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 2011

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, Vice Chairman and 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 2011, the Group ranks the eighth largest polyester manufacturer in the world. (Source: PCI Magazine 2011)

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 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 2011, 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 34,000 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

Company Profile

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	A share
– HKSE	– SSE
– Stock name: Yizheng Chemical	– Stock name: S Yihua
– Stock code: 1033	– 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				
	2011	2010	2009	2008	2007
	RMB'000	RMB '000	RMB '000	RMB '000	RMB '000
		(as restated)	(as restated)	(as restated)	(as restated)
Turnover	**20,179,768**	16,348,366	13,225,029	15,224,524	17,175,656
Profit/(loss) before taxation	**1,042,190**	1,140,343	382,018	(1,554,592)	4,657
Income tax expense/(credit)	**202,958**	(86,954)	–	90,693	(14,104)
Profit/(loss) attributable to equity shareholders of the Company	**839,232**	1,227,297	382,018	(1,645,285)	17,817
Total assets	**11,449,599**	10,531,202	9,145,813	8,417,284	10,072,812
Total liabilities	**2,457,660**	2,258,495	2,100,403	1,753,892	1,764,135
Total equity attributable to equity shareholders of the Company	**8,991,939**	8,272,707	7,045,410	6,663,392	8,308,677
Basic and diluted earnings/(loss) per share	**RMB0.210**	RMB0.307	RMB0.096	RMB(0.411)	RMB0.004
Net assets per share	**RMB2.248**	RMB2.068	RMB1.761	RMB1.666	RMB2.077
Ratio of shareholders' equity	**78.53%**	78.55%	77.03%	79.16%	82.49%
Return on net assets	**9.33%**	14.84%	5.42%	(24.69%)	0.21%

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

1.2.1 Key financial data

Unit: RMB'000

	For the year 2011	For the year 2010	Year-on-year change (%)	For the year 2009
Operating income	**20,179,768**	16,348,366	23.4	13,225,029
Operating profit	**979,056**	1,131,060	(13.4)	361,977
Profit before income tax	**1,042,001**	1,139,588	(8.6)	382,018
Net profit attributable to equity shareholders of the Company	**839,043**	1,226,542	(31.6)	382,018
Net profit deducted extraordinary gain and loss attributable to equity shareholders of the Company	**778,080**	1,218,221	(36.1)	363,886
Net cash (outflow)/inflow from operating activities	**(270,247)**	1,600,805	(116.9)	1,308,860

	As at the end of 2011	As at the end of 2010	Year-on-year change (%)	As at the end of 2009
Total assets	**11,449,599**	10,531,202	8.7	9,145,813
Total liabilities	**2,418,974**	2,218,865	9.0	2,100,403
Total equity attributable to equity shareholders of the Company	**9,030,625**	8,312,337	8.6	7,045,410
Total share capital	**4,000,000**	4,000,000	–	4,000,000

Financial Summary

1.2.2 Key financial indicators

	For the year 2011	For the year 2010	Year-on-year change (%)	For the year 2009
Basic earnings per share (RMB)	**0.210**	0.307	(31.6)	0.096
Diluted earnings per share (RMB)	**0.210**	0.307	(31.6)	0.096
Basic earnings per share net of extraordinary gain and loss (RMB)	**0.195**	0.305	(36.1)	0.091
Weighted average return on net assets (%)	**9.68**	15.97	Decrease 6.29 percentage points	5.57
Weighted average return on net assets net of extraordinary gain and loss (%)	**8.97**	15.86	Decrease 6.89 percentage points	5.31
Net cash (outflow)/inflow from operating activities per share (RMB)	**(0.068)**	0.400	(116.9)	0.327

	As at the end of 2011	As at the end of 2010	Year-on-year change (%)	As at the end of 2009
Net assets per share attributable to equity shareholders of the Company (RMB)	**2.258**	2.078	8.6	1.761
Ratio of total liabilities to total assets (%)	**21.13**	21.07	Increase 0.06 percentage points	22.97

2. DETAILS OF THE GROUP'S RESULTS FOR THE YEAR ENDED 31 DECEMBER 2011 (EXTRACTED FROM THE FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH THE PRC ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES)

Unit: RMB'000

Operating profit	979,056
Profit before income tax	1,042,001
Net profit attributable to equity shareholders of the Company	839,043
Net profit deducted extraordinary gain and loss attributable to equity shareholders of the Company	778,080
Net cash outflow from operating activities	(270,247)

3. EXTRAORDINARY GAIN AND LOSS ITEMS AND AMOUNT (EXTRACTED FROM THE FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH THE PRC ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES)

Unit: RMB'000

Extraordinary gain and loss items	2011	2010	2009
Disposal of non-current assets	**25,427**	8,620	5,984
Government grants recognised in profit or loss during the year	**4,503**	2,462	10,866
Employee reduction expenses	**(93)**	(592)	(1,909)
Investments income from purchase and disposal of financial assets	**16,557**	832	–
Gain on changes in fair value of investments held for trading	**(310)**	310	–
Other non-operating income and expenses excluding the aforesaid items	**33,015**	(2,554)	3,191
Tax effect	**(18,136)**	(757)	–
Total	**60,963**	8,321	18,132

Financial Summary

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)

Unit: 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	–	200,000	200,000	10,000
Investments held for trading	699,713	–	(699,713)	6,247
Total	699,713	200,000	(499,713)	16,247

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 2011 RMB'000	At 31 December 2010 RMB'000	Change (%)	Reason for change
Cash at bank and on hand	**1,541,821**	2,469,388	(37.6)	Decrease in net cash inflow from operating activities during the current year
Investments held for trading	**–**	699,713	(100.0)	The Company disposed government bonds purchased in 2010 during the current year
Bills receivable	**2,236,236**	1,414,970	58.0	The Company increased the proportion of bills settlement due to the tightening of domestic monetary policy during the current year
Accounts receivable	**104,668**	74,917	39.7	Increase in operating income during the current year
Prepayments	**59,625**	6,208	860.5	Increase in prepaying the purchase of raw materials at the end of the year
Other receivables	**11,718**	29,985	(60.9)	The Company received export tariff rebates on products of 2010 during the current year
Inventories	**1,756,664**	1,318,769	33.2	Increase in the purchase of raw materials at the end of the year
Available-for-sale financial assets	**200,000**	–	Not applicable	Bought the available-for-sale financial assets during the current year
Other current assets	**219,924**	62,443	252.2	Increase in the balance of recoverable tax
Long-term equity investment	**303,089**	–	Not applicable	Newly increased a jointly controlled entity during the current year
Construction in progress	**1,201,201**	498,043	141.2	Increase in the uncompleted projects at the end of the year
Deferred tax assets	**122,536**	196,891	(37.8)	Decrease in deductible temporary differences
Taxes payable	**12,322**	125,827	(90.2)	Decrease in income tax payable at the end of the year
Specific reserve	**–**	755	(100.0)	The Company used safety fund during the current year
Surplus reserve	**200,383**	116,843	71.5	The Company accrued statutory surplus reserve during the current year
Undistributed profits	**1,683,448**	1,047,945	60.6	The Company recorded a net profit during the current year

Financial Summary

Item	For the year ended at 31 December 2011 RMB'000	2010 RMB'000	Change (%)	Reason for Change
Operating costs	**18,206,234**	13,949,852	30.5	Increase in the prices of raw materials during the current year
Net financial income	**56,887**	35,286	61.2	Increase in interest income from deposits during the year
Impairment loss	**(691)**	273,815	(100.3)	Reversal of provision for bad and doubtful debts during the current year
Gain on changes in fair	**(310)**	310	(200.0)	Disposal of investments held for trading during the current year
Investment income	**16,557**	832	1,890.0	Arise from redemption of government bonds purchased at last year and bank financial investment purchased during the current year
Non-operating income	**72,655**	14,658	395.7	Increase in gains on disposal of fixed assets during the current year
Non-operating expenses	**9,710**	6,130	58.4	Increase in losses on disposal of assets during the current year
Income tax expenses	**202,958**	(86,954)	Not applicable	Utilisation of previously unrecognized unused tax losses and Recognition of previously unrecognized deductible temporary differences made the income tax expenses a negative number in 2010.

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	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
PRC ASBE	**839,043**	1,226,542	**9,030,625**	8,312,337
IFRSs	**839,232**	1,227,297	**8,991,939**	8,272,707

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 2011.

In the recent three years, the golden period of development has appeared in domestic polyester industry. But entering into 2011, under the influences of Europe debt crisis and China's continuously tightening monetary policy, domestic polyester industry encountered all kinds of new challenges, and its operating pressure was mounting increasingly. Especially from the beginning of the fourth quarter of 2011, due to slumping cotton prices and decelerating demand growth of polyester products, the profit margin of polyester products was compressed. From the view of 2011, because the channel of shifting costs for domestic polyester industry was generally smooth, annual market demands for polyester products increased steadily as a whole.

In 2011, confronted with the complex and volatile business situations, the Group had fundamentally propelled its safety production and energy conservation and emission reduction, meticulously organized its production and management, consistently strengthened its scientific and technical renovations to accelerate its effective development, achieving rather sound business performance.

In 2011, the Group's consolidated turnover passed RMB20 billion for the first time and amounted to RMB20,179,768,000 (2010: RMB16,348,366,000), increasing by 23.4 per cent. The profit attributable to equity shareholders of the Company was RMB839,232,000 (2010: RMB1,227,297,000) and basic earning per share was RMB0.210 (2010: RMB0.307), respectively decreasing by 31.6 per cent.

The Board proposed a final cash dividend of RMB0.03 per share for the year ended 31 December 2011. The total cash dividend proposed by the Board for the year ended 31 December 2011 was RMB0.03 per share (2010: RMB0.03 cash dividend per share).

In 2011, the Group (1) continued deepening its internal management and boosted its system standardization and informatization reform with full efforts, advancing its managing level up to a new stage; (2) laid emphasis on adhering to the people-oriented principle and caring employees, and consummated the salary distribution system and the establishment of talents cultivation channels, which effectively mobilized the enthusiasm of its staff; (3) further tamped the development foundation to maintain its good and effective momentum, steadily progressed projects under construction while initiating new projects successively, and signed the agreement of PTA joint project with an annual capacity of two million tonnes, blazing the trail of its effective development.

Looking forward to 2012, the Group will be confronted with the situation that opportunities coexist with challenges at the same time. The growth of Chinese economy will dwindle slightly but still maintaining relatively fast speed. Besides, with the Chinese government advocating expanding the domestic demand and developing the real economy, domestic demands for the polyester products will be expected to keep steadily rising; The instability and the uncertainty of the international economy growth will result in China's exports of textiles and garments encountering more and more austere situations, which correspondingly decrease its growing rate; Newly increased domestic polyester capacities will still sprout out largely, further deteriorating the phenomenon of polyester overcapacity and intensifying the industry competition.

In 2012, facing with even more sophisticated business situations, the Group will continue to advance its development effectively and rapidly through adhering to the market-oriented policy, centering closely around the effectiveness and benefits, concentrating vigorously on the safety and environment protection, organizing scientifically production and management, optimizing its product structure and strengthening the corporation management. Principle measures for the Group incorporate to spare no efforts to exploit the business, strive to boost the profitability; to pay adequate attentions to the safety and environment protection and to maintain facilities running consistently and stably with full load; to enhance the ability of innovation, and to fundamentally propel its technical progress; to consolidate its fine management and greatly reduce costs and expenses, promoting energy conservation and emission reduction; to unify the overall planning and organize meticulously, steadily impelling its development.

Report of the Chairman

In terms of the market situations and overall developing goals, the Group has set its capital expenditure of 2012 as RMB2,041,800,000. In 2012, with the target of constructing itself as "leading in China, first-rate in the world", the Group will organize meticulously to consummate its development plan, steadily and effectively impelling its development. Meanwhile, for boosting its sustainable competitiveness, the Group will also attach more attentions to the quality and effectiveness of its development, its structure optimization and technical progress, the "green" and "low-carbon", and people-oriented principle.

I was honored to be re-elected as Chairman at the recent Board meeting. 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 take this opportunity to express my sincere thanks to our employees who had been working diligently in the past year, to our clients, our shareholders, and all people from all spectrum that have been supporting the Group's development.

Lu Li-yong
Chairman

26 March 2012, Nanjing

Business Review and Prospects

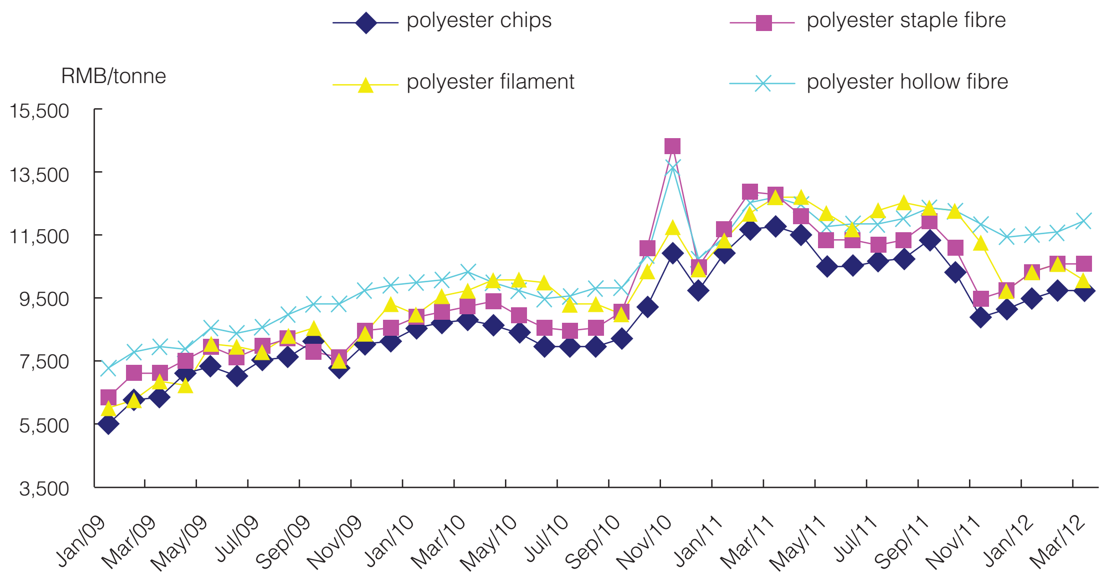
Financial figures, where applicable, contained herein have been extracted from the financial statements prepared in accordance with IFRSs.

In 2011, the Group, grasping favorable opportunity of domestic polyester industry tending to increase as a whole, had meticulously organized the production and management, optimized its product structure and strictly strengthened its fine management, and endeavored to reduce costs and expenses to propel its effective development in a fast speed. Thus, the Group's operation efficiency still maintained a sound level.

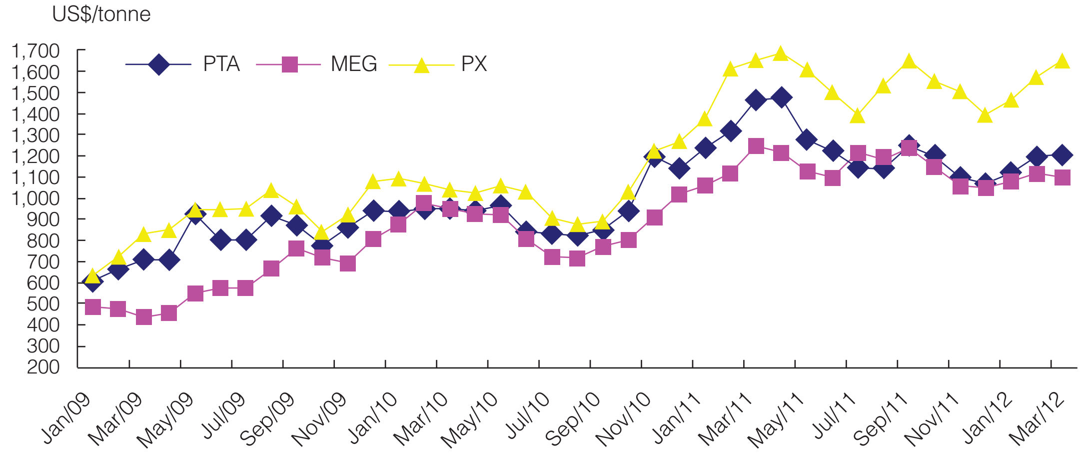
1. MARKET REVIEW

In 2011, prices of domestic polyester industry chain revealed an ascending momentum generally. But under the influences of sharply growing costs and fast polyester capacity acceleration, profit margin for polyester products had dwindled compared with the last year, and polyester industry competition had deteriorated more and more. During first three quarters, with the impacts that international crude oil prices oscillated at high level, costs of polyester raw materials increased largely compared with the same period last year; Domestic polyester products prices mounted quite swiftly at the support of steady growing demands and costs. After the fourth quarter, affected by continuously aggravating European debt crisis, prices of polyester raw materials declined, the growth of demands for polyester products retarded, and polyester products prices apparently dropped.

Product Prices Quoted by the Company (Excluding VAT)



Raw Material Contract Price Offered by International Suppliers



Business Review and Prospects

In 2011, the newly-added polyester production capacity was almost 4.17 million tonnes and the total polyester production capacity amounted to 32.84 million tonnes at the end of 2011. As a result, the oversupply condition of domestic polyester capacity was not changed and the competition situation for polyester industry was still severe. In 2011, the volume of the total domestic supply of polyester fibre amounted to 28,866,800 tonnes, an increase of 10.1 per cent over that of 2010, of the total volume, the domestic production volume increased by 10.3 per cent as compared with its amounts in 2010. Meanwhile, the total domestic consumption volume of polyester fibre amounted to 26,588,500 tonnes, an increase of 9.1 per cent over the 2010 amount. The domestic demand for polyester fibre steadily increased as compared with that of 2010.

	Domestic supply and demand of polyester fibre								
	Polyester filament			Polyester staple fibre			Polyester fibre		
	2011	2010	+/(-)	**2011**	2010	+/(-)	**2011**	2010	+/(-)
	'000 tonnes	'000 tonnes	(%)	**'000 tonnes**	'000 tonnes	(%)	**'000 tonnes**	'000 tonnes	(%)
Production volume	**18,133.0**	16,266.1	11.5	**9,816.0**	8,867.2	10.7	**27,949.0**	25,331.3	10.3
Import volume	**160.5**	172.8	(7.1)	**120.3**	143.0	(15.9)	**280.8**	315.8	(11.1)
Export volume	**956.5**	822.5	16.3	**813.8**	597.0	36.3	**1,770.3**	1,419.5	24.7
Net import	**(796.0)**	(649.7)	22.5	**(693.5)**	(454.0)	52.8	**(1,489.5)**	(1,103.7)	35.0
Inventories at beginning of the year	**362.0**	454.0	(20.3)	**275.0**	323.0	(14.9)	**637.0**	777.0	(18.0)
Year-end inventories	**305.0**	362.0	(15.8)	**203.0**	275.0	(26.2)	**508.0**	637.0	(20.3)
Total supply volume	**18,655.5**	16,892.9	10.4	**10,211.3**	9,333.2	9.4	**28,866.8**	26,226.1	10.1
Total consumption volume	**17,394.0**	15,708.4	10.7	**9,194.5**	8,461.2	8.7	**26,588.5**	24,367.6	9.1

Source: The Chemical Fibre Association of China

2. PRODUCTION AND OPERATION REVIEW

(1) Production and Marketing

In 2011, the Group's production facilities maintained safe and stable operations, and the production volume and sales volume of main products steadily increased. The total production volume of polyester products amounted to 2,180,344 tonnes, an increase of 2.0 per cent compared with the 2,137,961 tonnes produced in 2010. The polyester capacity utilisation rate reached 96.8 per cent. The total production volume of PTA amounted to 1,042,040 tonnes, a light increase of 0.1 per cent compared with the 1,041,233 tonnes produced in 2010. In 2011, the Group adapted vigorously and positively to market variations, to duly adjust the overhaul of plants and greatly strengthen the linkage between production and sales. The Group's total sales volume of polyester products amounted to 1,775,577 tonnes in 2011, an increase of 2.7 per cent compared with the 1,728,849 tonnes sold in 2010. Excluding self-consumption volume and other factors, the ratio of sales to production reached 99.7 per cent. In 2011, the Group's export volume of polyester products fell to 66,484 tonnes, a decrease of 40.1 per cent over the 111,001 tonnes for 2010.

(2) Cost control

In 2011, the weighted average price of the Group's polyester products (excluding VAT) increased by 20.0 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 34.5 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 per RMB10,000 turnover decreasing by 3.1 per cent compared with 2010. Measures for reducing cost and increasing efficiency were implemented together by strictly implementing overall budget management. Due to the increase in freight and insurance premium resulting from the rise in sales volume and the prices of products, the Group's selling expenses were 3.6 per cent higher than in 2010. Due to reversal of provision for bad and doubtful debts and the decrease in depreciation, the Group's administrative expenses decreased by 4.6 per cent compared with 2010. Due to the increase in interest income from deposits, net finance income increased by 61.2 per cent compared with 2010. The total decrease in selling expenses, administrative expenses and net finance income was 5.5 per cent from that of 2010

(3) R&D

In 2011, putting great efforts on the technical innovations, the Group obtained some new achievements in terms of technical progress and product development, which included the completion of 41 product development projects, 19 acquisition of patent licensing, developing new series of products such as the upgraded bright sewing thread FR212 and functional film grade chips FG611 that had already been put into production and distribution in a large scale. In 2011, the Company's total production volume of specialised polyester chips amounted to 958,894 tonnes; the specialised rate was 89.4 per cent, 3.8 percentage points higher than that of last year. The total production volume of differential polyester fibre amounted to 635,357 tonnes and the differential rate of polyester fibre was 88.6 per cent, 1.8 percentage points higher than that of last year.

Business Review and Prospects

(4) Internal Reform and Management

In 2011, the Group (1) continued to boost its management level up to a new stage and advanced its system standardization and informatization reform with full efforts, achieving some new progress in system establishment; (2) kept on strengthening its exertion of budget enforcement, mobilizing all personnel to implement cost objective management, and effectively controlling various critical costs and expenses; (3) persisted in improving quality management to attain a comprehensive premium grade of more than 99.0 percentage for main products; (4) further enhanced its internal management, and effectively prevented enterprise risks; (5) consummated the salary distribution system and the establishment of talents cultivation channels, constructed the growth mechanism for employees' income, and expanded the stage for talents' development, which validly mobilized staffs' enthusiasm.

(5) Capital expenditure

In 2011, the Group's total capital expenditure amounted to RMB1,346,235,000. The Group further tamped the development foundation to maintain its good and effective momentum. The first phase of high performance PE fiber project with an annual capacity of 3,000 tonnes had already commenced producing in September 2011 with full load, and based upon this, the second phase was entering the optimizing stage of basic design, which carried forward the progress of high performance fiber industrialization. 1, 4-Butanediol project with an annual capacity of 100,000 tonnes was going into the stage of equipment installation; The specialized polyester chip project with an annual capacity of 400,000 tonnes and differential polyester staple fibre project (third unit) with an annual capacity of 100,000 tonnes had come into construction in September 2011; In respect of PTA joint project with an annual capacity of two million tonnes, the Group had signed the joint venture contract with Far Eastern Polytex Holding Limited on 13 December, and a joint venture company has been established.

3. BUSINESS PROSPECTS AND WORK PLAN

(1) Market Analysis

Analyzing the market situation, the Group takes the following views: Firstly, The instability and the uncertainty of the international economy growth will result in China's exports of textiles and garments encountering more and more austere situations, which correspondingly decrease its growing rate; Secondly, international crude oil prices continue to oscillate at a high level, resulting in an increase of raw material costs and further compression of profit margin of polyester products. Thirdly, newly increased domestic polyester capacities will still sprout out largely, further deteriorating the phenomenon of polyester overcapacity and intensifying the industry competition. Nevertheless, there exist the following advantages: Firstly, the growth of Chinese economy will still maintain a relatively fast speed. Besides, with the Chinese government advocating expanding the domestic demand and developing the real economy, domestic demands for the polyester products will be expected to keep steadily rising. Secondly, after years of reform and adjustments, the Group's asset quality has been continuously improved, its product structure has been constantly optimized, and development targets and paths have turned to be more specific and clear. Especially in this year, new projects will be put into production in succession, which will become new growth points of the profits of the Group.

(2) Business strategy

In 2012, the Group will continue to advance its development effectively and rapidly through adhering to the market-oriented policy, centering closely around the effectiveness and benefits, concentrating vigorously on the safety and environment protection, organizing scientifically production and management, optimizing its product structure and strengthening the enterprise management. To achieve these targets, the Group will focus on the following priorities in 2012:

I. Spare no efforts to exploit the business and strive to boost profitability

The Group will adhere to the market-oriented principle, strengthen its integral coordination between the production and marketing, extensively expand the market share and try to increase revenue and efficiency; ensure the balance between production and sales of newly-launched 1, 4-butanediol project and staple fibre project. The Group will also persist in its customer foremost business philosophy, constantly deepen the service and cooperation between the Group and customers to achieve a win-win situation, closely follow up and study domestic and international raw material markets, analyze market fluctuation and raw material inventory structure in a dynamic manner, and ensure the supplies while reducing procurement costs. To meet the target ratio of 100 per cent sales-to-production, the planned sales volume of polyester products, 1, 4-butanediol and high performance PE fibre is 1,777,000 tonnes, 13,000 tonnes and 1,200 tonnes respectively.

Business Review and Prospects

II. *Pay adequate attentions to the safety and environmental protection to maintain safe and stable operation of facilities*

The Group will fully implement HSE management system, establish long-term effective mechanism of safe production, further enhance its site management and monitoring and supervision of critical facilities and equipments, reduce non-planned shut downs and endeavor to maintain facilities operating consistently and stably with full load to produce qualified products. Moreover, the Group will continue to promote the upgrading of product quality through quality improvement projects, quality project research, QC team activity, etc. In 2012, the planned volume of polyester product production is 2,166,000 tonnes, of which self-consumption volume is 356,000 tonnes. The planned production volume of PTA, 1,4-butanediol and high performance PE fibre is is 1,035,000 tonnes, 13,000 tonnes and 1,200 tonnes respectively.

III. *Enhance the ability of innovation and fundamentally propel the technological progress*

The Group will further strengthen its basic construction of technological innovation, promote the establishment of excellent innovation teams, accelerate the training of scientific and technological personnel, and stimulate innovation sparks of employees; take full advantages of the coordination mechanism of production, marketing and research, consolidate ties between its technological progress and the market to constantly boost the product upgrading; continue to conduct the technological development and modification to elevate the technical level of facilities, and actively carry out the basic research and applied research for the Group's sustained development. In 2012, there are 30 product items planned for new development. The Company's projected production volume of differentiated fibre and specialised polyester chips products for 2012 will be 562,000 tonnes and 921,000 tonnes, respectively, while the differential rates for differentiated and specialised products are expected to be 87.6 per cent and 82.4 per cent.

IV. *Strengthen fine management, greatly reduce costs and expenses, promote energy conservation and emission reduction*

The Group will continue to promote system standardization and informatization reform, forming "unified, standardized and efficient" system. The Group will improve its performance management, revise and consummate the performance evaluation system, motivating employees to uninterruptedly make new achievements; continuously promote all personnel to implement the cost target management, perfect its cost management system and enhance cost management level to meet the expense target of the Group; further propel energy conservation and emission reduction, adhere to the concepts of green, low carbon and sustainable development, do a solid job in new rounds of clean production. In 2012, the comprehensive energy consumption per RMB 10,000 turnover is expected to be 1.1499 tonnes of standard coal. Total industrial water demand will be less than 26.6 million tonnes and total COD in waste discharged will also be less than 565 tonnes.

V. *Unify the overall planning, organize meticulously, and steadily impel development*

In 2012, the Group will unify the overall planning and organize meticulously, steadily impelling its development. The Group will ensure that 1, 4-butanediol project with an annual capacity of 100,000 tonnes is completed and be put into trial production as of August 2012, and in the meantime make adequate preparations for the market development and pre-sales work. Meanwhile, the Group will promote the construction of specialized polyester chip project with an annual capacity of 400,000 tonnes and differential staple fibre project (third unit) with an annual capacity of 100,000 tonnes, and endeavor to fulfill the construction of these two projects and commence producing by February of 2013 and September of 2012 respectively. The Group will also make great efforts to initiate the construction of the differential staple fibre project (ninth unit) with an annual capacity of 100,000 tonnes in April 2012; vigorously promote the construction of PTA joint venture project and strive for launching this project in the first half of 2012; make technological breakthrough on high performance polyethylene fibre and aramid fibre, improve performance of the products and effectively promote the industrialization process.

Management Discussion and Analysis

*The information set out below does not constitute part of the financial statements audited by KPMG Huazhen or KPMG, as set out on pages 51 to 100 and pages 101 to 177, 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 2011, the Group maintained a safe and stable operation and the production volume of polyester products steadily increased. Meanwhile, Due to actively optimizing its products structure to meet market demand, the Group's production volume of differentiated and value-added products for 2011 was increased. The total production volume of polyester products was 2,180,344 tonnes, representing an increase of 2.0 per cent as compared with that of 2,137,961 tonnes for last year. The average capacity utilization rate for polyester facilities reached 96.8 per cent. The total production volume of PTA amounted to 1,042,040 tonnes, an increase of 0.1 per cent as compared with that of 1,041,233 tonnes for last year. The average capacity utilization rate for PTA facilities reached 95.2 per cent.

Production volume

	For the year ended 31 December			
	2011		2010	
	Production volume (tonnes)	Per cent of total production volume (%)	Production volume (tonnes)	Per cent of total production volume (%)
Polyester products				
Polyester Chips	**1,072,566**	**49.2**	1,046,433	48.9
Bottle-grade polyester chips	**350,365**	**16.1**	318,579	14.9
Staple fibre	**525,715**	**24.1**	498,362	23.3
Hollow fibre	**44,773**	**2.0**	55,544	2.6
Filament	**186,925**	**8.6**	219,043	10.3
Total	**2,180,344**	**100.0**	2,137,961	100.0

In 2011, the Group's total sales volume of the polyester products was 1,775,577 tonnes, representing an increase of 2.7 per cent from the 1,728,849 tonnes sold in 2010. 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 66,484 tonnes, representing a decrease of 40.1 per cent compared with the 111,001 tonnes sold in 2010. In 2011, the weighted average prices (excluding VAT) of the Group's polyester products increased from RMB9,287 per tonne for last year to RMB11,148 per tonne, representing a 20.0 per cent increase. Because the increase in prices of polyester products was less than that of polyester raw material, the profit margin of polyester products decreased as compared with last year.

