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)

Interim Report 2012

Contents

Important Notes:

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

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 interim financial report contained in the interim report.

The Board of Sinopec Yizheng Chemical Fibre Company Limited ("**the Company**") hereby presents the interim results of the Company for the six months ended 30 June 2012. The interim financial report therein is unaudited.

1. COMPANY PROFILE

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 People's Republic of China ("**the PRC**")
	Postal code	:	211900
	Telephone	:	86-514-83232235
	Fax	:	86-514-83233880
	Internet website	:	http://www.ycfc.com
	E-mail address	:	cso@ycfc.com
4.	Company Secretary	:	Mr. Tom C.Y. Wu
	Assistant Company Secretary	:	Ms. Michelle M.Shi
	Contact address	:	Company Secretary Office Sinopec Yizheng Chemical Fibre Company Limited Yizheng City, Jiangsu Province, the PRC
	Telephone	:	86-514-83231888
	Fax	:	86-514-83235880
	E-mail address	:	cso@ycfc.com
5.	Domestic newspapers disclosing information	:	China Securities, Shanghai Securities News, Securities Times
	Internet website designated by The Stock Exchange of Hong Kong Limited ("**HKSE**") to disclosure information	:	http://www.hkexnews.hk
	Internet website designated by the China Securities Regulatory Commission ("**CSRC**") to publish the interim report	:	http://www.sse.com.cn
	Place where the interim report available for inspection	:	Company Secretary Office Sinopec Yizheng Chemical Fibre Company Limited
6.	Places of listing, names and codes of the stock:		
	H share		
	Place of listing	:	HKSE
	Stock name	:	Yizheng Chemical
	Stock code	:	1033
	A share		
	Place of listing	:	Shanghai Stock Exchange ("**SSE**")
	Stock name	:	S Yihua
	Stock code	:	600871

2. FINANCIAL SUMMARY

1. Principal financial information and financial indicators of the Company

1.1 Extracted from the interim financial report prepared in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting

(Unaudited)

	For the six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Turnover	**8,328,595**	10,332,587
(Loss)/profit before taxation	**(306,842)**	775,258
Income tax expense/(credit)	**(92,207)**	189,961
(Loss)/profit attributable to equity shareholders of the Company	**(214,635)**	585,297
Basic and diluted (loss)/earnings per share	**RMB(0.054)**	RMB0.146

* *As a result of the merger of the Company's sole subsidiary with the Company on 28 December 2011, the Company had no subsidiary during the six months ended 30 June 2012. The comparative figures in the statement of comprehensive income, the statement of changes in equity, the condensed cash flow statement and relevant explanatory notes prepared in accordance with IAS represented the consolidated figures as previously reported.*

1.2 Extracted from the semi-annual financial report prepared in accordance with the PRC Accounting Standards for Business Enterprises

(Unaudited)

	As at 30 June 2012	As at 31 December 2011	Increase/ (decrease) from last year
	RMB'000	*RMB'000*	*(%)*
Total assets	**10,406,674**	11,449,599	(9.1)
Total equity attributable to equity shareholders of the Company	**8,694,575**	9,030,625	(3.7)
Net assets per share attributable to equity shareholders of the Company	**RMB2.174**	RMB2.258	(3.7)

1.2 Extracted from the semi-annual financial report prepared in accordance with the PRC Accounting Standards for Business Enterprises (continued)

(Unaudited)

	For the six months ended 30 June 2012 *RMB'000*	For the six months ended 30 June 2011 *RMB'000*	Increase/ (decrease) from corresponding period of last year *(%)*
Operating (loss)/profit	**(301,491)**	719,379	(141.9)
(Loss)/profit before income tax	**(308,777)**	774,719	(139.9)
Net (loss)/profit attributable to equity shareholders of the Company	**(216,570)**	584,758	(137.0)
Net (loss)/profit deducted extraordinary gain and loss attributable to equity shareholders of the Company	**(216,169)**	531,654	(140.7)
Basic (loss)/earnings per share	**RMB(0.054)**	RMB0.146	(137.0)
Diluted (loss)/earnings per share	**RMB(0.054)**	RMB0.146	(137.0)
Basic (loss)/earnings per share net of extraordinary gain and loss	**RMB(0.054)**	RMB0.133	(140.7)
Weighted average return on net assets	**(2.44%)**	6.84%	Decreased by 9.28 percentage points
Net cash used in operating activities	**(503,277)**	(389,437)	Not applicable
Net cash used in operating activities per share	**RMB(0.126)**	RMB(0.097)	Not applicable

* *As a result of the merger of the Company's sole subsidiary with the Company on 28 December 2011, the Company had no subsidiary within consolidated scope during the six months ended 30 June 2012. The comparative figures in the income statement, the cash flow statement, the statement of changes in equity and relevant explanatory notes prepared in accordance with the PRC Accounting Standards for Business Enterprises represented the consolidated figures as previously reported.*

1.3 Extraordinary gain and loss items and amount (figures are based on the interim financial report prepared in accordance with the PRC Accounting Standards for Business Enterprises)
(Unaudited)

Extraordinary gain and loss	**Amount** *(RMB'000)*
Losses on disposal of non-current assets	(3,337)
Government grants recognized in profit or loss during the current period	644
Investments income from disposal of financial assets	6,751
Other non-operating income and expenses excluding the aforesaid items	(4,593)
Effect of income tax	134
Total	(401)

1.4 Significant differences between the interim financial report of the Company prepared in accordance with the PRC Accounting Standards for Business Enterprises ("PRC ASBE") and International Financial Report Standards ("IFRSs")
(Unaudited)

	Net (loss)/profit attributable to equity shareholders of the Company		**Total equity attributable to equity shareholders of the Company**	
	For the six months ended 30 June 2012 ***RMB'000***	For the six months ended 30 June 2011 *RMB'000*	**As at 30 June 2012** ***RMB'000***	As at 1 January 2012 *RMB'000*
PRC ASBE	**(216,570)**	584,758	**8,694,575**	9,030,625
IFRSs	**(214,635)**	585,297	**8,657,304**	8,991,939

Explanations for difference: Please refer to the section on "Supplementary information to the financial statements prepared in accordance with the PRC ASBE" of this interim report.

2. Changes in interim financial report items (figures extracted from the financial report prepared in accordance with the PRC Accounting Standards for Business Enterprises)

(Unaudited)

Item	At 30 June 2012 *RMB'000*	At 31 December 2011 *RMB'000*	Variance %	Reason for Variance
Cash at bank and on hand	**753,431**	1,541,821	(51.1)	Cash used in operating and investing activities
Accounts receivable	**155,762**	104,668	48.8	Increase in oversea sales at end of the period
Prepayments	**184,265**	59,625	209.0	Increase in prepayment for construction contract
Other receivable	**150,836**	11,718	1,187.2	Increase in tax prepayment
Available-for-sale financial assets	**–**	200,000	(100.0)	The assets were redeemed at maturity during the current period
Other current assets	**–**	219,924	(100.0)	Reclassified tax prepayments to other accounts
Long-term equity investments	**416,961**	303,089	37.6	Increase in investment in joint venture during the period
Deferred tax assets	**226,075**	122,536	84.5	Deferred tax assets recognized during the period according to deductible tax losses
Accounts payable	**1,099,470**	1,605,443	(31.2)	Decrease in prices of raw materials during the period
Advances from customers	**216,142**	345,656	(37.5)	Decrease in prepayments received from customers during the period
Employee benefits payable	**183,612**	61,927	196.5	Increase in unpaid salaries at the end of period
Taxes payable	**(218,435)**	12,322	(1872.7)	Increase in deductible input VAT deductible during the period

Item	For the six months ended 30 June 2012 *RMB'000*	2011 *RMB'000*	Variance %	Reason for Variance
Decrease in turnover tax payment	**384**	22,353	(98.3)	Business taxes and surcharges
Impairment loss	**1,652**	888	86.0	Increase in bad debt provision
Gains from changes in fair value	**–**	310	(100.0)	No such event was occurred during the period
Non-operating income	**2,116**	55,653	(96.2)	Decrease in gains on disposal of fixed assets during the period
Non-operating expenses	**9,402**	313	2,903.8	Increase in losses on disposal of fixed assets during the period
Income tax expenses	**(92,207)**	189,961	(148.5)	Changes in income tax expenses influenced by losses

3. CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF MAJOR SHAREHOLDERS

1. Changes in share capital

During the reporting period, there was no change in the total number of shares or the shareholding structure of the Company.

2. Shareholdings of major shareholders

(1) Number of shareholders

The number of shareholders of the Company as at 30 June 2012 is as follows:

Type	Number of shareholders
Legal person share (A share)	2
Social public share (A share)	33,095
"H" share	530
Total	33,627

(2) The shareholdings of the top ten shareholders and circulating shareholders of the Company

As at 30 June 2012, the shareholdings of the top ten shareholders and circulating shareholders of the Company are respectively as follows:

Number of shareholders at the end of the reporting period	33,627

Details of the top ten major shareholders

Names of shareholders	Nature of shareholders	Number of shares held at the end of the reporting period *(shares)*	Percentage to total share capital *(%)*	Number of non-circulating shares *(shares)*	Number of pledged or frozen share*
China Petroleum & Chemical Corporation ("**Sinopec**")	Domestic legal person shareholder	1,680,000,000	42.00	1,680,000,000	Nil
Hong Kong Securities Clearing Company ("**HKSCC**") (Nominees) Limited***	Overseas capital shareholder	1,384,760,505	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 shares	31,213,873	0.78	Circulating shares	Not applicable
Lin You-ming	Domestic circulating shares	1,916,207	0.05	Circulating shares	Not applicable
IP KOW	Overseas capital shareholder	1,900,000	0.05	Circulating shares	Not applicable
Zeng Zhao-lin	Domestic circulating shares	1,466,337	0.04	Circulating shares	Not applicable
Chen Zhang-hua	Domestic circulating shares	937,000	0.02	Circulating shares	Not applicable
He Chuan-ying	Domestic circulating shares	812,000	0.02	Circulating shares	Not applicable
Chen Zhang-you	Domestic circulating shares	800,000	0.02	Circulating shares	Not applicable

(2) The shareholdings of the top ten shareholders and circulating shareholders of the Company (continued)

Details of the top ten circulating shareholders

Names of shareholders	Number of circulating shares held at the end of the reporting period *(shares)*	Classification
HKSCC (Nominees) Limited***	1,384,760,505	"H" shares
China Construction Bank-CIFM China Advantage Securities Investment Fund	31,213,873	Circulating "A" shares
Lin You-ming	1,916,207	Circulating "A" shares
IP KOW	1,900,000	"H" shares
Zeng Zhao-lin	1,466,337	Circulating "A" shares
Chen Zhang-hua	937,000	Circulating "A" shares
He Chuan-ying	812,000	Circulating "A" shares
Chen Zhang-you	800,000	Circulating "A" shares
Shandong International Trust Corporation-ZexiRuijin No.1	795,353	Circulating "A" shares
Industrial and Commercial Bank of China-Shanghai Universal SCI Index Securities Investment Fund	730,204	Circulating "A" shares

Statement on the connected relationship or activities in concert among the above-mentioned shareholders	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 held more than 5 per cent of the Company's shares during the reporting period.*

** *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.*

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

(3) The interest or short position held by the substantial shareholders and other persons in the Company's shares or underlying shares

As at 30 June 2012, (according to the shareholders' register and related application documents received by the Company), so far as the Directors, Supervisors and Senior Management of the Company are aware, each of the following persons, not being a Director, Supervisor or Senior Management of the Company, had an interest in the Company's shares 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"):

Names of shareholder	Number of share held *(shares)*	Percentage of shareholding in the Company's total issued share capital *(%)*	Percentage of shareholding in the Company's total issued domestic shares *(%)*	Percentage of shareholding in the Company's total issued H shares *(%)*	Short position *(shares)*
Sinopec*	1,680,000,000	42.00	64.62	Not applicable	–
CITIC Group	720,000,000	18.00	27.69	Not applicable	–

* *As at 30 June 2012, China Petrochemical Corporation ("**CPC**") holds 75.79% 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, as at 30 June 2012, no substantial shareholder (as such term is defined in the Rules Governing the Listing of Securities on the HKSE (the "Listing Rules")) of the Company or other person held any 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 Part XV of the SFO.

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

During the reporting period, the Company had not purchased, sold or redeemed any of the Company's listed securities.

4. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. Changes in Directors, Supervisors and Senior Management

The fifth meeting of the seventh session of the Board of the Company held on 27 August 2012 considered and approved the resolution regarding the request of Mr. Liu Xiao-qin to resign from his position as a Deputy General Manager of the Company for personal reasons.

2. Directors', Supervisors' and Senior Management's interests in shares

According to the disclosure requirements under the Securities (Disclosure of Interests) Ordinance (the "**SDI Ordinance**") of Hong Kong, and under the relevant PRC laws and regulations concerning details of shares of the Company held by the Directors, Supervisors and Senior Management as at 30 June 2012 are as follows:

Name	Title	Number of "A" shares held at the beginning of the reporting period	Number of "A" shares held at the end of the reporting period	Stock Option of the Company held	Reason for change
Lu Li-yong	Chairman	0	0	Nil	No Change
Sun Zhi-hong	Vice Chairwoman	0	0	Nil	No Change
Xiao Wei-zhen	Vice Chairman, General Manager	0	0	Nil	No Change
Long Xing-ping	Director	0	0	Nil	No Change
Zhang Hong	Director	0	0	Nil	No Change
Guan Diao-sheng	Director	0	0	Nil	No Change
Sun Yu-guo	Director	0	0	Nil	Not applicable
Shen Xi-jun	Director, Deputy General Manager	0	0	Nil	No Change
Shi Zhen-hua	Independent Director	0	0	Nil	No Change
Qiao Xu	Independent Director	0	0	Nil	No Change
Yang Xiong-sheng	Independent Director	0	0	Nil	No Change
Chen Fang-zheng	Independent Director	0	0	Nil	No Change
Cao Yong	Chairman of the Supervisory Committee	0	0	Nil	No Change
Sun Shao-bo	Supervisor	0	0	Nil	No Change
Chen Jian	Supervisor	0	0	Nil	No Change
Shao Bin	Independent Supervisor	0	0	Nil	No Change
Chu Bing	Independent Supervisor	0	0	Nil	No Change
Li Jian-xin	Deputy General Manager	0	0	Nil	No Change
Zhang Zhong-an	Deputy General Manager	0	0	Nil	No Change
Li Jian-ping	Chief Financial Officer	0	0	Nil	No Change
Tom C. Y. Wu	Secretary to the Board	0	0	Nil	No Change

2. Directors', Supervisors' and Senior Management's interests in shares (continued)

There was no change in the number of the Company's shares held by the Directors, Supervisors and Senior Management during the reporting period.

Other than as stated above, no Directors, Supervisors and Senior Management had any interests, whether beneficial or non-beneficial, in the issued share capital of the Company, and other associated corporations (within the meaning of the SDI Ordinance) of Hong Kong during the reporting period.

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

As at 30 June 2012, none of the Directors, Supervisors or Senior Management of the Company had any interest or short position in the shares, underlying shares and/or debentures (as the case may be) of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) of which the Company and the HKSE were required to be informed 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 has taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to section 352 of the SFO, or of which the Company and the HKSE were required to be informed 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 parent companies 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.

4. Independent Director and Audit Committee

As at 30 June 2012, the Company has four Independent Directors, one of whom are professionals in the accounting field and have experience in financial management.

The Audit Committee of the Board of the Company has been founded in accordance with requirements under the Listing Rules.

5. BUSINESS REVIEW & PROSPECTS

Financial figures, except where specifically noted, contained herein have been extracted from the Company's unaudited interim financial report prepared in accordance with IAS 34 Interim Financial Reporting.

Interim results

For the six months ended 30 June 2012, the Company's turnover amounted to RMB8,328,595,000, decreased by 19.4 per cent compared with RMB10,332,587,000 for the corresponding period of last year. Due to constantly weak polyester market, sharp fall in prices of polyester products and substantial decrease in profit margin of polyester products, the loss attributable to equity shareholders of the Company was RMB214,635,000 and basic loss per share was RMB0.054, while the profit attributable to equity shareholders of the Company was RMB585,297,000 and basic earnings per share was RMB0.146 in the first half of 2011.

The Board resolved that no interim dividend would be paid for the year ending 31 December 2012 (interim dividend for 2011: Nil).

Market review

Ever since the beginning of the year 2012, influenced by the international and domestic macro-economic situations and the sluggish textile and garment industry, domestic and overseas demand for the polyester products has continued declining. Especially with the decreasing prices of international crude oil and polyester raw materials in the second quarter of 2012, domestic polyester products prices dropped significantly, and thus their profit margin shrank seriously. In addition, owning to rapid increase in domestic polyester production capacity, the oversupply situation of domestic polyester capacity further aggravated, which intensified the polyester industry competitiveness more and more.

In the first half of 2012, due to the significant increase in domestic polyester production capacity, the newly-added polyester production capacity was about 2,350,000 tonnes, and the total polyester production capacity amounted to 35.19 million tonnes at the end of first half of 2012. Total domestic supply volume of polyester fibre was 15,229,300 tonnes, an increase of 8.8 per cent compared with the corresponding period of last year, of which, the domestic production volume increased by 10.4 per cent. Meanwhile, because the domestic demand for polyester fibre has been slowing down, total domestic consumption volume of polyester fibre was 13,621,000 tonnes, an increase of 9.5 per cent compared with the corresponding period of 2011, while the increase in the growth rate was 2.3 percentage points lower than that of the first half of 2011.

