

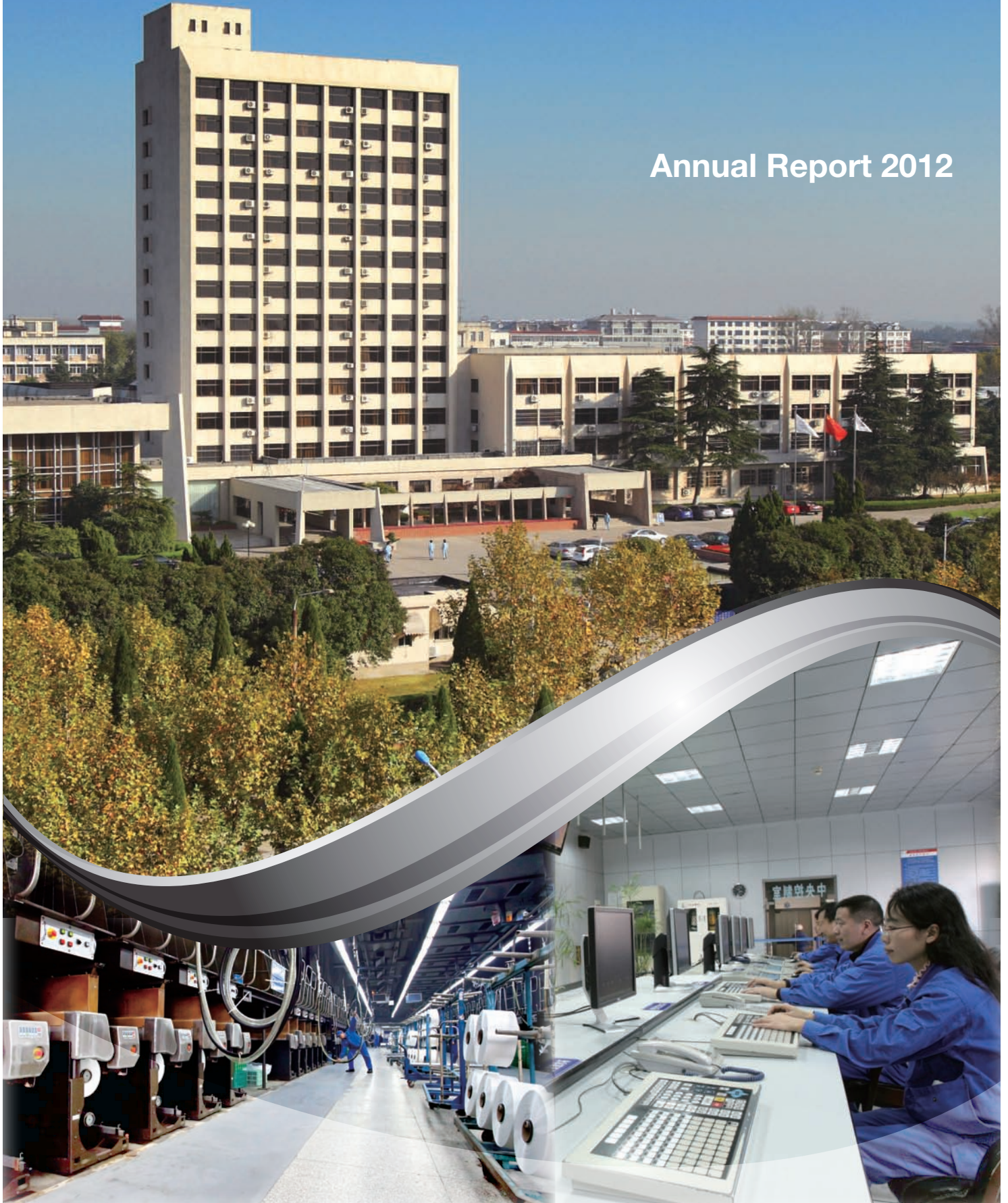


# 中國石化儀征化纖股份有限公司

## Sinopec Yizheng Chemical Fibre Company Limited

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

### Annual Report 2012



**IMPORTANT NOTE:**

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

The 2012 Annual Report has been approved at the seventh meeting of the seventh session of the Board. Nine Directors attended the meeting. Sun Zhi-hong, Vice Chairwoman, Long Xing-ping, Director and Qiao Xu, Independent Director, was absent for business affairs, and appointed Lu Li-yong, Chairman, Xiao Wei-zhen, Vice Chairman, and Shi Zhen-hua, Independent Director as his proxy respectively.