Management Discussion and Analysis

Sales volume

	For the year ended 31 December			
	2011		2010	
	Sales volume (tonnes)	Per cent of total sales volume (%)	Sales volume (tonnes)	Per cent of total sales volume (%)
Polyester products				
Polyester chips	**699,297**	**39.4**	708,186	41.0
Bottle-grade polyester chips	**350,607**	**19.8**	317,207	18.3
Staple fibre	**529,639**	**29.8**	493,487	28.5
Hollow fibre	**45,246**	**2.5**	54,750	3.2
Filament	**150,788**	**8.5**	155,219	9.0
Total	**1,775,577**	**100.0**	1,728,849	100.0

Average Prices for products (excluding VAT) RMB/tonnes

	For the year ended 31 December		
	2011	2010	Change (%)
Polyester products			
Polyester chips	**10,505**	8,652	21.4
Bottle-grade polyester chips	**10,850**	8,589	26.3
Staple fibre	**11,732**	9,807	19.6
Hollow fibre	**12,489**	10,652	17.2
Filament	**12,372**	11,472	7.8
Weighted average price	**11,148**	9,287	20.0

Turnover

	For the year ended 31 December			
	2011		2010	
	Turnover RMB'000	Per cent of turnover %	Turnover RMB'000	Per cent of turnover %
Polyester products				
Polyester chips	**7,346,044**	**36.4**	6,127,035	37.4
Bottle-grade polyester chips	**3,804,094**	**18.9**	2,724,476	16.7
Staple fibre	**6,213,622**	**30.8**	4,839,829	29.6
Hollow fibre	**565,084**	**2.8**	583,208	3.6
Filament	**1,865,482**	**9.2**	1,780,642	10.9
Others	**385,442**	**1.9**	293,176	1.8
Total	**20,179,768**	**100.0**	16,348,366	100.0

In 2011, due to the increase in the weighted average prices of polyester products (excluding VAT) and the total sales volume of the polyester products by 20.0 per cent and 2.7 per cent respectively as compared with last year, the Group's turnover amounted to RMB20,179,768,000, representing an increase of 23.4 per cent as compared with RMB16,348,366,000 for last year.

Management Discussion and Analysis

(2) Cost of sales

In 2011, the Group's cost of sales was RMB18,607,201,000, an increase of RMB4,253,886,000 compared with RMB14,353,315,000 for 2010, representing 92.2 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 RMB4,251,371,000, from RMB11,915,580,000 in 2010 to RMB16,166,951,000 in 2011, accounting for 86.9 per cent of the cost of sales in 2011. 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 34.5 per cent as compared with last year. Of which, the average purchase costs of PTA, PX and MEG increased by 25.9 per cent, 41.4 per cent and 32.8 per cent respectively as compared with last year.

In 2011, despite turnover increased by 23.4 per cent as compared with last year, the Group's gross profit decreased by RMB422,484,000 to RMB1,572,567,000 due to increasing in cost of sales by 29.6 per cent as compared with last year. The Group's gross profit margin was 7.8 per cent, a decrease of 4.4 percentage points compared with last year.

(3) Selling, administrative and net finance income

	For the year ended 31 December		
	2011 RMB'000	2010 RMB'000 (as restated)	Change (%)
Selling expenses	**220,430**	212,868	3.6
Administrative expenses	**441,685**	463,100	(4.6)
Net finance income	**(56,887)**	(35,286)	61.2
Total	**605,228**	640,682	(5.5)

In 2011, due to the increase in freight and insurance premium resulting from the rise in sales volume and the prices of products, the Group's selling expenses increased by RMB7,562,000 as compared with last year. Due to reversal of provision for bad and doubtful debts and the decrease in depreciation, the Group's administrative expenses decreased by RMB21,415,000 as compared with last year. Due to the increase in interest income from deposits, the net finance income increased by RMB21,601,000 as compared with last year. The total reduction in selling expenses, administrative expenses and net finance income was 5.5 per cent from that of 2010.

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

	For the year ended 31 December		
	2011 RMB'000	2010 RMB'000 (as restated)	Change %
Operating profit	**969,056**	1,103,915	(12.2)
Profit before taxation	**1,042,190**	1,140,343	(8.6)
Income tax expense	**202,958**	(86,954)	Not application
Profit attributable to equity shareholders of the Company	**839,232**	1,227,297	(31.6)
Earnings per share (in RMB)	**0.210**	0.307	(31.6)

In 2011, the Group's operating profit and profit before taxation was RMB969,056,000 and RMB1,042,190,000, decreased by 12.2 per cent and 8.6 per cent respectively as compared with RMB1,103,915,000 and RMB1,140,343,000 in 2010. It was mainly due to the decrease in gross profit resulting from the significant rise in cost of sales. Profit attributable to equity shareholders of the Company was RMB839,232,000, a decrease of 31.6 per cent as compared with RMB1,227,297,000 in 2010, mainly due to the decrease in profit before taxation and the accruement of the current income tax by RMB202,958,000.

Management Discussion and Analysis

(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 2011 in accordance with the PRC Accounting Standards for Business Enterprises.

Products	Operating income RMB'000	Cost of sales RMB'000	Gross profit margin (%)	Increase in operating income as compared with last year (%)	Increase in cost of sales as compared with last year (%)	compared with last year
Polyester products	19,794,326	17,839,305	9.9	23.3	30.5	Decreased by 4.9 percentage points
Including: Polyester Chips	7,346,044	6,544,918	10.9	19.9	26.9	Decreased by 4.9 percentage points
Bottle-grade polyester chips	3,804,094	3,455,907	9.2	39.6	43.6	Decreased by 2.5 percentage points
Staple and hollow fibre	6,778,706	6,042,406	10.9	25.0	33.6	Decreased by 5.7 percentage points
Filament	1,865,482	1,796,074	3.7	4.8	13.1	Decreased by 7.1 percentage points

(6) Operating income by regions

The following is the statement of operations by products for the year ended 31 December 2011 in accordance with the PRC Accounting Standards for Business Enterprises.

Region	Operating income RMB'000	Increase/ (decrease) from last year (%)
Mainland	19,438,858	26.0
Hong Kong, Macau, Taiwan, and overseas	740,910	(19.4)

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 2011 RMB'000	At 31 December 2010 RMB'000 (as restated)	Changes in amount RMB'000
Total assets	**11,449,599**	10,531,202	918,397
Current assets	**6,130,656**	6,076,395	54,261
Non-current assets	**5,318,943**	4,454,807	864,136
Total liabilities	**2,457,660**	2,258,495	199,165
Current liabilities	**2,402,659**	2,198,621	204,038
Non-current liabilities	**55,001**	59,874	(4,873)
Total equity attributable to equity shareholders of the Company	**8,991,939**	8,272,707	719,232

Management Discussion and Analysis

As at 31 December 2011, the Group's total assets were RMB11,449,599,000, total liabilities were RMB2,457,660,000, and total equity attributable to equity shareholders of the Company was RMB8,991,939,000. Compared with the assets and liabilities as at 31 December 2010 (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 RMB11,449,599,000, an increase of RMB918,397,000 as compared with the end of last year. Current assets were RMB6,130,656,000, an increase of RMB54,261,000 as compared with the end of last year. The increase was mainly due to the increase in trade and other receivables by RMB891,181,000 owing to the rise in the balance of bills receivables resulting from the domestic tightly monetary policy in 2011 and the RMB152,465,000 of prepaid income tax. Meanwhile, cash and cash equivalents, and deposits with banks and other financial institutions decreased by RMB519,111,000 and RMB408,456,000 respectively owing to the decrease in net cash inflow from operating activities and the rise in net cash outflow from investing activities in 2011. Non-current assets were RMB5,318,943,000, an increase of RMB864,136,000 as compared with the end of last year, which was mainly due to the increase in construction in progress and interest in jointly controlled entity by RMB703,158,000 and RMB303,089 respectively in 2011.

Total liabilities were RMB2,457,660,000, an increase of RMB199,165,000 as compared with the end of last year. Current liabilities were RMB2,402,659,000, an increase of RMB204,038,000 as compared with the end of last year, which was mainly due to the increase of RMB313,975,000 in trade and other payables in 2011. Non-current liabilities were RMB55,001,000, a decrease of RMB4,873,000 compared with the end of last year.

Total equity attributable to equity shareholders of the Company was RMB8,991,939,000, an increase of RMB719,232,000 as compared with the end of last year, mainly due to RMB839,232,000 for profit attributable to equity shareholders of the Group in 2011.

As at 31 December 2011, the ratio of total liabilities to total assets was 21.5 per cent, and 21.4 per cent as at 31 December 2010.

(2) Cash flow analysis

At the end of 2011, cash and cash equivalents decreased by RMB816,981,000, representing a decrease from RMB2,323,802,000 as at 31 December 2010 to RMB1,506,821,000 as at 31 December 2011. The following table lists major items in the consolidated cash flow statement of the Group for the year 2011 and 2010.

Major items in cash flow statement	2011 RMB'000	2010 RMB'000
Net cash (used in)/generated from operating activities	**(270,247)**	1,600,805
Net cash used in investing activities	**(426,734)**	(51,770)
Net cash used in financing activities	**(120,000)**	–
Net (decrease)/increase in cash and cash equivalents	**(816,981)**	1,549,035
Cash and cash equivalents at the beginning of the year	**2,323,802**	774,767
Cash and cash equivalents at the end of the year	**1,506,821**	2,323,802

In 2011, the Group's net cash outflow from operating activities was RMB270,247,000, representing a decrease of cash inflow by RMB1,871,052,000 as compared with last year. This was mainly due to the following:

(1) Gross profit decreased by RMB422,484,000 as compared with last year.

(2) Inventories and trade and other receivables increased by RMB437,895,000 and RMB1,039,831,000 respectively as compared with last year.

(3) Tax paid increased by RMB391,005,000 as compared with last year.

In 2011, the Group's net cash outflow from investing activities was RMB426,734,000, an increase of cash outflow by RMB374,964,000 as compared with last year. It was mainly due to the increase of cash outflow by RMB278,589,000 in capital expenditure and RMB303,089,000 of cash payment for the acquisition of interest in jointly controlled entity in 2011.

Management Discussion and Analysis

In 2011, the Group's net cash outflow from financing activities was RMB120,000,000, an increase of cash outflow by RMB120,000,000 compared with last year. It was mainly due to RMB120,000,000 of cash payment of final dividends for the year ended 31 December 2010.

(3) Bank borrowings

As at 31 December 2011, the Group's bank borrowings were nil (as at 31 December 2010: nil).

(4) Assets charges

For the year ended 31 December 2011, 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 2011 (2010: 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 2011, the Group's capital expenditure amounted to RMB1,346,235,000. The following table provided information on the Group's major construction projects and their returns in 2011.

Name of Main project	Amount invested in 2011 RMB'000	Progress of project	Project return (Actual production volume)
The first phase of high performance polyethylene fiber project with an annual capacity of 3,000 tonnes	**115,019**	Completed	262.5 tonnes
1, 4-butanediol project with an annual capacity of 100,000 tonnes	**599,977**	Installing equipment	–
Specialised polyester chip project with an annual capacity of 400,000 tonnes	**49,822**	Under construction	–
Differential staple fibre project with an annual capacity of 100,000 tonnes (third unit)	**45,997**	Under construction	–
Differential staple fibre project with an annual capacity of 100,000 tonnes (ninth unit)	**42,978**	Purchasing equipment	–
PTA joint project with an annual capacity of two million tonnes	**303,089**	Under preliminary work	–
Others	**189,353**	–	–
Total	**1,346,235**	–	262.5 tonnes

The Company's capital expenditure for 2012 is expected to be approximately RMB2,041,800,000, including: the 1,4-butanediol project with an annual capacity of 100,000 tonnes, Specialised polyester chip project with an annual capacity of 400,000 tonnes, PTA joint project with an annual capacity of two million tonnes, the second phase of high performance polyethylene fiber project with an annual capacity of 3,000 tonnes, differential staple fibre project with an annual capacity of 100,000 tonnes (third unit) and differential staple fibre project with an annual capacity of 100,000 tonnes (ninth unit) amounting to RMB620,000,000, RMB220,000,000, RMB330,000,000, RMB150,000,000, RMB160,000,000 and RMB120,000,000 respectively. 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 2011.

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

(1) The sixteenth meeting of the sixth term of the Board was held on 28 March 2011. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times and the website of HKSE on 29 March 2011.

(2) The seventeenth meeting of the sixth term of the Board was held on 28 April 2011. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times and the website of HKSE on 29 April 2011.

(3) The eighteenth meeting of the sixth term of the Board was held on 9 May 2011. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times and the website of HKSE on 10 May 2011.

(4) The nineteenth meeting of the sixth term of the Board was held on 16 June 2011. The meeting considered and approved the Internal Control Manual of the Company (2011 edition).

(5) The twentieth meeting of the sixth term of the Board was held on 29 August 2011. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times and the website of HKSE on 30 August 2011.

(6) The twenty-first meeting of the sixth term of the Board was held on 14 October 2011. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times and the website of HKSE on 17 October 2011.

(7) The twenty-second meeting of the sixth term of the Board was held on 27 October 2011. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times and the website of HKSE on 28 October 2011.

(8) The twenty-third meeting of the sixth term of the Board was held on 31 October 2011. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times and the website of HKSE on 1 November 2011.

(9) The twenty-fourth meeting of the sixth term of the Board was held on 29 November 2011. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times and the website of HKSE on 30 October 2011.

(10) The first meeting of the seventh term of the Board was held on 16 December 2011. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times and the website of HKSE on 19 December 2011.

(11) The second meeting of the seventh term of the Board was held on 22 December 2011. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times and the website of HKSE on 23 December 2011.

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 2010 ("**2010 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.

Report of the Board of Directors

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 INFORMATION ON SHAREHOLDERS

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 2011 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**")

Report of the Board of Directors

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.

Information on Shareholders

1. *Number of shareholders*

The number of shareholders of the Company as at 31 December 2011 is as follows:

Type	Number of shareholders
Legal person share ("A" share)	**2**
Social public share ("A" share)	**33,419**
"H" share	**525**
Total	**33,946**

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

As at 31 December 2011, 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	33,946	Number of shareholders at the end of February 2012	34,505

Report of the Board of Directors

Details of the top ten major shareholders

Names of shareholders	Nature of shareholders	Number of shares held at the end of the year (shares)	Percent to total share capital (%)	Number of non-circulating shares (shares)	Number of pledged or frozen shares*
Sinopec	Domestic legal person shareholder	1,680,000,000	42.00	1,680,000,000	Nil
Hong Kong Securities Clearing Company ("**HKSCC**") (Nominees) Limited**	Overseas capital shareholder	1,384,735,005	34.62	Circulating shares	Nil
CITIC Group Corporation ("**CITIC Group**") ***	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	32,536,856	0.81	Circulating shares	Not applicable
China Life Insurance Company Limited – Traditional – Ordinary Insurance Product-005L-CT001 Shanghai	Domestic circulating shareholders	4,545,795	0.11	Circulating shares	Not applicable
Shanghai International Trust Company Limited	Domestic circulating shareholders	2,890,719	0.07	Circulating shares	Not applicable
China Life Insurance Company Limited-Dividends-Personal Dividends-005L-FH002 Shanghai	Domestic circulating shareholders	1,999,970	0.05	Circulating shares	Not applicable
IP KOW	Overseas capital shareholder	1,900,000	0.05	Circulating shares	Not applicable
Lin You-ming	Domestic circulating shareholders	1,844,107	0.05	Circulating shares	Not applicable
Chen Zhang-hua	Domestic circulating shareholders	1,360,391	0.03	Circulating shares	Not applicable

Report of the Board of Directors

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**	1,384,735,005	"H" shares
China Construction Bank-CIFM China Advantage Securities Investment Fund	32,536,856	Circulating "A" shares
China Life Insurance Company Limited-Traditional-Ordinary Insurance Product-005L-CT001 Shanghai	4,545,795	Circulating "A" shares
Shanghai International Trust Company Limited	2,890,719	Circulating "A" shares
China Life Insurance Company Limited-Dividends-Personal Dividends-005L-FH002 Shanghai	1,999,970	Circulating "A" shares
IP KOW	1,900,000	"H" shares
Lin You-ming	1,844,107	Circulating "A" shares
Chen Zhang-hua	1,360,391	Circulating "A" shares
Lu Bao-hong	996,600	Circulating "A" shares
China Life Property & Casualty Insurance Company Limited – Traditional – Ordinary Insurance Product	900,000	Circulating "A" shares
Explanation of connected relationship or activities in concert among the above shareholders	Except for China Life Insurance Company Limited -Traditional-Ordinary Insurance Product-005L-CT001 Shanghai, China Life Insurance Company Limited-Dividends-Personal Dividends-005L-FH002 Shanghai and China Life Property & Casualty Insurance Company Limited -Traditional-Ordinary Insurance Product, all of which are under the management of China Life Insurance Asset Management Company Limited, the Company is not aware of that there is any connected relationship or activities in concert among the above -mentioned 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. According to CITIC Group's comprehensive restructuring scheme approved by the Ministry of Finance People's Republic of China, CITIC Group made the investment based on most of its operating assets (including 720,000,000 non-circulating shares in the Company) to establish CITIC Limited with joint initiation of Beijing CITIC Enterprise Management CO., Ltd on 27 December 2011. CITIC Group has transformed into a wholly state-owned company through comprehensive restructuring and changed its name to CITIC Group Corporation. CITIC Group Corporation took over all business and assets of CITIC Group. The 720,000,000 non-circulating shares in the Company held by CITIC Group will transfer to CITIC Limited and the relative share transfer is in progress. Please refer to "Sinopec Yizheng Chemical Fibre Company Limited Simple Type Report on Changes in Equity" disclosed in China Securities, Shanghai Securities News, Securities Times and the website of HKSE on 18 January 2012.*

Report of the Board of Directors

3. *The controlling shareholder*

Name of the controlling shareholder	:	Sinopec, holding 42 per cent of the Company's shares
Legal representative	:	Fu Cheng-yu
Date of establishment	:	25 February 2000
Registered capital	:	RMB86,702,562,436
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.

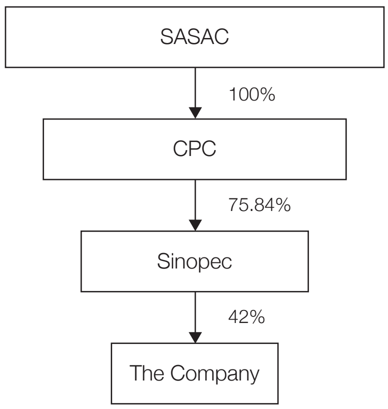
During the reporting period, there has been no change in the controlling shareholder of the Company.

4. *The ultimate controller*

Name of the ultimate controller	:	China Petrochemical Corporation ("**CPC**")*
Legal representative	:	Fu Cheng-yu
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 ultimate controller 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**").*



Report of the Board of Directors

5. *Other substantial shareholders*

   (1) *CITIC Limited*

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

Legal representative	:	Chang Zhen-ming
Registered capital	:	RMB128,000,000,000
Date of establishment	:	27 December 2011
Principal activities	:	Investing and managing domestic and foreign bank, security, insurance, trust, future, rent, fund, information, energy, communication, mine, raw material, machinery manufacturing, real estate development, environmental protection, medicament, bioengineering and new material, aviation, transportation, trade, commerce, engineer; and asset management and capital operation, etc..

   (2) The shares held by HKSCC (Nominees) Limited are on behalf of its customers. As at 31 December 2011, 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 2011, 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 Limited	720,000,000	18.00	27.69	Not applicable	–

* *As at 31 December 2011, 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 2011, no other person had an interest or short position in the Company's shares or underlying shares (as the case may be) which are required to be disclosed to the Company and the HKSE under the provisions of Divisions 2 and 3 of Part XV of the SFO, or was otherwise a substantial shareholder (as such term is defined in the Listing Rules) of the Company.

Report of the Board of Directors

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Changes in Directors, Supervisors and Senior Management

Mr. Sun Yu-guo was elected as a Director of the sixth session of the Board at the 2010 AGM held on 8 June 2011.

The eighteenth meeting of the sixth session of the Board of the Company held on 9 May 2011 considered and approved the resolution regarding the request of Mr. Qin Wei-zhong to resign from his position as a Director. The Board announced that it has accepted the resignation of Mr. Qin Wei-zhong, a Director of the Company, from his position as a Director due to new working arrangement. The Board would like to express its gratitude to Mr. Qin for his hard work and contribution to the Company during his term of office.

The seventeenth meeting of the sixth session of the Board of the Company held on 28 April 2011 appointed Mr. Liu Xiao-qin as the Deputy General Manager of the Company.

At the EGM of the Company held on 16 December 2011, Mr. Lu Li-yong, Ms. Sun Zhi-hong, Mr. Xiao Wei-zhen, Ms. Long Xing-ping, Mr. Zhang Hong, Mr. Guan Diao-sheng, Mr. Sun Yu-guo, Mr. Shen Xi-jun, Mr. Shi Zhen-hua, Mr. Qiao Xu, Mr. Yang Xiong-sheng and Mr. Chen Fang-zheng were elected as Directors of the seventh term Board. Of which, Mr. Shi Zhen-hua, Mr. Qiao Xu, Mr. Yang Xiong-sheng and Mr. Chen Fang-zheng have been appointed as independent directors. Mr. Chen Jian, Mr. Shao Bin and Mr. Chu Bing were elected as Supervisors of the seventh term Supervisory Committee, of which, Mr. Shao Bin and Mr. Chu Bing were independent supervisors. Mr. Cao Yong and Mr. Sun Shao-bo were elected by employees of the Company as the employee representative supervisors at the seventh term of the Supervisory Committee.

Mr. Shi Gang and Mr. Wang Bing, the Independent Supervisors of the Company, retired from their offices as Independent Supervisors, and Mr. Tao Chun-sheng resigned his position as a Supervisor. The Company expresses its sincere gratitude to Mr. Shi, Mr. Wang and Mr. Tao for their contributions to the Company during their term of office.

Profiles of Present Directors, Supervisors and Senior Management

Directors

1. Mr. Lu Li-yong, aged 50, 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. In September 2010, he was elected as Chairman of the Company. In December 2011, he was re-elected as Chairman of the Company. 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 62, Vice Chairwoman of the Company, Senior Accountant and CPA of the PRC. She held the position of Deputy Director of the Finance Department of CITIC Group since January 1999. She was elected as Vice Chairwoman of the Company in December 1999, and was re-elected in December 2011. 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 58, 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

Report of the Board of Directors

Chairman of the Company. In December 2011, 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 60, Director of the Company and Deputy Director of Strategy and Planning Department of CITIC Limited, 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 Group since April 2002. In December 2011, 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 53, Director of the Company and Deputy Director of Audit Department of CITIC Limited, Senior Accountant and CPA of the PRC. In December 2002, he was elected as Director of the Company. In December 2011, he was re-elected as Director of the Company. He held the position of Deputy Director of Audit Department of CITIC Group 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 49, Director of the Company, Deputy Director of Chemicals Segment of Sinopec, Master of Engineering, Senior Engineer (at professor level). 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 2011. Mr. Guan has extensive experience in chemical fibre industry management. Mr. Guan obtained Master of Engineering from China Textile University in 1985, majoring in chemical fibre.

7. Mr. Sun Yu-guo, aged 48, Director of the Company, Deputy Director of Development and Plan Department of Sinopec, Master of Engineering, Senior Engineer (at professor level). Mr. Sun has joined petrochemical industry since 1987. He served as Deputy Director of Strategic Plan Section of Development and Plan Department of CPC in December 1998, Director of Refining Oil, Transportation and Selling Plan Section of Development and Plan Department of Sinopec in February 2000, Deputy Director of the Asset and Accounting Department of Sinopec Assets Management Corporation in March 2006, and Deputy Director of Development and Plan Department of Sinopec in May 2008. In June 2011, he was elected as Director of the Company, and re-elected in December 2011. Mr. Sun has extensive experience in planning and management in chemicals industry. Mr. Sun graduated from Dalian University of Technology in 1984, majoring in fundamental organic chemical engineering. Mr. Sun obtained Master of Engineering from Dalian University of Technology in 1987, majoring in chemical engineering.

8. Mr. Shen Xi-jun, aged 51, 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 2011. In August 2004, he was elected as Director of the Company. In December 2011, 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 65, 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, and re-elected in December 2011. Over the years, he has been

Report of the Board of Directors

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 was 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 50, 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 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, and re-elected in December 2011. 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 52, 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, and re-elected in December 2011. He also serves in the Jiangsu Hongtu High Technology 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 65, Independent Director of the Company and 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, and re-elected in December 2011. He also served as an independent director in Minmetals International Trust Co., Ltd. He served as an independent director in Baoji Titanium Industry Co., Ltd (off position). Mr. Chen graduated from Hefei University of Technology in 1969, majoring in measurement.

* *Independent Directors*

Report of the Board of Directors

Supervisors

1. Mr. Cao Yong, aged 53, 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 Trade Union, Deputy Secretary of the CCPC of the Company and Yihua. In August 2004, he was elected as Director of the Company. In December 2005, he was re-elected as Director of the Company. In February 2007, he was elected Chairman of Supervisory Committee of the Company, and re-elected in December 2011. 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. Sun Shao-bo, aged 51, Supervisor of the Company and Deputy Secretary of the Discipline and Inspection Commission and Director of Supervisory Department of the Company, and Economist. Mr. Sun joined Yihua in 1988, he had been engaged in secretarial affairs and Director of secretary section in General Manager Office of the Company successively. In January 1997, he held positions of Deputy Director of General Manager Office of Yihua and the Company and Office for the Party Committee. In December 2001, he held positions of Director of General Manager Office and Office for the Party Committee and Economic Research Center of the Company. He took up his current position in June 2011. He was elected as Supervisor of the Company in December 2011. Mr. Sun has extensive experience in administrative management in large-scale enterprise. Mr. Sun graduated from Journalism Department of Yangzhou Normal Academy in 1981, and graduated from Journalism Department of Jiangsu Institute of Education in 1987. He completed the graduate course of enterprise management in Nanjing University in 1997. Mr. Sun is the Supervisor who represents the staff of the Company.

3. Mr. Chen Jian, aged 49, Supervisor of the Company and Senior Project Manager of Strategy and Planning Department of CITIC Limited, 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 2011. 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. Shao Bin**, aged 46, Independent Supervisor of the Company, Deputy Director of Jiangsu Branch, China Construction Bank, and Senior Economist. He started work in July 1988. He had been successively engaged in Deputy Manager of International Business Department of Jiangsu Branch, Deputy Director of Changzhou Branch, Deputy Manager of Sales Department of Jiangsu Branch, Director of Credit Business Division and General Manager of Company Financing Department of Jiangsu Branch of China Construction Bank. Mr. Shao took up his current position in July 2005. He was elected as Supervisor of the Company in December 2011. He has extensive experience in banking. Mr. Shao graduated from Jiangxi University of Finance and Economics in 1988, majoring in finance. In May 2001, he obtained an economics master degree in Nanjing University, majoring in political economy.

5. Mr. Chu Bing**, aged 39, Independent Supervisor of the Company, General Manager of Company Financing Department of Jiangsu Branch, Bank of China, Economist. He was joined Bank of China in August 1995, and took up his current position in September 2009. He was elected as Supervisor of the Company in December 2011. Mr. Chu has extensive experience in banking. Mr. Chu graduated from Jiangsu University of Science and Technology in 1995, majoring in management engineering. He completed the graduate course of project management in Nanjing University in 2009.

** *Independent Supervisors*

Report of the Board of Directors

Senior Management

1. Mr. Li Jian-xin, aged 54, Deputy General Manager, and Senior Engineer (at professor level). Mr. Li joined Yihua in 1982. 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, and re-appointed in December 2011. 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 51, 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. In December 2011, he was re-appointed as Deputy General Manager of the Company. 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. Liu Xiao-qin, aged 46, Deputy General Manager, Doctor of Applied Chemistry, and Senior Engineer (at professor level). Mr. Liu has joined petrochemical industry since 1988 and served as Deputy Director of Dispatching Center, Deputy Chief Engineer and Director of Production Department, Deputy Head and Head of Yingshan Petrochemical Plant in Baling Petrochemical Company, and then the Assistant to Manager of Sinopec Baling Branch. In March 2003, he was appointed as Deputy Manager of Sinopec Baling Branch. In December 2008, he was appointed as Deputy General Manager of Sinopec Baling Branch, and during this period, he also took a temporary position of Vice Governor of Haixi Mongolian-Tibetan Autonomous Prefecture and Deputy Director of Olefins Projects Leading Group in Qinghai Province (leaving office now). In April 2011, he was appointed as Deputy General Manager of the Company, and re-appointed in December 2011. Mr. Liu has possessed vast experience in production, technological improvement and business administration in large-scale enterprises. He was chosen as the Prominently Contributive Technology and Management Expert of Sinopec and conferred the title of the 5th Ten Outstanding Young Persons in Hunan Province. Mr. Liu graduated from Zhejiang University in 1988, majoring in Organic Chemical Industry. He received his Master of Business Administration degree from Hunan University respectively in 2001, then graduated with Doctor Degree in Applied Chemistry in 2004, and become Doctor of Engineering.

4. Mr. Li Jian-ping, aged 49, 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, and re-appointed in December 2011. 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.

5. Mr. Tom C. Y. Wu, aged 50, 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 2011, 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.

Report of the Board of Directors

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 2011 and the Company's appraisal and assessment system, the Board considered and passed the resolution regarding the Directors', Supervisors' and Senior Management's remuneration in the third meeting of the seventh term of the Board held on 26 March 2012.