Market review (continued)

Domestic supply and demand of polyester fibre

	Polyester filament			**Polyester staple fibre**			**Polyester fibre**		
	First half of 2012 *'000 tonnes*	First half of 2011 *'000 tonnes*	+/- *(%)*	**First half of 2012** *'000 tonnes*	First half of 2011 *'000 tonnes*	+/- *(%)*	**First half of 2012** *'000 tonnes*	First half of 2011 *'000 tonnes*	+/- *(%)*
Production volume	**9,915.6**	8,599.5	15.3	**4,690.0**	4,632.3	1.2	**14,605.6**	13,231.8	10.4
Import volume	**62.8**	76.2	(17.6)	**52.9**	54.9	(3.6)	**115.7**	131.1	(11.8)
Export volume	**561.2**	538.0	4.3	**323.7**	493.5	(34.4)	**884.9**	1,031.5	(14.2)
Net import	**(498.4)**	(461.8)	7.9	**(270.8)**	(438.6)	(38.3)	**(769.2)**	(900.4)	(14.6)
Inventories at the beginning of the period	**305.0**	362.0	(15.7)	**203.0**	275.0	(26.2)	**508.0**	637.0	(20.3)
Inventories at the end of the period	**399.2**	315.0	26.7	**324.2**	213.0	52.2	**723.4**	528.0	37.0
Total supply volume	**10,283.4**	9,037.7	13.8	**4,945.9**	4,962.2	(0.3)	**15,229.3**	13,999.9	8.8
Total consumption volume	**9,323.0**	8,184.7	13.9	**4,298.0**	4,255.7	1.0	**13,621.0**	12,440.4	9.5

Source: The Chemical Fibre Association of China

Result review

In the first half of 2012, faced with a difficult operating environment, the Company put efforts in strengthening fine management, optimizing production and operations, further reducing its costs and expenses, and optimizing its products structure. As a result, positive progress was achieved in various fields concerning production and operation.

Production and marketing

In the first half of 2012, the Company's production facilities maintained safe and stable operations. Due to the overhaul of several polyester facilities, the production volume of polyester products decreased as compared with that of the corresponding period of last year. The total production volume of polyester products was 1,083,304 tonnes, a decrease of 0.6 per cent compared with 1,090,276 tonnes for the corresponding period of 2011. The capacity utilisation rate of polyester utilities reached 93.8 per cent. The total production volume of purified terephthalic acid ("**PTA**") was 541,227 tonnes, an increase of 1.7 per cent compared with 532,032 tonnes for the corresponding period of last year. In the first half of 2012, the Company maintained a balance between production and sales, and enhanced the capacity of adapting market and meeting customer. The Company's total sales volume of polyester products reached 837,648 tonnes, a decrease of 4.2 per cent compared with 874,128 tonnes in the corresponding period of 2011. The Company's export volume of polyester products was 37,928 tonnes, an increase of 2.7 per cent compared with 36,920 tonnes for the corresponding period of 2011. Excluding the self-consumption volume and other factors, the ratio of sales to production reached 97.2 per cent.

New product development and technological innovation

In the first half of 2012, the Company further optimized its products structure. Meanwhile, responding to the cost and margin situation and market changes, the Company actively optimized its operating plans, and endeavored to produce and sell differentiated products with higher profit. Twenty-four new polyester products were successfully developed. In the first half of 2012, the Company's total production volume of specialized polyester chips amounted to 468,262 tonnes and the specialized rate was 88.7 per cent, 1.9 percentage points higher than that of the corresponding period of 2011. The total production volume of differential polyester fibre amounted to 301,459 tonnes and the differential rate of polyester fibre was 89.2 per cent, 0.1 percentage points higher than that of the corresponding period of 2011.

Cost control

In the first half of 2012, the weighted average prices (excluding VAT) of the Company's polyester products decreased by 17.6 per cent compared with the corresponding period of last year, while the weighted average purchase prices of principal purchased raw materials of the Company, such as PTA, mono-ethylene glycol ("**MEG**") and parxylene ("**PX**"), decreased by 11.8 per cent compared with the corresponding period of 2011. The Company tried to decrease the consumption of raw materials and energy by strengthening fine management and implementing technical reform, resulting in the comprehensive energy consumption for main products decreasing by 2.9 per cent compared with the corresponding period of 2011. Measures for reducing cost and increasing efficiency were implemented together by strictly implementing overall budget control. In the first half of 2012, due to increase in freight and technology development fee, the Company's selling and administrative expenses increased by 1.3 per cent and 3.1 per cent respectively from those of the first half of 2011. Due to the increase in net exchange gains, the net finance income increased by 5.7 per cent from those of the first half of 2011.

Capital expenditure

In the first half of 2012, the Company's total capital expenditure was RMB610,228,000. To maximize investment contribution, the Company strengthened investment management in accordance with the prudence principle. The 1,4-Butanediol project with an annual capacity of 100,000 tonnes is during equipment commissioning period, and is expected to complete and put into production in October 2012. The construction of differential polyester staple fibre project (third unit) with an annual capacity of 100,000 tonnes and the construction of specialized polyester chip project with an annual capacity of 400,000 tonnes were implemented smoothly, and is expected to complete and put into production in October 2012 and March 2013 respectively. The differential polyester staple fibre project (ninth unit) with an annual capacity of 100,000 tonnes had come into construction in May 2012, and is expected to complete and put into production in March 2013.

Business prospects

In the second half of 2012, the business situation domestic polyester industry is going to be confronted with is still not so optimistic. Due to the lingering European debt crisis, the world economy will still continue to slow down, posing great downward pressure upon Chinese economy, which makes the polyester market demand difficult to recover rapidly and effectively. In the meanwhile, owning to the newly increased polyester production capacity springing up largely, the oversupply situation further aggravated, which intensified the polyester industry competitiveness more and more. However, with the effects of various measures issued by the Chinese government to stimulate stable economy growth emerging gradually, we could see some positive signs in the polyester market and in its corresponding profit margin as compared with the first half of 2012.

In the second half of 2012, faced with a more difficult operation environment, the Company will continue to strengthen fine management, reduce costs and expenses and optimize products structure so as to achieve better operating results. The following will be set as priorities in the second half of 2012:

I. Strengthen production management and meticulously maintain safe and stable operation of production facilities

To ensure safe and stable operation of production facilities, the Company will further strengthen spot management, meticulously organize production and implement strict measures and controls over key facilities and areas. Priorities will be given to the production preparation of newly-launched 1,4-butanediol project and staple fibre project to ensure these projects will be successfully put into production. The Company will continuously stabilize and improve product quality, and enhance the properties of products to fulfill consumers' needs. In the second half of 2012, the Company's projected production volume of polyester products is 1,145,000 tonnes, and the projected 2012 annual production volume of polyester products is 2,228,000 tonnes, 2.2 per cent higher than production volume in 2011. The Company's projected production volume of PTA for the second half of 2012 is 522,000 tonnes. The projected 2012 annual production volume of PTA is 1,063,000 tonnes, 2.0 per cent higher than that in 2011.

Business prospects (continued)

II. Pay close attention to market change and better balance material supply, production and sales

The Company will pay close attention to market changes, further balance materials supply with, production and sales, make greater efforts in selling product, and ensure the balance between production and sales of newly-launched 1,4-butanediol project and staple fibre project. Meanwhile, the Company will control the pace of raw material procurement and storage levels to reduce market risks and strive for greater profit. In the second half of 2012, the Company's projected sales volume of polyester products is 920,000 tonnes. The 2012 projected sales volume of polyester products is 1,758,000 tonnes, a decrease of 1.0 per cent from that of 2011. The ratio of sales to production is expected to reach 100 per cent in the second half of 2012.

III. Improve product structure and profit contribution from differential products

The Company will further optimize product structure to meet market demand, and expand the production of specialized and differential products which have strong profitability. Meanwhile, the Company will continue to concentrate the market expansion of new products and stable sales of key products so as to further improve the profit contribution from differential products. In the second half of 2012, the Company's projected production volume of specialized polyester chips and differential fibre products is 480,000 tonnes and 316,000 tonnes respectively. Specialized rates are expected to be 87.9 per cent and differential rates are expected to be 89.3 per cent.

IV. Greatly reduce cost and expenses and actively carry out energy-consumption savings

The Company will continue to carry out the measures drafted at the beginning of 2012 for reducing costs and expenses. The Company will further implement overall budget management and strictly manage extrabudgetary expenses to meet the expense control target. The Company will speed up the debt collection and strictly control capital expenditure and payment management to reduce financial pressure. The Company will continually improve energy efficiency, and reduce consumption of raw materials and energy. The Company will strive to realize the annual target on saving energy and reducing consumption of raw materials by organizing technical improvement and fine management.

Business prospects (continued)

V. **Accelerate effective development and enhance continual competitiveness and profitability**

The Company will speed up effective development and enhance continuous competitiveness and profitability. The Company will meticulously organize the production work of the 1,4-Butanediol project with an annual capacity of 100,000 tonnes and differential polyester staple fibre project (third unit) with an annual capacity of 100,000 tonnes , and realize the stable and full operation of these projects as soon as possible, in the meantime exert great efforts to expand the market and sales work. The Company will well-organize and implement the construction of the polyester project with an annual capacity of 400,000 tonnes and the differential staple fibre project (ninth unit) with an annual capacity of 100,000 tonnes, which is expected to be put into operation in March 2013. The Company will actively propel the construction of the PTA joint project with an annual capacity of two million tones, and endeavor to fulfill the construction of this project and commence producing by the second half of 2014.

6. MANAGEMENT DISCUSSION & ANALYSIS

The following financial figures, except where specifically noted, are extracted from the Company's unaudited interim financial report prepared in accordance with IAS 34 "Interim Financial Reporting". These data should be read in conjunction with the unaudited interim financial report and notes therein.

1. Interim results

(1) Turnover

In the first half of 2012, the Company's production facilities maintained safe and stable operations. Due to the overhaul of several polyester facilities, the production volume of polyester products decreased as compared with that of the corresponding period of last year. The Company's total production volume of polyester products was 1,083,304 tonnes, a decrease of 0.6 per cent compared to 1,090,276 tonnes for the corresponding period of 2011. The Company's capacity utilization rate reached 93.8 per cent. In the first half of 2012, the production volume of PTA steadily increased compared with the corresponding period of 2011. The Company's total production volume of PTA was 541,227 tonnes, an increase of 1.7 per cent compared with 532,032 tonnes for the corresponding period of 2011. The average capacity utilization rate for PTA facilities reached 99.0 per cent.

(1) Turnover (continued)

Production volume

	For the six months ended 30 June			
	2012		2011	
	Production volume *(tonnes)*	**Percentage of total production volume** *(%)*	Production volume *(tonnes)*	Percentage of total production volume *(%)*
Polyester products				
Polyester chips	**527,839**	**48.7**	527,485	48.4
Bottle-grade polyester chips	**199,731**	**18.4**	181,292	16.6
Staple fibre	**256,687**	**23.7**	263,206	24.1
Hollow fibre	**23,320**	**2.2**	18,350	1.7
Filament	**75,727**	**7.0**	99,943	9.2
Total	**1,083,304**	**100**	1,090,276	100.0

In the first half of 2012, due to the constantly weak polyester market, the Company's total sales volume of polyester products amounted to 837,648 tonnes, a decrease of 4.2 per cent compared with 874,128 tonnes for the corresponding period of 2011. Excluding the self-consumption volume and other factors, the ratio of sales to production reached 97.2 per cent. The Company's export volume of polyester products was 37,928 tonnes, an increase of 2.7 per cent compared to 36,920 tonnes for the corresponding period of 2011. The weighted average prices (excluding VAT) of the Company's polyester products decreased from RMB11,613/tonne for the corresponding period of 2011 to RMB9,566/tonne for the first half of 2012, representing a 17.6 per cent decrease. As a result, the profit margin of polyester products of the Company substantially decreased compared with the corresponding period of 2011.

(1) Turnover (continued)

Sales volume

	For the six months ended 30 June			
	2012		2011	
	Sales volume *(tonnes)*	**Percentage of total sales volume** *(%)*	Sales volume *(tonnes)*	Percentage of total sales volume *(%)*
Polyester products				
Polyester chips	**302,584**	**36.1**	330,901	37.8
Bottle-grade polyester chips	**197,572**	**23.6**	181,602	20.8
Staple fibre	**258,171**	**30.8**	266,427	30.5
Hollow fibre	**21,904**	**2.6**	17,706	2.0
Filament	**57,417**	**6.9**	77,492	8.9
Total	**837,648**	**100.0**	874,128	100.0

Average Prices for Products (RMB/tonne, excluding VAT)

	For the six months ended 30 June		
	2012	2011	Change *(%)*
Polyester products			
Polyester chips	**8,918**	10,991	(18.9)
Bottle-grade polyester chips	**9,595**	11,110	(13.6)
Staple fibre	**9,970**	12,342	(19.2)
Hollow fibre	**11,603**	12,413	(6.5)
Filament	**10,280**	12,762	(19.4)
Weighted average price	**9,566**	11,613	(17.6)

(1) Turnover (continued)

Turnover

	For the six months ended 30 June			
	2012		2011	
	Turnover	**Percentage of turnover**	Turnover	Percentage of turnover
	RMB'000	***(%)***	*RMB'000*	*(%)*
Polyester products				
Polyester chips	**2,698,513**	**32.4**	3,636,860	35.2
Bottle-grade polyester chips	**1,895,739**	**22.8**	2,017,508	19.5
Staple fibre	**2,573,883**	**30.9**	3,288,302	31.8
Hollow fibre	**254,161**	**3.0**	219,780	2.1
Filament	**590,248**	**7.1**	988,929	9.6
Others	**316,051**	**3.8**	181,208	1.8
Total	**8,328,595**	**100.0**	10,332,587	100.0

In the first half of 2012, because the Company's total sales volume of the polyester products and the weighted average price of polyester products decreased by 4.2 per cent and 17.6 per cent respectively compared with the corresponding period of 2011, the Company's turnover decreased from RMB10,332,587,000 for the corresponding period of 2011 to RMB8,328,595,000, representing a 19.4 per cent decrease.

(2) Cost of sales

In the first half of 2012, the Company's cost of sales was RMB8,282,688,000, a decrease of RMB983,306,000 compared with RMB9,265,994,000 for the corresponding period of 2011, representing 99.4 per cent of turnover. The decrease in cost of sales was mainly due to substantial decrease in the costs of raw materials. Total costs of raw materials decreased by 14.0 per cent, from RMB8,079,404,000 to RMB6,944,528,000, compared with the corresponding period of 2011, accounting for 83.8 per cent of the cost of sales. The decrease was mainly due to the fall in the purchase costs of raw materials. In the first half of 2012, the weighted average price of external purchased polyester raw materials decreased by 11.8 per cent compared with the corresponding period of 2011. Of this decrease, the average purchase costs of PX, PTA and MEG decreased by 6.1 per cent, 19.2 per cent and 15.6 per cent respectively compared with the corresponding period of 2011.

(2) Cost of sales (continued)

In the first half of 2012, because turnover decreased by 19.4 per cent compared with the corresponding period of 2011, and cost of sales decreased by 10.6 per cent compared with the corresponding period of 2011, the Company's gross profit decreased by RMB1,020,686,000 to RMB45,907,000 compared with the corresponding period of 2011. The Company's gross margin was 0.6 per cent, a decrease of 9.7 percentage points compared with the corresponding period of 2011.

(3) Selling expenses, administrative expenses and net financial income

	For the six months ended 30 June		
	2012	2011	Change
	RMB'000	*RMB'000*	*(%)*
Selling expenses	**110,385**	108,938	1.3
Administrative expenses	**268,622**	260,504	3.1
Net financial income	**(22,874)**	(21,634)	5.7
Total	**356,133**	347,808	2.4

In the first half of 2012, due to increase in freight charges, the Company's selling expenses increased by 1.3 per cent from those of the first half of 2012. Due to the increase in technology development fee, the Company's administrative expenses increased by 3.1 per cent from those of the first half of 2011. Due to the increase in net exchange gains, the net finance income increased by 5.7 per cent from those of the first half of 2011. The total increase in selling expenses, administrative expenses and net finance income was 2.4 per cent from that of the first half of 2011.

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

	For the six months ended 30 June		
	2012	2011	Change
	RMB'000	*RMB'000*	*(%)*
Operating (loss)/profit	**(338,971)**	747,377	(145.4)
(Loss)/profit before taxation	**(306,842)**	775,258	(139.6)
Income tax (credit)/expense	**(92,207)**	189,961	(148.5)
(Loss)/profit attributable to equity shareholders of the Company	**(214,635)**	585,297	(136.7)
Basic (loss)/earnings per share (in RMB)	**(0.054)**	0.146	(136.7)

In the first half of 2012, though the Company has made great efforts in strengthening fine management, optimizing production and operations, endeavoring to further reduce costs and expenses, and optimizing the products structure, the Company's loss before taxation and loss attributable to equity shareholders of the Company was RMB306,842,000 and RMB214,635,000 respectively, while the Company's profit before taxation and profit attributable to equity shareholders of the Company for the first half of 2011 was RMB775,258,000 and RMB585,297,000 respectively, which was due to constantly weak polyester market, sharp fall in prices of polyester products and substantial decrease in profit margin of polyester products.

(5) Statement of the operations by products

Polyester products contributed more than 10 per cent of the Company's income from operations and operating profit. The following is the statement of operations by products for the six months ended 30 June 2012 in accordance with the PRC Accounting Standards for Business Enterprises.

Products	Operating income	Cost of sales	Gross profit margin	Increase/ (decrease) in operating income as compared with the corresponding period of last year	Increase/ (decrease) in cost of sales as compared with the corresponding period of last year	Gross profit margin as compared with the corresponding period of last year
	RMB'000	*RMB'000*	*(%)*	*(%)*	*(%)*	
Polyester products	8,012,544	7,802,216	2.6	(21.1)	(12.8)	Decreased by 9.2 percentage points
Including:						
Polyester chips	2,698,513	2,648,032	1.9	(25.8)	(15.2)	Decreased by 12.2 percentage points
Bottle-grade polyester chips	1,895,739	1,783,127	5.9	(6.0)	(2.3)	Decreased by 3.6 percentage points
Staple and hollow fibre	2,828,044	2,703,013	4.4	(19.4)	(12.1)	Decreased by 7.9 percentage points
Filament	590,248	668,044	(13.2)	(40.3)	(27.9)	Decreased by 19.5 percentage points

During the reporting period, the Company did not sell any products or provide any services to its controlling shareholder and their subsidiaries.