The financial statements of the Company for 2012, which have been prepared in accordance with the PRC Accounting Standards for Business Enterprises and International Financial Reporting Standards have been audited by KPMG Huazhen (Special General Partnership) and KPMG, respectively. Both auditors have issued unqualified opinions on the financial statements.

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

No final dividend would be paid for the year ended 31 December 2012 in accordance with the Company Law and the Articles of Association of the Company.

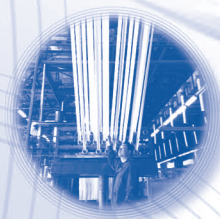
The 2012 Annual Report contains certain forward-looking statements with respect to the business of the Company. These forward-looking statements are, by their names, subjects to significant risk and uncertainties because they relate to events and depend on circumstances that may occur in the future and are beyond our control. The forward-looking statements reflect the Company’s current views with respect of future events and are not a guarantee of future performance. Actual results may differ from information contained in the forward-looking statements.

There was no appropriation of funds by the controlling shareholder of the Company and its connected parties for non-operation purpose.

The Company did not provide external guarantees made in violation of required decision-making procedures.

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## Definitions

In this Annual Report, unless the context otherwise requires, the following expressions shall have the following meanings:

“Company”	Sinopec Yizheng Chemical Fibre Company Limited (中國石化儀征化纖股份有限公司), a joint stock limited company incorporated in the PRC whose H Shares are listed on the Main Board of the Stock Exchange (Stock code 1033) and listed A Shares are traded on the SSE (Stock code 600871)
“Board”	the board of Directors of the Company
“Articles of Association”	the articles of association of the Company, as amended, modified or supplemented from time to time
“Sinopec”	China Petroleum & Chemical Corporation (中國石油化工股份有限公司), a joint stock limited company established in the PRC and listed on the Main Board of the Stock Exchange as well as in New York, London and Shanghai and the controlling shareholder of the Company
“CITIC Group”	CITIC Group Corporation (中國中信集團公司)
“CITIC Limited”	CITIC Limited, a substantial shareholder holding 18% of the Company’s equity interest
“CPC”	China PetroChemical Corporation (中國石油化工集團公司), a wholly State-owned company established in the PRC and the holding company of Sinopec
“Sinopec Finance”	Sinopec Finance Company Limited (中國石化財務有限公司), a subsidiary of CPC
“China CITIC Bank”	China CITIC Bank Corporation Limited (中信銀行股份有限公司), a subsidiary of CITIC Limited
“A Shares”	shares in the share capital of the Company of par value RMB1.00 each which are listed on the SSE
“H Share(s)”	overseas listed foreign Share(s) in the Share capital of the Company of par value at RMB1.00 each which is(are) listed on the Main Board of the Stock Exchange
“SSE”	Shanghai Stock Exchange
“HKSE”	The Stock Exchange of Hong Kong Limited
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules
“PTA”	purified terephthalic acid, one of the main ingredients for the production of polyester
“PX”	Paraxylene, one of the main ingredients for the production of PTA

## Definitions (Continued)

“MEG”	mono-ethylene glycol, principal raw materials of polyester
“Yihua”	Sinopec Asset and Management Corporation Yizheng Branch (中國石化集團資產經營管理有限公司儀征分公司) (the former name of which is Yihua Company Corporation (儀化集團公司)), a State-owned enterprise incorporated under the laws of the PRC and an associate of CPC
“RMB”	Renminbi, the lawful currency of the PRC
“PRC/State”	The People's Republic of China
“Far Eastern Yihua”	Far Eastern Yihua Petrochemical (Yangzhou) Corporation (遠東儀化石化(揚州)有限公司), a joint venture to be established in Yizheng City, Jiangsu Province, the PRC pursuant to the Joint Venture Agreement
“Far Eastern Holding”	Far Eastern Polytex Holding Limited, a limited liability company incorporated in Bermuda and a subsidiary of FENC
“FENC”	Taiwan Far Eastern New Century Corporation, a subsidiary of Taiwan Far Eastern Company, is principally engaged in the business of petrochemical, polyester and textile and its shares were listed in Taiwan Stock Exchange
“CSRC”	China Securities Regulatory Commission
“HKSCC (Nominees) Limited”	Hong Kong Securities Clearing Company (Nominees) Limited

