision for impairment	**303,361**	303,361
Total	**–**	–

(b) *Movement of long-term equity investments during the year is as follows:*

Investee	Accounting method	Initial investment cost *RMB'000*	Balance at the beginning of the year *RMB'000*	Increase/ decrease *RMB'000*	Balance at the end of the year *RMB'000*	Interest in investee *(%)*	Voting right in investee *(%)*	Provision *RMB'000*	Provision for impairment during the year *RMB'000*	At the end of the year *RMB'000*
YCFC Jingwei	Cost method	303,361	303,361	–	303,361	100	100	303,361	–	–

Detailed information about the subsidiary of the Company is set out in Note 4.

Influenced by the market environment, the subsidiary YCFC Jingwei has suffered continuous loss. The Company reduced the carrying amount of long-term equity investment to nil, in accordance with the corresponding investment losses. The expected recoverable amount of the long-term equity investment is nil, therefore full impairment is provided.

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

11. MAJOR NOTES TO FINANCIAL STATEMENTS OF THE COMPANY (Continued)

(4) Operating income and operating costs

(a) Operating income and operating costs

Item	2010 RMB'000	2009 RMB'000
Operating income from principal activities	**16,019,189**	12,944,622
Other operating income	**145,484**	124,252
Operating costs	**13,773,821**	11,629,474

(b) Operating income and operating cost by industries:

Industry	2010		2009	
	Operating income RMB'000	**Operating costs RMB'000**	Operating Income RMB'000	Operating costs RMB'000
Chemical fibre	**16,164,673**	**13,773,821**	13,068,874	11,629,474

(c) Operating income and operating costs by products:

Product	2010		2009	
	Operating income RMB'000	**Operating costs RMB'000**	Operating income RMB'000	Operating costs RMB'000
Polyester chips	**6,214,526**	**5,246,188**	4,615,097	4,045,699
Bottle-grade polyester chips	**2,724,476**	**2,406,994**	2,900,094	2,684,008
Staple fibre and hollow fibre	**5,423,037**	**4,521,089**	4,057,952	3,493,058
Filament	**1,447,545**	**1,258,329**	1,181,674	1,110,442
Others	**355,089**	**341,221**	314,057	296,267
Total	**16,164,673**	**13,773,821**	13,068,874	11,629,474

11. MAJOR NOTES TO FINANCIAL STATEMENTS OF THE COMPANY (Continued)

(4) Operating income and operating costs (Continued)

(d) Operating income and operating costs by regions:

Region	2010		2009	
	Operating income ***RMB'000***	**Operating cost** ***RMB'000***	Operating income *RMB'000*	Operating cost *RMB'000*
Mainland	**15,245,039**	**12,946,320**	12,323,400	10,928,546
Hong Kong, Macau, Taiwan and overseas	**919,634**	**827,501**	745,474	700,928
Total	**16,164,673**	**13,773,821**	13,068,874	11,629,474

(e) Revenue from the top five customers in 2010 is set out as follows:

	Name	Operating income *RMB'000*	Percentage of total operating income *(%)*
1.	Customer A	693,202	4.29
2.	Customer B	518,258	3.21
3.	Customer C	382,336	2.37
4.	Customer D	272,321	1.68
5.	Customer E	186,226	1.15
	Total	2,052,343	12.70

(5) Investment income/(losses)

Investment income by category is as follows:

Item	2010 ***RMB'000***	2009 *RMB'000*
Investment income proceeded from disposal of available-for-sale financial assets	**873**	–
Transaction cost paid for acquisition of investments held for trading	**(41)**	–
Total	**832**	–