(6) Operating income by regions

The following is the statement of operations by products for the six months ended 30 June 2012 in accordance with the PRC Accounting Standards for Business Enterprises.

Region	Operating income	Increase/ (decrease) from last year
	RMB'000	*(%)*
Mainland	7,966,206	(19.6)
Hong Kong, Macau, Taiwan, and overseas	362,389	(14.5)

(7) Reasons for the significant changes in the gross margin compared to that of 2011 in accordance with the PRC Accounting Standards for Business Enterprises

In the first half of 2012, the Company's gross margin decreased to 2.4 per cent, by 7.4 percentage points compared with 2011. The decrease was mainly due to constantly weak polyester market, sharp fall in prices of polyester products and substantial decrease in profit margin of polyester products.

2. Financial Analysis

The Company'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 30 June 2012 *RMB'000*	At 31 December 2011 *RMB'000*	Variance *RMB'000*
Total assets	**10,632,477**	11,449,599	(817,122)
Current assets	**4,823,893**	6,130,656	(1,306,763)
Non-current assets	**5,808,584**	5,318,943	489,641
Total liabilities	**1,975,173**	2,457,660	(482,487)
Current liabilities	**1,922,231**	2,402,659	(480,428)
Non-current liabilities	**52,942**	55,001	(2,059)
Total equity attributable to equity shareholders of the Company	**8,657,304**	8,991,939	(334,635)

As at 30 June 2012, the Company's total assets were RMB10,632,477,000, total liabilities were RMB1,975,173,000, and total equity attributable to equity shareholders of the Company was RMB8,657,304,000. Compared with the assets and liabilities as at 31 December 2011 (hereinafter referred to as "**compared with the end of last year**"), the variations and main causes of such changes are described as follows:

(1) Assets, liabilities and shareholders' equity analysis (continued)

Total assets were RMB10,632,477,000, a decrease of RMB817,122,000 compared with the end of last year. Current assets were RMB4,823,893,000, a decrease of RMB1,306,763,000 compared with the end of last year. The decrease was mainly due to the decrease in trade and other receivables by RMB409,709,000 owing to the rise in bills endorsement in the first half of 2012. Meanwhile, cash and cash equivalents decreased by RMB788,390,000 due to net cash outflow from operating activities and the rise in capital expenditure. Non-current assets were RMB5,808,584,000, an increase of RMB489,641,000 compared with the end of last year, mainly due to the increase in construction in progress and interest in jointly controlled entity by RMB484,757,000 and RMB113,872,000 respectively in the first half of 2012.

Total liabilities were RMB1,975,173,000, a decrease of RMB482,487,000 compared with the end of last year. Current liabilities were RMB1,922,231,000, a decrease of RMB480,428,000 compared with the end of last year, mainly due to the decrease of RMB480,428,000 in trade and other payables during the current period. Non-current liabilities were RMB52,942,000, a decrease of RMB2,059,000 compared with the end of last year.

Total equity attributable to equity shareholders of the Company was RMB8,657,304,000, a decrease of RMB334,635,000 compared with the end of last year, mainly due to the loss attributable to equity shareholders of the Company amounting to RMB214,635,000 in the first half of 2012.

As at 30 June 2012, total liabilities to total assets ratio was 18.6 per cent, whereas 21.5 per cent as at 31 December 2011.

(2) Cash flow analysis

In the first half of 2012, cash and cash equivalents decreased by RMB788,390,000, representing a decrease from RMB1,506,821,000 as at 31 December 2011 to RMB718,431,000 as at 30 June 2012. The following table lists major items in the consolidated cash flow statement of the Company for the first half of 2012 and 2011.

	For the six months ended 30 June	
Major items in cash flow statement	**2012**	2011
	RMB'000	*RMB'000*
Net cash used in operating activities	**(503,277)**	(389,437)
Net cash used in investing activities	**(285,113)**	(1,057,515)
Net cash used in financing activities	**–**	(48,000)
Net decrease in cash and cash equivalents	**(788,390)**	(1,494,952)
Cash and cash equivalents at the beginning of the period	**1,506,821**	2,323,802
Cash and cash equivalents at the end of the period	**718,431**	828,850

In the first half of 2012, the Company's net cash outflow from operating activities was RMB503,277,000, representing an increase of cash outflow by RMB113,840,000 compared with the corresponding period of 2011. This was mainly due to the decrease in the loss attributable to equity shareholders of the Company by RMB799,932,000 compared with the corresponding period of 2011 and the decrease in operating receivables by RMB535,272,000.

(2) Cash flow analysis (continued)

In the first half of 2012, the Company's net cash outflow from investing activities was RMB285,113,000, a decrease of cash outflow by RMB772,402,000 compared with the corresponding period of 2011. This was mainly due to the following: (1) Available-for-sale financial assets decreased by RMB200,000,000 in the first half of 2012, while there had been an increase of RMB500,000,000 in the first half of 2011. As a result, the net cash outflow from investing activities decreased by RMB700,000,000. (2) Deposits with banks and other financial institutions not changed in the first half of 2012, while there had been an increase of RMB871,544,000 in the first half of 2011. As a result, the net cash outflow from investing activities decreased by RMB871,544,000. (3) In the first half of 2012, the net cash outflow from investing activities increased by RMB259,753,000 and RMB111,368,000 respectively due to the increase in capital expenditure and interest in jointly controlled entity. (4) A cash inflow by RMB408,090,000 from disposal of financial assets held for trading in the first half of 2011, as result of compared with first half of 2012, an increase by RMB408,090,000 of net cash outflow from investing activates as there was no such income within the first half of 2012.

In the first half of 2012, the Company's net cash outflow from financing activities was nil, a decrease of cash outflow by RMB48,000 compared with the corresponding period of 2011. It was mainly due to the payment of final dividends for the year ended 31 December 2010 in the first half of 2011.

(3) Bank borrowings

As at 30 June 2012, the Company's bank loans were nil (as at 31 December 2011: nil).

(4) Debt-equity ratio

The debt-equity ratio of the Company was nil for the first half of 2012 (first half of 2011: nil). The ratio is computed by dividing long-term borrowings by the sum of long-term borrowings and shareholders' equity.

(5) Assets charges

As at 30 June 2012, there was not any charge in the Company's assets.

(6) Management of foreign exchange risk

The Company's operations are mainly dominated in Renminbi and foreign currency needed was mainly dominated in US dollars. Receivables and payable items of the Company are settled immediately under current items. Therefore, there is no material adverse effect on the Company as a result of the fluctuations in foreign exchange rates.

3. Capital Expenditure

In the first half of 2012, the Company's capital expenditure amounted to RMB610,228,000. The following table provided information on the Company's major construction projects and their returns in the first half of 2012.

Name of Main project	Amount invested in the first half of 2012 *RMB'000*	Progress of project	Project return
1,4-butanediol project with an annual capacity of 100,000 tonnes	312,738	Under construction	–
Specialised polyester chip project with an annual capacity of 400,000 tonnes	63,824	Under construction	–
Differential staple fibre project with an annual capacity of 100,000 tonnes (third unit)	77,382	Under construction	–
Differential staple fibre project with an annual capacity of 100,000 tonnes (ninth unit)	587	Under construction	–
PTA joint project with an annual capacity of two million tonnes	111,368	Under construction	–
Others	44,329	–	–
Total	610,228	–	–

The Company's capital expenditure for the second half of 2012 is projected to be approximately RMB908,000,000. Including: 1,4-Butanediol project with an annual capacity of 100,000 tonnes, PTA joint project with an annual capacity of two million tonnes, specialised polyester project with an annual capacity of 400,000 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 RMB130,660,000, RMB212,864,000, RMB130,580,000, RMB76,750,000 and RMB119,410,000 respectively. In the second half of 2012, in order to maximize return on investment, the Company will arrange the schedule of capital expenditure in accordance with the prudential principle. The planned capital expenditures will be funded from cash generated from operations and bank credit facilities.

7. SIGNIFICANT EVENTS

1. Since the issuing and listing of A share and H share on domestic and foreign markets, the Company committed itself to improving the level of corporate governance. In light of the new regulatory requirements in both local and overseas markets, the Company set up a relative consummate governance structure and mechanism based on the mutual restriction and balance among the Shareholders' Convention, the board, the Supervisory Committee and the management layers. It meets the requirements of pertinent laws and rules of regulatory institutes.

2. 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 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.

   In light of the new regulatory requirements both domestic and overseas, the third meeting of the seventh term of the Board held on 26 March 2012 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 Self-evaluation Report of the Board on Internal Control System was considered and approved by the third meeting of the seventh term of the Board, and was disclosed on the website of SSE and HKSE. The internal control system (2012 Revision) was examined, revised and approved by the third meeting of the seventh term of the Board.

Pursuant to the related regulatory requirements, the Company engaged KPMG Huazhen to audit internal control regarding financial report. On 26 March 2012, 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.

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

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

4. As approved by 2011 AGM held on 15 June 2012, the Company paid a final cash dividend of RMB0.03 per share (including tax) for the year ended 31 December 2011 on 27 July 2012. Details of dividend payments to domestic shareholders were disclosed in China Securities, Shanghai Securities News and Securities Times on 9 July 2012, while the details of dividend payments to international shareholders were included in the announcement dated 19 June 2012 and disclosed on the website of HKSE, and the announcement of the resolutions passed in the 2011 AGM, which were disclosed in China Securities, Shanghai Securities News, Securities Times and on the website of HKSE on 16 June 2012.

   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 2012.

The Company has been carrying out prudent cash bonuses policy and putting great emphasis on the investment return. And the formulation and implementation of cash bonuses policy and program conform to the regulations of the Articles of Association of the Company and the requirements of shareholders meetings' resolutions. The Articles of Association of the Company safeguard minority shareholder's benefits effectively through specifying relevant decision-making process and mechanism, cash bonuses standards and proportions. Moreover, the Company has already revised relevant provisions of its the Articles of Association in accordance with new requirements of the cash bonuses supervision set by the regulatory authority, further improving its profits distribution, especially the decision-making process and mechanism of cash bonuses policy. All of these efforts (1) further standardize the established profits distribution policy, especially the decision-making process and mechanism adjusted by the cash bonuses policy; (2) fully implement independent director' roles; and (3) further standardize the protection of the rights of minority shareholders expressing their perspectives and making their appeals; (4) further standardize profits distribution policy, particularly specific contents of cash bonuses policy. The revised version of the Company's Articles of Association has already been reviewed and approved through the fifth meeting of the seventh session of the Board, which will then be submitted to the extraordinary general meeting for approval before implementation.

5. During the reporting period, the Company was not involved in any material litigation or arbitration.

6. During the reporting period, the Company had no acquisition or disposals of assets, nor any merger and acquisitions activities.

7. Information on connected transactions

The Company's material connected transactions entered into during the period ended 30 June 2012 were as follows:

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

Type of transaction	Transaction parties	Amount of transaction *RMB'000*	Proportion of the same type of transaction *(%)*
Purchase of raw materials	Sinopec and its subsidiaries	4,888,388	60.5

The Company believes that the above-mentioned connected transactions and related connected parties were necessary and continuous, and that the agreements governing these transactions met with the requirements of business operations and the market situation. The Company also believes that purchasing goods from the above related parties ensures a steady and secured supply of raw materials. These connected transactions are therefore beneficial to the Company. These transactions were mainly negotiated at market prices. The above transactions have no adverse effect on the profit of the Company and independence of the Company.

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

The Board believed that the above transactions were entered into in the ordinary course of business and in normal commercial terms or in accordance with the terms of agreements governing these transactions. The above applicable connected transactions fully complied with the related regulations issued by HKSE and the SSE.

For details of connected transactions during the reporting period, please refer to note 5 of the interim financial report prepared in accordance with PRC Accounting Standards for Business Enterprises.

8. During the reporting period, there were no non-operating funds supplied by the Company to the controlling shareholders and its subsidiary.

9. During the reporting period, the Company did not have any assets rented by, contracted out or held on trust 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. The Company did not make any guarantee or pledge during the reporting period.

11. As at 30 June 2012, the Company did not have any designated deposits with any financial institutions or any difficulties in collecting deposits upon maturity. The Company 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 Company and its shareholders who hold more than five per cent of the Company's shares did not have any undertakings which required disclosures.

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

8. INTERIM FINANCIAL REPORT

(A) Interim financial report prepared in accordance with the PRC Accounting Standards for business enterprise

Balance sheet (Unaudited)

(Expressed in thousands of Renminbi yuan)

Assets	*Note*	**30 June 2012**	31 December 2011
Current assets:			
Cash at bank and on hand	*4(1)*	**753,431**	1,541,821
Bills receivable	*4(2)*	**1,644,373**	2,236,236
Accounts receivable	*4(3)*	**155,762**	104,668
Prepayments	*4(4)*	**184,265**	59,625
Other receivables	*4(5)*	**150,836**	11,718
Inventories	*4(6)*	**1,859,089**	1,756,664
Available-for-sale financial assets	*4(7)*	**–**	200,000
Other current assets	*4(8)*	**–**	219,924
Total current assets		**4,747,756**	6,130,656
Non-current assets:			
Long-term equity investments	*4(9)*	**416,961**	303,089
Fixed assets	*4(10)*	**3,169,472**	3,366,832
Construction in progress	*4(11)*	**1,536,292**	1,201,201
Intangible assets	*4(12)*	**310,118**	325,285
Deferred tax assets	*4(13)*	**226,075**	122,536
Total non-current assets		**5,658,918**	5,318,943
Total assets		**10,406,674**	11,449,599

The notes on pages 41 to 109 form part of these financial statements.

Balance sheet (Unaudited) (continued)

(Expressed in thousands of Renminbi yuan)

Liabilities and shareholders' equity	*Note*	**30 June 2012**	31 December 2011
Current liabilities:			
Accounts payable	*4(15)*	**1,099,470**	1,605,443
Advances from customers	*4(16)*	**216,142**	345,656
Employee benefits payable	*4(17)*	**183,612**	61,927
Dividends payable	*4(18)*	**120,000**	–
Taxes payable	*4(19)*	**(218,435)**	12,322
Other payables	*4(20)*	**295,639**	377,311
Total current liabilities		**1,696,428**	2,402,659
Non-current liabilities:			
Deferred income	*4(21)*	**15,671**	16,315
Total non-current liabilities		**15,671**	16,315
Total liabilities		**1,712,099**	2,418,974
Shareholders' equity:			
Share capital	*4(22)*	**4,000,000**	4,000,000
Capital reserve	*4(23)*	**3,146,794**	3,146,794
Specific reserve	*4(24)*	**520**	–
Surplus reserve	*4(25)*	**200,383**	200,383
Retained earnings	*4(26)*	**1,346,878**	1,683,448
Total shareholders' equity		**8,694,575**	9,030,625
Total liabilities and shareholders' equity		**10,406,674**	11,449,599

These financial statements were approved by the Board of Directors of the Company on 27 August 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 41 to 109 form part of these financial statements.

Income statement (Unaudited)

for the six months ended 30 June

(Expressed in thousands of Renminbi yuan)

	Note	**2012**	2011
I. Operating income	*4(27)*	**8,328,595**	10,332,587
II. Less: Operating costs	*4(27)*	**8,130,724**	9,095,394
Business taxes and surcharges	*4(28)*	**384**	22,353
Selling and distribution expenses	*4(29)*	**110,385**	108,938
General and administrative expenses	*4(30)*	**419,070**	413,516
Net financial income	*4(31)*	**(22,874)**	(21,634)
Impairment losses	*4(34)*	**1,652**	888
Add: Losses from changes in fair value	*4(32)*	**–**	(310)
Investment income	*4(33)*	**9,255**	6,557
Including: Income from investment in jointly controlled enterprises		**2,504**	–
III. Operating (losses)/profit		**(301,491)**	719,379
Add: Non-operating income	*4(35)*	**2,116**	55,653
Less: Non-operating expenses	*4(36)*	**9,402**	313
Including: Losses from disposal of non-current assets		**4,146**	71
IV. (Losses)/Profit before income tax		**(308,777)**	774,719
Less: Income tax expenses	*4(37)*	**(92,207)**	189,961
V. Net (losses)/profit for the period		**(216,570)**	584,758
Attributable to shareholders of the Company		**(216,570)**	584,758
VI. Earnings per share:			
(1) Basic (losses)/earnings per share (in RMB)	*4(38)*	**(0.054)**	0.146
(2) Diluted (losses)/earnings per share (in RMB)	*4(38)*	**(0.054)**	0.146

The notes on pages 41 to 109 form part of these financial statements.

Income statement (Unaudited) (continued)
for the six months ended 30 June
(Expressed in thousands of Renminbi yuan)

	Note	**2012**	2011
VII. Other comprehensive income for the period	*4(39)*	**–**	–
VIII. Total comprehensive income for the period		**(216,570)**	584,758
Attributable to shareholders of the Company		**(216,570)**	584,758

These financial statements were approved by the Board of Directors of the Company on 27 August 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 41 to 109 form part of these financial statements.

Cash flow statement (Unaudited)

for the six months ended 30 June

(Expressed in thousands of Renminbi yuan)

	Note	2012	2011
1. Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		**8,782,710**	10,022,695
Refund of taxes		**2,019**	1,960
Sub-total of cash inflows		**8,784,729**	10,024,655
Cash paid for goods and services		**(8,533,924)**	(9,297,648)
Cash paid to and for employees		**(411,107)**	(365,936)
Cash paid for all types of taxes		**(94,197)**	(491,728)
Cash paid relating to other operating activities	*4(40)(a)*	**(248,778)**	(258,780)
Sub-total of cash outflows		**(9,288,006)**	(10,414,092)
Net cash outflow from operating activities	*4(41)(a)*	**(503,277)**	(389,437)
2. Cash flows from investing activities:			
Cash received from disposal of investment		**406,751**	408,090
Net cash received from disposal of fixed assets		**1,520**	27,428
Cash received relating to other investing activities	*4(40)(b)*	**19,255**	20,029
Sub-total of cash inflows		**427,526**	455,547
Cash paid for acquisition of fixed assets and intangible assets		**(401,271)**	(141,518)
Cash paid for acquisition of financial assets		**(200,000)**	(500,000)
Cash paid for investment in jointly controlled enterprises		**(111,368)**	–
Sub-total of cash outflows		**(712,639)**	(641,518)
Net cash outflow from investing activities		**(285,113)**	(185,971)

The notes on pages 41 to 109 form part of these financial statements.