# Company Profile

The Company is one of the largest modernized manufacturing bases of chemical fibre and chemical fibre raw materials in the PRC. In terms of polyester capacity in 2012, the Company ranks the seventh largest polyester manufacturer in the world. (Source: PCI Magazine 2012)

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

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

The Company was a major construction project under the PRC’s Sixth to Tenth Five-Year Plans. Its production facilities were imported from Germany, Japan, Italy and France etc. The Company’s technology has reached an advanced level in the polyester industry through continuous technological improvements. The quality system of the Company’s products received an international certificate in respect of ISO9001, and its product quality commands a leading position in the industry. The Company also received an international certificate in respect of ISO14001 environmental management system. At the end of 2012, the Company owned polymerization facilities with an annual capacity of 1,970,000 tonnes, solid-state-polymerization facilities with an annual capacity of 455,000 tonnes, spinning and drawing facilities for polyester fibre with an annual capacity of 789,000 tonnes, texturing facilities for polyester filament with an annual capacity of 34,000 tonnes, oxidation and purification facilities for PTA with an annual capacity of 1,000,000 tonnes and ancillary public utility facilities, which had a great advantage on the economies of scale.

- 1. Legal name:** Sinopec Yizheng Chemical Fibre Company Limited  
中國石化儀征化纖股份有限公司

**Abbreviation:** YCF  
儀征化纖
- 2. Legal representative:** Mr. Lu Li-yong
- 3. Registered and office address:** Yizheng City, Jiangsu Province, PRC

**Postal code:** 211900

**Telephone:** 86-514-83232235

**Fax:** 86-514-83233880

**Internet website:** <http://www.ycfc.com>

**E-mail:** [cso@ycfc.com](mailto:cso@ycfc.com)
- 4. Secretary to the Board:** Mr. Tom C.Y. Wu

**Address:** Board Secretary Office  
Sinopec Yizheng Chemical Fibre Company Limited  
Yizheng City, Jiangsu Province, PRC

**Telephone:** 86-514-83231888

**Fax:** 86-514-83235880

**E-mail:** [cso@ycfc.com](mailto:cso@ycfc.com)

## Company Profile (Continued)

<b>5. Domestic Newspapers disclosing information:</b>	China Securities, Shanghai Securities News, Securities Times
<b>Internet website designated by HKSE to disclose information:</b>	<a href="http://www.hkexnews.hk">http://www.hkexnews.hk</a>
<b>Internet website designated by CSRC to publish the Annual Report:</b>	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
<b>Place where the Annual Report available for inspection:</b>	Board Secretary Office Sinopec Yizheng Chemical Fibre Company Limited
<b>6. Places of listing, names and codes of the stock:</b>	
<i>H share</i>	<i>A share</i>
— HKSE	— SSE
— Stock name: Yizheng Chemical	— Stock name: S Yihua
— Stock code: 1033	— Stock code: 600871
<b>7. Other relevant information:</b>	
First Registration Date of the Company:	31 December 1993
Registration Place of the Company:	Jiangsu Administration for Industry & Commerce
Enterprises Legal Business Licence Registration No.:	320000400000997
Taxation Registration No.:	321081625908297
Organization No.:	62590829-7
Names and Addresses of Auditors of the Company:	
Name of Domestic Auditors:	KPMG Huazhen (Special General Partnership)
Address:	8th Floor, Office Tower E2, Oriental Plaza No. 1, East Chang An Avenue, Beijing, the PRC
Names of Certified Public Accounts:	Gong Wei-li, Xu Kan-ling
Name of Overseas Auditors:	KPMG
Address:	8/F, Prince's Building, 10 Chater Road Central, Hong Kong
Legal advisor:	
As to Hong Kong law:	Woo, Kwan, Lee & Lo
Address:	26/F, Jardine House, 1 Connaught Place Central, Hong Kong
As to the PRC law:	Haiwen & Partners
Address:	Silver Tower, No. 2 North Road, East San Huan, Chaoyang District, Beijing
Share registrars and transfer office:	
"H" Share:	Hong Kong Registrars Limited
Address:	Rooms 1712-1716, 17th Floor, Hopewell Centre 183 Queen's Roads East, Hong Kong
"A" Share:	China Securities Registration and Clearing Corporation Limited
Address:	Shanghai Branch 36th Floor, China Insurance Building, 166 Lujiazui Eastern Road, Pudong New District, Shanghai