11. MAJOR NOTES TO FINANCIAL STATEMENTS OF THE COMPANY (Continued)

(6) Supplement to cash flow statement

Supplement	2010 RMB'000	2009 RMB'000
1. Reconciliation of net profit to cash flows from operating activities:		
Net profit	**1,228,423**	383,780
Add: Impairment provision for assets	**246,308**	171,287
Depreciation of fixed assets	**454,136**	479,162
Amortisation of intangible assets	**29,504**	29,504
Amortisation of deferred income	**(1,012)**	(744)
Net gain on disposal of fixed assets	**(3,276)**	(6,047)
Net financial income	**(32,964)**	(16,555)
Investment income	**(832)**	–
Gains from changes in fair value	**(310)**	–
Increase in deferred tax assets	**(196,891)**	–
Decrease in provisions	**(5,198)**	–
Increase in gross inventories	**(21,070)**	(403,499)
Specific reserve accrued	**755**	–
(Increase)/decrease in operating receivables	**(228,758)**	46,440
Increase in operating payables	**143,871**	652,133
Net cash inflow from operating activities	**1,612,686**	1,335,461
2. Change in cash and cash equivalents:		
Cash at the end of the year	**2,025,932**	768,385
Less: Cash at the beginning of the year	**768,385**	543,833
Add: Cash equivalents at the end of the year	**741,326**	559,600
Less: Cash equivalents at the beginning of the year	**559,600**	362,461
Net increase in cash and cash equivalents	**1,439,273**	421,691

1 EXTRAORDINARY GAINS/(LOSSES) DURING THE YEAR ENDED 31 DECEMBER 2010

Item	Amount *RMB'000*	Note
Gains from disposal of non-current assets	8,620	Gains from disposal of fixed assets
Employee reduction expenses	(592)	Expense paid for dismissing the labor contract
Government grants recognised in profit or loss (other than the amount closely related to principal activities and generated according to national standards)	2,462	Government grants received, such as prize for energy saving
Gain on changes in fair value of investments held for trading	310	Changes in fair value of short-term national bonds
Investment income from acquisition and disposal of financial assets	832	Investment from acquisition short-term national bonds and redeem bank's financing products
Other non-operating income and expenses excluding the aforesaid items	(2,554)	Compensation for breaching of contracts, etc.
Income tax effect	(757)	YCFC Jingwei suffered loss before tax during the year and did not recognise deferred tax assets, therefore the above extraordinary gain and loss items relating to YCFC Jingwei did not result in tax effect
Total	8,321	

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

2 DIFFERENCES IN THE FINANCIAL STATEMENTS PREPARED UNDER DIFFERENT GAAPs

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

		Net profit		Net assets	
		2010	2009	**2010**	2009
	Note	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Under ASBE		**1,226,542**	382,018	**8,312,337**	7,045,410
Adjustments under IFRSs:					
Government grants	*(1)*	**–**	–	**(39,630)**	–
Revaluation surplus of land use rights	*(2)*	**5,239**	5,239	**(172,002)**	(177,241)
Specific reserve	*(3)*	**755**	–	**–**	–
Tax effects of the above adjustments		**(1,310)**	(1,310)	**43,000**	44,310
Under IFRSs		**1,231,226**	385,947	**8,143,705**	6,912,479

2 DIFFERENCES IN THE FINANCIAL STATEMENTS PREPARED UNDER DIFFERENT GAAPs (Continued)

(1) Government grants

Under ASBE, grants from government that are credited to capital reserve according to relevant regulation cannot be included in deferred income. Under IFRS, the government grants are deducted from the carrying amount of the assets and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense when transferred to plant, property and equipment.

(2) Impact of revaluation surplus of land use right

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

(3) Specific reserve

Pursuant to the relevant regulations of the related government authorities in the PRC, production safety expenditures is accrued by coal mining companies based on revenue of dangerous goods, recognised as expense in profit or loss and separately recorded as a specific reserve in shareholders' equity. On utilisation of the specific reserve as fixed assets in accordance with the stipulated scope, full amount of depreciation is recognised at the same time when the cost of the relevant assets is recorded.

Under International Financial Reporting Standards, these expenses are recognised in profit or loss as and when incurred. Relevant capital expenditure on production maintenance and safety facilities are recognised as property, plant and equipment and depreciated according to the relevant depreciation method.