Cash flow statement (Unaudited) (continued)

for the six months ended 30 June

(Expressed in thousands of Renminbi yuan)

	Note	**2012**	2011
3. Cash flows from financing activities:			
Cash paid for dividends, profit distributions or interest		**–**	(48,000)
Sub-total of cash outflows		**–**	(48,000)
Net cash outflow from financing activities		**–**	(48,000)
4. Effect of exchange rate changes on cash and cash equivalents		**–**	–
5. Net decrease in cash and cash equivalents	*4(41)(a)*	**(788,390)**	(623,408)
Add: Cash and cash equivalents at the beginning of the period		**1,541,821**	2,767,258
6. Cash and cash equivalents at the end of the period	*4(41)(b)*	**753,431**	2,143,850

These financial statements have been approved by the Board of Directors of the Company on 27 August 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 41 to 109 form part of these financial statements.

Statement of changes in shareholders' equity (Unaudited)
for the six months ended 30 June
(Expressed in thousands of Renminbi yuan)

	Note	2012 Share capital	2012 Capital reserve	2012 Specific reserve	2012 Surplus reserve	2012 Retained earnings	2012 Total share-holders' equity	2011 Share capital	2011 Capital reserve	2011 Specific reserve	2011 Surplus reserve	2011 Retained earnings	2011 Total share-holders' equity
1. Balance at the beginning of the period		**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
2. Changes in equity for the period													
(1) Net (losses)/profit for the period		**–**	**–**	**–**	**–**	**(216,570)**	**(216,570)**	–	–	–	–	584,758	584,758
(2) Other comprehensive income		**–**	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–	–
Sub-total of (1) & (2)		**–**	**–**	**–**	**–**	**(216,570)**	**(216,570)**	–	–	–	–	584,758	584,758
(3) Appropriation of profit distributions to shareholders	*4(26)*	**–**	**–**	**–**	**–**	**(120,000)**	**(120,000)**	–	–	–	–	(120,000)	(120,000)
(4) Specific reserve													
(a) Accrued		**–**	**–**	**550**	**–**	**–**	**550**	–	–	539	–	–	539
(b) Utilised		**–**	**–**	**(30)**	**–**	**–**	**(30)**	–	–	–	–	–	–
Sub-total of (a) & (b)		**–**	**–**	**520**	**–**	**–**	**520**	–	–	539	–	–	539
3. Balance at the end of the period		**4,000,000**	**3,146,794**	**520**	**200,383**	**1,346,878**	**8,694,575**	4,000,000	3,146,794	1,294	116,843	1,512,703	8,777,634

These financial statements were approved by the Board of Directors of the Company on 27 August 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 41 to 109 form part of these financial statements.

Notes to the financial statements

(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. 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 Corporation ("CITIC", formerly "CITIC Group") 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".

1 Company status (continued)

On 27 December 2011, CITIC 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 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 are the manufacturing and sale of chemical fibre and chemical fibre raw materials.

2 Significant accounting policies and accounting estimates

(1) Basis of preparation of the financial statements

The financial statements have been prepared on the basis of going concern.

(2) Statement of compliance

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 financial position of the Company as at 30 June 2012, and the financial performance and the cash flows of the Company for the six months ended 30 June 2012.

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

(5) 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.

2 Significant accounting policies and accounting estimates (continued)

(6) Foreign currencies transactions

When the Company 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.

(7) Financial instruments

Financial instruments include cash at bank and on hand, receivables, held-to-maturity financial assets, 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 Company becomes a party to the contractual provisions of a financial instrument.

The Company 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.

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:

— 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.

2 Significant accounting policies and accounting estimates (continued)

(7) Financial instruments (continued)

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

— Held-to-maturity investments

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

Subsequent to initial recognition, held-to-maturity investments 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.

Available-for-sale investments in equity instruments whose fair value cannot be measured reliably are measured at cost subsequent to initial recognition. Other available-for-sale financial assets are measured at fair value subsequent to initial recognition 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 an investment is derecognised, the cumulative gain or loss is reclassified from equity to profit or loss. Dividend income from the available-for-sale equity instruments is recognised in profit or loss when the investee declares the dividends.

— 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.

2 Significant accounting policies and accounting estimates (continued)

(7) Financial instruments (continued)

(b) Presentation of financial assets and financial liabilities

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 Company has a legal right to set off the recognised amounts and the legal right is currently enforceable; and

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

(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 Company calibrate the valuation technique and test it for validity periodically.

(d) Derecognition of financial assets and financial liabilities

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

2 Significant accounting policies and accounting estimates (continued)

(7) Financial instruments (continued)

(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 evidence that a financial asset is impaired includes but is not limited to:

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

(ii) a breach of contract by the borrower, 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 faced by the issuer;

(v) significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, indicating that the cost of an investment in an equity instrument may not be recovered by the investor; and

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

For the calculation method of impairment of receivables, refer to Note 2(8). The impairment of other financial assets is measured as follows:

— Held-to-maturity investments

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

2 Significant accounting policies and accounting estimates (continued)

(7) Financial instruments (continued)

(e) Impairment of financial assets (continued)

— Held-to-maturity investments (continued)

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

— Available-for-sale financial assets

Available-for-sale financial assets are assessed for impairment on an individual basis. When an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value that has been recognised directly in shareholders' equity is reclassified to 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.

2 Significant accounting policies and accounting estimates (continued)

(8) 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.

(a) Receivables that are individually significant and assessed individually for impairment:

Judgement basis or criteria for receivables that are individually significant	Larger than 5 percent of total receivables
Method of provisioning for bad and doubtful debts for receivables that are individually significant and assessed individually	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.

(b) Receivable that are individually insignificant but assessed individually for impairment:

Reasons for assessing individually for impairment of receivables that are individually insignificant	Receivables which are overdue more than 1 year or with special characteristics.
Method of provision for bad and doubtful debts	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.

2 Significant accounting policies and accounting estimates (continued)

(8) Impairment of receivables (continued)

(c) Receivables that are collectively assessed for impairment:

Receivables that have not been individually assessed as impaired in the above assessments in Notes (a) and (b), are included in the collective assessment of impairment for receivables sharing similar credit risk characteristics.

The provisioning for groups of receivables using the ageing analysis method:

Ageing	Provisions as a percentage of accounts receivable *(%)*	Provisions as a percentage of other receivables *(%)*
Within 1 year (inclusive)	–	–
Over 1 year but within 2 years (inclusive)	30%	30%
Over 2 years but within 3 years (inclusive)	60%	60%
Over 3 years	100%	100%

(9) Inventories

(a) Classification

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) Cost of inventories transferred out

Cost of inventories transferred out is calculated using the weighted average method.

(c) Basis for determining the net realisable value of inventories and provisioning methods for decline in 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.

2 Significant accounting policies and accounting estimates (continued)

(9) Inventories (continued)

(c) Basis for determining the net realisable value of inventories and provisioning methods for decline in value of inventories (continued)

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 and relevant taxes. The net realisable value of materials held for use in the production is measured based on the net realisable value of the finished goods in which they will be incorporated. The net realisable value of the quantity of inventory held to satisfy sales or service contracts is measured based on the contract price. If the quantities held by the Company are more than the quantities of inventories specified in sales contracts, the net realisable value of the excess portion of inventories is measured 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 Company maintains a perpetual inventory system.

(e) Amortisation methods for consumables including low-value consumables and packaging materials

Consumables including low-value consumables and packaging materials are amortised in full when received for use. The amortisations are included in the cost of the related assets or recognised in profit or loss for the current period.

(10) Long-term equity investments

(a) Investment cost

Long-term equity investments acquired other than through a business combination

A long-term equity investment acquired other than through a business combination is initially recognised at the actual consideration paid if the Company acquires the investment by cash, or at the fair value of the equity securities issued if an investment is acquired by issuing equity securities, or at the value stipulated in the investment contract or agreement if an investment is contributed by shareholders.

(b) Subsequent measurement

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 Company and other parties (see Note 2(10)(c)).

2 Significant accounting policies and accounting estimates (continued)

(10) Long-term equity investments (continued)

(b) Subsequent measurement (continued)

Investment in jointly controlled enterprises (continued)

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

— After the acquisition of the investment, the Company 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 Company.

The Company 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 Company 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 Company and its jointly controlled enterprises are eliminated to the extent of the Company's interest in the jointly controlled enterprises. Unrealised losses resulting from transactions between the Company 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 Company 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 Company's net investment in the jointly controlled enterprise is reduced to zero, except to the extent that the Company has an obligation to assume additional losses. Where net profits are subsequently made by the jointly controlled enterprise, the Company resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

— The Company 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 shareholders' equity.

2 Significant accounting policies and accounting estimates (continued)

(10) Long-term equity investments (continued)

(c) Basis for determining the existence of joint control over an investee

Joint control is the contractually agreed sharing of control over an investee's economic activities, and exists only when the strategic financial and operating decisions relating to the activities require the unanimous consent of the parties sharing the control. The following factors are usually considered when assessing whether the Company can exercise joint control over an investee:

— Whether no single investor is in a position to control the investee's operating activities unilaterally;

— Whether strategic decisions relating to the investee's main operating activities require the unanimous consent of all investors;

— If one investor is appointed, through contract or agreement by all investors, to manage the investee's daily activities, whether this investor must act within the financial and operating policies that have been agreed upon by all investors.

(d) Method of impairment testing and measurement

For the method of impairment testing and measurement for investment in jointly controlled enterprise, refer to Note 2(14).

(11) Fixed assets

(a) Recognition of fixed assets

Fixed assets represent the tangible assets held by the Company 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 cost of self-constructed assets is measured in accordance with the policy set out in Note 2(12).

Where the parts of an item of fixed asset have different useful lives or provide benefits to the Company 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 criteria to recognise fixed assets 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.

2 Significant accounting policies and accounting estimates (continued)

(11) Fixed assets (continued)

(b) Depreciation of fixed assets

Cost of fixed assets less estimated residual value and accumulated impairment losses 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:

Class	**Estimated useful life** *(years)*	**Residual value rate** *(%)*	**Depreciation rate** *(%)*
Plants and buildings	20–50 years	3%	1.9%–4.9%
Machinery and equipment	5–30 years	3%	3.2%–19.4%
Motor vehicles and other fixed assets	4–8 years	3%	5.4%–24.3%

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

(c) For the method of impairment testing and measurement, refer to Note 2(14).

(d) Disposal of fixed assets

The carrying amount of a fixed asset shall be derecognised:

— when the fixed asset is 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.

(12) 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.

A self-constructed asset is included in construction in progress before it is transferred to fixed asset when it is ready for its intended use. No depreciation is provided against construction in progress. At the year end, construction in progress is stated in the balance sheet at cost less accumulated impairment losses (see Note 2(14)).

2 Significant accounting policies and accounting estimates (continued)

(13) 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(14)). 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 period** *(years)*
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 Company. At the balance sheet date, the Company does not have any intangible assets with indefinite useful lives.

Expenditure on an internal research and development project is 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 Company intends to and has sufficient resources to complete the development. Capitalised development costs are stated in the balance sheet at cost less impairment losses (see Note 2(14)). Other development expenditure is recognised as expense in the period in which it is incurred.

(14) Impairment of 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 jointly controlled enterprises

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

2 Significant accounting policies and accounting estimates (continued)

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

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

An asset's fair value less costs to sell is the amount determined by the price of a sale agreement in an arm's length transaction, less the costs that are directly attributable to the disposal of the asset. The present value of expected future cash flows of an asset is determined by discounting the future cash flows, estimated to be derived from continuing use of the asset and from its ultimate disposal, to their present value using an appropriate 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 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 lower than the greatest amount 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.

2 Significant accounting policies and accounting estimates (continued)

(15) Revenue recognition

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

(a) Sale of goods

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

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

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

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

(b) Rendering of services

Revenue from rendering of services is measured at the fair value of the considerations received or receivable under the contract or agreement.

At the balance sheet date, where the outcome of a transaction involving the rendering of services can be estimated reliably, revenue from the rendering of services is recognised 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.

2 Significant accounting policies and accounting estimates (continued)

(16) 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 Company participate in the social insurance system established and managed by government organisations. The Company 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 Company does not have any other obligations in this respect.

(b) Termination benefits

When the Company 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 Company 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 Company is not allowed to withdraw from termination plan or redundancy offer unilaterally.

(17) Specific reserve

The Company 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.

2 Significant accounting policies and accounting estimates (continued)

(18) Government grants

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

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

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

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

(19) Income taxes

Current and deferred expenses are recognised in profit or loss for the current period, except to the extent that the tax arises from a business combination or a transaction or event which is recognised directly in owner's equity (including other comprehensive income).

Current tax is the expected tax payable on the taxable income for the period, 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.

At the balance sheet date, deferred tax assets and liabilities are offset when the Company has a legally enforceable right and intends to realise the assets and settle the liabilities simultaneously.

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

2 Significant accounting policies and accounting estimates (continued)

(19) *Income taxes (continued)*

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 benefit of the deferred tax assets to be utilised. Such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

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

— the taxable entity has a legally enforceable right to offset current tax liabilities and assets; and

— they relate to income taxes levied by the same tax authority on either:

  — the same taxable entity; or

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

(20) *Profit distributions to shareholders*

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.

(21) *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 Company.

2 Significant accounting policies and accounting estimates (continued)

(21) Related parties (continued)

Related parties of the Company include, but are not limited to:

(a) the Company's parent;

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

(c) investors that exercise significant influence over the Company;

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

(e) joint ventures of the Company, including subsidiaries of joint ventures;

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

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

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

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

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

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:

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

(l) individuals who directly or indirectly hold more than 5% of the Company's shares and their close family members, supervisors of the listed company and their close family members;

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

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

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

2 Significant accounting policies and accounting estimates (continued)

(22) Segment reporting

Reportable segments are identified based on operating segments which are determined based on the structure of the Company's internal organisation, management requirements and internal reporting system. An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the Company's management to make decisions about resource to be allocated to the segment and assess its performance, and for which financial information regarding financial position, financial performance and cash flows is available.

Two or more operating segments may be aggregated into a single operating segment if the segments have similar economic characteristics and are same or 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 actual transaction price for such transactions for segment reporting, and segment accounting policies are consistent with those for the consolidated financial statements.

(23) 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 8(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(8), receivables that are measured at amortisation cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is provided. Objective evidence of impairment includes observable data that comes to the attention of the Company 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 objective evidence of a recovery in value of receivables which can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed.

2 Significant accounting policies and accounting estimates (continued)

(23) Significant accounting estimates and judgments (continued)

(b) Provision for diminution in value of inventories

As described in Note 2(9), 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 Company 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 Company'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(19), 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 Company 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(14), 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, an impairment loss is provided.

The recoverable amount of an asset (or an asset group) is the greater of its fair value less costs to sell and its present value of expected future cash flows. Since a market price of the asset (or 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.

2 Significant accounting policies and accounting estimates (continued)

(23) Significant accounting estimates and judgments (continued)

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

As described in Note 2(11) and (13), 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.

3 Taxation

Major taxes and tax rates

Taxes	Tax Basis	Tax Rate
Value added tax ("VAT")	Output VAT is calculated on product sales and taxable services revenue, 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	Based on taxable income	3% or 5%
City maintenance and construction tax	Based on business tax and VAT paid and approved export VAT exempted and offset	7%
Education fee surcharge	Based on actual payment of business tax, VAT payable and approved export VAT exempted and offset	5%
Land use tax	Based on the actual area of land occupied	RMB4 per square meter
Corporate income tax ("CIT")	Based on taxable income	25%

The CIT rate applicable to the Company is 25% (2011: 25%).

4 Notes to financial statements

(1) Cash at bank and on hand

	30 June 2012			31 December 2011		
Item	**Foreign currency**	**Exchange rate**	**RMB equivalents**	Foreign currency	Exchange rate	RMB equivalents
Cash on hand:						
Renminbi	**—**	**—**	**26**	—	—	21
Deposits with bank:						
Renminbi	**—**	**—**	**563,732**	—	—	950,210
US Dollars	**39**	**6.325**	**247**	39	6.301	246
			563,979			950,456
Deposits with related parties:						
Renminbi	**—**	**—**	**189,426**	—	—	591,344
Total			**753,431**			1,541,821

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) Bills receivable

(a) Classification of bills receivable

Item	**30 June 2012**	31 December 2011
Bank acceptance bills	**1,644,373**	2,236,236

All of the above bills are due within six months.

As at 30 June 2012 and 31 December 2011, the Company did not have any outstanding discounted bank acceptance bills (with recourse). As at 30 June 2012 the Company's outstanding endorsed bank acceptance bills (with recourse) were RMB628,397,000 (31 December 2011: RMB628,424,000). These endorsed bills will be due by 31 December 2012 (31 December 2011: due by 30 June 2012). These amounts are not included in the above balance.

As at 30 June 2012 and 31 December 2011, 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.

4 Notes to financial statements (continued)

(2) Bills receivable (continued)

(b) The five largest outstanding endorsed bills that have not matured

Issuer	Issuing date	Due date	Amount	Note
Entity A	21/05/2012	21/08/2012	10,543	Bank acceptance bills
Entity B	14/05/2012	14/08/2012	10,000	Bank acceptance bills
Entity C	21/05/2012	21/08/2012	7,650	Bank acceptance bills
Entity D	25/05/2012	25/08/2012	6,974	Bank acceptance bills
Entity E	09/05/2012	09/08/2012	6,900	Bank acceptance bills
Total			42,067	

(3) Accounts receivable

(a) Accounts receivable by customer type are as follows:

Type	*Note*	**30 June 2012**	31 December 2011
Amounts due from related parties	*5(5)*	**9,186**	7,703
Amounts due from third parties		**146,576**	96,965
Total		**155,762**	104,668

As at 30 June 2012 and 31 December 2011, the Company did not provide any bad and doubtful debt provision for the accounts receivable.