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 the current 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	Dec. 2011-Dec.2014	–	–	Nil	No Change
Sun Zhi-hong	Vice Chairwoman	Dec. 2011-Dec.2014	–	–	Nil	No Change
Xiao Wei-zhen	Vice Chairman and General Manager	Dec. 2011-Dec.2014	–	–	Nil	No Change
Long Xing-ping	Director	Dec. 2011-Dec.2014	–	–	Nil	No Change
Zhang Hong	Director	Dec. 2011-Dec.2014	–	–	Nil	No Change
Guan Diao-sheng	Director	Dec. 2011-Dec.2014	–	–	Nil	No Change
Sun Yu-guo	Director	Dec. 2011-Dec.2014	–	–	Nil	No Change
Shen Xi-jun	Director, Deputy General Manager	Dec. 2011-Dec.2014	–	–	Nil	No Change
Shi Zhen-hua	Independent Director	Dec. 2011-Dec.2014	–	–	Nil	No Change
Qiao Xu	Independent Director	Dec. 2011-Dec.2014	–	–	Nil	No Change
Yang Xiong-sheng	Independent Director	Dec. 2011-Dec.2014	–	–	Nil	No Change
Chen Fang-zheng	Independent Director	Dec. 2011-Dec.2014	–	–	Nil	No Change
Cao Yong	Chairman of Supervisory Committee	Dec. 2011-Dec.2014	–	–	Nil	No Change
Sun Shao-bo	Supervisor	Dec. 2011-Dec.2014	–	–	Nil	No Change
Chen Jian	Supervisor	Dec. 2011-Dec.2014	–	–	Nil	No Change
Shao Bin	Independent Supervisor	Dec. 2011-Dec.2014	–	–	Nil	No Change
Chu Bing	Independent Supervisor	Dec. 2011-Dec.2014	–	–	Nil	No Change
Li Jian-xin	Deputy General Manager	From Dec.2011	–	–	Nil	No Change
Zhang Zhong-an	Deputy General Manager	From Dec.2011	–	–	Nil	No Change
Liu Xiao-qin	Deputy General Manager	From Dec.2011	–	–	Nil	No Change
Li Jian-ping	Chief Financial Officer	From Dec.2011	–	–	Nil	No Change
Tom C. Y. Wu	Board Secretary	From Dec.2011	–	–	Nil	No Change

Report of the Board of Directors

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

Name	Name of corporate shareholders	Position held in corporate shareholders	Term of office	Remuneration and allowance received from the corporate shareholders
Sun Zhi-hong	CITIC Limited	Deputy Director of Financial Department	From January 1999 to December 2011	Yes
Long Xing-ping	CITIC Limited	Deputy Director of Strategy and Planning Department	From April 2002	Yes
Zhang Hong	CITIC Limited	Deputy Director of Audit Department	From January 2010	Yes
Guan Diao-sheng	Sinopec	Deputy Director of Chemical Segment	From December 2001	Yes
Sun Yu-guo	Sinopec	Deputy Director of Development and Plan Department	From July 2010	Yes
Chen Jian	CITIC Limited	Senior Project Manager of Strategy and Planning Department	From August 2010	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 2011*

Name	Salaries (RMB)
Lu Li-yong	288,000
Sun Zhi-hong	288,000
Xiao Wei-zhen	288,000
Long Xing-ping	244,800
Zhang Hong	244,800
Guan Diao-sheng	–
Sun Yu-guo	–
Shen Xi-jun	244,800
Shi Zhen-hua	50,000
Qiao Xu	50,000
Yang Xiong-sheng	50,000
Chen Fang-zheng	50,000
Cao Yong	244,800
Tao Chun-sheng	147,097
Chen Jian	244,800
Shi Gang	40,000
Wang Bing	40,000
Li Jian-xin	244,800
Zhang Zhong-an	244,800
Liu Xiao-qin	163,200
Li Jian-ping	244,800
Tom C. Y. Wu	163,769
Off position:	
Qin Wei-zhong	–
Total remuneration for the year	RMB3,576,466 in total
Allowances to Independent Directors	RMB200,000 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, Sun Yu-guo

Report of the Board of Directors

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

As at 31 December, 2011, none of the Directors, Supervisors and Senior Management of the Company had any interest or short position in shares, underlying shares and/or debentures (as the case may be) of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be notified to the Company and the HKSE pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and short position which any such Director, Supervisor or Senior Management is taken or deemed to have under such provisions of the SFO) or which was required to be entered in the register kept by the Company pursuant to section 352 of the SFO or which was required to be notified to the Company and the HKSE pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("**Model Code**") as contained in Appendix 10 to the Listing Rules.

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

Directors' and Supervisors' service contracts

Each Director (excluding Independent Directors) of the seventh term of the Board of the Company entered into a service contract with the Company on 16 December 2011. 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 2012;

2. Each Director (excluding Independent Directors) is entitled to an annual salary of not less than RMB50,000. The aggregate annual salaries of all Directors (excluding Independent Directors) is not more than RMB2,800,000 within the contract term.

Each Independent Director of the seventh term of the Board entered into a service contract with the Company on 16 December 2011. 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 2012;

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

Each Supervisor (excluding Independent Supervisors) of the seventh term of the Supervisory Committee entered into a service contract with the Company on 16 December 2011. 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 2012;

2. Each Supervisor (excluding Independent Supervisors) is entitled to an annual salary of not less than RMB50,000. The aggregate annual salaries of all Supervisors (excluding Independent Supervisors) is not more than RMB1,000,000 within the contract term.

Each Independent Supervisor of the seventh term of the Supervisory Committee entered into a service contract with the Company on 16 December 2011. 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 2012;

2. The aggregate annual allowance payable to all Independent Supervisors is RMB80,000 (after taxation) 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.

Report of the Board of Directors

Staff

As at 31 December 2011, the Group had 7,773 registered employees, a decrease of 241 employees year-on-year. Total retired staff amounted to 2,437.

The Company had 49 employees with masters degrees or higher, 1,037 employees with bachelor degrees or higher, 2,083 employees with a tertiary or higher education background, and 6,339 employees with senior high school or higher educational background.

The Company had 5,845 production staff, 110 sales staff, 701 engineers, technicians and research staff at the product technology center, 85 financial personnel and 450 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 2011 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.

PROPOSED SCHEME OF PROFIT DISTRIBUTION

In accordance with the PRC Accounting Standards for Business Enterprises, the net profit of the Company for 2011 was RMB835,400,000 (the profit attributable to equity shareholders of the Company for 2011 was RMB835,589,000 under IFRSs). The total distributable profit, including the undistributed profit of RMB1,051,588,000 brought forward from the previous year (deducting the final cash dividend of RMB120,000,000 paid for the year 2010), was RMB1,766,988,000 at the end of 2011.

According to the relevant regulations of the PRC and the Articles of Association of the Company, the Company proposed that RMB83,540,000 was transferred to the statutory surplus reserve.

It is proposed that a final cash dividend of RMB0.03 per share (including tax) for 2011 would be paid, totaling RMB120,000,000.

The above proposed profit distribution scheme shall be submitted for approval at the 2011 AGM.

PROFIT DISTRIBUTION FOR THE PREVIOUS THREE YEARS IN ACCORDANCE WITH THE ASBE

Year	Dividend in cash per ten shares (RMB, including tax)	Amount of dividend in cash (RMB'000)	Net profit in respect of the year declaring dividends* (RMB'000)	Percentage of dividends to net profit (%)
2008	0	0	(1,645,285)	0
2009	0	0	382,018	0
2010	0.30	120,000	1,226,542	9.8

* *Net profit was the net profit attributable to equity shareholders of the Company as reflected in the consolidated financial statement prepared in accordance with ASBE in respect of the year when dividends were declared.*

Report of the Board of Directors

INFORMATION ON DRAWING UP AND IMPLEMENTING THE POLICY OF DIVIDEND IN CASH

The Company always implemented the steady policy of dividend in cash, not only pay attention to the current return of shareholders but also think the long-term benefits of shareholders. When the Company decided the level of dividend in cash, the Company strictly complied with the regulations of the Company's Articles of Association, and comprehensively considered capital demand from the current projects construction, the future profits growth and cash flow, and undistributed profits. Despite the capital expenditure for 2011 and 2012 is quite a lot, the Company adhered to dividend in cash.

RESERVES

Changes in reserves of the Group during the reporting period are set forth in note 29 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 16 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 2011.

SUBSIDIARIES

Particulars of the Company's subsidiary as at 31 December 2011 is set forth in note 19 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 31 of the financial statements prepared in accordance with the IFRSs of the Annual Report.

MAJOR SUPPLIERS AND CUSTOMERS

For the year ended 31 December 2011, 62.2 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 2011, aggregate purchase amounts from the top five largest suppliers were RMB11,229,910,000, representing 65.0 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 2011, aggregate sales amounts to the top five largest customers were RMB3,552,494,000, representing 17.6 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 2012, is to be proposed at 2011 AGM.

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

SHAREHOLDERS' GENERAL MEETING

The Company held its 2010 AGM and its first extraordinary general meeting for 2011 at its registered place in Yizheng City, Jiangsu Province on 8 June 2011 and 16 December 2011 respectively during the reporting period. Details are set forth in the section entitled "Summary of Shareholders' Meetings."

Report of the Board of Directors

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 40 to the page 46 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

26 March 2012, Nanjing

Report of the Supervisory Committee

To all Shareholders:

In 2011, 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 four meetings during the reporting period, details of which are as follows:

1. The seventh meeting of the sixth term Supervisory Committee was held on 28 March 2011. The meeting mainly considered the explanation of the operation achievements and financial results for 2010, assets disposal and financial budget for 2011. The meeting earnestly talked about the resolution regarding disposal of partial assets. In addition, the meeting approved the report of the Supervisory Committee for the year 2010, the proposed scheme of profit distribution for 2010 and the Self-evaluation Report on Internal Control System for 2010 issued by the Board. The annual report of the Group for 2010 was also approved.

2. The eighth meeting of the sixth term Supervisory Committee was held on 29 August 2011. The meeting considered the explanation of interim results for 2011 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 2011 was also approved.

3. The ninth meeting of the sixth term Supervisory Committee was held on 14 October 2011. The meeting considered and approved the resolution regarding renewal of the existing framework agreements on continuing connected transaction.

4. The first meeting of the seventh term Supervisory Committee was held on 16 December 2011. The meeting elected Chairman of the seventh term Supervisory Committee.

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.

Through process supervision on significant decision-makings, routine supervision on the operations, the Supervisory Committee hold the following beliefs: In response to the complex domestic and international environment, the Company, seizing this favorable opportunity of domestic polyester industry tending to increase as a whole, adhered to its principles in operation of "standardization, professionalism and integrity" actively reinforced the strength of market development, optimized its operations, and sped up effective development, which resulting in steady increase in productions and improvement in operations with good operating results. In 2011, the Group's operating income passed RMB20 billion for the first time and amounted to RMB20,179,768,000 and net profit attributable to equity shareholders of the Company was RMB839,043,000 in accordance with the PRC Accounting Standards for Business Enterprises.

Firstly, the Board diligently fulfilled its obligations and exercised its rights under the PRC Company Law and the Company's Articles of Association, and made scientific decisions on major issues concerning production and operation, reforms and development, and so on; and the senior management carried out the resolutions made by the Board, optimized the internal control, reinforced precision management, strived to lower the costs and enhance efficiency and strengthened the technological innovation. All of the efforts enabled the operational results continued to maintain a good level. The Board did not discover any behavior of any directors or senior management that violated laws, regulations, the Articles of Association, or was detrimental to the interests of the Company or the shareholders.

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.

Report of the Supervisory Committee

Thirdly, all connected transactions conducted were in compliance with relevant regulatory requirements in domestic and overseas listing destinations. All connected transactions between the Company and the relevant parties were in conformity with the relevant rules and regulations of HKSE and SSE. All the connected transactions were conducted on the basis of fair and reasonable price and in line with the principle of "fairness, justice and openness". Nothing in these transactions was found to be detrimental to the interests of the Company or the non-connected shareholders.

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

In addition, the Supervisory Committee reviewed the "Assessment Report on Internal Control of the Company for 2011" on 26 March 2012 and was of the view that the Company complied with the principles of internal control system in accordance with the relevant provisions of the CSRC and SSE; established and effectively implemented a complete and reasonable internal control system according to the enterprise's actual situation, which ensured normal operation of the Company's business and the safety and integrity of the Company's assets. Therefore, the Supervisory Committee approved unanimously the above report.

In the year ahead, 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 2012, and defend the interests the interests of the shareholders and the Company.

By Order of the Supervisory Committee
Cao Yong
Chairman

26 March 2012, 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. INFORMATION ON CORPORATE GOVERNANCE

During the reporting period, the Company actively advanced the work of corporate governance in accordance of the arrangement by regulatory department 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 connected 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 been come into effect, and has been revised by the second meeting of the seventh term of the Board held on 22 December 2011. The Company strictly registered, self-exam and managed the inside information insiders in the course of making this Annual Report and served as a record to regulatory department. The Company did not find that inside information insiders traded the Company’s shares by self-examination.

“Accountability Rules for Major Errors in the Disclosure of Information in Annual Report” has been approved by the third meeting of the seventh term of the Board held on 26 March 2012 and has been come into effect.

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, enhance the level of standard operation and corporate governance, defend the interests of the shareholders and the Company, and promote healthy development of the Company.

2. IMPROVEMENT OF INTERNAL CONTROL SYSTEM

It is responsibility for the Board and Management of the Company to establish, and improve and effectively implement 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” and “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 Board arranged implementation, evaluation and revision of internal control system every year. The Company carried through annual and semi-annual checkup and evaluation of the deployment and therewith revised it.

According to the arrangement of the PRC’s relative Ministry, the Company has carried 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.

During the reporting period, the internal control system (2011 Revision) was examined, revised and approved by the nineteenth meeting of the sixth term of the Board.

Corporate Governance Report

In light of the new regulatory requirements both domestic and overseas, the third meeting of the seventh term of the Board has conducted the self-assessment of internal control system involving financial report for 2011 in accordance with the Fundamental Principles Governing Internal Control and Supporting Guidelines for Enterprises Internal Control. The board is of the opinion that there is no significant default in the internal control system as at 31 December 2011 and considered that the internal control system relating financial report was sound and effectively implemented. The Evaluation Report on Internal Control System was considered and approved by the third meeting of the seventh term of the Board held on 26 March 2012, and was disclosed on the website of SSE and HKSE.

Pursuant to the related regulatory requirements, the Company engaged KPMG Huazhen to audit internal control regarding financial report. KPMG Huazhen issued the unqualified audit opinions and considered the Company maintained, in all material aspects, effective internal control regarding financial report on 31 December 2011.

The internal control system (2012 Revision) was examined, revised and approved by the third meeting of the seventh term of the Board held on 26 March 2012.

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. During the reporting period, the Independent Directors paid attention to the change of operational environment, corporate governance, production and operation, and development of the Company, and earnestly reviewed documents on meetings, records of meetings, corporate governance and papers from regulatory authorities. Meanwhile, the Independent Directors actively grasped the actual information on the Company through considering the report on production and operation and significant events from the Company's senior management, and communicated production and operation, reform and adjustment, project construction, corporate governance, and internal control with senior management. The Independent Directors earnestly attended the shareholders' general meetings, the Board's meetings, and actively participated in the special committee under the Board and played a main role. Meanwhile, the Independent Directors further strengthened to check and supervise the work of annual report and have expressed their independent comments on director candidate, supervisor candidates, the appointment of senior management, the renewal of framework agreements regarding continuing connected transaction, the Company's connected transactions for 2010, the reappointment of auditor, the appointment of internal control auditor, funds occupied by the controlling shareholders and other related parties and the procedure and documents of the Board's meetings. Report on the fulfillment of responsibilities by the Independent Directors for 2011 was disclosed on the website of SSE and HKSE.

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

In 2011, 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 ninth auditing meeting of the sixth term of the Board was held on 19 January 2011. On the meeting, the schedule and scope of auditing works were confirmed with the auditor – KPMG Huazhen and KPMG and the financial statement 2010 were reviewed. At the tenth auditing meeting on 11 March, 2011, the auditing committee reviewed preliminary financial statement 2010 which was examined by auditors. At the eleventh auditing meeting on 28 March, 2011, the financial statement 2010 and report on auditing works by auditors were approved. The proposal of re-appointing KPMG Huazhen and KPMG as the Company's domestic and overseas auditors in 2011 was also accepted and would be submitted to Board of directors for approval. Report on the fulfillment of responsibilities by the Audit Committee for 2010 was also considered and approved. In the auditing committee's opinion, the financial statements for the year 2010 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 2010, and the consolidated results of operations and the consolidated cash flows of the Company for the year then ended. At the twelfth auditing meeting on 29 August, 2011, the resolution regarding the review of the Company's interim report was considered and approved. At the thirteenth auditing meeting on 13 October, 2011, the resolution regarding the review of the Company's renewal of the framework agreements of continuing connected transactions was considered and approved. At the fourteenth auditing meeting on 31 October, 2011, the resolution regarding the proposal on appointing KPMG Huazhen as the Company's internal control auditor for the year 2011 was considered and approved.

Corporate Governance Report

(2) In 2011, the sixth term Remuneration Committee of the Board held the third 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 2010 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 2010 and would submitted it to the sixteenth meeting of the sixth term of the Board for approval. Report on the fulfillment of responsibilities by the Remuneration Committee for 2010 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.

Corporate Governance Report

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 seven meetings by written resolutions.

   The Directors' attendance of the Board Meetings

Name	Times in person	Times by Proxies	absence	Remarks
Lu Li-yong	11	–	–	
Sun Zhi-hong	10	1	–	
Xiao Wei-zhen	11	–	–	
Long Xing-ping	10	1	–	
Zhang Hong	11	–	–	
Qin Wei-zhong	2	–	–	Resigned from the position as a Director on 9 May 2011
Sun Yu-guo	8	1	–	Took the position as a Director on 8 June 2011
Guan Diao-sheng	10	1	–	
Shen Xi-jun	11	–	–	
Shi Zhen-hua*	9	2	–	
Qiao Xu*	11	–	–	
Yang Xiong-sheng*	10	1	–	
Chen Fang-zheng*	11	–	–	

* *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.

Corporate Governance Report

A.3 The Board composition

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

2. The seventh 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 27 to page 29 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 seventh 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. Sun Shao-bo 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 33 of this Annual Report.

Corporate Governance 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 42 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 2011 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.

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 seventh 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 Doctor of Accounting 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 in 2005, 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.

   At the third auditing meeting of the seventh term of the Board, the proposal of re-appointing KPMG Huazhen and KPMG as the Company's domestic and overseas auditors in 2012 was accepted and was also approved by the third meeting of the seventh term of the Board.

   Information on the fulfillment of responsibilities by the Audit Committee of the sixth term of the Board of is set forth on the pages 41 in the Annual Report during the reporting period.

Corporate Governance Report

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	6	–	–
Shi Zhen-hua	6	–	–
Qiao Xu	6	–	–
Chen Fang-zheng	6	–	–
Zhang hong	6	–	–

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.

During the reporting period, the eighteenth meeting and twenty-third meeting of the sixth term of the Board respectively considered and approved the resolutions regarding the nomination of Directors and submitted it to the shareholders' general meeting for approval. All Directors attended the above-mentioned meeting.

An analysis of remuneration in respect of audit services is set forth in item 15 of the "Significant Events" section.

Summary of Shareholders' Meetings

1. The 2010 AGM was held at the Conference Centre of Yijing Peninsula Hotel of the Company in Yizheng City, Jiangsu Province, PRC on 8 June 2011. The resolution announcement of the 2010 AGM was disclosed in China Securities, Shanghai Securities News, Securities Times and the website of HKSE on 9 June 2011.

2. The first EGM for 2011 was held at the Conference Centre of Yijing Peninsula Hotel of the Company in Yizheng City, Jiangsu Province, PRC on 16 December 2011. The resolution announcement of the first EGM for 2011 was disclosed in China Securities, Shanghai Securities News, Securities Times and the website of HKSE on 17 December 2011.

Significant Events

1. As approved by 2010 AGM held on 8 June 2011, the Company paid a final cash dividend of RMB0.03 per share (including tax) for the year ended 31 December 2010 on 5 July 2011. Details of dividend payments to domestic shareholders were disclosed in China Securities, Shanghai Securities News and Securities Times on 23 June 2011, while the details of dividend payments to international shareholders were included in the announcement of the resolutions passed in the 2010 AGM, which were disclosed in China Securities, Shanghai Securities News, Securities Times and on the website of HKSE on 9 June 2011.

   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 2011.

   The Board proposed a final cash dividend of RMB 0.03 (including tax) to be paid for the year ended 31 December 2011.

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. Pursuant to a resolution passed at the first EGM for 2011 on 16 December 2011, the Company resolved to merge YCFC Jingwei Chemical Fibre Co., Ltd. ("**YCFC Jingwei**") (the "**Merger**"), a wholly-owned subsidiary of the Company. YCFC Jingwei was deregistered and was merged into the Company on 28 December 2011. Accordingly, YCFC Jingwei's assets and liabilities were incorporated in the Company's books based on their carrying amounts.

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

5. Information on connected transactions

   The twenty-first meeting of the sixth term of the Board held on 14 October 2011 approved the renewal of the existing framework agreements regarding continuing connected transactions, relative agreements and announcement by non-connected directors. The first EGM for 2011 held on 16 December 2011 approved the related framework agreements regarding continuing connected transactions and the non-exempt continuing connected transaction contemplated thereunder and the proposed annual caps in relation to the non-exempt continuing connected transaction by independent shareholders.

   The Group's material connected transactions entered into during the year ended 31 December 2011 are as follows:

   (a) The significant connected transactions relating to ordinary operation during the reporting period are 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	10,753,982	62.2

   In the opinion of the Group, that the above-mentioned connected 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 connected 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.

Significant Events

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

(c) During the reporting period, the Company did not supply any non-operating funds to the controlling shareholder or its subsidiaries.

The Board believes that the above transactions were 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 connected 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 26 March 2012. Auditors of the Company have reviewed the above-mentioned connected transactions and provided a letter to the Board on 26 March 2012.

6. The twenty-fourth meeting of the sixth term of the Board held on 29 November 2011 passed a resolution to approve into the joint venture agreement to be entered into by the Company with Far Eastern Polytex Holding Limited ("**Far Eastern Holding**"), pursuant to which the Company and Far Eastern Holding would agree to establish a joint venture company, Far Eastern Yihua Petrochemical (Yangzhou) Corporation ("**Far Eastern Yihua**"), in Yizheng City, Jiangsu Province, the PRC. Far Eastern Yihua will be principally engaged in the production and sale of PTA. The registered capital of Far Eastern Yihua is US$250 million, in which capital contributions of the Company and Far Eastern Holding shall respectively account for 40% and 60%. The Company will pay in RMB in cash and Far Eastern Holding will pay in US$ in cash remittance. Far Eastern Yihua will invest and construct the PTA project with an annual capacity of two million tonnes. The PTA project will be expected to commence construction in 2012 and its construction period will last for 27 to 30 months.

   The Directors are of the view that the joint venture agreement will be conducive to effectively resolving the issue of the source of PTA, the main raw material of the Company, and will be helpful for accelerating the construction of the PTA project.

7. The twentieth meeting of the sixth term of the Board held on 29 August 2011 resolved to invest and construct a differential polyester staple fibre project with an annual capacity of 200,000 tonnes and a specialised polyester chip project with an annual capacity of 400,000 tonnes. The total investment of the two projects amounted to RMB0.85 billion and the needed capital will be funded from cash generated from operations. The two projects are expected to be in operation before the end of February 2013.

8. During the reporting period, the Group did not have any material problem in relation to environmental protection or social safety.

9. 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.

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

11. As at 31 December 2011, 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.

12. 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.

13. 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 2011, the Company's available-for-sale financial assets were RMB200,000,000.

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

Significant Events

15. As approved at the 2010 AGM, KPMG Huazhen and KPMG were re-appointed as the Company's domestic and international auditors for 2011, 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 2011 were as follows:

	2011	2010
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)
KPMG Huazhen Audit fee regarding internal control	**RMB200,000 yuan (paid)**	–

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

KPMG Huazhen and KPMG have provided continuously audit services to the Company for 19 years.

16. 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.

17. During the reporting period, neither 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.

18. 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

KPMG

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**") and its subsidiary (together the "**Group**") set out on pages 52 to 100, which comprise the consolidated and company statements of financial position as at 31 December 2011, 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 CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated 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 consolidated 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 2011 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

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

26 March 2012

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011
(Prepared under International Financial Reporting Standards)

	Note	2011 RMB'000	2010 RMB'000 (Restated)
Turnover	5	**20,179,768**	16,348,366
Cost of sales		**(18,607,201)**	(14,353,315)
Gross profit		**1,572,567**	1,995,051
Other income	6	**71,315**	12,842
Distribution costs		**(220,430)**	(212,868)
Administrative expenses		**(441,685)**	(463,100)
Other expenses	7	**(12,711)**	(228,010)
Profit from operations		**969,056**	1,103,915
Finance income	9(a)	**58,747**	37,577
Finance expenses	9(a)	**(1,860)**	(2,291)
Net finance income	9(a)	**56,887**	35,286
Investment income	8	**16,247**	1,142
Profit before taxation	9	**1,042,190**	1,140,343
Income tax	10(a)	**(202,958)**	86,954
Profit attributable to equity shareholders of the Company for the year	11	**839,232**	1,227,297
Other comprehensive income for the year (after tax and reclassification adjustments)			
Available-for-sale financial assets: net movement in the fair value reserve	12	**–**	–
Total comprehensive income attributable to equity shareholders of the Company for the year	30	**839,232**	1,227,297
Basic and diluted earnings per share (in RMB)	14	**0.210**	0.307

The notes on pages 60 to 100 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 13.

Consolidated Statement of Financial Position

At 31 December 2011
(Prepared under International Financial Reporting Standards)

	Note	2011 RMB'000	2010 RMB'000 (Restated)
Non-current assets			
Property, plant and equipment	16(a)	**3,411,893**	3,471,168
Construction in progress	17	**1,201,201**	498,043
Lease prepayments	18	**280,224**	288,705
Interest in a jointly controlled entity	20	**303,089**	–
Deferred tax assets	10(c)	**122,536**	196,891
		5,318,943	4,454,807
Current assets			
Available-for-sale financial assets	21	**200,000**	–
Investments held for trading		**–**	699,713
Inventories	22	**1,756,664**	1,318,769
Trade and other receivables	23	**2,479,706**	1,588,525
Prepaid taxation	10(b)	**152,465**	–
Deposits with banks and other financial institutions	24	**35,000**	443,456
Cash and cash equivalents	25	**1,506,821**	2,025,932
		6,130,656	6,076,395
Current liabilities			
Trade and other payables	26	**2,402,659**	2,088,684
Current taxation	10(b)	**–**	109,937
		2,402,659	2,198,621
Net current assets		**3,727,997**	3,877,774
Total assets less current liabilities		**9,046,940**	8,332,581
Non-current liabilities			
Deferred income	27	**55,001**	59,874
Net assets		**8,991,939**	8,272,707

The notes on pages 60 to 100 form part of these financial statements.

Consolidated Statement of Financial Position (Continued)

At 31 December 2011
(Prepared under International Financial Reporting Standards)

	Note	2011 RMB'000	2010 RMB'000 (Restated)
Equity			
Share capital	28	**4,000,000**	4,000,000
Share premium		**2,518,833**	2,518,833
Reserves	29	**228,722**	145,182
Retained profits	30	**2,244,384**	1,608,692
Total equity attributable to equity shareholders of the Company		**8,991,939**	8,272,707

Approved and authorised for issue by the Board of Directors on 26 March 2012.

Lu Li-yong
Director

Xiao Wei-zhen
Director

The notes on pages 60 to 100 form part of these financial statements.

Statement of Financial Position

At 31 December 2011
(Prepared under International Financial Reporting Standards)

	Note	2011 RMB'000	2010 RMB'000 (Restated)
Non-current assets			
Property, plant and equipment	*16(b)*	**3,411,893**	3,350,819
Construction in progress	*17*	**1,201,201**	498,043
Lease prepayments	*18*	**280,224**	288,705
Investment in a subsidiary	*19*	**–**	–
Interest in a jointly controlled entity	*20*	**303,089**	–
Deferred tax assets	*10(c)*	**122,536**	196,891
		5,318,943	4,334,458
Current assets			
Available-for-sale financial assets	*21*	**200,000**	–
Investments held for trading		**–**	699,713
Inventories	*22*	**1,756,664**	1,294,415
Trade and other receivables	*23*	**2,479,706**	1,722,233
Prepaid taxation	*10(b)*	**152,465**	–
Deposits with banks and other financial institutions	*24*	**35,000**	443,456
Cash and cash equivalents	*25*	**1,506,821**	2,025,932
		6,130,656	6,185,749
Current liabilities			
Trade and other payables	*26*	**2,402,659**	2,074,046
Current taxation	*10(b)*	**–**	109,937
		2,402,659	2,183,983
Net current assets		**3,727,997**	4,001,766
Total assets less current liabilities		**9,046,940**	8,336,224
Non-current liabilities			
Deferred income	*27*	**55,001**	59,874
Net assets		**8,991,939**	8,276,350

The notes on pages 60 to 100 form part of these financial statements.

Statement of Financial Position (Continued)

At 31 December 2011
(Prepared under International Financial Reporting Standards)

	Note	2011 RMB'000	2010 RMB'000 (Restated)
Equity			
Share capital	28	**4,000,000**	4,000,000
Share premium		**2,518,833**	2,518,833
Reserves	29	**228,722**	145,182
Retained profits	30	**2,244,384**	1,612,335
Total equity		**8,991,939**	8,276,350

Approved and authorised for issue by the Board of Directors on 26 March 2012.

Lu Li-yong
Director

Xiao Wei-zhen
Director

The notes on pages 60 to 100 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011
(Prepared under International Financial Reporting Standards)

	Share capital RMB'000	Share premium RMB'000	Reserves RMB'000	Retained profits RMB'000	Total equity attributable to equity shareholders of the Company RMB'000
Balance at 1 January 2010 (As previously reported)	4,000,000	2,518,833	(176,076)	569,722	6,912,479
Adjustments for change in accounting policy *(Note 3)*	–	–	204,415	(71,484)	132,931
Balance at 1 January 2010 (As restated)	4,000,000	2,518,833	28,339	498,238	7,045,410
Appropriation of statutory surplus reserve *(Note 29)*	–	–	116,843	(116,843)	–
Total comprehensive income for the year (As previously reported)	–	–	–	1,231,226	1,231,226
Adjustments for change in accounting policy *(Note 3)*	–	–	–	(3,929)	(3,929)
Total comprehensive income for the year (As restated)	–	–	–	1,227,297	1,227,297
Balance at 31 December 2010 (As restated)	4,000,000	2,518,833	145,182	1,608,692	8,272,707
Balance at 31 December 2010 (As previously reported)	4,000,000	2,518,833	(59,233)	1,684,105	8,143,705
Adjustments for change in accounting policy *(Note 3)*	–	–	204,415	(75,413)	129,002
Balance at 31 December 2010 (As restated)	4,000,000	2,518,833	145,182	1,608,692	8,272,707
Dividends approved in respect of the previous year *(Note 13)*	–	–	–	(120,000)	(120,000)
Appropriation of statutory surplus reserve *(Note 29)*	–	–	83,540	(83,540)	–
Total comprehensive income for the year	–	–	–	839,232	839,232
Balance at 31 December 2011	4,000,000	2,518,833	228,722	2,244,384	8,991,939

The notes on pages 60 to 100 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2011
(Prepared under International Financial Reporting Standards)

	2011 **RMB'000**	2010 RMB'000 (Restated)
Operating activities		
Profit before taxation	**1,042,190**	1,140,343
Adjustments for:		
Depreciation charge	**389,015**	485,054
Amortisation of lease prepayments	**8,481**	8,481
Amortisation of deferred income	**(4,873)**	(1,012)
Interest income	**(53,722)**	(33,330)
Interest expense	**–**	558
Impairment losses of property, plant and equipment	**5,285**	223,696
Net gain on disposal of property, plant and equipment	**(25,427)**	(8,620)
Investment income	**(16,247)**	(1,142)
Operating profit before changes in working capital	**1,344,702**	1,814,028
Increase in inventories	**(437,895)**	(10,750)
Increase in trade and other receivables	**(1,039,831)**	(247,636)
Increase in trade and other payables	**253,782**	50,919
Decrease in provisions	**–**	(5,198)
Cash generated from operations	**120,758**	1,601,363
Interest paid	**–**	(558)
Tax paid	**(391,005)**	–
Net cash (used in)/generated from operating activities	**(270,247)**	1,600,805

The notes on pages 60 to 100 form part of these financial statements.