# Financial Summary

## 1. SUMMARY OF THE PRINCIPAL FINANCIAL INFORMATION AND FINANCIAL INDICATORS OF THE COMPANY:

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

	For the year ended 31 December or as at 31 December				
	2012 RMB'000	2011 RMB'000 (as restated)	2010 RMB'000 (as restated)	2009 RMB'000 (as restated)	2008 RMB'000 (as restated)
Turnover	<b>16,987,916</b>	20,179,768	16,348,366	13,225,029	15,224,524
(Loss)/profit before taxation	<b>(536,627)</b>	1,042,190	1,140,343	382,018	(1,554,592)
Income tax (credit)/expense	<b>(178,171)</b>	202,958	(86,954)	–	90,693
(Loss)/profit attributable to equity shareholders of the Company	<b>(358,456)</b>	839,232	1,227,297	382,018	(1,645,285)
Total assets	<b>11,138,204</b>	11,449,599	10,531,202	9,145,813	8,417,284
Total liabilities	<b>2,624,721</b>	2,457,660	2,258,495	2,100,403	1,753,892
Total equity attributable to equity shareholders of the Company	<b>8,513,483</b>	8,991,939	8,272,707	7,045,410	6,663,392
Basic and diluted (loss)/earnings per share	<b>RMB(0.090)</b>	RMB0.210	RMB0.307	RMB0.096	RMB(0.411)
Net assets per share	<b>RMB2.128</b>	RMB2.248	RMB2.068	RMB1.761	RMB1.666
Ratio of shareholders' equity	<b>76.43%</b>	78.53%	78.55%	77.03%	79.16%
Return on net assets	<b>(4.21%)</b>	9.33%	14.84%	5.42%	(24.69%)

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

### 1.2.1 Key financial data

Unit: RMB'000

	For the year 2012	For the year 2011	Year-on-year change (%)	For the year 2010
Operating income	<b>16,987,916</b>	20,179,768	(15.8)	16,348,366
Operating (loss)/profit	<b>(561,987)</b>	979,056	(157.4)	1,131,060
(Loss)/profit before income tax	<b>(539,538)</b>	1,042,001	(151.8)	1,139,588
Net (loss)/profit attributable to equity shareholders of the Company	<b>(361,367)</b>	839,043	(143.1)	1,226,542
Net (loss)/profit deducted extraordinary gain and loss attributable to equity shareholders of the Company	<b>(382,833)</b>	778,080	(149.2)	1,218,221
Net cash (outflow)/inflow from operating activities	<b>(967,719)</b>	(270,247)	Not Applicable	1,600,805



# Financial Summary (Continued)

	<b>As at the end of 2012</b>	As at the end of 2011	Year-on-year change (%)	As at the end of 2010
Total assets	<b>11,138,204</b>	11,449,599	(2.7)	10,531,202
Total liabilities	<b>2,588,866</b>	2,418,974	7.0	2,218,865
Total equity attributable to equity shareholders of the Company	<b>8,549,338</b>	9,030,625	(5.3)	8,312,337