Except for balances set out in Note 5(5), 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 ageing analysis of accounts receivable is as follows:

Ageing	**30 June 2012**	31 December 2011
Within 1 year (inclusive)	**155,762**	104,668

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

4 Notes to financial statements (continued)

(3) Accounts receivable (continued)

(c) Accounts receivable by category:

Category	30 June 2012 Carrying amount Amount	30 June 2012 Carrying amount Percentage (%)	30 June 2012 Provision for bad and doubtful debts Amount	30 June 2012 Provision for bad and doubtful debts Percentage (%)	31 December 2011 Carrying amount Amount	31 December 2011 Carrying amount Percentage (%)	31 December 2011 Provision for bad and doubtful debts Amount	31 December 2011 Provision for bad and doubtful debts Percentage (%)
Collectively assessed for impairment*	**155,762**	**100**	**–**	**–**	104,668	100	–	–

Note: This category includes accounts receivable having been individually assessed but not impaired.*

During this period, balance was assessed for impairment in accordance with the accounting policy set out in Note 2(8), and there was no material or immaterial accounts receivable individually determined to be impaired; The Company did not write off any material balance or collect any amounts fully or substantially impaired in previous years.

(d) Accounts receivable by currency:

Item	30 June 2012 Foreign currency	30 June 2012 Exchange rate	30 June 2012 RMB equivalent	31 December 2011 Foreign currency	31 December 2011 Exchange rate	31 December 2011 RMB equivalent
RMB	**—**	**—**	**58,401**	—	—	39,535
USD	**15,393**	**6.325**	**97,361**	10,337	6.301	65,133
Total			**155,762**			104,668

(e) Five largest accounts receivable

Debtor	Relationship with the Company	Amount	Ageing	Percentage of total accounts receivable (%)
1. Entity A	Third Party	26,477	Within 6 months	17.00
2. Entity B	Third Party	14,276	Within 6 months	9.17
3. Entity C	Third Party	9,049	Within 6 months	5.81
4. Entity D	Third Party	7,592	Within 6 months	4.87
5. Entity E	Third Party	7,374	Within 6 months	4.73
Total		64,768		41.58

4 Notes to financial statements (continued)

(3) Accounts receivable (continued)

(f) Balance due from related parties:

Debtor	*Note*	Relationship	Amount	Percentage of accounts receivable *(%)*
Subsidiary A of CPC		With a common ultimate holding company	4,796	3.08
Subsidiary B of CPC		With a common ultimate holding company	3,736	2.40
Subsidiary C of CPC		With a common ultimate holding company	654	0.42
Total	*5(5)*		9,186	5.90

(4) Prepayments

(a) Prepayments by category:

Item	*Note*	**30 June 2012**	31 December 2011
Prepayments to related parties	*5(5)*	**62,994**	57,289
Prepayments to third parties		**121,271**	2,336
Total		**184,265**	59,625

As at 30 June 2012 and 31 December 2011, the Company did not provide any impairment provision for prepayments.

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

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

Ageing	**30 June 2012**		31 December 2011	
	Amount	**Percentage *(%)***	Amount	Percentage *(%)*
Within 1 year (inclusive)	**182,705**	**99**	59,625	100
1 and 2 years (inclusive)	**1,560**	**1**	–	–
Total	**184,265**	**100**	59,625	100

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

4 Notes to financial statements (continued)

(4) Prepayments (continued)

(c) Five largest prepayments:

Debtor	Relationship with the Company	Amount	Percentage of total prepayment *(%)*	Date of prepayment	Reason for unsettlement
1. Entity A	Third party	54,430	29.54	Within 1 year	Prepayment for equipments
2. CPCC and its subsidiary A	With a common holding company	40,973	22.24	Within 1 year	Prepayment for goods
3. CPC and its subsidiary A	With a common ultimate holding company	15,420	8.37	Within 1 year	Prepayment for equipments
4. Entity B	Third party	14,980	8.13	Within 1 year	Prepayment for equipments
5. Entity C	Third party	12,675	6.88	Within 1 year	Prepayment for equipments
Total		138,478	75.16		

(5) Other receivables

(a) Other receivables by customer type:

Customer type	*Note*	**30 June 2012**	31 December 2011
Amounts due from related parties	*5(5)*	**–**	2,410
Amounts due from third parties		**156,345**	13,165
Sub-total		**156,345**	15,575
Less: Provision for bad and doubtful debts		**5,509**	3,857
Total		**150,836**	11,718

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

4 Notes to financial statements (continued)

(5) Other receivables (continued)

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

Ageing	30 June 2012	31 December 2011
Within 1 year (inclusive)	150,233	9,957
Over 1 year but within 2 years (inclusive)	861	86
Over 2 years but within 3 years (inclusive)	–	4,150
Over 3 years	5,251	1,382
Sub-total	156,345	15,575
Less: Provision for bad and doubtful debts	5,509	3,857
Total	150,836	11,718

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

(c) Other receivables by category:

Category	Note	30 June 2012				31 December 2011			
		Carrying amount		Provision for bad and doubtful debts		Carrying amount		Provision for bad and doubtful debts	
		Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Collectively assessed for impairment*	(d)	156,345	100	5,509	100	15,575	100	3,857	100

Note: This category includes other receivables having been individually assessed but not impaired.*

The Company didn't hold any collateral over the above other receivables which are impaired and provided provision for bad and doubtful debts.

During this period, balance was assessed for impairment in accordance with the accounting policy set out in Note 2(8), and there was no material or immaterial other receivables individually determined to be impaired. The Company did not write off any material balance or collect any amounts fully or substantially impaired in previous years.

4 Notes to financial statements (continued)

(5) Other receivables (continued)

(d) Other receivables which are collectively assessed for impairment using the ageing analysis method:

Ageing	30 June 2012 Carrying amount Amount	30 June 2012 Carrying amount Percentage (%)	30 June 2012 Provision for bad and doubtful debts	31 December 2011 Carrying amount Amount	31 December 2011 Carrying amount Percentage (%)	31 December 2011 Provision for bad and doubtful debts
Within 1 year (inclusive)	**150,233**	**96.09**	**–**	9,957	63.93	–
Over 1 year but within 2 years (inclusive)	**861**	**0.55**	**258**	86	0.55	25
Over 2 years but within 3 years (inclusive)	**–**	**–**	**–**	4,150	26.65	2,450
Over 3 years	**5,251**	**3.36**	**5,251**	1,382	8.87	1,382
Total	**156,345**	**100**	**5,509**	15,575	100	3,857

(e) Five largest other receivables:

Debtor	Relationship with the Company	Amount	Ageing	Percentage of total other receivables (%)
1. Entity A	Third party	141,376	Within 1 year	90.43
2. Entity B	Third party	7,076	Within 1 year	4.53
3. Entity C	Third party	4,150	Over 3 years	2.65
4. Entity D	Third party	958	Over 3 years	0.61
5. Entity E	Third party	613	Over 1 year but within 2 years	0.39
Total		154,173		98.61

4 Notes to financial statements (continued)

(6) Inventories

(a) Inventories by category:

Item	30 June 2012 Book value	30 June 2012 Provision for diminution in value of inventories	30 June 2012 Carrying amount	31 December 2011 Book value	31 December 2011 Provision for diminution in value of inventories	31 December 2011 Carrying amount
Raw materials	**842,140**	**(11,387)**	**830,753**	1,052,256	(11,387)	1,040,869
Work in progress	**90,112**	**–**	**90,112**	102,204	–	102,204
Finished goods	**875,854**	**(28,333)**	**847,521**	556,388	(28,333)	528,055
Spare parts and consumables	**108,563**	**(17,860)**	**90,703**	103,396	(17,860)	85,536
Total	**1,916,669**	**(57,580)**	**1,859,089**	1,814,244	(57,580)	1,756,664

All the above inventories are purchased or self-manufactured.

As at 30 June 2012 and 31 December 2011, no capitalised borrowing costs were included in the closing balance of inventories.

As at 30 June 2012 and 31 December 2011, the above inventories were not pledged.

(b) An analysis of the movements of inventories for the period is as follows:

Item	Balance at the beginning of the period	Additions during the period	Reductions during the period	Balance at the end of the period
Raw materials	1,052,256	8,080,589	(8,290,705)	842,140
Work in progress	102,204	13,851,796	(13,863,888)	90,112
Finished goods	556,388	13,863,888	(13,544,422)	875,854
Spare parts and consumables	103,396	82,485	(77,318)	108,563
Sub-total	1,814,244	35,878,758	(35,776,333)	1,916,669
Less: Provision for diminution in value of inventories	57,580	–	–	57,580
Total	1,756,664	35,878,758	(35,776,333)	1,859,089

4 Notes to financial statements (continued)

(6) Inventories (continued)

(c) Provision for diminution in value of inventories:

Item	Balance at the beginning of the period	Provision made for the period	Written back during the period	Balance at the end of the period
Raw materials	11,387	–	–	11,387
Finished goods	28,333	–	–	28,333
Spare parts and consumables	17,860	–	–	17,860
Total	57,580	–	–	57,580

There is no provision, reversal or write-off for diminution in value of inventories during the period.

(7) Available-for-sale financial assets

Available-for-sale financial assets

Item	**30 June 2012**	31 December 2011
Investment funds purchased from banks	**–**	200,000

As at 31 December 2011, the Company held an investment fund of RMB 200,000,000 purchased from PRC state-owned banks. The investment fund mainly invested in bonds and unlisted high performance enterprises in the PRC and was redeemed on 15 January 2012.

(8) Other current assets

Item	**30 June 2012**	31 December 2011
Prepaid CIT	**–**	152,465
Prepaid VAT	**–**	67,459
Total	**–**	219,924

As at 30 June 2012 and 31 December 2011, the Company did not provide any impairment provision for other current assets.

4 Notes to financial statements (continued)

(9) Long-term equity investments

(a) Long-term equity investments by category:

Item	30 June 2012	31 December 2011
Investments in joint ventures	**416,961**	303,089

As at 30 June 2012 and 31 December 2011, the Company did not provide any impairment provision for long-term equity investments.

(b) Movement of long-term equity investments for the period are as follows:

Investee	Investment cost	Balance at the beginning of the period	Increase	Balance at the end of the period	Shareholding percentage	Voting rights percentage
					(%)	*(%)*
Equity method — Joint ventures						
Far Eastern Yihua Petrochemical (Yzhangzhou) Corporation ("FEYP")	414,457	303,089	113,872	416,961	40	40

(c) Detailed information about the joint venture
Details of the joint ventures 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)	USD220,000,000	40	40	58665581-2

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

Name of investee	Total assets at the end of the period	Total liabilities at the end of the period	The net asset at the end of the period	Operating income for the period	Net profit for the period
FEYP	1,047,598	5,039	1,042,559	–	6,259

4 Notes to financial statements (continued)

(10) Fixed Assets

(a) Fixed assets

Item	Plant & buildings	Machinery & equipment	Motor vehicles and other fixed assets	Total
Cost				
Balance at the beginning of the period	2,203,525	10,298,509	805,160	13,307,194
Reclassification	(374,280)	210,956	163,324	–
Transferred from construction in progress	1,924	10,610	1,570	14,104
Disposal during the period	(51)	(22,356)	(7,218)	(29,625)
Balance at the end of the period	1,831,118	10,497,719	962,836	13,291,673
Accumulated depreciation				
Balance at the beginning of the period	1,123,788	7,415,854	611,071	9,150,713
Reclassification	(265,399)	200,904	64,495	–
Charge for the period	30,662	157,793	18,152	206,607
Reductions during the period	(50)	(15,032)	(6,881)	(21,963)
Balance at the end of the period	889,001	7,759,519	686,837	9,335,357
Provision for impairment				
Balance at the beginning of the period	9,048	771,732	8,869	789,649
Reclassification	(762)	(45,485)	46,247	–
Charge for the period	–	–	–	–
Written off on disposal	–	(2,733)	(72)	(2,805)
Balance at the end of the period	8,286	723,514	55,044	786,844
Carrying amounts				
At the end of the period	933,831	2,014,686	220,955	3,169,472
At the beginning of the period	1,070,689	2,110,923	185,220	3,366,832

4 Notes to financial statements (continued)

(10) Fixed Assets (continued)

(a) Fixed assets (continued)

The Company did not provide any impairment provision for fixed assets.

As at 30 June 2012 and 31 December 2011, the Company had no pledged fixed assets.

As at 30 June 2012 and 31 December 2011, the Company has no fixed assets acquired under finance lease or fixed assets leased out under operating lease.

As at 30 June 2012 and 31 December 2011, there were no significant held-for-sale fixed assets.

During this period, in accordance with the relevant provisions of <fixed assets classification and codes> (GB/T 14885-2010), which jointly issued by the General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China (AQSIQ), and the Standardization Administration of the People's Republic of China (SAC), the Company had amendments for the classification of the 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	53,689	(29,705)	(22,297)	1,687
Motor vehicles, and other fixed assets	3,137	(2,008)	(1,035)	94
Total	57,208	(31,963)	(23,452)	1,793

(11) Construction in progress

(a) Construction in progress

Project	30 June 2012 Book value	30 June 2012 Provision for impairment	30 June 2012 Carrying amount	31 December 2011 Book value	31 December 2011 Provision for impairment	31 December 2011 Carrying amount
100 thousand tonne/year 1,4-butanediol project	**1,225,719**	**–**	**1,225,719**	949,996	–	949,996
400 thousand tonne/year polyester polymerization project	**90,506**	**–**	**90,506**	49,822	–	49,822
NCIC-YCFC hydrogen pipeline engineering project	**16,582**	**–**	**16,582**	–	–	–
Voltage reducing station No.2	**19,957**	**–**	**19,957**	19,983	–	19,983
Improvement of existing plants and equipment	**183,528**	**–**	**183,528**	181,400	–	181,400
Total	**1,536,292**	**–**	**1,536,292**	1,201,201	–	1,201,201

4 Notes to financial statements (continued)

(11) Construction in progress (continued)

(b) Movement of major construction projects in progress during the period

Project	Budget	Balance at the beginning of the period	Additions during the period	Transfer to fixed assets	Balance at the end of the period	Percentage of input to budget *(%)*	Project progress *(%)*	Sources of funds
100 thousand tonne/year 1,4-butanediol project	1,640,082	949,996	275,723	–	1,225,719	75	75	Own fund
400 thousand tonne/year polyester polymerization project	335,750	49,822	40,684	–	90,506	27	27	Own fund
NCIC-YCFC hydrogen pipeline engineering project	158,000	–	16,582	–	16,582	10	10	Own fund
Voltage reducing station No.2	29,632	19,983	(26)	–	19,957	67	67	Own fund
Improvements of existing plants and equipment	791,027	181,400	16,232	(14,104)	183,528	23	—	Own fund
Total		1,201,201	349,195	(14,104)	1,536,292			

(c) Progress of major construction projects

Project	Progress	Note
100 thousand tonne/year 1,4-butanediol project	75%	Building construction has been completed; and equipments purchasing and installing is being carried out
400 thousand tonne/year polyester polymerization project	27%	Construction and equipments installing is being carried out
NCIC-YCFC hydrogen pipeline engineering project	10%	Land clearing and leveling is being carried out; and equipments are to be purchased
Voltage reducing station No.2	67%	Construction procurement has been basically completed and equipments are to be purchased and installed

4 Notes to financial statements (continued)

(12) Intangible assets

Item	Land Use Right	Patent Right	Technology Use Right	Total
Cost				
Balance at the beginning of the period	406,123	208,893	150,735	765,751
Additions during the period	–	–	–	–
Balance at the end of the period	406,123	208,893	150,735	765,751
Less: accumulated amortisation				
Balance at the beginning of the period	125,899	175,382	139,185	440,466
Charge for the period	4,240	10,445	482	15,167
Balance at the end of the period	130,139	185,827	139,667	455,633
Carrying amounts				
At the end of the period	275,984	23,066	11,068	310,118
At the beginning of the period	280,224	33,511	11,550	325,285

As at 30 June 2012 and 31 December 2011, the above intangible assets were not pledged.

(13) Deferred tax assets

(a) Recognised deferred tax assets

Item	30 June 2012 Deductable temporary difference	30 June 2012 Deferred tax assets	31 December 2011 Deductable temporary difference	31 December 2011 Deferred tax assets
Deferred tax assets:				
Provision for impairment	**311,870**	**77,967**	361,574	90,393
Deferred income	**15,671**	**3,918**	16,315	4,079
Fixed assets	**73,604**	**18,401**	68,816	17,204
Accrued expense	**149,157**	**37,289**	39,677	9,919
Inventories	**3,763**	**941**	3,763	941
Deductible tax losses	**350,233**	**87,559**	–	–
Total	**904,298**	**226,075**	490,145	122,536

As at 30 June 2012 and 31 December 2011, the Company did not have any unrecognised deferred tax assets or liabilities.

4 Notes to financial statements (continued)

(14) Provisions for impairment

Item	*Note*	Balance at the beginning of the period	Charge for the period	Decrease during the period		Balance at the end of the period
				Reversal	Write off	
Other receivable	*4(5)*	3,857	1,652	–	–	5,509
Inventories	*4(6)*	57,580	–	–	–	57,580
Fixed assets	*4(10)*	789,649	–	–	(2,805)	786,844
Total		851,086	1,652	–	(2,805)	849,933

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

(15) Accounts payable

Details of accounts payable are as follows:

Item	*Note*	**30 June 2012**	31 December 2011
Amounts due to related parties	*5(5)*	**813,565**	1,250,861
Amounts due to third parties		**285,905**	354,582
Total		**1,099,470**	1,605,443

Accounts payable by currency:

Item	**30 June 2012**			31 December 2011		
	Foreign currency	**Exchange rate**	**RMB equivalents**	Foreign currency	Exchange rate	RMB equivalents
Renminbi	**—**	**—**	**369,116**	—	—	593,547
US Dollars	**115,471**	**6.325**	**730,354**	160,593	6.301	1,011,896
Total			**1,099,470**			1,605,443

As at 30 June 2012 and 31 December 2011, there were no individually significant accounts payable with ageing of more than one year.