Consolidated Cash Flow Statement (Continued)

For the year ended 31 December 2011
(Prepared under International Financial Reporting Standards)

	Note	2011 RMB'000	2010 RMB'000 (Restated)
Investing activities			
Payment for purchase of:			
– available-for-sale financial assets		**(700,000)**	–
– investments held for trading		**–**	(401,574)
Proceeds from disposal of:			
– available-for-sale financial assets		**510,000**	700,873
– investments held for trading		**408,090**	–
Capital expenditure		**(836,245)**	(557,656)
Proceeds from sale of property, plant and equipment		**32,332**	17,483
Interest received		**53,722**	33,330
Government grants received		**–**	39,630
Payment for the acquisition of interest in a jointly controlled entity		**(303,089)**	–
Decrease in deposits with banks and other financial institutions		**408,456**	116,144
Net cash used in investing activities		**(426,734)**	(51,770)
Financing activities			
Dividend paid to equity shareholders of the Company		**(120,000)**	–
Net cash used in financing activities		**(120,000)**	–
Net (decrease)/increase in cash and cash equivalents		**(816,981)**	1,549,035
Cash and cash equivalents at 1 January		**2,323,802**	774,767
Cash and cash equivalents at 31 December	*25*	**1,506,821**	2,323,802

The notes on pages 60 to 100 form part of these financial statements.

Notes to the Financial Statements

(Prepared under International Financial Reporting Standards)

1 BACKGROUND OF THE COMPANY

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

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

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable 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 2011 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 2011 comprise the Company and its subsidiary (together referred to as the "**Group**") and the Group's interest in a jointly controlled entity.

The financial statements are presented in Renminbi, rounded to the nearest thousand. The measurement basis used in the preparation of the financial statements is historical cost 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 36.

Notes to the Financial Statements (Continued)

(Prepared under International Financial Reporting Standards)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Basis of consolidation

(i) Subsidiaries

Subsidiary is an entity 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 (s)).

(ii) Jointly controlled entities

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or the Company and 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 (s)). 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 statement of comprehensive income, 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 entity are eliminated to the extent of the Group's interest in the jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the group ceases to have joint control over a jointly controlled entity, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

In the Company's statement of financial position, investment in a jointly controlled entity is stated at cost less impairment losses (see accounting policy (s)).

Notes to the Financial Statements (Continued)

(Prepared under International Financial Reporting Standards)

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. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into Renminbi at the closing foreign exchange rate at the date of the transaction.

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 and time deposits with banks and other financial institutions with an initial term of less than three months at acquisition. Cash equivalents are stated at cost, which approximates fair value.

(f) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see accounting policy (s)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts. Trade and other receivables are derecognised if the Group's contractual rights to the cash flows from these financial assets expire or if the Group transfers these financial assets to another party without retaining control or substantially all risks and rewards of the assets.

(g) Inventories

Inventories other than spare parts and consumables 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.

Notes to the Financial Statements (Continued)

(Prepared under International Financial Reporting Standards)

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 (s)).

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 items 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. The depreciation method, useful life and the residual value of an asset 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 or deemed cost less accumulated amortisation and impairment losses (see accounting policy (s)). Amortisation is calculated on a straight line basis over the respective periods of the rights.

(j) Construction in progress

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

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

No depreciation is provided in respect of construction in progress.

(k) Investments

Investments in 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 statement of comprehensive income. Investments in equity securities, other than investment in jointly controlled entities, that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognized in the balance sheet at cost less impairment losses (see accounting policy (s)).

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 (n)(iii).

Notes to the Financial Statements (Continued)

(Prepared under International Financial Reporting Standards)

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) 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. Government grants related to assets are recognised initially as deferred income and amortised to profit or loss on a straight-line basis over the useful life of the assets.

(o) Net finance income

Net finance income comprise 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.

(p) Repairs and maintenance expenses

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

(q) Research and development costs

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

Notes to the Financial Statements (Continued)

(Prepared under International Financial Reporting Standards)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) 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 31.

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

(s) Impairment of assets

(i) Impairment of investments in 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.

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

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

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities 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 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.

Notes to the Financial Statements (Continued)

(Prepared under International Financial Reporting Standards)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Impairment of assets (Continued)

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

– 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.

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 the 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).

Notes to the Financial Statements (Continued)

(Prepared under International Financial Reporting Standards)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Impairment of assets (Continued)

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

– 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.

(t) Dividends

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

(u) Income tax

Income tax for the year comprises current tax and movements 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 the 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.

Notes to the Financial Statements (Continued)

(Prepared under International Financial Reporting Standards)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Income tax (Continued)

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.

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.

(v) 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.

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.

Notes to the Financial Statements (Continued)

(Prepared under International Financial Reporting Standards)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has significant influence over the group; or

(ii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Group of which the other entity is a member).

(iii) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(iv) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(v) The entity is controlled or jointly controlled by a person identified in (a).

(vi) A person related to the Group has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

3 CHANGES IN ACCOUNTING POLICIES

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

- IAS 24 (revised 2009), *Related party disclosures*
- Improvements to IFRS (2010)

IAS 24 (revised 2009) "Related party disclosures" simplifies the definition of "related party" and removes inconsistencies, which emphasises a symmetrical view of related party transactions. The revised standard also provides limited relief from disclosure of information by government-related entities in respect of transactions with the government to which the Group is related, or transactions with other entities related to the same government. The amendments to IAS 24 have had no material impact on the Group's financial statements.

In the Improvements to IFRSs (2010) omnibus standard, the IASB extended the scope of paragraph D8 of IFRS 1, *First time adoption of IFRSs*, for the use of the deemed cost exemption for an event-driven fair value. Under the amended standard, an entity is permitted to take as deemed cost the fair value of some or all of its assets and liabilities, when these fair values were determined under previous GAAP at one particular date because of a specific event which occurred during the period covered by its first financial statements prepared under IFRSs. Previously, IFRS 1 only permitted such valuations to be used as deemed cost if the event occurred before the date of the entity's transition to IFRSs (being the start of the earliest comparative period included in the first set of IFRS financial statements).

Notes to the Financial Statements (Continued)

(Prepared under International Financial Reporting Standards)

3 CHANGES IN ACCOUNTING POLICIES (Continued)

The Group's first financial statements prepared under IFRSs were for three years ended 31 December 1992 and for the ten-month period ended 31 October 1993, with the start of the earliest comparative period being 1 January 1990. During that period and pursuant to applicable laws and regulations of the PRC, the Group's financial statements prepared under Accounting Standards for Business Enterprises and other relevant rules and regulations (collectively "**PRC GAAP**") included leasehold land use rights at deemed cost based on the valuation performed by an independent valuer as at 31 October 1993. As these valuations were performed as of a date later than the date of transition to IFRSs, the Group was not permitted to adopt these valuations as deemed cost for the purposes of its IFRS financial statements and instead adopted the IFRS policy that leasehold land use rights were measured at historical cost and therefore, the related revaluation gains arising from the revaluation in 1993 as mentioned above were not recognised. The Group has chosen to adopt the amendments to IFRS 1 by making retrospective adjustments in order to eliminate the aforementioned differences between the Group's financial statements under IFRSs and those under PRC GAAP. Specifically, the Group has retrospectively adjusted the amounts reported for previous periods in its IFRS financial statements to reflect the recognition of the leasehold land use rights at their deemed cost based on the valuation performed by the independent valuers as at 31 October 1993, with consequential adjustments for amortisation charged in subsequent periods.

The major adjustments made to the amounts reported for previous periods and the effect of the changes on the current period, as reported in these financial statements, are set out below:

Consolidated and company statements of financial position items

	31 December 2010 Increase/ (decrease) RMB'000	1 January 2010 Increase/ (decrease) RMB'000
Lease prepayments	172,002	177,241
Deferred tax assets	(43,000)	(44,310)
Total equity attributable to equity shareholders of the Company	129,002	132,931

Consolidated statement of comprehensive income items

	2011 Increase/ (decrease) RMB'000	2010 Increase/ (decrease) RMB'000
Administrative expenses	**5,239**	5,239
Income tax	**(1,310)**	(1,310)
Profit attributable to equity shareholders of the Company for the year	**(3,929)**	(3,929)
Total comprehensive income attributable to equity shareholders of the Company for the year	**(3,929)**	(3,929)
Basic and diluted earnings per share (in RMB)	**(0.001)**	(0.001)

There is no material impact to the Group's financial position as a result of the change in accounting policy as mentioned above, accordingly an additional consolidated balance sheet and related notes are not presented as at the beginning of the earlier comparative period of these consolidated financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 38).

Notes to the Financial Statements (Continued)

(Prepared under International Financial Reporting Standards)

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" (including inter-segment profit).

In addition to receiving segment information concerning "gross profit" (including inter-segment 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. 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	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000	**2011 RMB'000**	2010 RMB'000	**2011 RMB'000**	2010 RMB'000	**2011 RMB'000**	2010 RMB'000	**2011 RMB'000**	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
For the year ended 31 December														
Revenue from external customers	**7,346,044**	6,127,035	**3,804,094**	2,724,476	**6,778,706**	5,423,037	**1,865,482**	1,780,642	**–**	–	**385,442**	293,176	**20,179,768**	16,348,366
Inter-segment revenue	**–**	87,491	**–**	–	**–**	–	**–**	–	**8,765,942**	6,925,492	**–**	–	**8,765,942**	7,012,983
Reportable segment revenue	**7,346,044**	6,214,526	**3,804,094**	2,724,476	**6,778,706**	5,423,037	**1,865,482**	1,780,642	**8,765,942**	6,925,492	**385,442**	293,176	**28,945,710**	23,361,349
Gross profit/(loss) from external customers	**211,670**	253,605	**47,825**	20,336	**295,046**	379,439	**(93,014)**	15,835	**–**	–	**15,574**	3,206	**477,101**	672,421
Inter-segment profit	**–**	3,621	**–**	–	**–**	–	**–**	–	**1,128,943**	1,364,056	**–**	–	**1,128,943**	1,367,677
Reportable segment profit/(loss)	**211,670**	257,226	**47,825**	20,336	**295,046**	379,439	**(93,014)**	15,835	**1,128,943**	1,364,056	**15,574**	3,206	**1,606,044**	2,040,098
Depreciation and amortisation	**59,917**	62,395	**18,150**	39,454	**35,809**	38,053	**13,899**	14,765	**140,182**	209,223	**96,642**	94,190	**364,599**	458,080
Impairment of property, plant and equipment ("PP&E")	**370**	196	**–**	203,506	**–**	588	**71**	–	**4,412**	11,788	**432**	637	**5,285**	216,715
Write-down of inventories	**–**	–	**–**	–	**–**	–	**1,093**	–	**–**	–	**6,344**	12,401	**7,437**	12,401
As at 31 December														
Reportable segment assets	**580,355**	604,359	**185,513**	197,206	**571,201**	496,965	**176,644**	199,942	**984,338**	1,153,730	**1,183,895**	1,029,268	**3,681,946**	3,681,470

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.

Notes to the Financial Statements (Continued)

(Prepared under International Financial Reporting Standards)

4 SEGMENT REPORTING (Continued)

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

	2011 RMB'000	2010 RMB'000
Revenue		
Revenue for reportable segments excluding other revenue	**28,560,268**	23,068,173
Other revenue	**385,442**	293,176
Elimination of inter-segment revenue	**(8,765,942)**	(7,012,983)
Consolidated turnover	**20,179,768**	16,348,366

	2011 RMB'000	2010 RMB'000 (Restated)
Profit		
Profit for reportable segments excluding other profit	**1,590,470**	2,036,892
Other profit	**15,574**	3,206
Unallocated losses	**(33,477)**	(41,426)
Elimination of inter-segment profit	**–**	(3,621)
Consolidated gross profit	**1,572,567**	1,995,051
Other income	**71,315**	12,842
Distribution costs	**(220,430)**	(212,868)
Administrative expenses	**(441,685)**	(463,100)
Other expenses	**(12,711)**	(228,010)
Net finance income	**56,887**	35,286
Investment income	**16,247**	1,142
Consolidated profit before taxation	**1,042,190**	1,140,343

Notes to the Financial Statements (Continued)

(Prepared under International Financial Reporting Standards)

4 SEGMENT REPORTING (Continued)

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

	2011 RMB'000	2010 RMB'000 (Restated)
Assets		
Assets for reportable segments excluding other assets	**2,498,051**	2,652,202
Other assets	**1,183,895**	1,029,268
Unallocated assets	**1,486,611**	1,112,111
Elimination of inter-segment balances	**–**	(3,644)
	5,168,557	4,789,937
Other non-current assets	**1,907,050**	983,639
Available-for-sale financial assets	**200,000**	–
Investments held for trading	**–**	699,713
Trade and other receivables	**2,479,706**	1,588,525
Prepaid taxation	**152,465**	–
Deposits with banks and other financial institutions	**35,000**	443,456
Cash and cash equivalents	**1,506,821**	2,025,932
Consolidated total assets	**11,449,599**	10,531,202

	2011 RMB'000	2010 RMB'000 (Restated)
Depreciation and amortisation		
Depreciation and amortisation for reportable segments excluding other depreciation and amortisation	**267,957**	363,890
Other depreciation and amortisation	**96,642**	94,190
Unallocated depreciation and amortisation	**32,897**	35,455
Consolidated total depreciation and amortisation	**397,496**	493,535

	2011 RMB'000	2010 RMB'000
Impairment of PP&E		
Impairment of PP&E for reportable segments excluding other impairment of PP&E	**4,853**	216,078
Other impairment of PP&E	**432**	637
Unallocated impairment of PP&E	**–**	6,981
Consolidated total impairment of PP&E	**5,285**	223,696

Notes to the Financial Statements (Continued)

(Prepared under International Financial Reporting Standards)

4 SEGMENT REPORTING (Continued)

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

	2011 RMB'000	2010 RMB'000
Write-down of inventories		
Write-down of inventories for reportable segments excluding other write-down of inventories	**1,093**	–
Other write-down of inventories	**6,344**	12,401
Unallocated write-down of inventories	**–**	33,230
Consolidated total write-down of inventories	**7,437**	45,631

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 INCOME

	2011 RMB'000	2010 RMB'000
Net gain on disposal of property, plant and equipment	**25,427**	8,620
Reversal of non-payable liabilities	**19,902**	–
Reversal of loss on breach of contracts	**19,175**	–
Government grants	**5,447**	2,462
Others	**1,364**	1,760
Other income	**71,315**	12,842

7 OTHER EXPENSES

	2011 RMB'000	2010 RMB'000
Impairment losses of property, plant and equipment (note 16(c))	**5,285**	223,696
Others	**7,426**	4,314
	12,711	228,010

Notes to the Financial Statements (Continued)

(Prepared under International Financial Reporting Standards)

8 INVESTMENT INCOME

	2011 RMB'000	2010 RMB'000
Net gain on disposal of available-for-sale financial assets	**10,000**	832
Net gain on investments held for trading	**6,247**	310
	16,247	1,142

9 PROFIT BEFORE TAXATION

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

(a) Net finance income

	2011 RMB'000	2010 RMB'000
Interest income	**(53,722)**	(33,330)
Net foreign exchange gain	**(5,025)**	(4,247)
Finance income	**(58,747)**	(37,577)
Interest expense	**–**	558
Others	**1,860**	1,733
Finance expenses	**1,860**	2,291
	(56,887)	(35,286)

(b) Other items

	2011 RMB'000	2010 RMB'000 (Restated)
Cost of inventories #	**18,607,201**	14,353,315
Employee's pension costs #		
– Municipal retirement scheme costs	**86,525**	79,543
– Supplementary retirement scheme costs	**25,467**	23,521
Staff costs #	**815,106**	710,880
Depreciation #	**389,015**	485,054
Repairs and maintenance expenses #	**358,599**	316,931
Research and development expenses	**51,112**	54,008
Auditors' remuneration – audit services	**5,000**	4,900
Impairment losses		
– Trade and other receivables	**(8,075)**	4,488
– Property, plant and equipment	**5,285**	223,696
Amortisation of lease prepayments	**8,481**	8,481

Cost of inventories includes RMB1,316,319,000 (2010: RMB1,269,347,000) relating to employee's pension costs, staff costs, depreciation and repairs and maintenance expenses which amount is also included in the respective total amounts disclosed separately in note 9(b) for each of these types of expenses.

Notes to the Financial Statements (Continued)

(Prepared under International Financial Reporting Standards)

10 INCOME TAX

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

	2011 RMB'000	2010 RMB'000 (Restated)
Current tax		
Provision for the year	**118,253**	109,937
Under-provision in respect of prior year	**10,350**	–
Deferred tax		
Origination and reversal of temporary differences	**74,355**	(196,891)
	202,958	(86,954)

The charge for PRC income tax is calculated at the rate of 25% (2010: 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:

	2011 RMB'000	2010 RMB'000 (Restated)
Profit before taxation	**1,042,190**	1,140,343
Expected income tax using the Group's tax rate of 25%	**260,548**	285,086
Recognition of previously unrecognised deductible temporary differences	**(66,415)**	(166,569)
Utilisation of previously unrecognised unused tax losses	**–**	(204,916)
Tax effect of non-taxable income	**(1,875)**	–
Tax effect of non-deductible expenses	**350**	672
Tax effect of additional deductible expenses	**–**	(1,227)
Under-provision in respect of prior year	**10,350**	–
Actual income tax	**202,958**	(86,954)

Notes to the Financial Statements (Continued)

(Prepared under International Financial Reporting Standards)

10 INCOME TAX (Continued)

(b) Prepaid taxation and current taxation in the statement of financial position represents:

	The Group and the Company	
	2011	2010
	RMB'000	RMB'000
Income tax (prepayment)/provision for the year	**(152,465)**	109,937

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

	The Group and the Company				
	Balance at 1 January 2010	Recognised in statement of comprehensive income	Balance at 31 December 2010	Recognised in statement of comprehensive income	**Balance at 31 December 2011**
	RMB'000 (Restated)	RMB'000 (Restated)	RMB'000 (Restated)	RMB'000	**RMB'000**
Current					
Provisions for receivables	–	1,460	1,460	(496)	**964**
Accrued expenses	–	6,411	6,411	(6,411)	**–**
Accrued sales rebate	–	11,783	11,783	(1,864)	**9,919**
Inventory	–	8,897	8,897	1,461	**10,358**
Non-current					
Property, plant and equipment	–	108,408	108,408	(11,192)	**97,216**
Impairment for investment in subsidiary	–	54,871	54,871	(54,871)	**–**
Deferred income	–	5,061	5,061	(982)	**4,079**
	–	196,891	196,891	(74,355)	**122,536**

At 31 December 2011, there is no unrecognised deferred tax asset in respect of deductible temporary differences (2010: RMB275,604,000) or unutilized tax losses (2010: RMB313,425,000).

11 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a profit of RMB835,589,000 (2010: restated profit of RMB1,229,178,000) which has been dealt with in the financial statements of the Company.

Notes to the Financial Statements (Continued)

(Prepared under International Financial Reporting Standards)

12 OTHER COMPREHENSIVE INCOME

Reclassification adjustments and tax effect relating to components of other comprehensive income are as follows:

	2011 RMB'000	2010 RMB'000
Available-for-sale financial assets:		
Changes in fair value recognised during the year	**10,000**	832
Deferred tax credited to other comprehensive income	**(2,500)**	(208)
Reclassification adjustments for amounts transferred to profit or loss		
– gains on disposal	**(10,000)**	(832)
Reversal of deferred tax on disposal	**2,500**	208
Net movement in the fair value reserve during the year recognised in other comprehensive income	**–**	–

13 DIVIDENDS

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

Pursuant to a resolution passed at the directors' meeting on 26 March 2012, a final dividend of RMB0.03 per share (2010: RMB0.03 per share) totaling RMB120,000,000 (2010: RMB120,000,000) 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.

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

	The Group and the Company	
	2011 RMB'000	2010 RMB'000
Final dividend in respective of the previous financial year, approved and paid during the year, of RMB0.03 per share (2010: RMB nil per share)	**120,000**	–

14 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB839,232,000 (2010: restated profit of RMB1,227,297,000) and the weighted average number of ordinary shares of 4,000,000,000 (2010: 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 2011 and 2010.

Notes to the Financial Statements (Continued)

(Prepared under International Financial Reporting Standards)

15 DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors', supervisors' and senior management's emoluments are as follows:

Name	Fees		Basic salaries, allowance and bonus		Retirement scheme contributions		Total	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Directors:								
Lu Li-yong								
(appointed on 28 September 2010)	**–**	–	**288**	120	**23**	8	**311**	128
Qian Heng-ge								
(resigned on 6 August 2010)	**–**	–	**–**	253	**–**	19	**–**	272
Sun Zhi-hong	**–**	–	**288**	276	**–**	–	**288**	276
Xiao Wei-zhen	**–**	–	**288**	276	**23**	19	**311**	295
Long Xing-ping	**–**	–	**245**	233	**–**	–	**245**	233
Zhang Hong	**–**	–	**245**	233	**–**	–	**245**	233
Guan Diao-sheng	**–**	–	**–**	–	**–**	–	**–**	–
Sun Yu-guo								
(appointed on 8 June 2011)	**–**	–	**–**	–	**–**	–	**–**	–
Qin Wei-zhong								
(resigned on 9 May 2011)	**–**	–	**–**	–	**–**	–	**–**	–
Shen Xi-jun	**–**	–	**245**	233	**23**	19	**268**	252
Independent 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	**–**	–	**245**	233	**23**	19	**268**	252
Sun Shao-bo								
(appointed on 16 December 2011)	**–**	–	**–**	–	**–**	–	**–**	–
Tao Chun-sheng								
(resigned on 16 December 2011)	**–**	–	**147**	158	**23**	19	**170**	177
Chen Jian	**–**	–	**245**	233	**–**	–	**245**	233
Shao Bin								
(appointed on 16 December 2011)	**–**	–	**–**	–	**–**	–	**–**	–
Chu Bing								
(appointed on 16 December 2011)	**–**	–	**–**	–	**–**	–	**–**	–
Shi Gang								
(resigned on 16 December 2011)	**40**	40	**–**	–	**–**	–	**40**	40
Wang Bing								
(resigned on 16 December 2011)	**40**	40	**–**	–	**–**	–	**40**	40
Senior management:								
Li Jian-xin	**–**	–	**245**	233	**23**	19	**268**	252
Zhang Zhong-an	**–**	–	**245**	233	**23**	19	**268**	252
Liu Xiao-qin	**–**	–	**163**	–	**16**	–	**179**	–
Li Jian-ping	**–**	–	**245**	233	**28**	23	**273**	256
Wu Chao-yang	**–**	–	**164**	158	**23**	19	**187**	177
	280	280	**3,298**	3,105	**228**	183	**3,806**	3,568

For the years ended 31 December 2011 and 2010, 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 2011 and 2010 were executive directors, supervisors and senior management whose total emoluments have been shown above.

Notes to the Financial Statements (Continued)

(Prepared under International Financial Reporting Standards)

16 PROPERTY, PLANT AND EQUIPMENT

(a) The Group

	Buildings RMB'000	Plant, machinery and equipment RMB'000	Motor vehicle and other fixed assets RMB'000	Total RMB'000
Cost:				
At 1 January 2010	2,110,441	10,405,680	730,705	13,246,826
Transferred from construction in progress *(note 17)*	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
Transferred from construction in progress *(note 17)*	50,839	263,067	26,082	339,988
Additions	–	–	1,942	1,942
Disposals	(1,759)	(175,194)	(21,670)	(198,623)
At 31 December 2011	2,203,525	10,658,137	805,160	13,666,822
Accumulated depreciation and impairment loss:				
At 1 January 2010	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	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
Depreciation charge for the year	75,455	288,304	25,256	389,015
Impairment loss for the year *(note c)*	812	3,136	1,337	5,285
Written back on disposals	(1,154)	(169,940)	(20,624)	(191,718)
At 31 December 2011	**1,132,836**	**8,502,153**	**619,940**	**10,254,929**
Carrying amounts:				
At 31 December 2011	**1,070,689**	**2,155,984**	**185,220**	**3,411,893**
At 31 December 2010	1,096,722	2,189,611	184,835	3,471,168

Notes to the Financial Statements (Continued)

(Prepared under International Financial Reporting Standards)

16 PROPERTY, PLANT AND EQUIPMENT (Continued)

(b) The Company

	Buildings RMB'000	Plant, machinery and equipment RMB'000	Motor vehicle and other fixed assets RMB'000	Total RMB'000
Cost:				
At 1 January 2010	1,964,060	10,032,875	717,849	12,714,784
Transferred from construction in progress *(note 17)*	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
Additions through merger of a subsidiary	146,487	286,746	9,951	443,184
Transferred from construction in progress *(note 17)*	50,839	263,067	26,082	339,988
Additions	–	–	1,942	1,942
Disposals	(1,759)	(105,365)	(18,696)	(125,820)
At 31 December 2011	2,203,525	10,658,137	805,160	13,666,822
Accumulated depreciation and impairment loss:				
At 1 January 2010	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	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
Additions through merger of a subsidiary	46,811	277,954	9,863	334,628
Depreciation charge for the year	66,728	288,017	25,076	379,821
Impairment loss for the year *(note c)*	812	3,136	1,337	5,285
Written back on disposals	(1,154)	(102,207)	(18,153)	(121,514)
At 31 December 2011	**1,132,836**	**8,502,153**	**619,940**	**10,254,929**
Carrying amounts:				
At 31 December 2011	**1,070,689**	**2,155,984**	**185,220**	**3,411,893**
At 31 December 2010	988,319	2,178,436	184,064	3,350,819

Notes to the Financial Statements (Continued)

(Prepared under International Financial Reporting Standards)

16 PROPERTY, PLANT AND EQUIPMENT (Continued)

(c) The Group assessed the recoverable amount of certain idle property, plant and equipment as at 31 December 2011 and as a result, the carrying amount of these assets was written down by RMB5,285,000 (2010: RMB22,046,000). 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.

In response to the market environment of bottle-grade polyester chip products in 2010, 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 RMB201,650,000. 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%.

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

17 CONSTRUCTION IN PROGRESS

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**498,043**	325,812	**498,043**	325,812
Additions	**1,043,146**	586,101	**1,043,146**	585,389
Transferred to property, plant and equipment *(note 16)*	**(339,988)**	(413,870)	**(339,988)**	(413,158)
At 31 December	**1,201,201**	498,043	**1,201,201**	498,043

18 LEASE PREPAYMENTS

	The Group and the Company	
	Land use rights	
	2011	2010
	RMB'000	RMB'000
		(Restated)
		(note 3)
Cost:		
At 1 January	**406,123**	406,123
Accumulated amortisation:		
At 1 January	**(117,418)**	(108,937)
Charge for the year	**(8,481)**	(8,481)
At 31 December	**(125,899)**	(117,418)
Net book value:		
At 31 December	**280,224**	288,705

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

All lands are located in the PRC. Land use rights were granted in 1993, 2001 and 2007 for a period of 50 years, 44 years and 50 years respectively from the respective dates of grant.

Notes to the Financial Statements (Continued)

(Prepared under International Financial Reporting Standards)

19 INVESTMENT IN SUBSIDIARY

	The Company	
	2011	2010
	RMB'000	RMB'000
Unlisted shares, at cost	**–**	303,361
Less: impairment loss	**–**	(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 of the Group for the year ended 31 December 2011 and 2010 and affected the assets or liabilities of the Group as at 31 December 2010. The class of shares held is ordinary.

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

Pursuant to a resolution passed at the shareholders' extraordinary General Meeting on 16 December 2011, the Company resolved to merge YCFC Jingwei (the "**Merger**"). YCFC Jingwei was deregistered and was merged into the Company on 28 December 2011. Accordingly, YCFC Jingwei's assets and liabilities were incorporated in the Company's books based on their carrying amounts. The Merger has had no material impact on the Group's financial statements for the year ended 31 December 2011.

Notes to the Financial Statements (Continued)

(Prepared under International Financial Reporting Standards)

20 INTEREST IN A JOINTLY CONTROLLED ENTITY

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Unlisted shares, at cost	**–**	–	**303,089**	–
Share of net assets	**303,089**	–	**–**	–
	303,089	–	**303,089**	–

In December 2011, the Company entered into a contractual agreement with Far Eastern Polytex Holding Limited to establish a joint venture in the PRC, namely Far Eastern Yihua Petrochemical (Yangzhou) Corporation ("**FEYP**").

During the year ended 31 December 2011, the Company has contributed capital of USD47,864,000 into FEYP. The remaining capital of USD11,976,000 to be contributed by the Company will be made in 2012 and 2013.

Details of the Group's interest in the jointly controlled entity which is an unlisted corporate entity as at 31 December 2011 are set out below:

Name of company	**Place of incorporation and operation**	**Issued and fully paid/ Registered capital** USD'000	**Percentage of equity held by the Group**	**Type of legal entity**	**Principal activity**
FEYP	PRC	119,660/ 149,600	40%	Limited company	Manufacturing and distribution of Crude Terephthalic Acid and Pure Terephthalic Acid

Summary financial information on jointly controlled entity – the Group's effective interest:

	2011	2010
	RMB'000	RMB'000
Non-current assets	**12,432**	–
Current assets	**290,657**	–
Net assets	**303,089**	–

21 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	The Group and the Company	
	2011	2010
	RMB'000	RMB'000
Other investments	**200,000**	–

Available-for-sale financial assets with a carrying amount of RMB200,000,000 as at 31 December 2011 represent an investment fund purchased from a PRC state-owned bank. The fund mainly invests in bonds and unlisted enterprises in the PRC and is redeemable on 15 January 2012. The available-for-sale investments are stated at fair values.