3 EARNINGS PER SHARE AND RETURN ON NET ASSETS

In accordance with "Regulation on the Preparation of Information Disclosures by Companies Issuing Public Shares, No.9 – Calculation and Disclosure of the Return on Net Assets and Earnings Per Share" (2010 Revised) issued by the CSRC, the Group's return on net assets and earnings per share are summarised as follows:

Profit for the current year	Return on weighted average net assets *(%)*	Earnings per share Basic earnings per share	Earnings per share Diluted earnings per share
Net profit attributable to the Company's ordinary equity shareholders	15.973	RMB0.307	RMB0.307
Net profit net of extraordinary gains and losses attributable to the Company's ordinary equity shareholders	15.865	RMB0.305	RMB0.305

Other Corporate Information

FIRST REGISTRATION DATE AND PLACE OF THE COMPANY

The Company was registered on 31 December 1993. Its legal address is: Yizheng City, Jiangsu Province, PRC.

CHANGES TO THE REGISTRATION DATE, PLACE AND OTHER ITEMS DURING THE PERIOD UNDER REVIEW

There was no change in the items above during the reporting period.

Business registration number	Taxation registration number
320000400000997	321081625908297

ORGANISATION TRUSTED WITH NON-CIRCULATING SHARES OF THE COMPANY

China Securities Registration and Clearing Corporation Limited Shanghai Branch

PRINCIPAL UNDERWRITERS OF SHARE OFFERS

"H" Share

– UBS Warburg (Asia) Limited
  Address: 52/F, Two International Finance Centre
  8 Finance Street
  Central, Hong Kong

"A" Share

– Shenyin & Wanguo Securities Corporation Ltd.
  Address: 99 East Nanjing Road, Shanghai

AUDITORS

Domestic

– KPMG Huazhen
  Certified Public Accountants, Registered in the PRC
  8th Floor, Office Tower E2
  Oriental Plaza
  No. 7, East Chang An Avenue
  Beijing, the PRC

International

– KPMG
  Certified Public Accountants, Hong Kong
  8/F, Prince's Building, 10 Chater Road
  Central, Hong Kong

Other Corporate Information

LEGAL ADVISOR

As to Hong Kong law

– Woo, Kwan, Lee & Lo
Address: 26/F, Jardine House, 1 Connaught Place Central, Hong Kong

As to the PRC law

– Haiwen & Partners
Address: Silver Tower, No. 2 North Road, East San Huan, Chaoyang District, Beijing

SHARE REGISTRARS AND TRANSFER OFFICE

"H" Share

– Hong Kong Registrars Limited
Address: Rooms 1712-1716, 17th Floor, Hopewell Centre
183 Queen's Roads East,
Hong Kong

"A" Share

– China Securities Registration and Clearing Corporation Limited Shanghai Branch
Address: 36th Floor, China Insurance Building,
166 Lujiazui Eastern Road,
Pudong New District, Shanghai

PRINCIPAL BANKERS

Industrial and Commercial Bank of China, Jiangsu Branch

Industrial and Commercial Bank of China, Jiangsu Branch, Xupu Sub-Branch

Bank of China, Jiangsu Branch

Bank of China, Jiangsu Branch, Yizheng Sub-branch

China Construction Bank, Jiangsu Branch, Yizheng Sub-Branch

China CITIC Bank

Documents for Inspection

The following documents are available for inspection at the legal address of the Company from 29 March 2011 (Tuesday) upon requests by related supervisory institute and shareholders in accordance with the Articles of Association of the Company and relevant regulations:

1. The original copy of the annual report signed by the Chairman and the General Manager of the Company;

2. The financial statements signed by the Chairman, General Manager, Chief Financial Officer and the Head of the Accounting Department;

3. The original reports of the auditors and the accounts prepared in accordance with the PRC Accounting Standards for Business Enterprises signed by the Certified Public Accountants, registered the PRC under the seal of KPMG Huazhen;

   The original reports of the auditors and the financial statements prepared in accordance with IFRSs signed by KPMG;

4. Documents and Announcements disclosed in the report period;

5. The Article of Associations of the Company;

6. Copies of the Annual Reports and Interim Reports from 1993 to 2010 and the First Quarter Report and the Third Quarter Report from 2002 to 2010 of the Company.

This annual report has been drafted in both English and Chinese. In the event that different interpretation occurs, with the exception of the financial statements prepared in accordance with IFRSs and the auditors' report thereon, the Chinese version is considered to be more accurate.