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

4 Notes to financial statements (continued)

(16) Advances from customers

Details of advances from customers are as follows:

Item	*Note*	30 June 2012	31 December 2011
Amounts due to related parties	*5(5)*	**23,309**	6,507
Amounts due to third parties		**192,833**	339,149
Total		**216,142**	345,656

As at 30 June 2012 and 31 December 2011, there were no individually significant advances from customers with ageing of more than one year.

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

(17) Employee benefits payable

Item	Balance at the beginning of the period	Accrued during the period	Paid during the period	Balance at the end of the period
Salaries, bonuses and allowances	57,912	333,131	(228,190)	162,853
Staff welfare	–	50,486	(31,249)	19,237
Social insurances				
— Basic medical insurance	–	18,439	(18,439)	–
— Basic pension insurance	–	45,414	(45,414)	–
— Unemployment insurance	–	4,565	(4,565)	–
— Work-related injury and maternity insurance	–	1,786	(1,526)	260
— Supplementary medical insurance	–	6,579	(6,579)	–
— Supplementary pension insurance	–	14,608	(14,608)	–
Housing fund	–	29,191	(29,191)	–
Others				
— Labour union fee and staff education fee	3,755	6,247	(8,786)	1,216
— Others	260	22,346	(22,560)	46
Total	61,927	532,792	(411,107)	183,612

As at 30 June 2012, there is no arrear of accrued employee benefits.

4 Notes to financial statements (continued)

(17) Employee benefits payable (continued)

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

Administrator	Beneficiary	Contribution rate	
		30 June 2012	31 December 2011
Yizheng Municipal Government, Jiangsu Province	Employees of the Company	**20%**	20%

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

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 Company and participating employees make defined contributions to the above two retirement plans. The Company has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above.

(18) Dividends payable

Name of investor	**30 June 2012**	31 December 2011	**Reason for unsettlement more than one year**
CPC	**50,400**	–	—
CITIC	**21,600**	–	—
"H" shares shareholders	**42,000**	–	—
"Social public A" shares	**6,000**	–	—
Total	**120,000**	–	

The dividends of "H" shares were based on Renminbi and paid in Hong Kong dollar. As at 30 June 2012, "H" shares dividends of RMB 42,000,000 is to be paid, equivalent to HK$51,549,000 at the exchange rate 0.8148.

4 Notes to financial statements (continued)

(19) Taxes payable

Item	30 June 2012	31 December 2011
Value added tax	**(218,413)**	–
City maintenance and construction tax	**(4,311)**	–
Education surcharges	**(3,079)**	10
Individual income tax	**779**	6,998
Others	**6,589**	5,314
Total	**(218,435)**	12,322

(20) Other payables

Details of other payables are as follows:

Item	*Note*	30 June 2012	31 December 2011
Amounts due to related parties	*5(5)*	**37,229**	912
Amounts due to third parties		**258,410**	376,399
Total		**295,639**	377,311

Other payables mainly represent the payables for equipments or construction projects.

As at 30 June 2012 and 31 December 2011, there were no individually significant other payables with ageing of more than one year.

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

(21) Deferred income

Item	30 June 2012	31 December 2011
Government grants	**15,671**	16,315

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 Company for the six months ended 30 June 2012.

4 Notes to financial statements (continued)

(22) Share capital

	30 June 2012	31 December 2011
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.

(23) Capital reserve

Item	**30 June 2012**	31 December 2011
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 period**	**Increase during the period**	**Decrease during the period**	**Balance at the end of the period**
Specific reserve	–	550	(30)	520

In accordance with PRC regulations, the Company appropriated safety production fee of RMB550,000 to specific reserve for the six months ended 30 June 2012 (for the six months ended 30 June 2011: RMB539,000), which was recognised in the cost of related products and the specific reserve. For the six months ended 30 June 2012, the Company utilised the safety production fee amounting to RMB30,000 (for the six months ended 30 June 2011: nil) which was of expenditure nature.

4 Notes to financial statements (continued)

(25) Surplus reserve

Item	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
Statutory surplus reserve	200,383	–	–	200,383

(26) Retained earnings

Item	*Note*	**Amount**
Retained earnings at the beginning of the period		1,683,448
Add: Net losses for the period attributable to shareholders of the Company		(216,570)
Less: Dividends payable on ordinary shares	*(a)*	120,000
Retained earnings at the end of the period		1,346,878

(a) Distribution of dividends of ordinary shares declared during the period

Pursuant to the shareholders' approval at the shareholders' general assembly on 15 June 2012, a cash dividend of RMB0.03 per share (2011: RMB0.03 per share), totalling RMB120,000,000 (2011: RMB120,000,000) was declared and paid to the Company's ordinary shareholders on 27 July 2012.

(27) Operating income and operating costs

(a) Operating income and operating costs

Item	**For the six months ended 30 June**	
	2012	2011
Operating income from principal activities	**8,230,848**	10,243,669
Other operating income	**97,747**	88,918
Operating costs	**8,130,724**	9,095,394

4 Notes to financial statements (continued)

(27) Operating income and operating costs (continued)

(b) Principal activities (by industry)

	For the six months ended 30 June			
	2012		2011	
Industry	**Operating income**	**Operating costs**	Operating income	Operating costs
Chemical fibre	**8,328,595**	**8,130,724**	10,332,587	9,095,394

(c) Principal activities (by product)

	For the six months ended 30 June			
	2012		2011	
Product	**Operating income**	**Operating costs**	Operating income	Operating costs
Polyester chips	**2,698,513**	**2,648,032**	3,636,860	3,123,967
Bottle-grade polyester chips	**1,895,739**	**1,783,127**	2,017,508	1,825,680
Staple fibre and hollow fibre	**2,828,044**	**2,703,013**	3,508,082	3,075,438
Filaments	**590,248**	**668,044**	988,929	926,667
Others	**316,051**	**328,508**	181,208	143,642
Total	**8,328,595**	**8,130,724**	10,332,587	9,095,394

(d) Principal activities (by geographical area)

	For the six months ended 30 June			
	2012		2011	
Region	**Operating income**	**Operating costs**	Operating income	Operating costs
Mainland	**7,966,206**	**7,778,741**	9,908,978	8,713,214
Hong Kong, Macau, Taiwan, and overseas	**362,389**	**351,983**	423,609	382,180
Total	**8,328,595**	**8,130,724**	10,332,587	9,095,394

4 Notes to financial statements (continued)

(27) Operating income and operating costs (continued)

(e) Operating income from the top five customers for the six months ended 30 June 2012

Name of customer	Operating income	Percentage of total operating income (%)
1. Customer A	413,530	4.97
2. Customer B	206,890	2.48
3. Customer C	195,442	2.35
4. Customer D	169,780	2.04
5. Customer E	152,185	1.83
Total	1,137,827	

(28) Business taxes and surcharges

Item	For the six months ended 30 June 2012	2011	Taxation basis and rates
Business tax	**336**	284	3% or 5% of taxable income
City maintenance and construction tax	**28**	14,843	7% of business tax and VAT paid and approved export VAT exempted and offset
Education surcharges	**20**	7,226	5% of business tax and VAT paid and approved export VAT exempted and offset
Total	**384**	22,353	

(29) Selling and distribution expenses

Item	For the six months ended 30 June 2012	2011
Freight	**79,478**	76,572
Commission fee	**21,776**	21,920
Other selling expenses	**9,131**	10,446
Total	**110,385**	108,938

4 Notes to financial statements (continued)

(30) General and administrative expenses

Item	For the six months ended 30 June 2012	2011
Salary	**156,571**	161,955
Repair and maintenance fee	**152,100**	154,123
Technology development fee	**21,029**	15,939
Community service fee	**20,280**	19,486
Taxes	**19,495**	17,808
Depreciation and amortization	**13,822**	15,091
Other general and administrative expenses	**35,773**	29,114
Total	**419,070**	413,516

(31) Net financial income

Item	For the six months ended 30 June 2012	2011
Interest income from deposits	**(19,255)**	(20,029)
Net exchange gains	**(4,025)**	(2,956)
Other financial expenses	**406**	1,351
Total	**(22,874)**	(21,634)

(32) Losses from changes in fair value

Item	For the six months ended 30 June 2012	2011
Financial assets held for trading		
— Changes in fair value during the period	**–**	(310)

4 Notes to financial statements (continued)

(33) Investment income

Item	*Note*	For the six months ended 30 June 2012	2011
Investment income from disposal of available-for-sale financial assets		**4,740**	–
Income from long-term equity investments accounted for using the equity method	*(a)*	**2,504**	–
Investment income from disposal of held-to-maturity investments		**2,011**	–
Investment income from disposal of financial assets held for trading		**–**	6,557
Total		**9,255**	6,557

(a) For long-term equity investments accounted for using equity method, the amounts of investment income from an investee included in the top five investment income which the amount accounted for less than 5% of total profits are as follows:

Investee	For the six months ended 30 June 2012	2011	Reason for changes over previous period
FEYP	**2,504**	–	FEYP wasn't established during corresponding period of last year
Total	**2,504**	–	

(34) Impairment losses/(reversal)

Item	For the six months ended 30 June 2012	2011
Other receivables	**1,652**	1,113
Fixed assets	**–**	5,113
Inventories	**–**	(5,338)
Total	**1,652**	888

4 Notes to financial statements (continued)

(35) Non-operating income

(a) Non-operating income by item is as follows:

Item	*Note*	For the six months ended 30 June 2012	2011	Amounts recorded in extraordinary gain or loss
Gains on disposal of non-current assets		**809**	24,299	809
Including: Gain on disposal of fixed assets		**809**	24,299	809
Government grants	*(b)*	**644**	580	644
Reversal of loss on breach of contracts		**–**	19,175	–
Reversal of non-payable liabilities		**–**	10,486	–
Others		**663**	1,113	663
Total		**2,116**	55,653	2,116

(b) Details of government grants

Item	For the six months ended 30 June 2012	2011	Note
Allowance for high performance polyethylene project	**464**	464	Amortisation of allowance for Hi-tech achievement transformation project from Jiangsu Science and Technology Department
Allowance for project of stove desulphurization	**180**	42	Amortisation of allowance for specific project from Yizheng Finance Bureau
Others	**–**	74	Other funds received relating to operation
Total	**644**	580	

4 Notes to financial statements (continued)

(36) Non-operating expenses

Item	For the six months ended 30 June 2012	2011	Amounts recognised in extraordinary gain or loss
Losses on disposal of non-current assets	**4,146**	71	4,146
Including: losses on disposal of fixed assets	**4,146**	71	4,146
Others	**5,256**	242	5,256
Total	**9,402**	313	9,402

(37) Income tax expenses

Item	*Note*	For the six months ended 30 June 2012	2011
Current expenses for the period based on tax laws and related regulations		**–**	163,946
Changes in deferred tax assets	*(a)*	**(103,539)**	15,665
Under provision for income tax in respect of preceding year		**11,332**	10,350
Total		**(92,207)**	189,961

(a) The analysis of changes in deferred tax assets is set out below:

Item	For the six months ended 30 June 2012	2011
Origination and reversal of temporary differences	**(103,539)**	15,665

4 Notes to financial statements (continued)

(37) Income tax expenses (continued)

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

Item	For the six months ended 30 June 2012	2011
(Losses)/Profit before taxation	**(308,777)**	774,719
Expected income tax expense at tax rate of 25%	**(77,194)**	193,680
Add: Recognition of deductible temporary differences previously unrecognised	**(27,567)**	(12,598)
Non-deductible expenses	**1,222**	168
Non-taxable income of bonds	**–**	(1,639)
Under provision for income tax in respect of preceding year	**11,332**	10,350
Income tax expense	**(92,207)**	189,961

(38) Basic earnings per share and diluted earnings per share

(a) Basic earnings per share

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

Item	For the six months ended 30 June 2012	2011
Net (losses)/profit attributable to the Company's ordinary shareholders	**(216,570)**	584,758
Weighted average number of the Company' ordinary shares outstanding	**4,000,000,000**	4,000,000,000
Basic (losses)/earnings per share (Yuan per share)	**(0.054)**	0.146

(b) Diluted earnings per share

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

4 Notes to financial statements (continued)

(39) Other comprehensive income

Item	For the six months ended 30 June 2012	2011
Gains arising from available-for-sale financial assets	**4,740**	–
Less: Reclassification adjustments for amounts transferred to profit or loss	**4,740**	–
Total	**–**	–

(40) Notes to cash flow statement

(a) Cash paid relating to other operating activities

Item	For the six months ended 30 June 2012	2011
Repair and maintenance expenses	**152,100**	154,123
Freight	**79,478**	76,572
Technology development expenses	**21,029**	15,939
Commission fee	**21,776**	21,920
Community service fee	**20,280**	19,486
Changes in other operating receivables and other operating payables	**(69,792)**	(40,398)
Others	**23,907**	11,138
Total	**248,778**	258,780

(b) Cash received relating to other investing activities

Item	For the six months ended 30 June 2012	2011
Interests received	**19,255**	20,029

4 Notes to financial statements (continued)

(41) Supplementary information on cash flow statement

(a) Supplement to cash flow statement

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

Item	For the six months ended 30 June 2012	2011
Net (losses)/profit	**(216,570)**	584,758
Add: Impairment provision for assets	**1,652**	888
Depreciation of fixed assets	**206,607**	183,214
Amortisation of intangible assets	**15,167**	14,752
Amortisation of deferred income	**(644)**	(506)
Net loss/(gains) on disposal of fixed assets	**3,337**	(24,229)
Losses on changes in fair value	**–**	310
Financial income	**(19,255)**	(20,029)
Investment income	**(9,255)**	(6,557)
(Increase)/decrease in deferred tax assets	**(103,539)**	15,665
Increase in gross inventories	**(102,425)**	(321,448)
Increase in specific reserves	**520**	539
Decrease/(increase) in operating receivables	**535,272**	(1,091,789)
(Decrease)/increase in operating payables	**(814,144)**	274,995
Net cash flow from operating activities	**(503,277)**	(389,437)

(ii) Change in cash and cash equivalents:

Item	For the six months ended 30 June 2012	2011
Cash at the end of the period	**753,431**	2,143,850
Less: Cash at the beginning of the period	**1,541,821**	2,025,932
Less: Cash equivalents at the beginning of the period	**–**	741,326
Net decrease in cash and cash equivalents	**(788,390)**	(623,408)

4 Notes to financial statements (continued)

(41) Supplementary information on cash flow statement (continued)

(b) Details of cash and cash equivalents

Item	For the six months ended 30 June 2012	2011
Cash at bank and on hand	**753,431**	2,143,850
Including: Cash on hand	**26**	16
Bank deposits available on demand	**753,405**	2,143,834
Closing balance of cash and cash equivalents	**753,431**	2,143,850

Notes: Cash and cash equivalents disclosed above exclude the amount of cash with restricted usage and investments with short maturity period.

5 Related parties and related party transactions

(1) Information on the parent of the Company

Name	Related party relationship	Entity type	Registered place	Legal representative	Business nature	Registered capital	Share-holding 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 joint venture of the Company

For the information on the joint venture of the Company, please refer to Note 4(9).

5 Related parties and related party transactions (continued)

(3) Information on other related parties

Name of other related parties	Related party relationship	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

(4) Transactions with related parties

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

(a) Purchase of goods/receiving of services

The Company

Name of related party	Nature of transaction	Pricing and decision-making procedure	For the six months ended 30 June 2012 Amount	2012 Percentage of the same type of transaction (%)	2011 Amount	2011 Percentage of the same type of transaction (%)
Sinopec Corp and its subsidiaries	Purchase of raw materials	Based on normal commercial terms or relevant agreements	**4,888,388**	**60.50**	5,797,656	72.33
CPC and its subsidiaries (Sinopec Corp and its subsidiaries and Sinopec Finance are excluded)	Purchase of raw materials	Based on normal commercial terms or relevant agreements	**2,818**	**0.03**	–	–
Sinopec Corp and its subsidiaries	Commission payable	Based on normal commercial terms or relevant agreements	**36,886**	**100**	35,404	100
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	**61,556**	**8.28**	4,000	5.99
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	**3,180**	**100**	3,060	100
Key management personnel	Remuneration	Based on normal commercial terms or relevant agreements	**1,836**	**100**	1,750	100
Key management personnel	Retirement scheme contribution	Based on normal commercial terms or relevant agreements	**122**	**100**	100	100

5 Related parties and related party transactions (continued)

(4) Transactions with related parties (continued)

(b) Sales of goods

The Company

Name of related party	Nature of transaction	Pricing and decision-making procedure	2012 Amount	2012 Percentage of the same type of transaction (%)	2011 Amount	2011 Percentage of the same type of transaction (%)
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	**277,402**	**3.33**	138,526	1.34

For the six months ended 30 June

(c) Other related parties transactions

The Company

Name of related party	Nature of transaction	2012	2011
CPC and its subsidiaries (Sinopec Corp and its subsidiaries and Sinopec Finance are excluded)	Insurance premium	**3,937**	2,546
Sinopec Finance	Interest income receivable	**6,198**	1,971
China CITIC Bank	Interest income receivable	**1,998**	1,887
FEYP	Miscellaneous service fee income	**16,765**	–

For the six months ended 30 June

5 Related parties and related party transactions (continued)

(5) Receivables from and payables to related parties

Receivables from related parties

The Company

Item	Related party	30 June 2012 Carrying amount	30 June 2012 Provision for bad and doubtful debts	31 December 2011 Carrying amount	31 December 2011 Provisions for bad and doubtful Provisions
Prepayments	Sinopec Corp and its subsidiaries	**47,574**	**–**	57,289	–
Prepayments	CPC and its subsidiaries	**15,420**	**–**	–	–
Accounts receivable	CPC and its subsidiaries	**9,186**	**–**	7,703	–
Other receivables	CPC and its subsidiaries	**–**	**–**	2,410	–

Payables to related parties

The Company

Item	Related party	30 June 2012	31 December 2011
Accounts payable	Sinopec Corp and its subsidiaries	**812,054**	1,249,540
Other payables	Sinopec Corp and its subsidiaries	**9,813**	887
Accounts payable	CPC and its subsidiaries	**1,511**	1,321
Advances from customers	CPC and its subsidiaries	**23,309**	6,507
Other payables	CPC and its subsidiaries	**10,651**	25
Other payables	FEYP	**16,765**	–

6 Contingencies

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 per cent. 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 30 June 2012. 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.