Notes to the Financial Statements (Continued)

(Prepared under International Financial Reporting Standards)

22 INVENTORIES

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

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Raw materials	**731,317**	557,822	**731,317**	553,230
Work in progress	**102,204**	98,159	**102,204**	95,548
Finished goods	**528,055**	462,540	**528,055**	445,389
Goods in transit	**316,863**	124,624	**316,863**	124,624
	1,678,439	1,243,145	**1,678,439**	1,218,791
Spare parts and consumables	**78,225**	75,624	**78,225**	75,624
	1,756,664	1,318,769	**1,756,664**	1,294,415
Carrying amounts of inventories stated at net realisable value	**152,685**	110,220	**152,685**	85,866

(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 RMB18,607,201,000 for the year ended 31 December 2011 (2010: RMB14,353,315,000), which includes the write-down of inventories of RMB7,437,000 (2010: RMB45,631,000), and the reversal of write-down of inventories of RMB5,338,000 (2010: RMB27,892,000), that was mainly due to subsequent 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.

Notes to the Financial Statements (Continued)

(Prepared under International Financial Reporting Standards)

23 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables	**96,965**	71,692	**96,965**	69,772
Bills receivable	**2,236,236**	1,414,970	**2,236,236**	1,414,970
Amounts due from the parent company and fellow subsidiaries-trade	**64,992**	3,225	**64,992**	3,225
Amounts due from a subsidiary-trade	**–**	–	**–**	267,832
	2,398,193	1,489,887	**2,398,193**	1,755,799
Less: allowance for doubtful debts	**–**	–	**–**	(132,154)
	2,398,193	1,489,887	**2,398,193**	1,623,645
Amounts due from the parent company and fellow subsidiaries-non-trade	**2,410**	8,688	**2,410**	8,688
Other receivables, deposits and prepayments	**82,960**	101,882	**82,960**	101,832
	85,370	110,570	**85,370**	110,520
Less: allowance for doubtful debts	**(3,857)**	(11,932)	**(3,857)**	(11,932)
	81,513	98,638	**81,513**	98,588
	2,479,706	1,588,525	**2,479,706**	1,722,233

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	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Current	**2,398,193**	1,489,887	**2,398,193**	1,623,645

Trade receivables, amounts due from the parent company and fellow subsidiaries-trade and amounts due from a subsidiary-trade are due within six months from the date of billing. Bills receivable are due within nine months from the date of issuance.

Notes to the Financial Statements (Continued)

(Prepared under International Financial Reporting Standards)

23 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(s)(i)).

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

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**11,932**	7,444	**144,086**	121,474
Impairment losses reversed through merger of a subsidiary	**–**	–	**(132,154)**	–
Impairment losses (reversed)/recognized	**(8,075)**	4,488	**(8,075)**	22,612
At 31 December	**3,857**	11,932	**3,857**	144,086

At 31 December 2011, the Group's and the Company's trade and other receivables of RMB3,857,000 is collectively determined to be impaired (2010: RMB11,932,000).

At 31 December 2011, the Company's trade and other receivables is not individually determined to be impaired (2010: RMB132,154,000).

(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	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Neither past due nor impaired	**2,398,193**	1,489,887	**2,398,193**	1,623,645

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

Notes to the Financial Statements (Continued)

(Prepared under International Financial Reporting Standards)

24 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	The Group and the Company	
	2011	2010
	RMB'000	RMB'000
Balances with banks in the PRC	**35,000**	443,456

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

	The Group and the Company	
	2011	2010
	RMB'000	RMB'000
Due within three months	**20,000**	295,000
Due after three months but within six months	**15,000**	148,456
At 31 December	**35,000**	443,456

The above deposits with banks and other financial institutions are with an initial term of more than three months and bear fixed interest rates of 3.30% per annum (2010: 1.98% to 2.25% per annum).

25 CASH AND CASH EQUIVALENTS

	The Group and the Company	
	2011	2010
	RMB'000	RMB'000
Cash in hand	**21**	23
Balances with banks and other financial institutions with an initial term less than three months, which are related parties:		
– Sinopec Finance Company limited ("**Sinopec Finance**")	**428,815**	491,510
– China CITIC Bank	**162,529**	186,709
Balances with banks in the PRC with an initial term less than three months (excluding China CITIC Bank)	**915,456**	1,347,690
Cash and cash equivalents in the statement of financial position	**1,506,821**	2,025,932
Investments held for trading with an initial term less than three months	**–**	297,870
Cash and cash equivalents in the cash flow statement	**1,506,821**	2,323,802

Notes to the Financial Statements (Continued)

(Prepared under International Financial Reporting Standards)

26 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables	**693,731**	563,091	**693,731**	539,950
Amounts due to the parent company and fellow subsidiaries-trade	**1,257,368**	1,079,833	**1,257,368**	1,079,833
Amounts due to a subsidiary-trade	**–**	–	**–**	1,893
	1,951,099	1,642,924	**1,951,099**	1,621,676
Amounts due to the parent company and fellow subsidiaries-non-trade	**912**	11,865	**912**	11,865
Other payables and accrued expenses	**450,648**	433,895	**450,648**	440,505
	2,402,659	2,088,684	**2,402,659**	2,074,046

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

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Due within 1 month or on demand	**693,731**	563,091	**693,731**	539,950

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	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Due within 1 month or on demand	**1,257,368**	1,079,833	**1,257,368**	1,081,726

27 DEFERRED INCOME

	The Group and the Company	
	2011	2010
	RMB'000	RMB'000
At 1 January	**59,874**	21,256
Government grants received during the year	**–**	39,630
Recognised in the statement of comprehensive income for the year	**(4,873)**	(1,012)
At 31 December	**55,001**	59,874

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

Notes to the Financial Statements (Continued)

(Prepared under International Financial Reporting Standards)

28 SHARE CAPITAL

	The Group and the Company	
	2011	2010
	RMB'000	RMB'000
Registered, issued and paid up capital:		
2,400,000,000 "Domestic non-public legal person A" shares of RMB1 each	**2,400,000**	2,400,000
200,000,000 "Social public A" shares of RMB1 each	**200,000**	200,000
1,400,000,000 "H" shares of RMB1 each	**1,400,000**	1,400,000
	4,000,000	4,000,000

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

Capital management

In order to maintain or adjust the capital structure, the Group may issue new shares, adjust the capital expenditure plan, or sell assets to reduce liabilities. The Group monitors capital on the basis of 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 liability-to-asset ratio at a range considered as reasonable by management. As at 31 December 2011, the liability-to-asset ratio of the Group was 21.5% (2010: restated liability-to-asset ratio of 21.4%).

The schedule of the capital commitments is disclosed in note 33.

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.

29 RESERVES

	The Group and the Company		
	Capital reserve	**Statutory surplus reserve**	**Total**
	RMB'000	RMB'000	RMB'000
At 1 January 2010 (As restated)	28,339	–	28,339
Appropriation of statutory surplus reserve	–	116,843	116,843
At 31 December 2010 (As restated)	28,339	116,843	145,182
Appropriation of statutory surplus reserve	–	83,540	83,540
At 31 December 2011	**28,339**	**200,383**	**228,722**

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.

Notes to the Financial Statements (Continued)

(Prepared under International Financial Reporting Standards)

30 RETAINED PROFITS

	The Group RMB'000 (Restated)	The Company RMB'000 (Restated)
Retained profits at 1 January 2010	498,238	500,000
Total comprehensive income for the year	1,227,297	1,229,178
Statutory surplus reserve appropriated	(116,843)	(116,843)
Retained profits at 31 December 2010	1,608,692	1,612,335
Total comprehensive income for the year	839,232	835,589
Statutory surplus reserve appropriated	(83,540)	(83,540)
Dividends approved in respect of the previous year	(120,000)	(120,000)
Retained profits at 31 December 2011	**2,244,384**	**2,244,384**

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 2011, the amount of retained profits, which was the amount determined in accordance with PRC ASBE, was RMB1,683,448,000 (2010: RMB1,051,588,000). Final dividend for the year ended 31 December 2011 of RMB120,000,000 (2010: RMB120,000,000) proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

31 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 2011	2010
Yizheng Municipal Government, Jiangsu Province	Employees of the Company	**20%**	20%

In addition, the Group provides a supplementary defined contribution retirement plan for its staff at rate 5% of the salaries. Employees who have served the Group for one year or more may participate in this plan. The assets of this plan are held separately from those of the Group in an independent fund administered by a committee consisting of representatives from the employees and the Group.

A member of the above plans is entitled to a pension amount equal to a fixed proportion of the salary prevailing at his or her retirement date. Both the Group and participating employees make defined contributions to the above two retirement plans. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above. For the year ended 31 December 2011, the Group's contribution to the above two plans amounted to RMB86,525,000 and RMB25,467,000 respectively (2010: RMB79,543,000 and RMB23,521,000 respectively).

Notes to the Financial Statements (Continued)

(Prepared under International Financial Reporting Standards)

32 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.

On 27 December 2011, CITIC Group established CITIC Limited. CITIC Group and CITIC Limited entered into a restructuring agreement, whereby 720,000,000 of the Company's shares held by CITIC Group would be transferred to CITIC Limited. Up to the date of this report, the transfer of the registration documents with the relevant government authorities is still in process.

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

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

	2011 RMB'000	2010 RMB'000
Sinopec Corp and its subsidiaries		
Purchase of raw materials	**10,753,982**	7,085,054
Service charges payable	**67,462**	60,492
Sinopec Finance		
Interest income receivable	**9,766**	5,879
CPC and its subsidiaries (excluding Sinopec Corp and its subsidiaries and Sinopec Finance)		
Sales of goods	**298,274**	235,068
Miscellaneous service fee charges payable	**6,350**	5,990
Construction and overhaul fee payable	**68,558**	13,886
Insurance premium payable	**3,700**	2,902
China CITIC Bank		
Interest income receivable	**5,106**	735

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.

Notes to the Financial Statements (Continued)

(Prepared under International Financial Reporting Standards)

32 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 are mainly state-controlled banks. The transactions include but are not limited to the following:

– depositing money;

– discounting bills; and

– purchasing investment fund.

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.

(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:

	2011 RMB'000	2010 RMB'000
Short-term employee benefits	**3,578**	3,385
Retirement scheme contributions	**228**	183

(d) Contributions to defined contribution retirement schemes

The Group participates in defined contribution retirement schemes organised by municipal government for its staff. The details of the Group's employee benefits plans are disclosed in note 31. As at 31 December 2011 and 2010, the accrual for the contribution to post-employment benefit plans was not material.

33 CAPITAL COMMITMENTS

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

	The Group and the Company	
	2011 RMB'000	2010 RMB'000
Contracted for	**635,848**	445,056
Authorised but not contracted for	**766,296**	967,743
	1,402,144	1,412,799

Notes to the Financial Statements (Continued)

(Prepared under International Financial Reporting Standards)

34 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 2011. 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.

35 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 2011 and 2010.

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. Internal audit department undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Group's audit committee.

(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 placed 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 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 trade and other receivables. The details of the Group's credit policy and quantitative disclosures in respect of the Group's exposure on credit risk for trade and other receivables are set out in Note 23.

At 31 December 2011, the Group had a certain concentration of credit risk, as 54.9% (2010: 53.1%) 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.

Notes to the Financial Statements (Continued)

(Prepared under International Financial Reporting Standards)

35 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(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 in 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 26. Trade and other payables are normally expected to be settled within one year after receipt of goods or services.

The Group believes that the Group's current cash on hand and expected cash flows from operations will be sufficient to meet the Group's working capital requirements and repay its debts when they become due.

(d) Interest rate risk

Except for cash and cash equivalents (note 25) and deposits with banks and other financial institutions with fixed interest rates (note 24), 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 and the Company			
	2011		2010	
	Effective interest rate %	**RMB'000**	Effective interest rate %	RMB'000
Fixed rate instruments				
Deposits with banks and other financial institutions *(note 24)*	**3.3%**	**35,000**	1.98%~2.25%	443,456
Cash at banks and other financial institutions with an initial term of less than three months *(note 25)*	**3.1%**	**1,210,000**	–	–
Variable rate instruments				
Cash at banks and other financial institutions with an initial term of less than three months *(note 25)*	**0.5%~1.49%**	**296,800**	0.36%	2,025,909

At 31 December 2011, 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 RMB2,968,000 (2010: RMB20,259,000) (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 2010.

Notes to the Financial Statements (Continued)

(Prepared under International Financial Reporting Standards)

35 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

	2011 US$'000	2010 US$'000
Trade and other receivables	**10,337**	7,584
Cash and cash equivalents	**39**	4,851
Trade and other payables	**(160,593)**	(143,662)
	(150,217)	(131,227)

The Company

	2011 US$'000	2010 US$'000
Trade and other receivables	**10,337**	7,297
Cash and cash equivalents	**39**	4,851
Trade and other payables	**(160,593)**	(143,662)
	(150,217)	(131,514)

Notes to the Financial Statements (Continued)

(Prepared under International Financial Reporting Standards)

35 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 by the amounts shown below. 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 has 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 2010.

The Group

	2011 RMB'000	2010 RMB'000
US$	**47,326**	43,456

The Company

	2011 RMB'000	2010 RMB'000
US$	**47,326**	43,551

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 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

Notes to the Financial Statements (Continued)

(Prepared under International Financial Reporting Standards)

35 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(f) Fair values (Continued)

At 31 December 2011

	The Group and the Company			
	Level 1 RMB'000	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
Available-for-sale financial assets	**–**	**200,000**	**–**	**200,000**

At 31 December 2010

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

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

The carrying amounts of the Group's and the Company's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2011 and 2010.

(g) Estimation of fair values

The fair value of available-for-sale financial assets is determined by reference to the quoted prices in active markets for similar financial instruments.

36 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.

Notes to the Financial Statements (Continued)

(Prepared under International Financial Reporting Standards)

36 ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

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 assets' 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 useful lives are based on the Group's historical experience with similar assets and taken into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

Impairment for bad and doubtful debts

The Group estimates impairment losses for bad and doubtful debts resulting from the inability of the 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.

37 COMPARATIVE FIGURES

As a result of the adoption of Improvements to IFRS (2010), certain comparative figures have been adjusted to reflect the accounting of leasehold land use rights at deemed cost. Further details of changes in accounting policies are disclosed in note 3.

Notes to the Financial Statements (Continued)

(Prepared under International Financial Reporting Standards)

38 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2011

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and five new standards which are not yet effective for the year ended 31 December 2011 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
Amendments to IFRS 7, *Financial instruments: Disclosures – Transfers of financial assets*	1 July 2011
Amendments to IAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*	1 July 2012
IFRS 9, *Financial instruments*	1 January 2013
IFRS 10, *Consolidated financial statements*	1 January 2013
IFRS 11, *Joint arrangements*	1 January 2013
IFRS 12, *Disclosure of interests in other entities*	1 January 2013
IFRS 13, *Fair value measurement*	1 January 2013
IAS 27, *Separate financial statements* (2011)	1 January 2013
IAS 28, *Investments in associates and jointly ventures*	1 January 2013

The Group is in the process of making an assessment of what the impact of these amendments 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.

39 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

As at 31 December 2011, 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 2011, the consolidated income statement and income statement, the consolidated cash flow statement and cash flow statement , the consolidated statement of changes in shareholders' equity and statement of changes in shareholders' equity, 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 and fair presentation of these financial statements. This responsibility includes: (1) preparing these financial statements in accordance with Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China, and fairly presenting them; (2) designing, implementing and maintaining internal control which is necessary to enable that the financial statements are free from material misstatement, whether due to fraud or error.

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 China Code of Ethics for Certified Public Accountants, 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 auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. 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 present fairly, in all material respects, the consolidated financial position and financial position of the Company as at 31 December 2011, and the consolidated financial performance and financial performance and the consolidated cash flows and cash flows of the Company for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China.

KPMG Huazhen

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

China, Beijing

Gong Wei-li

Xu Kan-ling

26 March 2012

Consolidated Balance Sheet

As at 31 December 2011
(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan)

Assets	Note	2011	2010
Current assets:			
Cash at bank and on hand	5(1)	**1,541,821**	2,469,388
Financial assets held for trading	5(2)	**–**	699,713
Bills receivable	5(3)	**2,236,236**	1,414,970
Accounts receivable	5(4)	**104,668**	74,917
Prepayments	5(5)	**59,625**	6,208
Other receivables	5(6)	**11,718**	29,985
Inventories	5(7)	**1,756,664**	1,318,769
Available-for-sale financial assets	5(8)	**200,000**	–
Other current assets	5(9)	**219,924**	62,443
Total current assets		**6,130,656**	6,076,393
Non-current assets:			
Long-term equity investments	5(10)	**303,089**	–
Fixed assets	5(11)	**3,366,832**	3,413,109
Construction in progress	5(12)	**1,201,201**	498,043
Intangible assets	5(13)	**325,285**	346,766
Deferred tax assets	5(14)	**122,536**	196,891
Total non-current assets		**5,318,943**	4,454,809
Total assets		**11,449,599**	10,531,202

The notes on pages 114 to 175 form part of these financial statements.

Consolidated Balance Sheet (Continued)

As at 31 December 2011
(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan)

Liabilities and shareholders' equity	Note	2011	2010
Current liabilities:			
Accounts payable	5(16)	**1,605,443**	1,343,835
Advances from customers	5(17)	**345,656**	297,828
Employee benefits payable	5(18)	**61,927**	71,444
Taxes payable	5(19)	**12,322**	125,827
Other payables	5(20)	**377,311**	359,687
Total current liabilities		**2,402,659**	2,198,621
Non-current liabilities:			
Deferred income	5(21)	**16,315**	20,244
Total non-current liabilities		**16,315**	20,244
Total liabilities		**2,418,974**	2,218,865
Shareholders' equity:			
Share capital	5(22)	**4,000,000**	4,000,000
Capital reserve	5(23)	**3,146,794**	3,146,794
Specific reserve	5(24)	**–**	755
Surplus reserve	5(25)	**200,383**	116,843
Retained earnings	5(26)	**1,683,448**	1,047,945
Total shareholders' equity		**9,030,625**	8,312,337
Total liabilities and shareholders' equity		**11,449,599**	10,531,202

These financial statements were approved by the Board of Directors of the Company on 26 March 2012.

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 114 to 175 form part of these financial statements.

Balance Sheet

As at 31 December 2011
(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan)

Assets	Note	2011	2010
Current assets:			
Cash at bank and on hand		**1,541,821**	2,469,388
Financial assets held for trading		**–**	699,713
Bills receivable		**2,236,236**	1,414,970
Accounts receivable	11(1)	**104,668**	208,675
Prepayments		**59,625**	6,208
Other receivables	11(2)	**11,718**	29,935
Inventories		**1,756,664**	1,294,415
Available-for-sale financial assets		**200,000**	–
Other current assets		**219,924**	62,443
Total current assets		**6,130,656**	6,185,747
Non-current assets:			
Long-term equity investments	11(3)	**303,089**	–
Fixed assets		**3,366,832**	3,292,760
Construction in progress		**1,201,201**	498,043
Intangible assets		**325,285**	346,766
Deferred tax assets		**122,536**	196,891
Total non-current assets		**5,318,943**	4,334,460
Total assets		**11,449,599**	10,520,207

The notes on pages 114 to 175 form part of these financial statements.

Balance Sheet (Continued)

As at 31 December 2011
(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan)

Liabilities and shareholders' equity	2011	2010
Current liabilities:		
Accounts payable	**1,605,443**	1,340,094
Advances from customers	**345,656**	279,131
Employee benefits payable	**61,927**	71,265
Taxes payable	**12,322**	122,449
Other payables	**377,311**	371,044
Total current liabilities	**2,402,659**	2,183,983
Non-current liabilities:		
Deferred income	**16,315**	20,244
Total non-current liabilities	**16,315**	20,244
Total liabilities	**2,418,974**	2,204,227
Shareholders' equity:		
Share capital	**4,000,000**	4,000,000
Capital reserve	**3,146,794**	3,146,794
Specific reserve	**–**	755
Surplus reserve	**200,383**	116,843
Retained earnings	**1,683,448**	1,051,588
Total shareholders' equity	**9,030,625**	8,315,980
Total liabilities and shareholders' equity	**11,449,599**	10,520,207

These financial statements were approved by the Board of Directors of the Company on 26 March 2012.

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 114 to 175 form part of these financial statements.

Consolidated Income Statement

For the year ended 31 December 2011
(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan)

		Note	2011	2010
1.	Operating income	5(27)	**20,179,768**	16,348,366
2.	Less: Operating costs	5(27)	**18,206,234**	13,949,852
	Business taxes and surcharges	5(28)	**39,514**	41,656
	Selling and distribution expenses	5(29)	**220,430**	212,868
	General and administrative expenses	5(30)	**808,359**	775,543
	Net financial income	5(31)	**(56,887)**	(35,286)
	Impairment losses	5(34)	**(691)**	273,815
	Add: (Losses)/Gains from changes in fair value	5(32)	**(310)**	310
	Investment income	5(33)	**16,557**	832
3.	Operating profit		**979,056**	1,131,060
	Add: Non-operating income	5(35)	**72,655**	14,658
	Less: Non-operating expenses	5(36)	**9,710**	6,130
	Including: Losses from disposal of non-current assets		**2,284**	1,816
4.	Profit before income tax		**1,042,001**	1,139,588
	Less: Income tax expenses	5(37)	**202,958**	(86,954)
5.	Net profit for the year		**839,043**	1,226,542
	Attributable to shareholders of the Company		**839,043**	1,226,542
6.	Earnings per share:			
	(1) Basic earnings per share (in RMB)	5(38)	**0.210**	0.307
	(2) Diluted earnings per share (in RMB)	5(38)	**0.210**	0.307
7.	Other comprehensive income for the year	5(39)	**–**	–
8.	Total comprehensive income for the year		**839,043**	1,226,542
	Attributable to shareholders of the Company		**839,043**	1,226,542

These financial statements were approved by the Board of Directors of the Company on 26 March 2012.

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 114 to 175 form part of these financial statements.

Income Statement

For the year ended 31 December 2011
(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan)

		Note	2011	2010
1.	Operating income	11(4)	**20,179,768**	16,164,673
	Less: Operating costs	11(4)	**18,200,683**	13,773,821
	Business taxes and surcharges		**39,514**	40,030
	Selling and distribution expenses		**220,430**	201,699
	General and administrative expenses		**794,937**	754,401
	Net financial income		**(56,887)**	(35,236)
	Impairment losses		**(691)**	291,939
	Add: (Losses)/Gains from changes in fair value		**(310)**	310
	Investment income	11(5)	**16,557**	832
2.	Operating profit		**998,029**	1,139,161
	Add: Non-operating income		**50,039**	8,012
	Less: Non-operating expenses		**9,710**	5,704
	Including: Losses from disposal of non-current assets		**2,284**	1,816
3.	Profit before income tax		**1,038,358**	1,141,469
	Less: Income tax expenses		**202,958**	(86,954)
4.	Net profit for the year		**835,400**	1,228,423
5.	Other comprehensive income for the year		**–**	–
6.	Total comprehensive income for the year		**835,400**	1,228,423

These financial statements were approved by the Board of Directors of the Company on 26 March 2012.

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 114 to 175 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2011
(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan)

		Note	2011	2010
1.	**Cash flows from operating activities:**			
	Cash received from sale of goods and rendering of services		**20,781,749**	17,320,331
	Refund of taxes		**17,008**	3,851
	Sub-total of cash inflows		**20,798,757**	17,324,182
	Cash paid for goods and services		**(18,708,184)**	(13,913,129)
	Cash paid to and for employees		**(926,460)**	(757,965)
	Cash paid for all types of taxes		**(814,982)**	(439,679)
	Cash paid relating to other operating activities	5(40)(a)	**(619,378)**	(612,604)
	Sub-total of cash outflows		**(21,069,004)**	(15,723,377)
	Net cash (outflow)/inflow from operating activities	5(41)(a)	**(270,247)**	1,600,805
2.	**Cash flows from investing activities:**			
	Cash received from disposal of investment		**918,090**	700,873
	Net cash received from disposal of fixed assets		**32,334**	17,483
	Cash received relating to other investing activities	5(40)(b)	**53,722**	33,330
	Sub-total of cash inflows		**1,004,146**	751,686
	Cash paid for acquisition of fixed assets and intangible assets		**(836,247)**	(557,656)
	Cash paid for acquisition of investments		**(700,000)**	(401,574)
	Net cash paid for acquisition of other business units	5(41)(b)	**(303,089)**	–
	Sub-total of cash outflows		**(1,839,336)**	(959,230)
	Net cash outflow from investing activities		**(835,190)**	(207,544)

The notes on pages 114 to 175 form part of these financial statements.

Consolidated Cash Flow Statement (Continued)

For the year ended 31 December 2011
(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan)

		Note	2011	2010
3.	**Cash flows from financing activities:**			
	Cash received from government		**–**	39,630
	Sub-total of cash inflows		**–**	39,630
	Cash paid for dividends		**(120,000)**	–
	Sub-total of cash outflows		**(120,000)**	–
	Net cash (outflow)/inflow from financing activities		**(120,000)**	39,630
4.	**Effect of exchange rate changes on cash and cash equivalents**		**–**	–
5.	**Net (decrease)/increase in cash and cash equivalents**	*5(41)(a)*	**(1,225,437)**	1,432,891
	Add: Cash and cash equivalents at the beginning of the year		**2,767,258**	1,334,367
6.	**Cash and cash equivalents at the end of the year**	*5(41)(c)*	**1,541,821**	2,767,258

These financial statements have been approved by the Board of Directors of the Company on 26 March 2012.

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 114 to 175 form part of these financial statements.

Cash Flow Statement

For the year ended 31 December 2011
(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan)

		Note	2011	2010
1.	**Cash flows from operating activities:**			
	Cash received from sale of goods and rendering of services		**20,781,749**	17,002,277
	Refund of taxes		**17,008**	216
	Cash received relating to other operating activities		**10,518**	–
	Sub-total of cash inflows		**20,809,275**	17,002,493
	Cash paid for goods and services		**(18,708,184)**	(13,702,510)
	Cash paid to and for employees		**(913,038)**	(672,769)
	Cash paid for all types of taxes		**(814,982)**	(425,602)
	Cash paid relating to other operating activities		**(619,378)**	(588,926)
	Sub-total of cash outflows		**(21,055,582)**	(15,389,807)
	Net cash (outflow)/inflow from operating activities	*11(6)*	**(246,307)**	1,612,686
2.	**Cash flows from investing activities:**			
	Cash received from disposal of investment		**918,090**	700,873
	Net cash received from disposal of fixed assets		**8,394**	11,637
	Cash received relating to other investing activities		**53,722**	32,964
	Sub-total of cash inflows		**980,206**	745,474
	Cash paid for acquisition of fixed assets and intangible assets		**(836,247)**	(556,943)
	Cash paid for acquisition of investments		**(700,000)**	(401,574)
	Net cash paid for acquisition of other business units		**(303,089)**	–
	Sub-total of cash outflows		**(1,839,336)**	(958,517)
	Net cash outflow from investing activities		**(859,130)**	(213,043)

The notes on pages 114 to 175 form part of these financial statements.

Cash Flow Statement (Continued)

For the year ended 31 December 2011
(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan)

		Note	2011	2010
3.	**Cash flows from financing activities:**			
	Cash received from government		**–**	39,630
	Sub-total of cash inflows		**–**	39,630
	Cash paid for dividends		**(120,000)**	–
	Sub-total of cash outflows		**(120,000)**	–
	Net cash (outflow)/inflow from financing activities		**(120,000)**	39,630
4.	**Effect of exchange rate changes on cash and cash equivalents**		**–**	–
5.	**Net (decrease)/increase in cash and cash equivalents**	*11(6)*	**(1,225,437)**	1,439,273
	Add: Cash and cash equivalents at the beginning of the year		**2,767,258**	1,327,985
6.	**Cash and cash equivalents at the end of the year**		**1,541,821**	2,767,258

These financial statements have been approved by the Board of Directors of the Company on 26 March 2012.

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 114 to 175 form part of these financial statements.

Consolidated Statement of Changes in Shareholders' Equity

For the year ended 31 December 2011
(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan)

		2011						2010					
		Attributable to shareholders of the Company						Attributable to shareholders of the Company					
	Note	**Share capital**	**Capital reserve**	**Specific reserve**	**Surplus reserve**	**Retained earnings**	**Total shareholders' equity**	Share capital	Capital reserve	Specific reserve	Surplus reserve	(Accumulated losses)/ Retained earnings	Total shareholders' equity
1. Balance at the beginning 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
2. Changes in equity for the year													
(1) Net profit for the year		**–**	**–**	**–**	**–**	**839,043**	**839,043**	–	–	–	–	1,226,542	1,226,542
(2) Other comprehensive income		**–**	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–	–
Sub-total of (1) & (2)		**–**	**–**	**–**	**–**	**839,043**	**839,043**	–	–	–	–	1,226,542	1,226,542
(3) Shareholders' contribution Others		**–**	**–**	**–**	**–**	**–**	**–**	–	39,630	–	–	–	39,630
(4) Appropriation of profit	*5(26)*												
(a) Appropriation for surplus reserve		**–**	**–**	**–**	**83,540**	**(83,540)**	**–**	–	–	–	116,843	(116,843)	–
(b) Distributions to shareholders		**–**	**–**	**–**	**–**	**(120,000)**	**(120,000)**	–	–	–	–	–	–
Sub-total of (a) & (b)		**–**	**–**	**–**	**83,540**	**(203,540)**	**(120,000)**	–	–	–	116,843	(116,843)	–
(5) Specific reserve													
(a) Accrued for the year		**–**	**–**	**904**	**–**	**–**	**904**	–	–	755	–	–	755
(b) Utilised for the year		**–**	**–**	**(1,659)**	**–**	**–**	**(1,659)**	–	–	–	–	–	–
Sub-total of (a) & (b)		**–**	**–**	**(755)**	**–**	**–**	**(755)**	–	–	755	–	–	755
3. Balance at the end of the year		**4,000,000**	**3,146,794**	**–**	**200,383**	**1,683,448**	**9,030,625**	4,000,000	3,146,794	755	116,843	1,047,945	8,312,337

These financial statements were approved by the Board of Directors of the Company on 26 March 2012.