## 1.2.2 Key financial indicators

	<b>For the year 2012</b>	For the year 2011	Year-on-year change (%)	For the year 2010
Basic (loss)/earnings per share (RMB)	<b>(0.090)</b>	0.210	(143.1)	0.307
Diluted (loss)/earnings per share (RMB)	<b>(0.090)</b>	0.210	(143.1)	0.307
Basic (loss)/earnings per share net of extraordinary gain and loss (RMB)	<b>(0.096)</b>	0.195	(149.2)	0.305
Weighted average return on net assets (%)	<b>(4.11)</b>	9.68	Decrease 13.79 percentage points	15.97
Weighted average return on net assets net of extraordinary gain and loss (%)	<b>(4.36)</b>	8.97	Decrease 13.33 percentage points	15.86
Net cash (outflow)/inflow from operating activities per share (RMB)	<b>(0.242)</b>	(0.068)	Not Applicable	0.400

	<b>As at the end of 2012</b>	As at the end of 2011	Year-on-year change (%)	As at the end of 2010
Net assets per share attributable to equity shareholders of the Company (RMB)	<b>2.137</b>	2.258	(5.3)	2.078
Ratio of total liabilities to total assets (%)	<b>23.24</b>	21.13	Increase 2.11 percentage points	21.07

## Financial Summary (Continued)

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

Unit: RMB'000

Extraordinary gain and loss items	2012	2011	2010
Disposal of non-current assets	12,104	25,427	8,620
Government grants recognised in profit or loss during the year	1,857	4,503	2,462
Employee reduction expenses	(578)	(93)	(592)
Investments income from purchase and disposal of financial assets	6,751	16,557	832
Gain on changes in fair value of investments held for trading	–	(310)	310
Other non-operating income and expenses excluding the aforesaid items	8,488	33,015	(2,554)
Tax effect	(7,156)	(18,136)	(757)
Total	21,466	60,963	8,321

### 3. ITEMS TO WHICH FAIR VALUE MEASUREMENT IS APPLIED (EXTRACTED FROM THE FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH THE PRC ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES)

Unit: RMB'000

Items	Balance at the beginning of the current year	Balance at the end of the current year	Changes in the current year	Amount affecting the profit of the current year
Available-for-sale financial assets	200,000	–	(200,000)	4,740

# Financial Summary (Continued)

## 4. CHANGES OF FINANCIAL STATEMENTS ITEMS (EXTRACTED FROM THE FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH THE PRC ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES)

Item	At 31 December	At 31 December	Change (%)	Reason for change
	2012 RMB'000	2011 RMB'000		
Cash at bank and on hand	<b>162,027</b>	1,541,821	(89.5)	Cash used in operating and investing activities during the current year
Accounts receivable	<b>142,501</b>	104,668	36.1	Increase in overseas sales at the end of the year
Prepayments	<b>38,106</b>	59,625	(36.1)	Decrease in prepaying the purchase of raw materials at the end of the year
Other receivable	<b>17,608</b>	11,718	50.3	Increase in receivables for other operating activities at the end of the year
Available-for-sale financial assets	–	200,000	(100.0)	The assets were redeemed at maturity during the current year
Other current assets	<b>390,137</b>	219,924	77.4	Increase in the balance of recoverable tax
Long-term equity investment	<b>584,819</b>	303,089	93.0	Increase in investment in joint venture during the current year
Construction in progress	<b>1,870,881</b>	1,201,201	55.8	Increase in the uncompleted projects at the end of the year
Deferred tax assets	<b>312,039</b>	122,536	154.7	Deferred tax assets recognized during the current year according to deductible tax losses
Other payables	<b>244,608</b>	377,311	(35.2)	Decrease in payables for construction projects
Specific reserve	<b>80</b>	–	Not Applicable	The Company accrued safety production fund according to the relevant regulations during the current year

# Financial Summary (Continued)

Item	For the year ended		Change (%)	Reason for Change
	2012 RMB'000	2011 RMB'000		
Business taxes and surcharges	<b>913</b>	39,514	(97.7)	Decrease in turnover tax payment during the current year
Net financial income	<b>30,966</b>	56,887	(45.6)	Decrease in interest income from deposits and newly increase in interest exchange during the year
Impairment loss	<b>(21,241)</b>	(691)	Not Applicable	Reversal of provision for diminution in value of inventories during the current year
Gains from changes in fair value	–	(310)	Not Applicable	No such event was occurred during the current year
Investment income	<b>10,230</b>	16,557	(38.2)	Decrease in gains on disposal of financial assets during the current year
Non-operating income	<b>40,107</b>	72,655	(44.8)	Decrease in gains on disposal of fixed assets during the current year
Non-operating expenses	<b>17,658</b>	9,710	81.9	Increase in losses on disposal of assets during the current year
Income tax expenses	<b>(178,171)</b>	202,958	(187.8)	Changes in income tax expenses influenced by losses