7 Commitments

Capital commitments

Item	30 June 2012	31 December 2011
Authorised and contracted for fixed assets acquisition and significant construction contracts entered into under performance or preparation of performance	**252,337**	635,848
Authorised but not contracted for plans of fixed assets acquisition and significant construction contracts	**857,967**	766,296
Other commitments in respect of investment in joint venture	**212,864**	75,461
Total	**1,323,168**	1,477,605

8 Other significant items

(1) Segment reporting

The Company 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 Company'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 Company'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").

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.

8 Other significant items (Continued)

(1) Segment reporting (Continued)

Information regarding the Company'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:

	For the six months ended 30 June 2012								
Item	Polyester chips	Bottle-grade polyester chips	Staple fibre and hollow fibre	Filament	PTA	Others	Offset	Unallocated items	Total
Revenue from external customer	2,698,513	1,895,739	2,828,044	590,248	95,147	220,904	–	–	8,328,595
Inter-segment revenue	–	–	–	–	3,895,445	–	(3,895,445)	–	–
Reportable segments revenue	2,698,513	1,895,739	2,828,044	590,248	3,990,592	220,904	(3,895,445)	–	8,328,595
Reportable segments gross (losses)/profit	(32,026)	65,474	71,671	(93,517)	50,579	(10,652)	–	(5,622)	45,907
Other important items:									
— Depreciation	32,598	9,387	19,096	5,016	81,443	58,783	–	15,451	221,774
— Impairment of fixed assets	–	–	–	–	–	–	–	–	–
— Write-down of inventories	–	–	–	–	–	–	–	–	–

	30 June 2012								
Item	Polyester chips	Bottle-grade polyester chips	Staple fibre and hollow fibre	Filament	PTA	Others	Offset	Unallocated items	Total
— Reportable segments assets	669,145	191,704	558,187	200,854	1,042,706	1,138,991	–	1,261,108	5,062,695

8 Other significant items (Continued)

(1) Segment reporting (Continued)

Item	Polyester chips	Bottle-grade polyester chips	Staple fibre and hollow fibre	Filament	PTA	Others	Offset	Unallocated items	Total
	For the six months ended 30 June 2011								
Revenue from external customer	3,636,860	2,017,508	3,508,082	988,929	–	181,208	–	–	10,332,587
Inter-segment revenue	–	–	–	–	4,803,848	–	(4,803,848)	–	–
Reportable segments revenue	3,636,860	2,017,508	3,508,082	988,929	4,803,848	181,208	(4,803,848)	–	10,332,587
Reportable segments gross profit/(losses)	181,228	3,480	191,820	(19,946)	843,045	37,566	(843,045)	–	394,148
Other important items:									
— Depreciation	30,657	9,064	18,272	7,010	70,210	47,344	–	12,790	195,347
— Impairment of fixed assets	341	–	–	71	4,270	431	–	–	5,113
— Write-down of inventories	–	–	–	–	–	–	–	–	–

Item	Polyester chips	Bottle-grade polyester chips	Staple fibre and hollow fibre	Filament	PTA	Others	Offset	Unallocated items	Total
	31 December 2011								
— Reportable segments assets	580,355	185,513	541,217	176,644	1,006,299	1,191,918	–	1,486,611	5,168,557

The Company'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 Company.

8 Other significant items (Continued)

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

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

— Credit risk;
— Liquidity risk;
— Interest rate risk;
— Foreign currency risk.

This note mainly presents information about the Company's exposure to each of the above risks and their sources, the Company's objectives, policies and processes for measuring and managing risks and etc.

The Company 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 Company's financial performance. Based on such objectives, the Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The internal audit department of the Company 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 Company's credit risk is primarily attributable to cash at bank, receivables 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 Company 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 Company.

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

8 Other significant items (Continued)

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

(a) Credit Risk (Continued)

The Company does not have any debtors that are past due but not impaired based on individual or collective assessment as at 30 June 2012 and 31 December 2011.

The debtors of the Company 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 Company. Transactions involving derivative financial instruments are made with counterparties of sound credit standing and with whom the Company has a signed netting agreement. Given their high credit standing, management does not expect any investment counterparty to fail to meet its obligations.

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry, country or area in which the customers operate and therefore significant concentrations of credit risk arise primarily when the Company has significant exposure to individual customers. At the balance sheet date, 41.58% (2011: 54.88%) of the total accounts receivable were due from the five largest customers of the Company. In addition, the debtors of the Company that are neither past due nor impaired mainly 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 Company does not provide any guarantees which would expose the Company to credit risk.

(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 is responsible for their own cash management, including short term investment of cash surpluses and etc. The Company'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.

8 **Other significant items (Continued)**

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

(c) Interest rate risk

Interest-bearing financial instruments at variable rates and at fixed rates expose the Company to cash flow interest rate risk and fair value interest risk, respectively. The Company 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 30 June 2012 and 31 December 2011, the Company held the following interest-bearing financial instruments:

Fixed rate instruments:

	30 June 2012		31 December 2011	
Item	**Annual interest rate**	**Amount**	Annual interest rate	Amount
Financial assets — Deposits with bank	**3.10%–3.30%**	**235,000**	3.10%–3.30%	1,245,000

Variable rate instruments:

	30 June 2012		31 December 2011	
Item	**Annual interest rate**	**Amount**	Annual interest rate	Amount
Financial assets — Deposits with bank	**0.40%–1.53%**	**518,405**	0.50%–1.49%	296,800

(ii) Sensitivity analysis

As at 30 June 2012, 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 Company's shareholders' equity by approximately RMB5,184,000 respectively (2011: RMB2,968,000), and decrease/increase the net loss by approximately RMB5,184,000 (2011: RMB2,968,000). 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 Company's variable rate instruments outstanding at that date with exposure to cash flow interest rate risk. The analysis is performed on the same basis for 31 December 2011.

8 Other significant items (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 Company 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 30 June 2012 and 31 December 2011, the Company'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	**30 June 2012** *USD*	31 December 2011 *USD*
Cash at bank and on hand	**247**	246
Accounts receivable	**97,361**	65,133
Accounts payable	**(730,354)**	(1,011,896)
Net balance sheet exposure	**(632,746)**	(946,517)

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

	Average rate		**Reporting date mid-spot rate**	
	January to June 2012	January to December 2011	**30 June 2012**	31 December 2011
USD	**6.307**	6.459	**6.325**	6.301

8 Other significant items (Continued)

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

(d) Foreign currency risk (Continued)

(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 30 June 2012 and 31 December 2011 would have increased shareholders' equity and net profit (or decreased net loss) of the Company by the amount shown below, whose effect is in Renminbi and translated using the spot rate at the balance sheet date.

	Equity	Net profit
As at 30 June 2012		
USD	**31,637**	**31,637**
As at 31 December 2011		
USD	47,326	47,326

A 5% weakening of the Renminbi against the US dollar at 30 June 2012 and 31 December 2011 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 Company which expose the Company to foreign currency risk at the balance sheet date. The analysis is performed on the same basis for the previous year.

8 Other significant items (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 30 June 2012 and 31 December 2011 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).

30 June 2012

Assets	*Note*	**Level 1**	**Level 2**	**Level 3**	**Total**
Available-for-sale financial assets	*4(7)*	–	–	–	–

31 December 2011

Assets	*Note*	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	*4(7)*	–	200,000	–	200,000

During the six months period ended 30 June 2012, there were no significant transfers between instruments in Level 1 and Level 2.

During the six months period ended 30 June 2012, there were no changes in valuation technique of fair value of the Company's financial instruments.

8 Other significant items (Continued)

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

(e) Fair values (Continued)

(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 30 June 2012 and 31 December 2011.

(f) Estimation and assumption of fair values

The following summarises the major methods and assumptions used in estimating the fair value of financial assets and items set out in 8(2)(e) above that measured at fair value on the balance sheet date.

(i) 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.

(3) Assets measured at fair values

Item	Balance at the beginning of the period	Change in fair value during the period	Cumulative changes in fair value recognised in equity	Disposal during the period	Balance at the end of the period
Financial asset					
— Available-for-sale financial assets	200,000	–	4,740	-204,740	–
Total of above items	200,000	–	4,740	-204,740	–

9 Comparative figures

As a result of the merger of the Company's sole subsidiary with the Company on 28 December 2011, the Company had no subsidiary during the six months ended 30 June 2012. The comparative figures in the income statement, the cash flow statement, the statement of changes in equity and relevant explanatory notes represented the consolidated figures as previously reported.

Supplement information

1 Extraordinary gain and loss for the six months ended 30 June 2012

Item	Amount	Note
(1) Loss on disposal of non-current assets	(3,337)	Loss on disposal of fixed assets
(2) Government grants recognised through profit or loss (excluding those having close relationships with the Company's operation and enjoyed in fixed amount or quantity according to uniform national standard)	644	Amortisation of project-related government grants
(3) Investment income on disposal of financial assets	6,751	Recognition of Gains on disposal of investment
(4) Other non-operating income and expenses besides items above	(4,593)	Pension of employees' families, etc.
(5) Income tax effect	134	
Total	(401)	

Notes: Extraordinary gain and loss items listed above are presented in the amount before taxation.

2 Differences between financial statements prepared under different accounting standards

The difference between the financial statements prepared under the International Financial Reporting Standards (IFRS) and PRC accounting standards (PRC GAAP) on net profit/(losses) and net assets are as follows:

	Net profit For the six months ended 30 June		Net assets	
	2012	2011	**30 June 2012**	31 December 2011
Amounts under PRC GAAP	**(216,570)**	584,758	**8,694,575**	9,030,625
Adjustments under IFRS:				
a. Government grants	**1,415**	–	**(37,271)**	(38,686)
b. Specific reserve	**520**	539	**–**	–
c. Tax effects of the above adjustments	**–**	–	**–**	–
Amounts under IFRS	**(214,635)**	585,297	**8,657,304**	8,991,939

Supplement information (Continued)

2 Differences between financial statements prepared under different accounting standards (Continued)

(1) Government grants

Under PRC GAAP, 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 PRC GAAP, 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 IFRS, these expenses are recognised in profit or loss as and when incurred. Relevant capital expenditure on production maintenance and safety facilities are recognised as property, plant and equipment and depreciated according to the relevant depreciation method.

3 Return on net assets and earnings per share

In accordance with "Regulation on the Preparation of Information Disclosures of 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 and relevant accounting standards, the Company's return on net assets and earnings per share are calculated as follows:

Profit for the reporting period	**Weighted average return on net assets** *(%)*	**Basic earnings per share**	**Diluted earnings per share**
Net loss attributable to the Company's ordinary equity shareholders	(2.444)	RMB(0.054)	RMB(0.054)
Net loss deducted extraordinary gain and loss attributable to the Company's ordinary equity shareholders	(2.439)	RMB(0.054)	RMB(0.054)

(B) Interim financial report prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting"

KPMG

Review report to the board of directors
of Sinopec Yizheng Chemical Fibre Company Limited
(Established in the People's Republic of China with limited liability)

Introduction

We have reviewed the interim financial report set out on pages 112 to 134 which comprises the statement of financial position of Sinopec Yizheng Chemical Fibre Company Limited as at 30 June 2012, and the related statement of comprehensive income, the statement of changes in equity and the condensed cash flow statement for the six months period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim financial reporting*, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2012 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim financial reporting*.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

27 August 2012

Statement of Comprehensive Income

for the six months ended 30 June 2012 — unaudited

		Six months ended 30 June	
		2012	2011
	Note	***RMB'000***	*RMB'000*
			(consolidated)
Turnover	*4*	**8,328,595**	10,332,587
Cost of sales		**(8,282,688)**	(9,265,994)
Gross profit		**45,907**	1,066,593
Other income	*5*	**2,722**	55,582
Distribution costs		**(110,385)**	(108,938)
Administrative expenses		**(268,622)**	(260,504)
Other expenses		**(8,593)**	(5,356)
(Loss)/profit from operations		**(338,971)**	747,377
Finance income	*6(a)*	**23,280**	22,985
Finance expenses	*6(a)*	**(406)**	(1,351)
Net finance income	*6(a)*	**22,874**	21,634
Investment income		**6,751**	6,247
Share of profit of a jointly controlled entity		**2,504**	–
(Loss)/profit before taxation	*6*	**(306,842)**	775,258
Income tax	*7(a)*	**92,207**	(189,961)
(Loss)/profit attributable to equity shareholders of the Company for the period		**(214,635)**	585,297

The notes on pages 118 to 134 form part of this interim financial report. As a result of the merger of the Company's sole subsidiary with the Company on 28 December 2011, the Company had no subsidiary during the six months period ended 30 June 2012. The comparative figures in the statement of comprehensive income, the statement of changes in equity, the condensed cash flow statement and relevant explanatory notes represented the consolidated figures as previously reported.

Statement of Comprehensive Income
for the six months ended 30 June 2012 — unaudited (continued)

	Note	**2012**	2011
		Six months ended 30 June	
		RMB'000	*RMB'000*
			(consolidated)
(Loss)/profit attributable to equity shareholders of the Company for the period		**(214,635)**	585,297
Other comprehensive income for the period (after tax and reclassification adjustments)			
Available-for-sale financial assets: net movement in the fair value reserve	*8*	**–**	–
Total comprehensive (expenses)/income attributable to equity shareholders of the Company for the period		**(214,635)**	585,297
Basic and diluted (loss)/earnings per share (in RMB)	*10*	**(0.054)**	0.146

The notes on pages 118 to 134 form part of this interim financial report.

Statement of Financial Position

as at 30 June 2012 — unaudited

	Note	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Non-current assets			
Property, plant and equipment	11	**3,203,606**	3,411,893
Construction in progress	11	**1,685,958**	1,201,201
Lease prepayments		**275,984**	280,224
Interest in a jointly controlled entity		**416,961**	303,089
Deferred tax assets	7(b)	**226,075**	122,536
		5,808,584	5,318,943
Current assets			
Available-for-sale financial assets	12	**–**	200,000
Inventories		**1,859,089**	1,756,664
Trade and other receivables	13	**2,069,997**	2,479,706
Prepaid taxation		**141,376**	152,465
Deposits with banks	14	**35,000**	35,000
Cash and cash equivalents	15	**718,431**	1,506,821
		4,823,893	6,130,656
Current liabilities			
Trade and other payables	16	**1,922,231**	2,402,659
Net current assets		**2,901,662**	3,727,997
Total assets less current liabilities		**8,710,246**	9,046,940
Non-current liabilities			
Deferred income	17	**52,942**	55,001
Net assets		**8,657,304**	8,991,939

The notes on pages 118 to 134 form part of this interim financial report.

Statement of Financial Position

as at 30 June 2012 — unaudited (continued)

	Note	**At 30 June 2012 RMB'000**	At 31 December 2011 RMB'000
Equity			
Share capital		**4,000,000**	4,000,000
Share premium		**2,518,833**	2,518,833
Reserves	*18*	**229,242**	228,722
Retained profits		**1,909,229**	2,244,384
Total equity attribute to equity shareholders of the Company		**8,657,304**	8,991,939

Approved and authorised for issue by the Board of Directors on 27 August 2012.

Lu Li-yong
Director

Xiao Wei-zhen
Director

The notes on pages 118 to 134 form part of this interim financial report.

Statement of Changes in Equity

for the six months ended 30 June 2012 — unaudited

	Share capital	Share premium	Reserves	Retained profits	Total equity attributable to equity shareholders of the Company
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2011 (consolidated)	4,000,000	2,518,833	145,182	1,608,692	8,272,707
Dividends approved in respect of the previous year *(Note 9)*	–	–	–	(120,000)	(120,000)
Specific reserve accrued *(Note 18)*	–	–	1,294	(1,294)	–
Total consolidated comprehensive income for the period	–	–	–	585,297	585,297
Balance at 30 June 2011 (consolidated)	4,000,000	2,518,833	146,476	2,072,695	8,738,004
Reversal of specific reserve	–	–	(1,294)	1,294	–
Appropriation of statutory surplus reserve	–	–	83,540	(83,540)	–
Total consolidated comprehensive income for the period	–	–	–	253,935	253,935
Balance at 31 December 2011	4,000,000	2,518,833	228,722	2,244,384	8,991,939
Dividends approved in respect of the previous year *(Note 9)*	–	–	–	(120,000)	(120,000)
Specific reserve accrued *(Note 18)*	–	–	520	(520)	–
Total comprehensive expense for the period	–	–	–	(214,635)	(214,635)
Balance at 30 June 2012	4,000,000	2,518,833	229,242	1,909,229	8,657,304

The notes on pages 118 to 134 form part of this interim financial report.

Condensed Cash Flow Statement

for the six months ended 30 June 2012 — unaudited

		Six months ended 30 June	
		2012	2011
	Note	***RMB'000***	*RMB'000*
			(consolidated)
Net cash used in operating activities		**(503,277)**	(389,437)
Net cash used in investing activities		**(285,113)**	(1,057,515)
Net cash used in financing activities		**–**	(48,000)
Net decrease in cash and cash equivalents		**(788,390)**	(1,494,952)
Cash and cash equivalents at 1 January	*15*	**1,506,821**	2,323,802
Cash and cash equivalents at 30 June	*15*	**718,431**	828,850

The notes on pages 118 to 134 form part of this interim financial report.

Notes on the unaudited interim financial report

1 Principal activities and basis of preparation

Sinopec Yizheng Chemical Fibre Company Limited ("**the Company**") is principally engaged in the production and sale of chemical fibre and chemical fibre raw materials in the People's Republic of China ("**the PRC**"). China Petroleum & Chemical Corporation ("**Sinopec Corp**") is the Company's immediate parent company and China Petrochemical Corporation ("**CPC**") is the Company's ultimate parent company.