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 114 to 175 form part of these financial statements.

Statement of Changes in Shareholders' Equity

For the year ended 31 December 2011
(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan)

	2011						2010					
	Share capital	Capital reserve	Specific reserve	Surplus reserve	Retained earnings	Total shareholders' equity	Share capital	Capital reserve	Specific reserve	Surplus reserve	(Accumulated losses)/ Retained earnings	Total shareholders' equity
1. Balance at the beginning 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
2. Changes in equity for the year												
(1) Net profit for the year	–	–	–	–	835,400	835,400	–	–	–	–	1,228,423	1,228,423
(2) Other comprehensive income	–	–	–	–	–	–	–	–	–	–	–	–
Sub-total of (1) & (2)	–	–	–	–	835,400	835,400	–	–	–	–	1,228,423	1,228,423
(3) Shareholders' contribution Others	–	–	–	–	–	–	–	39,630	–	–	–	39,630
(4) Appropriation of profit												
(a) Appropriation for surplus reserve	–	–	–	83,540	(83,540)	–	–	–	–	116,843	(116,843)	–
(b) Distributions to shareholders	–	–	–	–	(120,000)	(120,000)	–	–	–	–	–	–
Sub-total of (a) & (b)	–	–	–	83,540	(203,540)	(120,000)	–	–	–	116,843	(116,843)	–
(5) Specific reserve												
(a) Accrued for the year	–	–	904	–	–	904	–	–	755	–	–	755
(b) Utilised for the year	–	–	(1,659)	–	–	(1,659)	–	–	–	–	–	–
Sub-total of (a) & (b)	–	–	(755)	–	–	(755)	–	–	755	–	–	755
3. Balance at the end of the year	4,000,000	3,146,794	–	200,383	1,683,448	9,030,625	4,000,000	3,146,794	755	116,843	1,051,588	8,315,980

These financial statements were approved by the Board of Directors of the Company on 26 March 2012.

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 114 to 175 form part of these financial statements.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan unless otherwise indicated)

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".

On 27 December 2011, CITIC Group established CITIC Limited in PRC and a restructuring agreement was signed. Whereby 720,000,000 of the Company's non-public shares held by CITIC Group would be transferred to CITIC Limited as part of its capital contributions and CITIC limited will hold 18% of the Company's share capital. Up to the date of this report, the transfer of the registration documents with the relevant government authorities is still in process.

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

Notes to the Financial Statements (Continued)

(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(1) Basis of preparation of the financial statements

The financial statements have been prepared on the basis that the Group and the Company will continue to operate as a going concern.

(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") of the People's Republic of China ("PRC") on 15 February 2006, and application guidance, bulletins and other relevant accounting regulations issued subsequently (collectively referred to as "Accounting Standards for Business Enterprises" or "CAS"). These financial statements present truly and completely the consolidated financial position and financial position of the Company as at 31 December 2011, and the consolidated financial performance and financial performance and the consolidated cash flows and cash flows of the Company for the year then ended.

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 is from 1 January to 31 December.

(4) Functional currency

The Group's functional currency is Renminbi and these financial statements are presented in Renminbi. Functional currency is determined by the Company and its subsidiaries on the basis of the currency in which major income and costs are denominated and settled.

(5) Consolidated financial statements

The scope of consolidated financial statements is based on control and the consolidated financial statements comprise the Company and its subsidiaries. Control is the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its operating activities. The financial position, financial performance and cash flows of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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.

(6) 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.

(7) Translation of foreign currencies

When the Group receives 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. 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.

Notes to the Financial Statements (Continued)

(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(8) Financial instruments

Financial instruments include cash at bank and on hand, receivables, financial assets held for trading, available-for-sale financial assets, payables, and share capital, etc.

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

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

The Group classifies 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. The Group did not hold any held-to-maturity investment during the current financial year or the comparative financial year.

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 related directly 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 measured at amortised cost using the effective interest method.

– Available-for-sale financial assets

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

  Other than available-for-sale financial assets whose fair value cannot be measured reliably, subsequent to initial recognition, other available-for-sale financial assets are measured at fair value and changes therein, except for impairment losses and foreign exchange gains and losses from monetary financial assets, which are recognised directly in profit or loss, are recognised as other comprehensive income in capital reserve. When available-for-sale financial assets are derecognised, the cumulative gain or loss is reclassified from equity to profit or loss.

– Other financial liabilities

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

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

(b) *Offsetting a financial assets against a financial liability*

Financial assets and financial liabilities are presented separately in balance sheet and are not offset. However, a financial asset and a financial liability are offset and the net amount is presented in the balance sheet when both of the following conditions are satisfied:

– The Group has a legal right to set off the recognised amounts and the legal right is currently enforceable; and

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

Notes to the Financial Statements (Continued)

(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(8) Financial instruments (Continued)

(c) Determination of fair value

If there is an active market for a financial asset or financial liability, the quoted price in the active market is used to establish the fair value of the financial asset or financial liability.

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 and etc. The Group calibrate the valuation technique and test it for validity periodically.

(d) Derecognition of financial assets and financial liabilities

A financial asset is derecognised if the Group's contractual rights to the cash flows from the financial asset expire or if the Group transfers 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 derecognises a financial liability (or part of it) only when the underlying present obligation (or part of it) is discharged, cancelled or expires.

(e) 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:

(i) significant financial difficulty of the debtor or obligor;

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

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

(iv) the disappearance of an active market for that financial asset because of financial difficulties;

(v) Significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor, and indicates that the cost of an investment in an equity instrument may not be recovered; and

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

Notes to the Financial Statements (Continued)

(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(8) Financial instruments (Continued)

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

For the impairment testing method of receivables, please see Note 2(9). And the impairment testing method of available-for-sale financial assets is as following:

Available-for-sale financial assests 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 reclassified 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.

(f) *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 shareholders' equity.

(9) 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 factors reflecting present economic conditions.

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

Notes to the Financial Statements (Continued)

(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(9) Impairment of receivables (Continued)

(a) Individually significant receivables are assessed for impairment on an individual basis:

Judgment basis or amount criteria of provision for bad and doubtful debts for individually significant receivables	Larger than 5 percent of total receivables
Method of provision for bad and doubtful debts of individually significant receivables	An impairment loss is provided if its carrying amount exceeds 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) Receivable that are individually insignificant but assessed individually for impairment:

Reasons for provision for bad and doubtful debts for individually insignificant receivables	Receivables which are overdue more than 1 year or with special characteristics.
Method of provision for bad and doubtful debts	An impairment loss is provided if its carrying amount exceeds 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.

(c) Receivables that are collectively assessed for impairment:

For receivables with no impairment losses provided on an individual basis in (a) and (b) above, the Group performs the impairment test on a collective basis by categorising them into the groups with similar credit risk feature.

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

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

(10) Inventories

(a) Categories of inventories

Inventories comprise 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.

Notes to the Financial Statements (Continued)

(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(10) Inventories (Continued)

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

Inventories are initially measured at their cost. Cost of inventories comprises all costs of purchase, costs of conversion and other expenditures incurred in bringing the inventories to their present location and condition. 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.

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

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated expenses and relevant taxes necessary to make the sale. Net realisable value of raw materials held for production is measured at the net realisable value of products produced by the materials. For the inventories held to satisfy sales or service contract, the net realisable price is calculated based on the contract price. If the quantities of inventories specified in sales contracts are less than the quantities held by an enterprise, the net realizable value of the excess portion of inventories shall be based on general selling prices.

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 and charged to profit or loss.

(d) Inventory count

The Group maintains a perpetual inventory system.

(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 they are received for use. The amounts of the amortisation are included in the cost of the related assets or profit or loss.

(11) 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, the initial cost comprises the aggregate of the fair value of assets transferred, liabilities incurred or assumed, and equity securities issued by the Company, in exchange for control of the acquiree. 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 acquiree immediately before the acquisition date, and the additional investment cost at the acquisition date.

(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.

Notes to the Financial Statements (Continued)

(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(11) Long-term equity investments (Continued)

(b) Subsequent measurement

(i) Investments in subsidiaries

In the Company's separate financial statements, long-term equity investments in subsidiaries are accounted for using the cost method. Except for cash dividends or profit distributions declared but not yet distributed that have been included in the price or consideration paid in obtaining the investments, the Company recognises its share of the cash dividends or profit distributions declared by the investee as investment income irrespective of whether these represent the net profit realised by the investee before or after the investment. The investments in subsidiaries are stated in the balance sheet at cost less impairment losses.

In the Group's consolidated financial statements, investments in subsidiaries are accounted for in accordance with the principles described in Note 2(5).

(ii) Investment in jointly controlled enterprises

A jointly controlled enterprise is an enterprise which operates under joint control in accordance with a contractual agreement between the Group and other parties (see Note 2(11)(c)).

An investment in a jointly controlled enterprise is accounted for using the equity method.

The Group makes the following accounting treatments when using the equity method:

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

– After the acquisition of the investment, the Group recognises its share of the investee's profit or loss, as investment income or losses, and adjusts the carrying amount of the investment accordingly. Once the investee declares any cash dividends or profit distributions, the carrying amount of the investment is reduced by that amount attributable to the Group.

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

– The Group discontinues recognising its share of net losses of the jointly controlled enterprise after the carrying amount of the long-term equity investment and any long-term interest that in substance forms part of the Group's net investment in the jointly controlled enterprise is reduced to zero, except to the extent that the Group has an obligation to assume additional losses. Where net profits are subsequently made by the jointly controlled enterprise, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

– The Group adjusts the carrying amount of the long-term equity investment for changes in owners' equity of the jointly controlled enterprise other than those arising from net profits or losses, and recognises the corresponding adjustment in equity.

Notes to the Financial Statements (Continued)

(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(11) Long-term equity investments (Continued)

(c) Basis for determination of joint control 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. The Group often considers the following factors when determining whether the Group has joint control over the investee:

– Whether any investor alone cannot control the production and operating activities of the investee;

– Whether a decision related to basic operating activities of the investee needs the consent of all the investors;

– whether the right of management needs to be performed within the scope stipulated in the financial and operating policies agreed by all the investors, when all investors authorise one investor to exert management over the daily operation of the investee by contract or agreement.

(d) Impairment of long-term equity investments

For impairment method of long-term equity investment in subsidiaries and joint venture, please see Note 2(15).

(12) Fixed assets

(a) Recognition of fixed assets

Fixed assets represent the tangible assets held by the Group for use in the production of goods, supply of services or for 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(13).

Where the parts of an item of fixed asset have different useful lives or provide benefits to the Group in a different pattern, thus necessitating use of different depreciation rates or methods, 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	Estimated 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.

Notes to the Financial Statements (Continued)

(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(12) Fixed assets (Continued)

(c) Method of impairment assessment and the basis on which the impairment is provided are described in Note 2(15).

(d) *Disposal of fixed assets*

The carrying amount of a fixed asset shall be derecognised either:

– on disposal; or

– when 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.

(13) Construction in progress

The cost of self-constructed fixed assets includes the cost of materials, direct labour 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(15)).

(14) 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(15)). 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. At the balance sheet date, the Group does not have any intangible assets with indefinite useful lives.

Expenditure on an internal research and development project are classified into expenditure on the research phase and expenditure on the development phase.

Expenditure on research phase is recognised in profit or loss when incurred. Expenditure on development phase is capitalised if development costs can be measured reliably, the product or process is technically and commercially feasible, and the Group intend to and have sufficient resources to complete the development. Capitalised development costs are stated in the balance sheet at cost less impairment losses (see Note 2(15)). Other development expenditure is recognised as expense in the period in which it is incurred.

Notes to the Financial Statements (Continued)

(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(15) 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 enterprises

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.

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 also considers how management monitors the Group's operations and how management makes decisions about continuing or disposing of the Group'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.

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.

Notes to the Financial Statements (Continued)

(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(16) Revenue

Revenue is the gross inflow of economic benefit arising in the course of the Group'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, 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 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 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 of 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.

(17) 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) Social insurance and housing fund

Pursuant to the relevant laws and regulations of the PRC, employees of the Group participate in the social insurance system established and managed by government organisations. The Group makes social insurance contributions – including contributions to basic pension insurance, basic medical insurance, unemployment insurance, work-related injury insurance, maternity insurance and etc. – as well as contributions to housing fund, at the applicable benchmarks and rates stipulated by the government for the benefit of its employees. The social insurance and housing fund contributions are recognised as part of the cost of assets or charged to profit or loss on an accrual basis. Except for the above contributions, the Group does not have any other obligations in this respect.

Notes to the Financial Statements (Continued)

(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(17) Employee benefits (Continued)

(b) Termination benefits

When the Group terminates the employment relationship with employees before the employment contracts expire, or provides compensation as an offer to encourage employees to accept voluntary redundancy, a provision for the termination benefits to be provided is recognised in profit or loss when both of the following conditions are satisfied:

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

– The Group is not allowed to withdraw from termination plan or redundancy offer unilaterally.

(18) Specific reserve

The Group accrued safety production fund according to the national regulations for high-risk industry. The safety production fund accrued is charged to the cost of related products, and recorded in the specific reserve. As safety production fund is utilised, if it is of expenditure nature, the cost is directly charged against the specific reserves. If it is used for construction, the cost being used is recorded in construction in progress, 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 accumulated depreciation of the same amount is recognised, then the fixed asset is no longer depreciated in subsequent period.

(19) Government grants

Government grants are transfers of monetary assets or non-monetary assets from the government to the Group at no consideration except for any capital contribution from the government as an investor in the Group. 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 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 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 for expenses incurred is recognised in profit or loss immediately.

(20) 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.

Notes to the Financial Statements (Continued)

(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(20) Deferred tax assets and liabilities (Continued)

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.

(21) 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.

(22) 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 include, but are not limited to:

(a) the Company's parent;

(b) the Company's subsidiaries;

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

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

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

(f) joint ventures of the Group, including subsidiaries of joint ventures;

(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, or close family members of such individuals.

Notes to the Financial Statements (Continued)

(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(22) Related parties (Continued)

In addition to the related parties stated above determined in accordance with the requirements of CAS, 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.

(23) Segment reporting

Reportable segments are identified based on operating segments which are determined based on the structure of the Group'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 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.

(24) 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(9), 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.

Notes to the Financial Statements (Continued)

(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(24) Significant accounting estimates and judgments (Continued)

(b) Provision for diminution in value of inventories

As described in Note 2(10), the net realisable value of inventories is under management's regular review, and as a result, provision for diminution in value of inventories is recognised for the excess of inventories' carrying amounts over their net realisable value. When making estimates of net realisable value, the Group takes into consideration the use of inventories held on hand and other information available to form the underlying assumptions, including the inventories' market prices and the Group's historical operating costs. The actual selling price, the costs of completion and the costs necessary to make the sale and relevant taxes may vary based on the changes in market conditions and product saleability, manufacturing technology and the actual use of the inventories, resulting in the changes in provision for diminution in value of inventories. The net profit or loss may then be affected in the period when the provision for diminution in value of inventories is adjusted.

(c) Recognition of deferred tax assets

As described in Note 2(10), deferred tax assets are recognised in respect of temporary deductible differences and the unutilised accumulative tax losses. Management recognises deferred tax assets only to the extent that it is probable that future taxable profit will be available against the assets which can be realised or utilised. At the end of each reporting period, management assesses whether previously unrecognised deferred tax assets should be recognised. In addition, management assesses the carrying amount of deferred tax assets that are recognised at the end of each reporting period. The Group reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available for the deferred tax asset to be utilised.

(d) Impairment of other assets other than inventories, financial assets and other long-term equity investments

As described in Note 2(15), 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 (the asset group) cannot be obtained reliably, the fair value of the asset cannot be estimated reliably. In assessing present value of expected future cash flows, significant 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.

(e) Depreciation and amortisation of assets such as fixed assets, intangible assets

As described in Note 2(12) and (14), fixed assets and intangible assets are depreciated and amortised over their useful lives after taking into account residual value. The useful lives of the assets are regularly reviewed to determine the depreciation and amortisation costs charged in each reporting period. The useful lives of the assets are determined based on historical experiences of similar assets and the estimated technical changes. If there have been significant changes in the factors used to determine the depreciation or amortisation, the rate of depreciation or amortisation is revised.

Notes to the Financial Statements (Continued)

(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan unless otherwise indicated)

3 TAXATION

Major taxes and tax rates

Taxes	Tax Basis	Tax Rate
Value added tax	Output VAT is calculated at the applicable tax rate on product sales and taxable services based on tax laws. The remaining balance of output VAT, after subtracting the deductible input VAT of the period, is VAT payable.	13% or 17%
Business tax	Calculated by taxable income	3% or 5%
Urban maintenance and construction tax	Calculated by actual payment of business tax, VAT payable and approved export VAT exempted and offset	7%
Education fee surcharge	Calculated by actual payment of business tax, VAT payable and approved export VAT exempted and offset	4% or 5%
Land use tax	Calculated by the actual area of land occupied	RMB 4 per square meter
Enterprise income tax ("EIT")	Calculated by taxable income	25%

The EIT rate applicable to the Company and its subsidiary for the year is 25% (2010: 25%).

4 THE CONSOLIDATED FINANCIAL STATEMENTS

(1) Particulars of subsidiary

Name	Type of subsidiary	Registration place	Legal representative	Business nature	Registered capital (RMB'000)	Business scope	Shareholding percentage (%)	Voting rights (%)	Within the scope of consolidation	Organisation code
YCFC Jingwei Fibre Company Limited	Wholly-owned subsidiary	Yizheng Jiangsu Province	Shen Xi-jun	Limited company	483,672	Manufacturing, processing and sale of differentiated polyester textile filament products	100	100	Yes	77644167-1

YCFC Jingwei Fibre Company Limited ("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.

(2) Changes in consolidation scope

Pursuant to a resolution passed at the shareholders' extraordinary General Meeting on 16 December 2011, the Company was approved to merge its wholly owned subsidiary, YCFC Jingwei. YCFC Jingwei was deregistered and was merged into the Company as an operating segment on 28 December 2011. Accordingly, YCFC Jingwei's assets and liabilities were incorporated in the Company's books based on their carrying amounts. There is no subsidiary in consolidation scope as at 31 December 2011.

Notes to the Financial Statements (Continued)

(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan unless otherwise indicated)

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Cash at bank and on hand

Item	2011 Foreign Currency	2011 Exchange Rate	2011 RMB equivalents	2010 Foreign Currency	2010 Exchange Rate	2010 RMB equivalents
Cash on hand:						
Renminbi	—	—	21	—	—	23
Deposits with bank:						
Renminbi	—	—	950,210	—	—	1,759,018
US Dollars	39	6.301	246	4,851	6.623	32,128
			950,456			1,791,146
Deposits with related parties:						
Renminbi	—	—	591,344	—	—	678,219
Total			1,541,821			2,469,388

The deposits with related parties represent deposits with China CITIC Bank and Sinopec Finance Company Limited ("Sinopec Finance"). Interest is calculated based on market rate.

(2) Financial assets held for trading

Category	2011	2010
Debt investments held for trading	–	699,713

As at 31 December 2011, no financial assets held for trading was held by the Group.

As at 31 December 2010, financial assets held for trading represented short-term interest bearing and discounting national bonds that due within one year.

Notes to the Financial Statements (Continued)

(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan unless otherwise indicated)

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) Bills receivable

(a) *Bills receivable by category:*

Category	2011	2010
Bank acceptance bills	**2,236,236**	1,414,970

All of the above bills are due within nine months.

As at 31 December 2011 and 31 December 2010, the Group did not have any outstanding discounted bank acceptance bills (with recourse). As at 31 December 2011 the Group's outstanding endorsed bank acceptance bills (with recourse) were RMB 628,424,000 (31 December 2010: RMB 465,658,000). These endorsed bills will be due by 30 June 2012 (31 December 2010: due by 30 June 2011). These amounts are not included in the above balance.

As at 31 December 2011 and 31 December 2010, the above bills were not pledged.

No amount due from shareholders who hold 5% or more of the voting shares of the Company is included in the balance of bills receivable.

(b) *The five largest bills receivable that have been endorsed but still undue are as follows:*

Issuer	Date of issuance	Due date	Amount	Note
Entity A	07/11/2011	07/02/2012	25,830	Bank acceptance bills
Entity B	23/11/2011	23/02/2012	17,615	Bank acceptance bills
Entity C	09/10/2011	09/01/2012	10,000	Bank acceptance bills
Entity D	17/10/2011	17/01/2012	10,000	Bank acceptance bills
Entity E	09/11/2011	09/02/2012	10,000	Bank acceptance bills
Total			73,445	

(4) Accounts receivable

(a) *Accounts receivable by customer type:*

Category	Note	2011	2010
Amounts due from related parties	6(6)	**7,703**	3,225
Amounts due from third parties		**96,965**	71,692
Total		**104,668**	74,917

As at 31 December 2011 and 31 December 2010, the Group did not provide any bad and doubtful debt provision for the accounts receivable.

Except for balances set out in Note 6(6), the above balance did not include any accounts receivable due from shareholders who hold 5% or more of the voting rights of the Group.

Notes to the Financial Statements (Continued)

(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan unless otherwise indicated)

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(4) Accounts receivable (Continued)

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

Ageing	2011	2010
Within 1 year (inclusive)	**104,668**	74,917

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

(c) *Accounts receivable by category:*

	2011				2010			
	Carrying amount		Provision		Carrying amount		Provision	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Category								
Accounts receivable with provision provided collectively*	**104,668**	**100**	**–**	**–**	74,917	100	–	–

Note*: It includes accounts receivable not individually determined to be impaired.

During the year ended 31 December 2011, balance was assessed for impairment in accordance with the accounting policy set out in Note 2(9), and there was no material or immaterial accounts receivable individually determined to be impaired; The Group did not write off any material balance or collect any amounts fully or substantially impaired in previous years.

(d) *Accounts receivable by currency:*

	2011			2010		
Item	Foreign currency	Exchange rate	RMB equivalent	Foreign currency	Exchange rate	RMB equivalent
RMB	**—**	**—**	**39,535**	—	—	24,688
USD	**10,337**	**6.301**	**65,133**	7,584	6.623	50,229
Total			**104,668**			74,917

Notes to the Financial Statements (Continued)

(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan unless otherwise indicated)

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(4) Accounts receivable (Continued)

(e) *Accounts receivable due from the five largest customers are as follows:*

Name		Relationship	Amount	Ageing	Percentage of accounts receivable (%)
1.	Entity A	Third Party	16,701	Within 6 months	15.96
2.	Entity B	Third Party	16,283	Within 6 months	15.56
3.	Entity C	Third Party	10,067	Within 6 months	9.62
4.	Entity D	Third Party	9,628	Within 6 months	9.20
5.	Entity E	Third Party	4,756	Within 6 months	4.54
	Total		57,435		54.88

(f) *Balance due from related parties:*

Name	*Note*	Relationship	Amount	Percentage (%)
Subsidiary A of CPC		With a common ultimate holding company	4,241	4.05
Subsidiary B of CPC		With a common ultimate holding company	1,725	1.65
Subsidiary C of CPC		With a common ultimate holding company	1,170	1.12
Subsidiary D of CPC		With a common ultimate holding company	567	0.54
Total	*6(6)*		7,703	7.36

(5) Prepayments

(a) *Prepayments by category:*

Category	*Note*	2011	2010
Prepayments to related parties	*6(6)*	**57,289**	–
Prepayments to third parties		**2,336**	6,208
Total		**59,625**	6,208

As at 31 December 2011 and 31 December 2010, the Group did not provide any impairment provision for prepayments.

Except for balances set out in Note 6(6), the above balance did not include any prepayments to shareholders who hold 5% or more of the voting rights of the Company.

Notes to the Financial Statements (Continued)

(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan unless otherwise indicated)

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Prepayments (Continued)

(b) *The ageing analysis of prepayments is as follows:*

Ageing	2011 Amount	2011 Percentage (%)	2010 Amount	2010 Percentage (%)
Within 1 year (inclusive)	**59,625**	**100**	6,208	100

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

(c) *Prepayments due from the five largest suppliers are as follows:*

Name		Relationship	Amount	Percentage of total prepayment (%)	Ageing	Note
1.	CPCC and its subsidiary A	With a common holding company	35,302	59.21	Within 3 months	Prepayment for goods
2.	CPCC and its subsidiary B	With a common holding company	21,987	36.88	Within 3 months	Prepayment for goods
3.	Entity C	Third party	1,060	1.78	Within 3 months	Prepayment for goods
4.	Entity D	Third party	966	1.62	Within 3 months	Prepayment for goods
5.	Entity E	Third party	230	0.39	Within 3 months	Prepayment for goods
Total			59,545	99.88		

(6) Other receivables

(a) *Other receivables by customer type:*

Category	*Note*	2011	2010
Amounts due from related parties	*6(6)*	**2,410**	8,688
Amounts due from third parties		**13,165**	33,229
Sub-total		**15,575**	41,917
Less: Provision for bad and doubtful debts		**3,857**	11,932
Total		**11,718**	29,985

Except for balances set out in Note 6(6), the above balance did not include any other receivables due from shareholders who hold 5% or more of the voting rights of the Company.

Notes to the Financial Statements (Continued)

(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan unless otherwise indicated)

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(6) Other receivables (Continued)

(b) The ageing analysis of other receivable is as follows:

Ageing	2011	2010
Within 1 year (inclusive)	**9,957**	20,765
1 and 2 years (inclusive)	**86**	13,172
2 and 3 years (inclusive)	**4,150**	–
Over 3 years	**1,382**	7,980
Sub-total	**15,575**	41,917
Less: Provision for bad and doubtful debts	**3,857**	11,932
Total	**11,718**	29,985

The ageing is counted starting from the date other receivables are recognised.

(c) Other receivables by category:

Category	Note	2011 Carrying amount Amount	2011 Carrying amount Percentage (%)	2011 Provision Amount	2011 Provision Percentage (%)	2010 Carrying amount Amount	2010 Carrying amount Percentage (%)	2010 Provision Amount	2010 Provision Percentage (%)
Other receivables with provision provided collectively*	(d)	**15,575**	**100**	**3,857**	**100**	41,917	100	11,932	100

Note*: It includes other receivables not individually determined to be impaired.

The Group had no pledge for other receivables with provision mentioned above.

During the year ended 31 December 2011, balance was assessed for impairment in accordance with the accounting policy set out in Note 2(9), and there was no material or immaterial other receivables individually determined to be impaired.

There was no other receivables written off during the year.

As at 31 December 2011, the Group had no individually significant other receivables due over 3 years.

(d) Other receivables collectively impaired by ageing analysis:

Ageing	2011 Carrying amount Amount	2011 Carrying amount Percentage (%)	2011 Provision	2010 Carrying amount Amount	2010 Carrying amount Percentage (%)	2010 Provision
Within 1 year (inclusive)	**9,957**	**63.93**	**–**	20,765	49.54	–
1 and 2 years (inclusive)	**86**	**0.55**	**25**	13,172	31.42	3,952
2 and 3 years (inclusive)	**4,150**	**26.65**	**2,450**	–	–	–
Over 3 years	**1,382**	**8.87**	**1,382**	7,980	19.04	7,980
Total	**15,575**	**100**	**3,857**	41,917	100	11,932

Notes to the Financial Statements (Continued)

(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan unless otherwise indicated)

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(6) Other receivables (Continued)

(e) Reversal or recovery of bad debt provisions during the year

Full or substantial collection of other receivables on reversal of bad debt provision during the year in respect of other receivables fully or substantially impaired in prior year is as follows:

Description	Basis of reversal or recovery	Basis of bad debt provision	Accumulated provision before reversal or recovery	Amount reversed or recovered
Prepayment for purchasing equipments	Termination of procurement contract	Provision provided by ageing analysis	9,758	9,758

(f) Other receivables due from the five largest customers are as follows:

Name	Relationship	Amount	Ageing	Percentage of total other receivables (%)
1. Entity A	Third party	4,150	2 to 3 years	26.65
2. Entity B	Third party	2,869	Within 1 year	18.42
3. CPC and its subsidiary A	With a common ultimate holding company	2,410	Within 1 year	15.47
4. Entity D	Third party	2,234	Within 1 year	14.34
5. Entity E	Third party	966	Over 3 years	6.20
Total		12,629		81.08

(g) Balance due from related parties:

Name	*Note*	Relationship	Amount	Percentage of total other receivables (%)
CPC and its subsidiary A	*6(6)*	With a common ultimate holding company	2,410	15.47

Notes to the Financial Statements (Continued)

(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan unless otherwise indicated)

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(7) Inventories

(a) *Inventories by category:*

Category	2011 Cost	2011 Provision	2011 Carrying amount	2010 Cost	2010 Provision	2010 Carrying amount
Raw materials	**1,052,256**	**(4,076)**	**1,048,180**	686,522	(4,076)	682,446
Work in progress	**102,204**	**–**	**102,204**	98,159	–	98,159
Finished goods	**556,388**	**(28,333)**	**528,055**	483,436	(20,896)	462,540
Spare parts and consumables	**103,396**	**(25,171)**	**78,225**	106,133	(30,509)	75,624
Total	**1,814,244**	**(57,580)**	**1,756,664**	1,374,250	(55,481)	1,318,769

All the above inventories are purchased or self-manufactured.

As at 31 December 2011 and 31 December 2010, no capitalised borrowing costs were included in the closing balance of inventories.

As at 31 December 2011 and 31 December 2010, 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	Additions during the year	Reductions during the year	Balance at the end of the year
Raw materials	686,522	17,529,887	(17,164,153)	1,052,256
Work in progress	98,159	26,321,197	(26,317,152)	102,204
Finished goods	483,436	26,317,152	(26,244,200)	556,388
Spare parts and consumables	106,133	882,625	(885,362)	103,396
Sub-total	1,374,250	71,050,861	(70,610,867)	1,814,244
Less: Provision for diminution in value of inventories	55,481	7,437	(5,338)	57,580
Total	1,318,769	71,043,424	(70,605,529)	1,756,664

Notes to the Financial Statements (Continued)

(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan unless otherwise indicated)

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 for the year	Reversal during the year	Balance at the end of the year
Raw materials	4,076	–	–	4,076
Finished goods	20,896	7,437	–	28,333
Spare parts and consumables	30,509	–	(5,338)	25,171
Total	55,481	7,437	(5,338)	57,580

(i) The excess of the cost over the net realisable value of individual item of finished goods is recognised as a provision for diminution in the value of inventories of RMB7,437,000 for the year.