## 5. DIFFERENCES BETWEEN THE FINANCIAL STATEMENTS OF THE COMPANY PREPARED IN ACCORDANCE WITH THE PRC ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES (“PRC ASBE”) AND THE IFRSs

	Net (loss)/profit attributable to equity shareholders of the Company		Total equity attributable to equity shareholders of the Company	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
PRC ASBE	<b>(361,367)</b>	839,043	<b>8,549,338</b>	9,030,625
IFRSs	<b>(358,456)</b>	839,232	<b>8,513,483</b>	8,991,939

For detailed explanations of differences, please refer to the sub-section “**Supplement to the Financial Statements**” under the section on “**The financial statements prepared in accordance with the PRC ASBE**” of this Annual Report.

# Business Review and Prospects

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

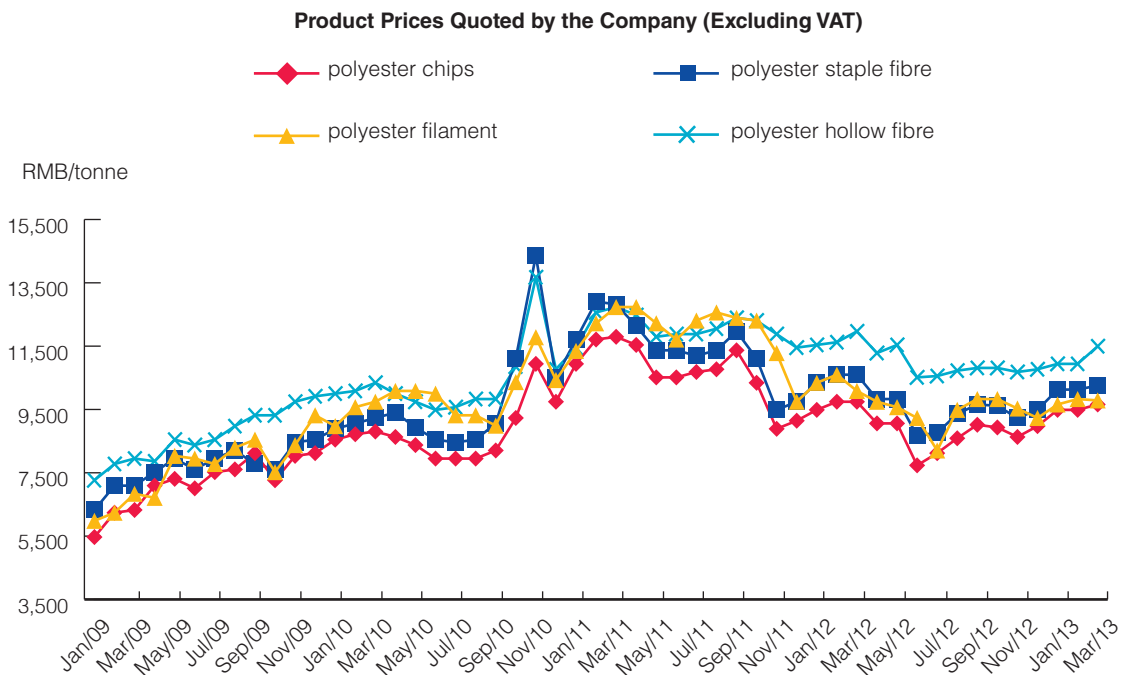
## 1. ANNUAL RESULT

In 2012, the Company's turnover was RMB16,987,916,000 (2011: RMB20,179,768,000), decreasing by 15.8 per cent. Affected by continued downturn of polyester market demand, declines in polyester product prices and drastic shrinkage in profit margins, the loss attributable to equity shareholders of the Company was RMB358,456,000 and basic loss per share was RMB0.090; while the profit attributable to equity shareholders of the Company was RMB839,232,000 and basic earnings per share was RMB0.210 in 2011.