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard ("**IAS**") 34, *Interim financial reporting*, issued by the International Accounting Standards Board ("**IASB**"). This interim financial report was authorised for issue on 27 August 2012.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2011 annual financial statements.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed financial report and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the 2011 annual financial statements. The condensed interim financial report and notes thereon do not include all of the information required for a full set of financial report prepared in accordance with International Financial Reporting Standards ("**IFRSs**").

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagement 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. KPMG's independent review report to the Board of Directors is included on pages 110 to 111.

The financial information relating to the financial year ended 31 December 2011 that is included in the interim financial report as being previously reported information does not constitute the Company's annual financial statements for that financial year but is derived from those financial statements. Annual financial statements for the year ended 31 December 2011 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 26 March 2012. The 2011 annual financial statements have been prepared in accordance with IFRSs.

2 Changes in accounting policies

The IASB has issued a few amendments to IFRSs that are first effective for the current accounting period of the Company. None of these developments are relevant to the Company's financial statements and the Company has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 Segment reporting

The Company 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 Company's most senior executive management for the purposes of resource allocation and performance assessment, the Company 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 Company'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.

3 Segment reporting (continued)

(a) Segment results and assets (continued)

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

	Polyester chips		Bottle-grade polyester chips		Staple fibre and hollow fibre		Filament		PTA		All others #		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
	RMB'000	*RMB'000* (consolidated)	***RMB'000***	*RMB'000* (consolidated)	***RMB'000***	*RMB'000* (consolidated)	***RMB'000***	*RMB'000* (consolidated)	***RMB'000***	*RMB'000* (consolidated)	***RMB'000***	*RMB'000* (consolidated)	***RMB'000***	*RMB'000* (consolidated)
For the six months ended 30 June														
Revenue from external customers	**2,698,513**	3,636,860	**1,895,739**	2,017,508	**2,828,044**	3,508,082	**590,248**	988,929	**95,147**	–	**220,904**	181,208	**8,328,595**	10,332,587
Inter-segment revenue	**–**	–	**–**	–	**–**	–	**–**	–	**3,895,445**	4,803,848	**–**	–	**3,895,445**	4,803,848
Reportable segment revenue	**2,698,513**	3,636,860	**1,895,739**	2,017,508	**2,828,044**	3,508,082	**590,248**	988,929	**3,990,592**	4,803,848	**220,904**	181,208	**12,224,040**	15,136,435
Gross (loss)/profit from external customers	**(32,026)**	132,130	**65,474**	(16,479)	**71,671**	143,662	**(93,517)**	(41,086)	**(3,355)**	–	**(10,652)**	36,745	**(2,405)**	254,972
Inter-segment profit	**–**	–	**–**	–	**–**	–	**–**	–	**53,934**	811,324	**–**	–	**53,934**	811,324
Reportable segment (loss)/ profit	**(32,026)**	132,130	**65,474**	(16,479)	**71,671**	143,662	**(93,517)**	(41,086)	**50,579**	811,324	**(10,652)**	36,745	**51,529**	1,066,296
Depreciation and amortisation	**32,598**	30,657	**9,387**	9,064	**19,096**	18,272	**5,016**	7,010	**81,443**	70,210	**58,783**	47,344	**206,323**	182,557
Impairment of property, plant and equipment ("PP&E")	**–**	341	**–**	–	**–**	–	**–**	71	**–**	4,270	**–**	431	**–**	5,113
Write-down of inventories	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
As at 30 June 2012 and 31 December 2011														
Reportable segment assets	**669,145**	580,355	**191,704**	185,513	**558,187**	541,217	**200,854**	176,644	**1,042,706**	1,006,299	**1,138,991**	1,191,918	**3,801,587**	3,681,946

Revenues from segments below the quantitative thresholds are mainly attributable to five operating segments of the Company including one logistic center, one power center, one water supply center, one thermal center and one high-fibre center. None of those segments met any of the quantitative thresholds for determining reportable segments.

3 Segment reporting (continued)

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

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
		(consolidated)
Revenue		
Revenue for reportable segments excluding other revenue	**12,003,136**	14,955,227
Other revenue	**220,904**	181,208
Elimination of inter-segment revenue	**(3,895,445)**	(4,803,848)
Turnover	**8,328,595**	10,332,587

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
		(consolidated)
Profit		
Profits for reportable segments excluding other profit	**62,181**	1,029,551
Other (loss)/profit	**(10,652)**	36,745
Unallocated (loss)/profit	**(5,622)**	297
Gross profit	**45,907**	1,066,593
Other income	**2,722**	55,582
Distribution costs	**(110,385)**	(108,938)
Administrative expenses	**(268,622)**	(260,504)
Other expenses	**(8,593)**	(5,356)
Net finance income	**22,874**	21,634
Investment income	**6,751**	6,247
Share of profit of a jointly controlled entity	**2,504**	–
(Loss)/profit before taxation	**(306,842)**	775,258

3 Segment reporting (continued)

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

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
		(consolidated)
Depreciation and amortisation		
Depreciation and amortisation for reportable segments excluding other depreciation and amortisation	**147,540**	135,213
Other depreciation and amortisation	**58,783**	47,344
Unallocated depreciation and amortisation	**15,451**	15,409
Total depreciation and amortisation	**221,774**	197,966

	At 30 June 2012	At 31 December 2011
	RMB'000	*RMB'000*
Assets		
Assets for reportable segments excluding other assets	**2,662,596**	2,490,028
Other assets	**1,138,991**	1,191,918
Unallocated assets	**1,261,108**	1,486,611
	5,062,695	5,168,557
Other non-current assets	**2,604,978**	1,907,050
Available-for-sale financial assets	**–**	200,000
Trade and other receivables	**2,069,997**	2,479,706
Prepaid taxation	**141,376**	152,465
Deposits with banks	**35,000**	35,000
Cash and cash equivalents	**718,431**	1,506,821
Total assets	**10,632,477**	11,449,599

3 Segment reporting (continued)

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

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
		(consolidated)
Impairment of PP&E		
Impairment of PP&E for reportable segments and total impairment of PP&E	**–**	5,113

4 Turnover

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

5 Other income

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
		(consolidated)
Reversal of non-payable liabilities	**–**	10,486
Reversal of loss on breach of contracts	**–**	19,175
Net gain on disposal of property, plant and equipment	**–**	24,229
Others	**2,722**	1,692
Other income	**2,722**	55,582

6 (Loss)/profit before taxation

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

(a) Net finance income:

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
		(consolidated)
Interest income	**(19,255)**	(20,029)
Net foreign exchange gain	**(4,025)**	(2,956)
Finance income	**(23,280)**	(22,985)
Finance expenses	**406**	1,351
Net finance income	**(22,874)**	(21,634)

(b) Other items:

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
		(consolidated)
Cost of inventories#	**8,282,688**	9,265,994
Depreciation#	**217,534**	193,726
Impairment losses of property, plant and equipment	**–**	5,113
Reversal of write-down of inventories#	**–**	(5,338)
Amortisation of lease prepayments	**4,240**	4,240
Net realised gain on available-for-sale financial assets	**4,740**	–
Net realised gain on held-to-maturity financial assets	**2,011**	–
Net loss/(gain) on disposal of property, plant and equipment	**3,337**	(24,229)

\# *Cost of inventories includes RMB201,134,000 (six months period ended 30 June 2011: RMB163,216,000) relating to depreciation and reversal of write-down of inventories which amount is also included in the respective total amounts disclosed separately in note 6(b) for each of these types of expenses.*

7 Income tax

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

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
		(consolidated)
Current tax		
Provision for the period	**–**	(163,946)
Under-provision in respect of prior year	**(11,332)**	(10,350)
Deferred tax		
Recognition of deferred tax assets	**103,539**	–
Reversal of deferred tax assets	**–**	(15,665)
	92,207	(189,961)

The charge for PRC income tax is calculated at the rate of 25% (2011: 25%) on the estimated assessable income of the period determined in accordance with relevant income tax rules and regulations. The Company did not carry out business in Hong Kong or overseas and therefore does not incur Hong Kong Profits Tax or overseas income taxes.

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

	Balance at 1 January 2011	Recognised in consolidated statement of comprehensive income	Balance at 30 June 2011	Recognised in consolidated statement of comprehensive income	Balance at 31 December 2011	Recognised in statement of comprehensive income	Balance at 30 June 2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
Current							
Provisions for receivables	1,460	(278)	1,182	(218)	964	413	**1,377**
Accrued expenses	6,411	(1,381)	5,030	(5,030)	–	30,288	**30,288**
Accrued sales rebate	11,783	(2,351)	9,432	487	9,919	(2,919)	**7,000**
Inventories	8,897	(778)	8,119	2,239	10,358	–	**10,358**
Non-current							
Unutilised tax losses	–	–	–	–	–	87,559	**87,559**
Property, plant and equipment	108,408	(10,750)	97,658	(442)	97,216	(11,641)	**85,575**
Impairment for investment in subsidiary	54,871	–	54,871	(54,871)	–	–	**–**
Deferred income	5,061	(127)	4,934	(855)	4,079	(161)	**3,918**
	196,891	(15,665)	181,226	(58,690)	122,536	103,539	**226,075**

At 30 June 2012, there is no unrecognised deferred tax asset in respect of deductible temporary differences or unutilised tax losses (2011: nil).

8 Other comprehensive income

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

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
		(consolidated)
Available-for-sale financial assets:		
Changes in fair value recognised during the period	**4,740**	–
Deferred tax debited to other comprehensive income	**(1,185)**	–
Reclassification adjustments for amounts transferred to profit or loss — gains on disposal	**(4,740)**	–
Reversal of deferred tax on disposal	**1,185**	–
Net movement in the fair value reserve during the period recognised in other comprehensive income	**–**	–

9 Dividend

Pursuant to a resolution passed at the Annual General Meeting on 15 June 2012, a final dividend of RMB0.03 per share (2010: RMB0.03 per share) totalling RMB120,000,000 was declared and approved for the year ended 31 December 2011 (2010: RMB120,000,000).

The Board of Directors does not recommend the payment of any interim dividend for the six months period ended 30 June 2012 (six months period ended 30 June 2011: RMB nil).

10 (Loss)/earnings per share

(a) Basic (loss)/earnings per share

The calculation of basic loss per share is based on the loss attributable to equity shareholders of the Company of RMB214,635,000 for the six months period ended 30 June 2012 (six months period ended 30 June 2011: profit of RMB585,297,000) and the weighted average number of ordinary shares of 4,000,000,000 (2011: 4,000,000,000) in issue during the period.

(b) Diluted (loss)/earnings per share

The Company had no dilutive potential ordinary shares in existence during the six months period ended 30 June 2012 and 2011.

11 Property, plant and equipment and construction in progress

Acquisitions and disposals

The acquisitions and disposals of items of property, plant and equipment and construction in progress during the six months period ended 30 June 2012 and 2011 are as follows:

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
		(consolidated)
Construction in progress		
— cost of acquisitions	**498,861**	163,136
Property, plant and equipment		
— disposals (net carrying amount)	**(4,857)**	(3,199)

12 Available-for-sale financial assets

	At 30 June 2012	At 31 December 2011
	RMB'000	*RMB'000*
Available-for-sale investments	**–**	200,000

Available-for-sale financial assets with a carrying amount of RMB200,000,000 as at 31 December 2011 represented an investment fund purchased from a PRC state-owned bank. The fund mainly invested in bonds and unlisted enterprises in the PRC and was redeemed on 15 January 2012.

13 Trade and other receivables

	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Trade receivables	**146,576**	96,965
Bills receivable	**1,644,373**	2,236,236
Amounts due from the parent company and fellow subsidiaries — trade	**29,846**	64,992
	1,820,795	2,398,193
Amounts due from the parent company and fellow subsidiaries — non-trade	**–**	2,410
Other receivables	**254,711**	82,960
	254,711	85,370
Less: Allowance for doubtful debts	**(5,509)**	(3,857)
	249,202	81,513
	2,069,997	2,479,706

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

The ageing analysis of trade receivables, bills receivable, amounts due from the parent company and fellow subsidiaries — trade is as follows:

	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Within 1 year	**1,820,795**	2,398,193

Trade receivables and amounts due from the parent company and fellow subsidiaries — trade are due within 2 months to 12 months from the date of billing. Bills receivable are due within 6 months from the date of issuance.

14 Deposits with banks

	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Balances with banks in the PRC	**35,000**	35,000

15 Cash and cash equivalents

	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Cash in hand	**26**	21
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**")	**48,148**	428,815
— China CITIC Bank	**141,278**	162,529
Balances with banks in the PRC with an initial term less than three months (excluding China CITIC Bank)	**528,979**	915,456
	718,431	1,506,821

16 Trade and other payables

	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Trade payables	**429,788**	693,731
Amounts due to the parent company and fellow subsidiaries — trade	**836,874**	1,257,368
Amounts due to a jointly controlled entity	**16,765**	–
	1,283,427	1,951,099
Amounts due to the parent company and fellow subsidiaries — non-trade	**20,464**	912
Dividend payable	**120,000**	–
Other payables and accrued expenses	**498,340**	450,648
	1,922,231	2,402,659

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

	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Due within 1 month or on demand	**1,283,427**	1,951,099

17 Deferred income

	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
At 1 January	**55,001**	59,874
Recognised in the statement of comprehensive income for the period/year	**(2,059)**	(4,873)
At 30 June 2012 and 31 December 2011	**52,942**	55,001

17 Deferred income (continued)

The government grant received related to projects was 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 it was ready for use.

18 Reserves

According to relevant PRC regulations, the Company is required to transfer an amount to reserve for the safety production fund based on the turnover of certain petrochemical products at rates specified in the regulations. During the six-month period ended 30 June 2012, the Company transferred RMB520,000 from retained earnings to reserve for this safety production fund (six months period ended 30 June 2011: RMB1,294,000).

For the six months period ended 30 June 2012, no transfers were made to the statutory surplus reserve, or the discretionary surplus reserve (six months period ended 30 June 2011: RMB nil).

19 Related party transactions

CPC, Sinopec Corp and CITIC Group Corporation (formerly “CITIC Group”) are considered to be related parties as they have the ability to control the Company or exercise significant influence over the Company in making financial and operating decisions.

Sinopec Finance, China CITIC Bank, other subsidiaries, jointly controlled entities and associates of CPC and Sinopec Corp and other subsidiaries and jointly controlled entities of CITIC Group Corporation 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 Corporation.

On 27 December 2011, CITIC Group Corporation established CITIC Limited. CITIC Group Corporation and CITIC Limited entered into a restructuring agreement, whereby 720,000,000 of the Company’s shares held by CITIC Group Corporation 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.

Far Eastern Yihua Petrochemical (Yangzhou) Corporation (“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.

19 Related party transactions (continued)

(a) Significant transactions between the Company and the related parties during the period were as follows:

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Sinopec Corp and its subsidiaries		
Purchase of raw materials	**4,888,388**	5,797,656
Service charges payable	**36,886**	35,404
Sinopec Finance		
Interest income	**6,198**	1,971
CPC and its subsidiaries (excluding Sinopec Corp and its subsidiaries and Sinopec Finance)		
Sales of goods	**277,402**	138,526
Purchase of raw materials	**2,818**	–
Miscellaneous service fee charges	**3,180**	3,060
Construction and overhaul fee	**61,556**	4,000
Insurance premium	**3,937**	2,546
China CITIC Bank		
Interest income	**1,998**	1,887
FEYP		
Service charges	**16,765**	–

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.

19 Related party transactions (continued)

(b) Key management personnel compensation

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

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Short-term employee benefits	**1,836**	1,750
Retirement scheme contributions	**122**	100

(c) Contributions to defined contribution retirement scheme

In addition to the basic defined contribution retirement schemes organised by its municipal government, the Company provides a supplementary retirement plan for its staff at a rate of 5% of salaries. For the six months period ended 30 June 2012, the Company's contribution to this plan amounted to RMB14,608,000 (six months period ended 30 June 2011: RMB12,735,000).

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

The Company 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 Company has transactions with other state-controlled entities which include but are not limited to the following:

— depositing money; and
— purchasing investment fund.

These transactions are conducted in the ordinary course of the Company's business on terms comparable to those with other entities that are not state-controlled.

20 Commitments

(a) Capital commitments

Capital commitments relate primarily to construction of buildings, plant, machinery and purchase of equipment. The Company had capital commitments outstanding at 30 June 2012 not provided for in the interim financial report as follows:

	At 30 June 2012	At 31 December 2011
	RMB'000	*RMB'000*
Authorised and contracted for	**252,337**	635,848
Authorised but not contracted for	**857,967**	766,296
	1,110,304	1,402,144

(b) Investment commitments

The Company had outstanding commitments of RMB212,864,000 in respect of its investment in FEYP at 30 June 2012 not provided for in the interim financial report (31 December 2011: RMB75,461,000).

21 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 per cent and for 2008 and thereafter at a rate of 25 per cent. 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 30 June 2012. No provision has been made in the interim 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.

9. COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICE AND THE MODEL CODE

The Company 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.

Other than mentioned above, the Directors of the Company are not aware of any information that would reasonably indicate that the Company has not complied with the Code on Corporate Governance Practices as set out by the HKSE in Appendix 14 to the Listing Rules during the reporting period.

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

10. DOCUMENTS FOR INSPECTION

The following documents will be available for inspection at the legal address of the Company from 28 August 2012 (Tuesday) upon requests from related supervisory institutes and shareholders in accordance with the Articles of Association of the Company and the relevant regulations:

1. The original copy of the interim report for the six months ended 30 June 2012 signed by the Chairman and General Manager of the Company;

2. The financial report of the Company for the six months ended 30 June 2012 signed by the Legal Representative, General Manager, Chief Financial Officer and the person in charge of the accounts;

3. The Articles of Association of the Company;

4. The original manuscripts of all the documents and announcements disclosed by the Company in the newspapers designated by CSRC during the report period.

* *This interim report has been drafted in both English and Chinese. In the event that different interpretation occurs, with the exception of the interim financial report prepared in accordance with IAS 34, the Chinese version will prevail.*