(ii) An analysis of reversal of provisions during the year is as follows:

Inventory category	Basis of provisions	Basis of reversal	Proportion of amounts reversed in the category at the year end
Spare parts and consumables	Provision provided based on ageing analysis	Consumption in production during the year	5.16%

(8) Available-for-sale financial assets

Details of available-for-sale financial asset

Item	2011	2010
Investment funds purchased from banks	**200,000**	–

The group purchased an investment fund from PRC state-owned banks on 25 July 2011. The fund mainly invests in bonds and unlisted enterprises in the PRC and is redeemable on 15 January 2012.

(9) Other current assets

Item	2011	2010
Prepaid EIT	**152,465**	–
Prepaid VAT	**67,459**	58,896
Prepaid urban maintenance and construction tax	**–**	3,547
Total	**219,924**	62,443

As at 31 December 2011 and 31 December 2010, the Group did not provide any impairment provision for other current assets.

Notes to the Financial Statements (Continued)

(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan unless otherwise indicated)

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(10) Long-term equity investments

(a) *Long-term equity investments by category is as follows:*

Item	2011	2010
Investments in joint ventures	**303,089**	–

As at 31 December 2011 and 31 December 2010, the Group did not provide any impairment provision for long-term equity investments.

(b) *Movement of long-term equity investments during the year is as follows:*

Name of investee	Cost	Balance at the beginning of the year	Additions during the year	Balance at the end of the year	Shareholding percentage of the Company (%)	Voting right of the Company (%)
Equity method – Joint ventures						
Far Eastern Yihua Petrochemical (Yangzhou) Corporation	303,089	–	303,089	303,089	40	40

(c) *Detailed information about the joint venture*

In December 2011, the Company entered into a contractual agreement with Far Eastern Polytex Holding Limited ("FE") to establish a joint venture in the PRC, Yizheng, Jiangsu Province, namely Far Eastern Yihua Petrochemical (Yangzhou) Corporation ("FEYP").

Details of the joint venture are as follows:

Name of investee	Business Nature	Registered place	legal representative	Business scope	Registered capital	Shareholding percentage (%)	Voting right (%)	Organisation code
FEYP	Limited liability company	Yangzhou Jiangsu Province	Wu Gao-shan	Manufacturing, and distributing of Crude terephthalic acid (CTA) and Pure terephthalic acid (PTA)	USD149,600,000	40	40	58665581-2

Financial information of joint ventures for the year are as follows:

Name of investee	Total assets at the end of the year	Total liabilities at the end of the year	The net asset at the end of the year	Operating income for the year	Net profit for the year
FEYP	757,722	–	757,722	–	–

Notes to the Financial Statements (Continued)

(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan unless otherwise indicated)

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(11) Fixed Assets

(a) Fixed assets movement:

Item	Plant and buildings	Machinery and equipment	Motor vehicles and other fixed assets	Total
Cost				
Balance at the beginning of the year	2,154,445	10,218,936	798,806	13,172,187
Additions during the year	–	–	1,942	1,942
Transferred from construction in progress	50,839	254,767	26,082	331,688
Disposal during the year	(1,759)	(175,194)	(21,670)	(198,623)
Balance at the end of the year	2,203,525	10,298,509	805,160	13,307,194
Less: Accumulated depreciation				
Balance at the beginning of the year	1,049,256	7,258,537	604,891	8,912,684
Charge for the year	75,455	267,004	25,256	367,715
Reductions during the year	(923)	(109,687)	(19,076)	(129,686)
Balance at the end of the year	1,123,788	7,415,854	611,071	9,150,713
Less: Provision for impairment				
Balance at the beginning of the year	8,467	828,847	9,080	846,394
Charge for the year	812	3,136	1,337	5,285
Written off on disposal	(231)	(60,251)	(1,548)	(62,030)
Balance at the end of the year	9,048	771,732	8,869	789,649
Carrying amounts				
At the end of the year	1,070,689	2,110,923	185,220	3,366,832
At the beginning of the year	1,096,722	2,131,552	184,835	3,413,109

For the year ended 31 December 2011, the carrying amount of idle machinery and equipment was written down by RMB5,285,000 for impairment provision by the Group. The Group assessed those fixed assets for impairment in accordance with the accounting policy set out in Note 2(15). Recoverable amount is the fair value of the fixed assets less costs to sell, and also determined by reference to the market price of the same fixed assets within the same industry.

As at 31 December 2011 and 31 December 2010, the Group had no pledged on guaranteed fixed assets.

As at 31 December 2011 and 31 December 2010, the Group has no fixed assets acquired under finance lease or fixed assets leased out under operating lease.

As at 31 December 2011 and 31 December 2010, there were no significant held-for-sale fixed assets .

Notes to the Financial Statements (Continued)

(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan unless otherwise indicated)

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(11) Fixed Assets

(b) *Temporarily idle fixed assets:*

Item	Cost	Accumulated depreciation	Provision for impairment	Carrying amounts
Plant and buildings	382	(250)	(120)	12
Machinery and equipment	47,068	(22,831)	(22,745)	1,492
Motor vehicles, and other fixed assets	8,916	(7,801)	(848)	267
Total	56,366	(30,882)	(23,713)	1,771

(12) Construction in progress

(a) *Construction in progress:*

Item	2011			2010		
	Cost	Provision for impairment	Carrying amount	Cost	Provision for impairment	Carrying amount
100 thousand tonne/year 1,4-butanediol project	**949,996**	**–**	**949,996**	350,019	–	350,019
3,000 tonne/year high performance PV Polyvinyl fibre project-I	**–**	**–**	**–**	79,981	–	79,981
400 thousand tonne/year polyester polymerization project	**49,822**	**–**	**49,822**	–	–	–
100 thousand tonne/year differential staple fibre project (Unit 3)	**45,997**	**–**	**45,997**	–	–	–
100 thousand tonne/year differential staple fibre project (Unit 9)	**42,978**	**–**	**42,978**	–	–	–
Voltage reducing station No.2	**19,983**	**–**	**19,983**	–	–	–
Improvement of existing plants and equipment	**92,425**	**–**	**92,425**	68,043	–	68,043
Total	**1,201,201**	**–**	**1,201,201**	498,043	–	498,043

As at 31 December 2011 and 31 December 2010, no capitalised borrowing costs were included in the balance of construction in progress.

Notes to the Financial Statements (Continued)

(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan unless otherwise indicated)

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(12) Construction in progress (Continued)

(b) *The movement of major projects of construction in progress are listed as follows:*

Item	Budget	Balance at the beginning of the year	Additions during the year	Transfer to fixed assets	Transfer to intangible assets	Balance at the end of the year	Percentage of input to budget (%)	Progress (%)	Sources of funds
3,000 tonne/year high performance PV Polyviny l fibre project-I	240,580	79,981	115,019	(186,700)	(8,300)	–	81	100	Own fund
100 thousand tonne/year 1,4-butanediol project	1,640,082	350,019	599,977	–	–	949,996	58	58	Own fund
400 thousand tonne/year polyester polymerization project	335,750	–	49,822	–	–	49,822	15	15	Own fund
100 thousand tonne/year differential staple fibre project (Unit 3)	219,690	–	45,997	–	–	45,997	21	21	Own fund
100 thousand tonne/year differential staple fibre project (Unit 9)	204,940	–	42,978	–	–	42,978	21	21	Own fund
Voltage reducing station No.2	29,632	–	19,983	–	–	19,983	67	67	Own fund
Improvements of existing plants and equipment	366,397	68,043	169,370	(144,988)	–	92,425	65	—	Own fund
Total		498,043	1,043,146	(331,688)	(8,300)	1,201,201			

(c) *Progress of major projects of construction in progress*

Item	Project progress	Note
100 thousand tonne/year 1,4-butanediol project	58%	Land clearing and leveling has been completed; major equipments are to be purchased and installed.
400 thousand tonne/year polyester polymerization project	15%	Site preparation has been completed, and construction preparation is being carried out.
100 thousand tonne/year differential staple fibre project (Unit 3)	21%	Construction and equipment procurement is being carried out.
100 thousand tonne/year differential staple fibre project (Unit 9)	21%	Equipment procurement is being carried out.
Voltage reducing station No.2	67%	Land clearing and leveling has been basically completed and equipments are to be purchased and installed.

Notes to the Financial Statements (Continued)

(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan unless otherwise indicated)

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(13) Intangible assets

Item	Land use Right	Technology use right	Patent Right	Total
Cost				
Balance at the beginning of the year	406,123	208,893	142,435	757,451
Additions during the year	–	–	8,300	8,300
Balance at the end of the year	406,123	208,893	150,735	765,751
Less: Accumulated amortisation				
Balance at the beginning of the year	117,418	154,491	138,776	410,685
Charge for the year	8,481	20,891	409	29,781
Balance at the end of the year	125,899	175,382	139,185	440,466
Carrying amounts				
At the end of the year	280,224	33,511	11,550	325,285
At the beginning of the year	288,705	54,402	3,659	346,766

As at 31 December 2011 and 31 December 2010, no capitalised borrowing costs were included in the balance of intangible assets.

As at 31 December 2011 and 31 December 2010, the above intangible assets were not pledged or guaranteed.

(14) Deferred tax assets

(a) *Deferred tax assets recognised*

Item	2011 Deductable Temporary difference	2011 Deferred tax assets	2010 Deductable temporary difference	2010 Deferred tax assets
Deferred tax assets:				
Provision for impairment	**361,574**	**90,393**	694,544	173,636
Deferred income	**16,315**	**4,079**	20,244	5,061
Fixed assets	**68,816**	**17,204**	–	–
Accrued expense	**39,677**	**9,919**	72,465	18,116
Gain on changes in fair value	**–**	**–**	310	78
Inventories	**3,763**	**941**	–	–
Total	**490,145**	**122,536**	787,563	196,891

Notes to the Financial Statements (Continued)

(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan unless otherwise indicated)

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(14) Deferred tax assets (Continued)

(b) *Deferred tax assets not recognised*

Item	2011	2010
Deductible temporary differences	–	275,604
Deductible tax losses	–	313,425
Total	–	589,029

(c) *The aforesaid deductible tax losses not recognised will be expired in the following years:*

Years	2011	2010
2011	–	76,681
2012	–	49,054
2013	–	76,159
2014	–	73,894
2015	–	37,637
Total	–	313,425

(15) Provisions for impairment

Item	Note	Balance at the beginning of the year	Charge for the year	Decrease during the year Reversal	Decrease during the year Write off	Balance at the end of the year
Provisions for bad and doubtful debts	5(6)	11,932	1,683	(9,758)	–	3,857
Provisions for diminution in value of inventories	5(7)	55,481	7,437	(5,338)	–	57,580
Provisions for impairment of fixed assets	5(11)	846,394	5,285	–	(62,030)	789,649
Total		913,807	14,405	(15,096)	(62,030)	851,086

The reasons for recognising impairment losses are set out in respective notes of relevant assets.

(16) Accounts payable

Accounts payable by category:

Item	Note	2011	2010
Amounts due to related parties	6(6)	**1,250,861**	1,075,252
Amounts due to third parties		**354,582**	268,583
Total		**1,605,443**	1,343,835

Notes to the Financial Statements (Continued)

(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan unless otherwise indicated)

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(16) Accounts payable (Continued)

Accounts payable by currency:

Item	2011 Foreign Currency	2011 Exchange Rate	2011 RMB equivalents	2010 Foreign Currency	2010 Exchange Rate	2010 RMB equivalents
Renminbi	**—**	**—**	**593,547**	—	—	392,362
US Dollars	**160,593**	**6.301**	**1,011,896**	143,662	6.623	951,473
Total			**1,605,443**			1,343,835

As at 31 December 2011 and 31 December 2010, there were no individually significant accounts payable aged over one year.

Except for balances set out in Note 6(6), the above balance did not include any payables to shareholders who hold 5% or more of the voting rights of the Company.

(17) Advances from customers

Advances from customers by category:

Item	*Note*	2011	2010
Amounts due to related parties	*6(6)*	**6,507**	3,320
Amounts due to third parties		**339,149**	294,508
Total		**345,656**	297,828

As at 31 December 2011 and 31 December 2010, there were no individually significant advances from customers aged over one year.

Except for balances set out in Note 6(6), the above balance did not include any advances from shareholders who hold 5% or more of the voting rights of the Company.

Notes to the Financial Statements (Continued)

(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan unless otherwise indicated)

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(18) Employee benefits payable

Item	Balance at the beginning of the year	Accrued during the year	Paid during the year	Balance at the end of the year
Salaries, bonuses and allowances	57,912	584,270	(584,270)	57,912
Staff welfare	–	26,493	(26,493)	–
Social insurances				
– Basic medical insurance	–	34,802	(34,802)	–
– Basic pension insurance	–	86,525	(86,525)	–
– Unemployment insurance	–	8,703	(8,703)	–
– Work injury and maternity insurance	–	3,394	(3,394)	–
– Supplementary medical insurance	–	12,586	(12,586)	–
– Supplementary pension insurance	13,430	25,467	(38,897)	–
Housing fund	–	55,305	(55,305)	–
Termination benefits (including early retirement fees)	–	93	(93)	–
Others				
– Labour union fee and staff education fee	102	19,836	(16,183)	3,755
– Others	–	69,624	(69,364)	260
Total	71,444	927,098	(936,615)	61,927

As at 31 December 2011, no amounts in arrears were included in the balance of the employee benefits payable.

As at 31 December 2011, the above termination benefit includes compensation of RMB93,000 for termination of labour relations.

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

Administrator	Beneficiary	Contribution rate 2011	2010
Yizheng Municipal Government, Jiangsu Province	Employees of the Group	20%	20%

In addition, the Group provides a supplementary defined contribution retirement plan for its staff at rate 5% of the salaries. Employees who have served the Group for one year or more may participate in this plan. The assets of this plan are held separately from those of the Group in an independent fund administered by a committee consisting of representatives from the employees and the Group.

A member of the above plans is entitled to a pension amount equal to a fixed proportion of the salary prevailing at his or her retirement date. Both the Group and participating employees make defined contributions to the above two retirement plans. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above.

Notes to the Financial Statements (Continued)

(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan unless otherwise indicated)

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(19) Taxes payable

Item	2011	2010
Individual income tax	**6,998**	5,900
Education fee surcharge	**10**	4,091
EIT	**–**	109,937
Others	**5,314**	5,899
Total	**12,322**	125,827

(20) Other payables

Other payables by category:

Item	*Note*	2011	2010
Amounts due to related parties	*6(6)*	**912**	13,126
Amounts due to third parties		**376,399**	346,561
Total		**377,311**	359,687

Other payables mainly represent sales rebate.

As at 31 December 2011 and 31 December 2010, there were no individually significant other payables aged over one year.

Except for balances set out in Note 6(6), the above balance did not include any other payables due to shareholders who hold 5% or more of the voting rights of the Company.

(21) Deferred income

Item	2011	2010
Government grants	**16,315**	20,244

Deferred income mainly includes government grants related to assets, and is amortised to profit or loss on a straight-line basis over the useful life of the related assets.

There were no assets related government grants received and recognised as deferred income by the Group for the years ended at 31 December 2011 and 31 December 2010.

(22) Share capital

	2011	2010
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 issued and full paid share capital, and issued related capital verification reports on 20 July 1994, 28 March 1995 and 15 May 1995 respectively.

Notes to the Financial Statements (Continued)

(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan unless otherwise indicated)

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(23) Capital reserve

Item	2011	2010
Share premium	**3,078,825**	3,078,825
Other capital reserve	**67,969**	67,969
Including: government capital contribution	**39,630**	39,630
Total	**3,146,794**	3,146,794

(24) Specific reserve

Item	Balance at the beginning of the year	Increase during the year	Decrease during the year	Balance at the end of the year
Specific reserve	755	904	(1,659)	–

In accordance with PRC regulations, the Group appropriated safety production fee of RMB904,000 to specific reserve for the year ended 31 December 2011 (2010: RMB755,000), which was recognised in the cost of related products. During the year ended 31 December 2011, the Group utilised the safety production fee amounting to RMB1,659,000 (2010: RMB nil) which was of expenditure nature.

(25) Surplus reserve

Item	Balance at the beginning of the year	Increase during the year	Decrease during the year	Balance at the end of the year
Statutory surplus reserve	116,843	83,540	–	200,383

According to the Articles of Association of the Company, the Company transferred 10% of the net profit after taxation of the Company to surplus reserve for the year ended 31 December 2011.

(26) Retained earnings

Item	*Note*	Amount
Retained earnings at the beginning of the year		1,047,945
Add: Proft attributable to the Company's shareholders		839,043
Less: Appropriation to statutory surplus reserve	*5(25)*	83,540
Dividends payables	*(1)*	120,000
Retained earnings at the end of year		1,683,448

(1) Dividends of ordinary shares during the year

Pursuant to the shareholders' approval at the shareholders' meeting on 8 June 2011, a distribution of a final dividend in cash of RMB 0.03 per share (2010: RMB nil per share) totalling RMB120,000,000 (2010: RMB nil) was paid on 5 July 2011.

Notes to the Financial Statements (Continued)

(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan unless otherwise indicated)

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(27) Operating income and operating costs

(a) *Operating income and operating costs*

Item	2011	2010
Operating income from principal activities	**19,997,839**	16,216,583
Other operating income	**181,929**	131,783
Operating costs	**18,206,234**	13,949,852

(b) *Operating income and operating costs by industries:*

Industry	2011 Operating income	2011 Operating costs	2010 Operating income	2010 Operating costs
Chemical fibre	**20,179,768**	**18,206,234**	16,348,366	13,949,852

(c) *Operating income and operating costs by products:*

Product	2011 Operating income	2011 Operating costs	2010 Operating income	2010 Operating costs
Polyester chips	**7,346,044**	**6,544,918**	6,127,035	5,158,980
Bottle-grade polyester chips	**3,804,094**	**3,455,907**	2,724,476	2,406,994
Staple fibre and hollow fibre	**6,778,706**	**6,042,406**	5,423,037	4,521,089
Filaments	**1,865,482**	**1,796,074**	1,780,642	1,587,774
Others	**385,442**	**366,929**	293,176	275,015
Total	**20,179,768**	**18,206,234**	16,348,366	13,949,852

(d) *Operating income and operating costs by regions:*

Region	2011 Operating income	2011 Operating costs	2010 Operating income	2010 Operating costs
Mainland	**19,438,858**	**17,531,502**	15,428,732	13,122,351
Hong Kong, Macau, Taiwan, and overseas	**740,910**	**674,732**	919,634	827,501
Total	**20,179,768**	**18,206,234**	16,348,366	13,949,852

(e) *Revenue from sales to the top five customers for 2011 is set out as follows:*

Name	Operating income	Percentage of total operating income (%)
1. Customer A	1,319,968	6.54
2. Customer B	815,906	4.04
3. Customer C	575,320	2.85
4. Customer D	499,594	2.48
5. Customer E	341,706	1.69
Total	3,552,494	

Notes to the Financial Statements (Continued)

(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan unless otherwise indicated)

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(28) Business taxes and surcharges

Item	2011	2010	Taxation basis and rates
Urban maintenance and construction tax	**24,607**	25,940	7% of payment of business tax, construction tax VAT payable and approved export VAT exempted and offset
Education fee surcharges	**14,201**	14,822	4% or 5% of payment of business tax, VAT payable and approved export VAT exempted and offset
Business tax	**706**	894	3% or 5% of taxable income
Total	**39,514**	41,656	

(29) Selling and distribution expenses

Item	2011	2010
Freight	**154,898**	150,424
Commission fee	**43,452**	44,504
Other selling expenses	**22,080**	17,940
Total	**220,430**	212,868

(30) General and administrative expenses

Item	2011	2010
Repair and maintenance fee	**358,599**	316,931
Salary	**217,807**	222,660
Technology development fee	**51,112**	54,008
Community service fee	**39,995**	38,382
Taxes	**40,535**	33,916
Depreciation and amortization	**28,305**	30,761
Other general and administrative expenses	**72,006**	78,885
Total	**808,359**	775,543

(31) Net financial income

Item	2011	2010
Interest income from deposits	**(53,722)**	(33,330)
Net exchange gains	**(5,025)**	(4,247)
Other financial expenses	**1,860**	2,291
Total	**(56,887)**	(35,286)

Notes to the Financial Statements (Continued)

(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan unless otherwise indicated)

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(32) (Losses)/Gains from changes in fair value

Item	2011	2010
Financial assets held for trading		
– Changes in fair value during the year	**(310)**	310

(33) Investment income

Item	2011	2010
Gains on disposal of financial assets held for trading	**6,557**	–
Gains on disposal of available-for-sale financial assets	**10,000**	873
Transaction cost for acquisition of financial assets held for trading	**–**	(41)
Total	**16,557**	832

(34) Impairment losses/(reversal)

Item	2011	2010
Provision of bad and doubtful debts of other receivables	**(8,075)**	4,488
Provisions for diminution in value of inventories	**2,099**	45,631
Provisions for fixed assets impairment	**5,285**	223,696
Total	**(691)**	273,815

(35) Non-operating income

(a) *Non-operating income by category:*

Item	*Note*	2011	2010	Amounts recorded in extraordinary gains or losses in 2011
Gains on disposal of non-current assets		**27,711**	10,436	27,711
Including: Gain on disposal of fixed assets		**27,711**	10,436	27,711
Reversal of non-payable liabilities		**19,902**	–	19,902
Reversal of loss on breach of contracts		**19,175**	–	19,175
Government grants	*(2)*	**4,503**	2,462	4,503
Others		**1,364**	1,760	1,364
Total		**72,655**	14,658	72,655

Notes to the Financial Statements (Continued)

(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan unless otherwise indicated)

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(35) Non-operating income (Continued)

(b) Details of government grants:

Item	2011	2010	Description
Allowance for high performance polyethylene project	**929**	929	Amortisation of allowance for Hi-tech achievement transformation project from Jiangsu Science and Technology Department
Allowance for project of stove desulphurization	**500**	83	Amortisation of allowance for specific project from Yizheng Finance Bureau
Allowance for air separation project	**2,500**	1,360	Funds received on liquid separation project from governments
Others	**574**	90	Other funds received relating to operation
Total	**4,503**	2,462	

(36) Non-operating expenses

Item	2011	2010	Amounts recorded in extraordinary gains or losses in 2011
Losses on disposal of non-current assets	**2,284**	1,816	2,284
Including: losses on disposal of fixed assets	**2,284**	1,816	2,284
Others	**7,426**	4,314	7,426
Total	**9,710**	6,130	9,710

(37) Income tax expense

Item	Note	2011	2010
Current expenses for the year in accordance with tax laws and related regulations		**118,253**	109,937
Changes in deferred tax assets	*(1)*	**74,355**	(196,891)
Under provision for income tax in respect of preceding year		**10,350**	–
Total		**202,958**	(86,954)

(a) The analysis of changes in deferred tax assets is as follows:

Item	2011	2010
Origination and reversal of temporary differences	**140,958**	(30,322)
Changes in unrecognised temporary differences	**(66,603)**	(166,569)
Total	**74,355**	(196,891)

Notes to the Financial Statements (Continued)

(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan unless otherwise indicated)

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(37) Income tax expense (Continued)

(b) *Reconciliation between income tax expense and accounting profits is as follows:*

Item	2011	2010
Profit before taxation	**1,042,001**	1,139,588
Expected income tax expense at tax rate of 25%	**260,500**	284,897
Add: Recognition of previously unrecognised deductible temporary differences	**(66,603)**	(166,569)
Utilisation of previously unrecognized unused tax losses	**–**	(204,916)
Under provision for income tax in respect of preceding year	**10,350**	–
Non-taxable income of bonds	**(1,639)**	–
Non-deductible expenses	**350**	861
Additional deductible research and development expenses	**–**	(1,227)
Income tax expense	**202,958**	(86,954)

(38) Calculation of basic and diluted earnings per share

(a) *Basic earnings per share*

Basic earnings per share is calculated by dividing the consolidated net profit attributable to ordinary shareholders of the Company by weighted average number of ordinary shares outstanding:

	2011	2010
Consolidated net profit attributable to the Company's ordinary shareholders	**839,043**	1,226,542
Weighted average number of the Company' ordinary shares outstanding	**4,000,000,000**	4,000,000,000
Basic earnings per share (Yuan per share)	**0.210**	0.307

(b) *Diluted earnings per share*

As there are no outstanding diluted ordinary shares, the diluted earnings per share equals the basic earnings per share.

(39) Other comprehensive income

Item	2011	2010
Gains on disposal of available-for-sale financial assets	**10,000**	832
Less: Reclassification adjustments for amounts transferred to profit or loss	**10,000**	832
Total	**–**	–

Notes to the Financial Statements (Continued)

(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan unless otherwise indicated)

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(40) Notes to cash flow statement

(a) *Cash paid relating to other operating activities*

Item	2011	2010
Repair and maintenance expenses	**358,599**	316,931
Freight	**154,898**	150,424
Technology development expenses	**51,112**	54,008
Commission fee	**43,452**	44,504
Community service fee	**39,995**	38,382
Net exchange gains	**(5,025)**	(4,247)
Changes in other operating receivables and other operating payables	**(47,049)**	(121,663)
Others	**23,396**	134,265
Total	**619,378**	612,604

(b) *Cash received relating to other investing activities*

Item	2011	2010
Interests received	**53,722**	33,330

(41) Supplementary information to cash flow statement

(a) *Supplementary information to cash flow statement*

(i) Reconciliation of net profit to cash flows from operating activities:

Item	2011	2010
Net profit	**839,043**	1,226,542
Add: Impairment provision (decrease)/increase for assets	**(691)**	245,923
Depreciation of fixed assets	**367,715**	464,030
Amortisation of intangible assets	**29,781**	29,504
Amortisation of deferred income	**(3,929)**	(1,012)
Net gains on disposal of fixed assets	**(25,427)**	(8,620)
Losses/(gains) on changes in fair value	**310**	(310)
Financial income	**(53,722)**	(33,330)
Investment income	**(16,557)**	(832)
Decrease/(increase) in deferred tax assets	**74,355**	(196,891)
Decrease in provisions	**–**	(5,198)
Increase in gross inventories	**(439,994)**	(28,489)
(Decrease)/increase in specific reserves	**(755)**	755
Increase in operating receivables	**(1,184,221)**	(252,124)
Increase in operating payables	**143,845**	160,857
Net cash (outflow)/inflow from operating activities	**(270,247)**	1,600,805

Notes to the Financial Statements (Continued)

(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan unless otherwise indicated)

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(41) Supplementary information to cash flow statement (Continued)

(a) *Supplementary information to cash flow statement* (Continued)

(ii) Change in cash and cash equivalents:

Item	2011	2010
Cash at the end of the year	**1,541,821**	2,469,388
Less: Cash at the beginning of the year	**2,469,388**	1,334,367
Add: Cash equivalents at the end of the year	**–**	297,870
Less: Cash equivalents at the beginning of the year	**297,870**	–
Net (decrease)/increase in cash and cash equivalents	**(1,225,437)**	1,432,891

(b) *Information on acquisition of other business units during the year*

Information on acquisition of other business units:

	2011	2010
Consideration of acquisition	**303,089**	–
Cash and cash equivalents paid for acquiring other business units	**303,089**	–
Net cash paid for the acquisition	**303,089**	–

(c) *Cash and cash equivalents are as follows:*

Item	2011	2010
Cash at bank and on hand	**1,541,821**	2,469,388
Including: Cash on hand	**21**	23
Bank deposits available on demand	**1,541,800**	2,469,365
Cash equivalents	**–**	297,870
Including: Bonds with a maturity of 3 months or less	**–**	297,870
Closing balance of cash and cash equivalents	**1,541,821**	2,767,258

Notes: Restricted cash and cash equivalents and short-term investments are not included in cash and cash equivalents disclosed above.

Notes to the Financial Statements (Continued)

(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan unless otherwise indicated)

6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS

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

Name	Relationship with the Company	Types of legal entity	Registered place	Legal representative	Business scope	Registered capital	Shareholding percentage (%)	Percentage of voting right (%)	Ultimate holding company	Organisation Code
Sinopec Corp.	The immediate holding company	Joint stock limited company	No. 22 Chao Yang Men Bei Da Jie, Chao Yang Qu, Beijing	Fu Cheng Yu	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 on the subsidiary of the Company is listed as follows:

For the information on the subsidiaries of the Company, please refer to Note 4(1).

(3) Information on the joint venture of the Company is listed as follows:

For the information on the joint venture of the Company, please refer to Note 5(10).

(4) Information on the other related parties of the Company is listed as follows:

Name	Relationship with the Company	Organisation 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

Notes to the Financial Statements (Continued)

(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan unless otherwise indicated)

6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) Transactions with related parties

The following transactions with related parties were conducted under normal commercial terms or relevant agreements.