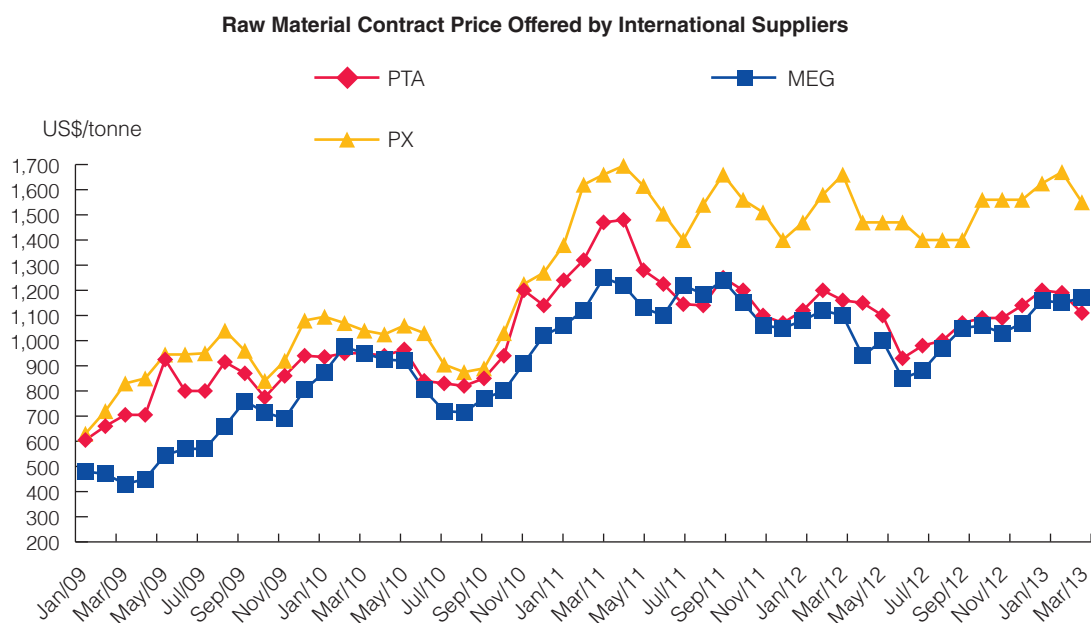
The Board resolved that no final cash dividend would be paid for the year ending 31 December 2012 (2011: RMB0.03 cash dividend per share).

## 2. MARKET REVIEW

In 2012, the recovery of the international economy was weak, the growth rate of Chinese economy decreased, the growth rate of China textile and clothes export significantly slowed down, and domestic and overseas demand for the polyester products continued to decline. As a consequence, prices of domestic polyester products dropped significantly compared with last year and its profit margins contracted sharply. Meanwhile, owing to rapid increase in domestic polyester production capacity, the over-supply situation of domestic polyester capacity further aggravated, competition in the polyester industry became more intensified.



# Business Review and Prospects (Continued)



In 2012, due to the significant increase in domestic polyester production capacity, the newly-added polyester production capacity was almost 5.5 million tonnes and the total polyester production capacity amounted to 38.34 million tonnes at the end of 2012. In 2012, the volume of the total domestic supply of polyester fibre amounted to 31,316,700 tonnes, an increase of 8.6 per cent over that of 2011, of the total volume, the domestic production volume increased by 9.5 per cent as compared with its amounts in 2011. Meanwhile, the domestic demand for polyester fibre has been slowed down. The total domestic consumption volume of polyester fibre amounted to 28,972,900 tonnes, an increase of 9.0 per cent over the 2011 amount, which was 0.1 percentage point lower than that of last year.