(a) *Transaction amounts 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	2011 Amount	2011 Percentage (%)	2010 Amount	2010 Percentage (%)
Sinopec Corp and its subsidiaries	Purchase of raw materials	Based on normal commercial terms or relevant agreements	**10,753,982**	**62.22**	7,085,054	61.29
Sinopec Corp and its subsidiaries	Commission payable	Based on normal commercial terms or relevant agreements	**67,462**	**100.00**	60,492	100.00
CPC and its subsidiaries (Sinopec Corp and its subsidiaries and Sinopec Finance are excluded)	Construction and overhaul fee payable	Based on normal commercial terms or relevant agreements	**68,558**	**6.57**	13,886	2.36
CPC and its subsidiaries (Sinopec Corp and its subsidiaries and Sinopec Finance are excluded)	Miscellaneous service fee charges payable	Based on normal commercial terms or relevant agreements	**6,350**	**100.00**	5,990	100.00
Key management personnel	Remuneration	Based on normal commercial terms or relevant agreements	**3,578**	**0.61**	3,385	0.64
Key management personnel	Retirement scheme contribution	Based on normal commercial terms or relevant agreements	**228**	**0.20**	183	0.18

Notes to the Financial Statements (Continued)

(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan unless otherwise indicated)

6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) Transactions with related parties (Continued)

(a) Transaction amounts 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	2011 Amount	2011 Percentage (%)	2010 Amount	2010 Percentage (%)
Sinopec Corp and its subsidiaries	Purchase of raw materials	Based on normal commercial terms or relevant agreements	**10,753,982**	**62.22**	7,085,054	61.74
Sinopec Corp and its subsidiaries	Commission payable	Based on normal commercial terms or relevant agreements	**67,462**	**100.00**	60,492	100.00
CPC and its subsidiaries (Sinopec Corp and its subsidiaries and Sinopec Finance are excluded)	Construction and overhaul fee payable	Based on normal commercial terms or relevant agreements	**68,558**	**6.57**	13,886	2.37
CPC and its subsidiaries (Sinopec Corp and its subsidiaries and Sinopec Finance are excluded)	Miscellaneous service fee charges	Based on normal commercial terms or relevant agreements	**6,350**	**100.00**	5,990	100.00
Key management personnel	Remuneration	Based on normal commercial terms or relevant agreements	**3,578**	**0.61**	3,385	0.71
Key management personnel	Retirement scheme contribution	Based on normal commercial terms or relevant agreements	**228**	**0.20**	183	0.20

Notes to the Financial Statements (Continued)

(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan unless otherwise indicated)

6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) Transactions with related parties (Continued)

(b) *Transaction amounts with related parties on sales of goods*

The Group

Related parties	Contents of transactions	Pricing and decision-making process of transactions with related parties	2011 Amount	2011 Percentage (%)	2010 Amount	2010 Percentage (%)
CPC and its subsidiaries (Sinopec Corp and its subsidiaries and Sinopec Finance are excluded)	Sale of goods	Based on normal commercial terms or relevant agreements	**298,274**	**1.49**	235,068	1.44

The Company

Related parties	Contents of transactions	Pricing and decision-making process of transactions with related parties	2011 Amount	2011 Percentage (%)	2010 Amount	2010 Percentage (%)
CPC and its subsidiaries (Sinopec Corp and its subsidiaries and Sinopec Finance are excluded)	Sale of goods	Based on normal commercial terms or relevant agreements	**298,274**	**1.49**	235,068	1.45
YCFC Jingwei	Sale of goods	Based on normal commercial terms or relevant agreements	**–**	**–**	693,202	4.29

(c) *Other related parties transactions*

The Group

Related parties	Contents of transactions	2011	2010
CPC and its subsidiaries (Sinopec Corp and its subsidiaries and Sinopec Finance are excluded)	Insurance premium	**3,700**	2,902
Sinopec Finance	Interest income receivable	**9,766**	5,879
China CITIC Bank	Interest income receivable	**5,106**	735

The Company

Related parties	Contents of transactions	2011	2010
CPC and its subsidiaries (Sinopec Corp and its subsidiaries and Sinopec Finance are excluded)	Insurance premium	**3,700**	2,902
Sinopec Finance	Interest income receivable	**9,766**	5,879
China CITIC Bank	Interest income receivable	**5,106**	735

Notes to the Financial Statements (Continued)

(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan unless otherwise indicated)

6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(6) Balances of receivables and payables with related parties

The Group

Item	Related parties	2011 Carrying amount	2011 Provision	2010 Carrying amount	2010 Provisions
Prepayments	Sinopec Corp and its subsidiaries	**57,289**	**–**	–	–
Accounts receivable	CPC and its subsidiaries	**7,703**	**–**	3,225	–
Other receivables	CPC and its subsidiaries	**2,410**	**–**	8,688	2,268

The Company

Item	Related parties	2011 Carrying amount	2011 Provision	2010 Carrying amount	2010 Provisions
Prepayments	Sinopec Corp and its subsidiaries	**57,289**	**–**	–	–
Accounts receivable	CPC and its subsidiaries	**7,703**	**–**	3,225	–
Other receivables	CPC and its subsidiaries	**2,410**	**–**	8,688	2,268
Accounts receivable	YCFC Jingwei	**–**	**–**	267,832	132,154

The Group

Item	Related parties	2011	2010
Accounts payable	Sinopec Corp and its subsidiaries	**1,249,540**	1,074,560
Other payables	Sinopec Corp and its subsidiaries	**887**	9,393
Accounts payable	CPC and its subsidiaries	**1,321**	692
Advances from customers	CPC and its subsidiaries	**6,507**	3,320
Other payables	CPC and its subsidiaries	**25**	3,733

The Company

Item	Related parties	2011	2010
Accounts payable	Sinopec Corp and its subsidiaries	**1,249,540**	1,074,560
Other payables	Sinopec Corp and its subsidiaries	**887**	9,393
Accounts payable	CPC and its subsidiaries	**1,321**	692
Advances from customers	CPC and its subsidiaries	**6,507**	3,320
Other payables	CPC and its subsidiaries	**25**	3,733
Advances from customers	YCFC Jingwei	**–**	703
Other payables	YCFC Jingwei	**–**	1,190

Notes to the Financial Statements (Continued)

(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan unless otherwise indicated)

7 CONTINGENCY

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 2011. 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	2011	2010
Investment contracts entered into but not performed or performed partially	**75,461**	–
Authorised and contracted for fixed assets acquisition and significant construction contracts which under performance or preparation of performance	**635,848**	445,056
Authorised but not contracted for plans of fixed assets acquisition and significant construction contracts	**766,296**	967,743
Total	**1,477,605**	1,412,799

9 POST BALANCE SHEET EVENTS

Details of profit distribution after the balance sheet date

Item	Amount
Profits or dividends to be appropriated	120,000

Cash dividend of ordinary shares proposed after the balance sheet date

The Board of Directors proposed a distribution of cash dividend of RMB0.03 per share (2010: RMB0.03 per share) to the Company's ordinary shareholders, totalling RMB120,000,000 (2010: RMB120,000,000) on 26 March 2012. The proposal is subject to the approval of the Shareholders' Meeting. Such cash dividend has not been recognised as a liability at the balance sheet date.

10 OTHER SIGNIFICANT MATTERS

(1) Segment reporting

The Group has identified five reportable segments 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.

Revenues, operating results and assets information of reportable segments:

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

Segment assets represent fixed assets 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" (including inter-segment "gross profit").

Notes to the Financial Statements (Continued)

(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan unless otherwise indicated)

10 OTHER SIGNIFICANT MATTERS (Continued)

(1) Segment reporting (Continued)

In addition to receiving segment information concerning "gross profit" (including inter-segment "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.

Information regarding the Group's reportable segments set out below is the measure of segment revenue, segment profit or loss 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	2011								
	Polyester chips	Bottle-grade polyester chips	Staple fibre and hollow fibre	Filament	PTA	Others	Offset	Unallocated items	Total
Revenue from external customer	7,346,044	3,804,094	6,778,706	1,865,482	–	385,442	–	–	20,179,768
Inter-segment revenue	–	–	–	–	8,765,942	–	(8,765,942)	–	–
Reportable segments revenue	7,346,044	3,804,094	6,778,706	1,865,482	8,765,942	385,442	(8,765,942)	–	20,179,768
Reportable segments profit/(losses)	211,670	47,825	295,046	(93,014)	1,128,943	15,574	–	(33,477)	1,572,567
Other important items:									
– Depreciation	59,917	18,150	35,809	13,899	140,182	96,642	–	32,897	397,496
– Impairment of fixed assets	370	–	–	71	4,412	432	–	–	5,285
– Write-down of inventories	–	–	–	1,093	–	6,344	–	–	7,437
– Reportable segments assets	580,355	185,513	571,201	176,644	984,338	1,183,895	–	1,486,611	5,168,557

Item	2010								
	Polyester chips	Bottle-grade polyester chips	Staple fibre and hollow fibre	Filament	PTA	Others	Offset	Unallocated items	Total
Revenue from external customer	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 profit/(losses)	356,353	57,049	470,900	55,986	1,445,082	18,161	(5,017)	–	2,398,514
Other important items:									
– Depreciation	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

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.

Notes to the Financial Statements (Continued)

(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan unless otherwise indicated)

10 OTHER SIGNIFICANT MATTERS (Continued)

(2) Risk analysis, sensitivity analysis and fair values for financial instruments

The Group has exposure to the following risks from its use of financial instruments in the normal course of the Group's operations, which mainly include:

– 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 and etc.

The Group aims to seek the appropriate balance between the risks and benefits from its use of financial instruments and to mitigate the adverse effects that the risks of financial instruments have on the Group's financial performance. Based on such objectives, 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 internal audit department of the Group undertakes both regular and ad hoc reviews of risk management controls and procedures.

(a) Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Group's credit risk is primarily attributable to cash at bank, receivables, financial assets held for trading and available-for-sale financial assets. Exposure to these credit risks are monitored by management on an ongoing basis.

The cash at bank of the Group is mainly held with well-known financial institutions. Management does not foresee any significant credit risks from these deposits and does not expect that these financial institutions may default and cause losses to the Group.

The majority of the Group's 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.

The Group and the Company do not have any debtors that are past due but not impaired based on individual or collective assessment as at 31 December 2011 and 31 December 2010.

In addition, the debtors of the Group that are neither past due nor impaired mainly relate to a wide range of customers for whom there was no recent history of default.

Investments are normally only in liquid securities quoted on a recognised stock exchange, except where entered into for long-term strategic purposes, and counterparties have equivalent or higher credit ratings than the Group. Transactions involving derivative financial instruments are made with counterparties of sound credit standing and with whom the Group has a signed netting agreement. Given their high credit standing, management does not expect any investment counterparty to fail to meet its obligations.

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, 54.88% (2010: 53.14%) 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 guarantees which would expose the Group to credit risk.

Notes to the Financial Statements (Continued)

(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan unless otherwise indicated)

10 OTHER SIGNIFICANT MATTERS (Continued)

(2) Risk analysis, sensitivity analysis and fair values for financial instruments (Continued)

(b) Liquidity Risk

Liquidity risk is the risk that an enterprise may encounter deficiency of funds in meeting obligations associated with financial liabilities. The Company and its subsidiary are responsible for their own cash management, including short term investment of cash surpluses, etc. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash, readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

(c) Interest rate risk

Interest-bearing financial instruments at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest risk, respectively. The Group determines the appropriate weightings of the fixed and floating rate interest-bearing instruments based on the current market conditions and performs regular reviews and monitoring to achieve an appropriate mix of fixed and floating rate exposure.

(i) As at 31 December, The Group held the following interest-bearing financial instruments:

Fixed rate instruments:

Item	2011 Annual interest rate (%)	2011 Amount	2010 Annual interest rate (%)	2010 Amount
Financial assets				
– Deposits with bank	**3.10%–3.30%**	**1,245,000**	1.98%–2.25%	443,456

Variable rate instruments:

Item	2011 Annual interest rate (%)	2011 Amount	2010 Annual interest rate (%)	2010 Amount
Financial assets				
– Deposits with bank	**0.50%–1.49%**	**296,800**	0.36%	2,025,909

(ii) Sensitivity analysis

As at 31 December 2011, 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 RMB2,968,000 respectively (2010: RMB20,259,000), and net profit by approximately RMB2,968,000 (2010: RMB20,259,000) (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 2010.

Notes to the Financial Statements (Continued)

(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan unless otherwise indicated)

10 OTHER SIGNIFICANT MATTERS (Continued)

(2) Risk analysis, sensitivity analysis and 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 Renminbi, translated using the spot rate at the balance sheet date.

Item	2011 USD	2010 USD
Cash at bank and on hand	**246**	32,128
Accounts receivable	**65,133**	50,229
Accounts payable	**(1,011,896)**	(951,473)
Net balance sheet exposure	**(946,517)**	(869,116)

(ii) The following are the exchange rates for Renminbi against foreign currencies applied by the Group:

	Average rate		Reporting date mid-spot rate	
	2011	2010	**2011**	2010
USD	**6.459**	6.770	**6.301**	6.623

(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.

	Shareholders' equity	Net profit
As at 31 December 2011		
USD	**47,326**	**47,326**
As at 31 December 2010		
USD	43,456	43,456

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.

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

Notes to the Financial Statements (Continued)

(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan unless otherwise indicated)

10 OTHER SIGNIFICANT MATTERS (Continued)

(2) Risk analysis, sensitivity analysis and fair values for financial instruments (Continued)

(e) Fair values

(i) Financial instruments carried at fair value

The following table presents the carrying value of financial instruments measured at fair value as at 31 December 2011 and 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 (i.e. as prices) or indirectly (i.e. derived from prices);

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

31 December 2011

Assets	*Note*	**Level 1**	**Level 2**	**Level 3**	**Total**
Available-for-sale financial assets	5(8)	**–**	**200,000**	**–**	**200,000**

31 December 2010

Assets	*Note*	Level 1	Level 2	Level 3	Total
Investments held for trading	5(2)	699,713	–	–	699,713

During the year ended 31 December 2011, there were no significant transfers between instruments in Level 1 and Level 2.

During the year ended 31 December 2011, there were no changes in valuation technique of fair value of the Group's financial instruments.

(ii) Fair value of other financial instruments (carried at other than fair value)

All financial instruments are carried at amounts not materially different from their fair value as at 31 December 2011 and 31 December 2010.

(f) Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial assets and items set out in 10(2)(e) above that measured at fair value on the balance sheet date.

(i) Bonds and investment funds

Fair value is based on quoted market prices at the balance sheet date for financial assets held for trading (excluding derivatives) if there is an active market. If an active market does not exist for available-for-sale financial asset, the fair value is determined using valuation techniques.

(ii) Receivables

The fair value is estimated as the present value of the future cash flows, discounted at the market interest rates at the balance sheet date.

Notes to the Financial Statements (Continued)

(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan unless otherwise indicated)

10 OTHER SIGNIFICANT MATTERS (Continued)

(3) Assets carried at fair values

Item	Balance at the beginning of the year	Purchased during the year	Change in fair value during the year	Accumulated changes in fair value recognised in equity	Disposal during the year	Balance at the end of the year
Financial asset						
– Financial assets held for trading	699,713	–	6,247	–	(705,960)	–
– Available-for-sale financial assets	–	700,000	–	10,000	(510,000)	200,000
Total	699,713	700,000	6,247	10,000	(1,215,960)	200,000

11 MAJOR NOTES TO FINANCIAL STATEMENTS OF THE COMPANY

(1) Accounts receivable

(a) Accounts receivable by customer type:

Category	Note	2011	2010
Amounts due from related parties	6(6)	**7,703**	271,057
Amounts due from third parties		**96,965**	69,772
Sub-total		**104,668**	340,829
Less: Provision for bad and doubtful debts		**–**	132,154
Total		**104,668**	208,675

Except for balances set out in Note 6(6), the above balance did not include any accounts receivable due from shareholders who hold 5% or more of the voting rights of the Company.

(b) The aging analysis of accounts receivable is as follows:

Ageing	2011	2010
Within 1 year (inclusive)	**104,668**	72,997
1 and 2 years (inclusive)	**–**	267,832
Sub-total	**104,668**	340,829
Less: Provision for bad and doubtful debts	**–**	132,154
Total	**104,668**	208,675

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

Notes to the Financial Statements (Continued)

(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan unless otherwise indicated)

11 MAJOR NOTES TO FINANCIAL STATEMENTS OF THE COMPANY (Continued)

(1) Accounts receivable (Continued)

(c) *Accounts receivable by category:*

Category	2011				2010			
	Carrying amount		Provision		Carrying amount		Provision	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Significant accounts receivable with provision provided individually	–	–	–	–	267,832	78.58	132,154	100
Accounts receivable with provision provided collectively*	104,668	100	–	–	72,997	21.42	–	–
Total	104,668	100	–	–	340,829	100	132,154	100

Note*: It includes accounts receivable not individually determined to be impaired.

During the year ended 31 December 2011, balance was assessed for impairment in accordance with the accounting policy set out in Note 2(9), and there was no material or immaterial accounts receivable individually determined to be impaired. Due to the merger of YCFC Jingwei during the year ended 31 December 2011, the Company reversed accounts receivable of RMB267,832,000 and provision for bad and doubtful debts of RMB132,154,000. For detailed information of the merger please see Note 4(2).

The Company had no pledge for accounts receivable with provisions mentioned above.

(d) *Accounts receivable by currency:*

Item	2011			2010		
	currency	rate	Exchange RMB	currency	rate	Exchange RMB
RMB	—	—	39,535	—	—	292,501
USD	10,337	6.301	65,133	7,297	6.623	48,328
Total			104,668			340,829

(e) *Accounts receivable due from the five largest customers are as follows:*

Name	Relationship	Amount	Ageing	Percentage of total accounts receivable (%)
1. Entity A	Third Party	16,701	Within 6 months	15.96
2. Entity B	Third Party	16,283	Within 6 months	15.56
3. Entity C	Third Party	10,067	Within 6 months	9.62
4. Entity D	Third Party	9,628	Within 6 months	9.20
5. Entity E	Third Party	4,756	Within 6 months	4.54
Total		57,435		54.88

Notes to the Financial Statements (Continued)

(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan unless otherwise indicated)

11 MAJOR NOTES TO FINANCIAL STATEMENTS OF THE COMPANY (Continued)

(1) Accounts receivable (Continued)

(f) Balance due from related parties

Name	Note	Relationship	Amount	Percentage of total accounts receivable (%)
CPC and its subsidiary A		With a common ultimate holding company	4,241	4.05
CPC and its subsidiary B		With a common ultimate holding company	1,725	1.65
CPC and its subsidiary C		With a common ultimate holding company	1,170	1.12
CPC and its subsidiary D		With a common ultimate holding company	567	0.54
Total	*6(6)*		7,703	7.36

(2) Other receivables

(a) Other receivables by customer type:

Category	Note	2011	2010
Amounts due from related parties	*6(6)*	**2,410**	8,688
Amounts due from third parties		**13,165**	33,179
Subtotal		**15,575**	41,867
Less: Provision for bad and doubtful debts		**3,857**	11,932
Total		**11,718**	29,935

Except for balances set out in Note 6(6), the above balance did not include any other receivables due from shareholders who hold 5% or more of the voting rights of the Company.

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

Ageing	2011	2010
Within 1 year (inclusive)	**9,957**	20,715
1 and 2 years (inclusive)	**86**	13,172
2 and 3 years (inclusive)	**4,150**	–
Over 3 years	**1,382**	7,980
Subtotal	**15,575**	41,867
Less: Provision for bad and doubtful debts	**3,857**	11,932
Total	**11,718**	29,935

The ageing is counted starting from the date other receivables are recognised.

Notes to the Financial Statements (Continued)

(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan unless otherwise indicated)

11 MAJOR NOTES TO FINANCIAL STATEMENTS OF THE COMPANY (Continued)

(2) Other receivables (Continued)

(c) Other receivables by category

		2011				2010			
		Carrying amount		Provision		Carrying amount		Provision	
Category	Note	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Other receivables with provision provided collectively*	(d)	**15,575**	**100**	**3,857**	**100**	41,867	100	11,932	100

Note*: It includes other receivables not individually determined to be impaired.

The Company had no pledge for other receivables with provision mentioned above.

During the year ended 31 December 2011, balance was assessed for impairment in accordance with the accounting policy set out in Note 2(9), and there was no material or immaterial other receivables individually determined to be impaired.

There was no other receivables written off during the year.

As at 31 December 2011, the Group had no individually significant other receivables due over 3 years.

(d) Other receivables collectively impaired by ageing analysis:

	2011			2010		
	Carrying amount		Provision	Carrying amount		Provision
Ageing	Amount	Percentage (%)		Amount	Percentage (%)	
Within 1 year (inclusive)	**9,957**	**63.93**	**–**	20,715	49.48	–
1 and 2 years (inclusive)	**86**	**0.55**	**25**	13,172	31.46	3,952
2 and 3 years (inclusive)	**4,150**	**26.65**	**2,450**	–	–	–
Over 3 years	**1,382**	**8.87**	**1,382**	7,980	19.06	7,980
Total	**15,575**	**100**	**3,857**	41,867	100	11,932

(e) Reversal or recovery of bad debt provisions during the year

Full or substantial collection of other receivables on reversal of bad debt provisions during the year in respect of other receivables fully or substantially impaired in prior year is as follows:

Description	Reason for reversal or recovery	Evidence for bad debt provision	Accumulated provision before reversal or recovered	Amount reversed or recovery
Prepayment for equipment	Termination of procurement contract	Provision provided by aging analysis	9,758	9,758

Notes to the Financial Statements (Continued)

(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan unless otherwise indicated)

11 MAJOR NOTES TO FINANCIAL STATEMENTS OF THE COMPANY (Continued)

(2) Other receivables (Continued)

(f) *Other receivables due from the five largest customers are as follows:*

Name		Relationship	Amount	Ageing	Percentage of total other receivables (%)
1.	Entity A	Third party	4,150	2 to 3 years	26.65
2.	Entity B	Third party	2,869	Within 1 year	18.42
3.	CPC and its subsidiary A	With a common ultimate holding company	2,410	Within 1 year	15.47
4.	Entity D	Third party	2,234	Within 1 year	14.34
5.	Entity E	Third party	966	Over 3 years	6.20
Total			12,629		81.08

(g) *Balance due from related parties:*

Name	*Note*	Relationship	Amount	Percentage of total other receivables (%)
CPC and its subsidiary A	*6(6)*	With a common ultimate holding company	2,410	15.47

(3) Long-term equity investments

(a) *Long-term equity investments by category:*

Item	2011	2010
Investment in subsidiaries	–	303,361
Investment in joint venture	**303,089**	–
Sub-total	**303,089**	303,361
Less: Provision for impairment	–	303,361
Total	**303,089**	–

(b) *Movement of long-term equity investments during the year is as follows:*

Name of investee	Cost	Balance at the beginning of the year	Increase/ decrease	Balance at the end of the year	Percentage of equity held by the company (%)	Proportion of vote right (%)	Provision for impairment	Increase/ decrease
Cost method – Subsidiary								
YCFC Jingwei	303,361	303,361	(303,361)	–	100	100	303,361	(303,361)
Equity method – Joint venture								
FEYP	303,089	–	303,089	303,089	40	40	–	–
Total	—	303,361	(272)	303,089	—	—	303,361	(303,361)

Detailed information about the subsidiary is set out in Note 4(1), and the detailed information of joint venture of the Company is set out in Note 5(10).

Notes to the Financial Statements (Continued)

(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan unless otherwise indicated)

11 MAJOR NOTES TO FINANCIAL STATEMENTS OF THE COMPANY (Continued)

(4) Operating income and operating costs

(a) Operating income and operating costs

Item	2011	2010
Operating income from principal activities	**19,997,839**	16,019,189
Other operating income	**181,929**	145,484
Operating costs	**18,200,683**	13,773,821

(b) Operating income and operating cost by industries:

Industry	2011 Operating income	2011 Operating costs	2010 Operating income	2010 Operating costs
Chemical fibre	**20,179,768**	**18,200,683**	16,164,673	13,773,821

(c) Operating income and operating costs by products:

Products	2011 Operating income	2011 Operating costs	2010 Operating income	2010 Operating costs
Polyester chips	**7,346,044**	**6,544,918**	6,214,526	5,246,188
Bottle-grade polyester chips	**3,804,094**	**3,455,907**	2,724,476	2,406,994
Staple fibre and hollow fibre	**6,778,706**	**6,042,406**	5,423,037	4,521,089
Filaments	**1,865,482**	**1,790,523**	1,447,545	1,258,329
Others	**385,442**	**366,929**	355,089	341,221
Total	**20,179,768**	**18,200,683**	16,164,673	13,773,821

Notes to the Financial Statements (Continued)

(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan unless otherwise indicated)

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	2011 Operating income	2011 Operating costs	2010 Operating income	2010 Operating costs
Mainland	**19,438,858**	**17,525,951**	15,245,039	12,946,320
Hong Kong, Macau, Taiwan, and overseas	**740,910**	**674,732**	919,634	827,501
Total	**20,179,768**	**18,200,683**	16,164,673	13,773,821

(e) Revenue from sales to the five largest customers in 2011 is set out as follows:

Name	Operating income	Percentage of total operating income
1. Customer A	1,319,968	6.54%
2. Customer B	815,906	4.04%
3. Customer C	575,320	2.85%
4. Customer D	499,594	2.48%
5. Customer E	341,706	1.69%
Total	3,552,494	

(5) Investment income

Item	2011	2010
Gains on disposal of financial assets held for trading	**6,557**	–
Gains on disposal of available-for-sale financial assets	**10,000**	873
Transaction cost paid for acquisition of financial assets held for trading	**–**	(41)
Total	**16,557**	832

Notes to the Financial Statements (Continued)

(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan unless otherwise indicated)

11 MAJOR NOTES TO FINANCIAL STATEMENTS OF THE COMPANY (Continued)

(6) Supplement to cash flow statement

Item		2011	2010
(i)	**Reconciliation of net profit to cash flows from operating activities:**		
	Net profit	**835,400**	1,228,423
	Add: Impairment provision (decrease)/increase for assets	**(691)**	246,308
	Depreciation of fixed assets	**358,521**	454,136
	Amortisation of intangible assets	**29,781**	29,504
	Amortisation of deferred income	**(3,929)**	(1,012)
	Net gains on disposal of fixed assets	**(2,811)**	(3,276)
	Losses/(gains) on changes in fair value	**310**	(310)
	Financial income	**(53,722)**	(32,964)
	Investment income	**(16,557)**	(832)
	Decrease/(increase) in deferred tax assets	**74,355**	(196,891)
	Decrease in provisions	**–**	(5,198)
	Increase in gross inventories	**(436,351)**	(21,070)
	(Decrease)/increase in specific reserves	**(755)**	755
	Increase in operating receivables	**(1,173,703)**	(228,758)
	Increase in operating payables	**143,845**	143,871
	Net cash (outflow)/inflow from operating activities	**(246,307)**	1,612,686
(ii)	**Change in cash and cash equivalents:**		
	Cash at the end of the year	**1,541,821**	2,469,388
	Less: Cash at the beginning of the year	**2,469,388**	1,327,985
	Add: Cash equivalents at the end of the year	**–**	297,870
	Less: Cash equivalents at the beginning of the year	**297,870**	–
	Net (decrease)/increase in cash and cash equivalents	**(1,225,437)**	1,439,273

Supplement to the Financial Statements

(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan unless otherwise indicated)

1 EXTRAORDINARY GAINS OR LOSSES FOR THE YEAR ENDED 31 DECEMBER 2011

Item		Amount	Note
(1)	Gains on disposal of non-current assets	25,427	Gains on disposal of fixed assets
(2)	Employee reduction expenses	(93)	Compensation paid for dismissing the labor contract
(3)	Government grants recognised in profit or loss (other than the amount closely related to principal activities and generated according to national standards)	4,503	Government grants received
(4)	Gain on changes in fair value of financial assets held for trading	(310)	Changes in fair value of bonds
(5)	Investment income on disposal of financial assets	16,557	Recognition of Gains on disposal of investment
(6)	Other non-operating income and expenses excluding the aforesaid items	33,015	Reversal of loss on breach of contracts, etc.
(7)	Income tax effect	(18,136)	As gains on disposal of bonds are tax exempt, its tax effect is not accounted for
Total		60,963	

Notes: The extraordinary gains or losses are listed with pre-tax amount.

2 DIFFERENCES IN THE FINANCIAL STATEMENTS PREPARED UNDER DIFFERENT GAAPs

The difference between CAS and International Financial Reporting Standards ("IFRSs") on net profit and net assets of consolidated financial statements is analysed as follows:

	Net profit		Net assets	
	2011	2010	**2011**	2010
Under ASBE	**839,043**	1,226,542	**9,030,625**	8,312,337
Adjustments under IFRSs:				
a. Government grants	**944**	–	**(38,686)**	(39,630)
b. Specific reserve	**(755)**	755	**–**	–
c. Tax effects of the above adjustments	**–**	–	**–**	–
Under IFRSs	**839,232**	1,227,297	**8,991,939**	8,272,707

(1) Government grants

Under CAS, grants from government that are credited to capital reserve according to relevant regulation cannot be included in deferred income. Under IFRS, the 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.

(2) Specific reserve

Under CAS, accrued production safety cost as expense in profit or loss and separately recorded as a specific reserve in shareholders' equity according to the national regulation. 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, 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.

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.

Supplement to the Financial Statements

(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of Renminbi yuan unless otherwise indicated)

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 (%)	Basic earnings per share	Diluted earnings per share
Net profit attributable to the Company's ordinary equity shareholders	9.676	RMB 0.210	RMB 0.210
Net profit net of extraordinary gains or losses attributable to the Company's ordinary equity shareholders	8.973	RMB 0.195	RMB 0.195

Other Corporate Information

FIRST REGISTRATION DATE AND PLACE OF THE COMPANY

The Company was registered on 31 December 1993. Its legal address is: Yizheng City, Jiangsu Province, PRC.

CHANGES TO THE REGISTRATION DATE, PLACE AND OTHER ITEMS DURING THE PERIOD UNDER REVIEW

There was no change in the items above during the reporting period.

Business registration number	Taxation registration number
320000400000997	321081625908297

ORGANISATION TRUSTED WITH NON-CIRCULATING SHARES OF THE COMPANY

China Securities Registration and Clearing Corporation Limited Shanghai Branch

PRINCIPAL UNDERWRITERS OF SHARE OFFERS

"H" Share

– UBS Warburg (Asia) Limited
  Address: 52/F, Two International Finance Centre
  8 Finance Street
  Central, Hong Kong

"A" Share

– Shenyin & Wanguo Securities Corporation Ltd.
  Address: 99 East Nanjing Road, Shanghai

AUDITORS

Domestic

– KPMG Huazhen
  Certified Public Accountants, Registered in the PRC
  8th Floor, Office Tower E2
  Oriental Plaza
  No. 7, East Chang An Avenue
  Beijing, the PRC

International

– KPMG
  Certified Public Accountants, Hong Kong
  8/F, Prince's Building, 10 Chater Road
  Central, Hong Kong

LEGAL ADVISOR

As to Hong Kong law

– Woo, Kwan, Lee & Lo
  Address: 26/F, Jardine House, 1 Connaught Place
  Central, Hong Kong

As to the PRC law

– Haiwen & Partners
  Address: Silver Tower, No. 2 North Road, East San Huan, Chaoyang District, Beijing

Other Corporate Information

SHARE REGISTRARS AND TRANSFER OFFICE

"H" Share

– Hong Kong Registrars Limited
  Address: Rooms 1712-1716, 17th Floor, Hopewell Centre
  183 Queen's Roads East,
  Hong Kong

"A" Share

– China Securities Registration and Clearing Corporation Limited Shanghai Branch
  Address: 36th Floor, China Insurance Building,
  166 Lujiazui Eastern Road,
  Pudong New District, Shanghai

PRINCIPAL BANKERS

Industrial and Commercial Bank of China, Jiangsu Branch

Industrial and Commercial Bank of China, Jiangsu Branch, Xupu Sub-Branch

Bank of China, Jiangsu Branch

Bank of China, Jiangsu Branch, Yizheng Sub-branch

China Construction Bank, Jiangsu Branch, Yizheng Sub-Branch

China CITIC Bank

Documents for Inspection

The following documents are available for inspection at the legal address of the Company from 27 March 2012 (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 2011 and the First Quarter Report and the Third Quarter Report from 2002 to 2011 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.