	Domestic supply and demand of polyester fibre								
	Polyester filament			Polyester staple fibre			Polyester fibre		
	2012	2011	+/( -)	2012	2011	+/( -)	2012	2011	+/( -)
	'000	'000	(%)	'000	'000	(%)	'000	'000	(%)
	tonnes	tonnes	(%)	tonnes	tonnes	(%)	tonnes	tonnes	(%)
Production volume	<b>21,552.1</b>	19,213.9	12.2	<b>9,018.2</b>	8,713.3	3.5	<b>30,570.3</b>	27,927.2	9.5
Import volume	<b>126.0</b>	162.0	(22.2)	<b>112.4</b>	120.2	(6.5)	<b>238.4</b>	282.2	(15.5)
Export volume	<b>1,095.1</b>	950.1	15.3	<b>670.7</b>	816.1	(17.8)	<b>1,765.8</b>	1,766.2	-
Net import	<b>(969.1)</b>	(788.1)	23.0	<b>(558.3)</b>	(695.9)	(19.8)	<b>(1,527.4)</b>	(1,484.0)	2.9
Inventories at beginning of the year	<b>305.0</b>	362.0	(15.7)	<b>203.0</b>	275.0	(26.2)	<b>508.0</b>	637.0	(20.3)
Year-end inventories	<b>353.0</b>	305.0	15.7	<b>225.0</b>	203.0	10.8	<b>578.0</b>	508.0	13.8
Total supply volume	<b>21,983.1</b>	19,737.9	11.4	<b>9,333.6</b>	9,108.5	2.5	<b>31,316.7</b>	28,846.4	8.6
Total consumption volume	<b>20,535.0</b>	18,482.8	11.1	<b>8,437.9</b>	8,089.4	4.3	<b>28,972.9</b>	26,572.2	9.0

Source: The Chemical Fibre Association of China

# Business Review and Prospects (Continued)

## 3. PRODUCTION AND OPERATION REVIEW

In 2012, facing the hard operating condition of falling product prices and weak demand, the Company had taken active countermeasures to alleviate the negative impacts of external market through adhering to the policy of market orientation and profit centering, and by rigorously enforcing fine management, making all-out efforts to organize production and operation, optimizing product structure as well as reducing costs and expenses.

### (1) Production and Marketing

In 2012, the Company's production facilities maintained safe and stable operations, and the production volume of main products steadily increased. The total production volume of polyester products amounted to 2,197,022 tonnes, an increase of 0.8 per cent compared with the 2,180,344 tonnes produced in 2011. The polyester capacity utilisation rate reached 92.4 per cent. The total production volume of PTA amounted to 1,044,223 tonnes, a light increase of 0.2 per cent compared with the 1,042,040 tonnes produced in 2011. In 2012, the Company vigorously responded to market changes, optimized the inventory structure of raw materials and products, dynamically adjusted product mix and operation and enhanced customer service. The Company's total sales volume of polyester products amounted to 1,752,556 tonnes in 2012, a decrease of 1.3 per cent compared with the 1,775,577 tonnes sold in 2011. Excluding self-consumption volume and other factors, the ratio of sales to production reached 99.8 per cent. In 2012, the Company's export volume of polyester products amounted to 69,366 tonnes, an increase of 4.3 per cent over the 66,484 tonnes for 2011.

### (2) Cost Control

In 2012, the weighted average price of the Company's polyester products (excluding VAT) decreased by 16.4 per cent compared with last year, while the weighted average purchase prices of the Company's principal purchased raw materials, such as PTA, MEG and PX, decreased by 11.3 per cent. The Company reinforced various measures including energy conservation, emission reduction, water saving and pollution control, through implementing green and low carbon development strategies, obtaining significant results. The unit energy consumption of main products decreased by 2.1 per cent and total COD discharge reduced by 1.1 per cent year-on-year. Various cost reduction and expenses control measures were remarkably fulfilled by strictly implementing overall target cost management. Due to the decrease in freight and insurance premium resulting from the drop in the prices of products, the Company's selling expenses were 5.1 per cent lower than in 2011. Due to increase in employee costs, the Company's administrative expenses increased by 16.2 per cent compared with 2011. Due to the decrease in interest income from deposits and newly-emerged interest charges, net finance income decreased by 45.6 per cent compared with 2011.

### (3) R&D

In 2012, the Company continued to step up efforts in research and development. As a "propeller" for growth, scientific and technological innovation led to obvious achievements. 11 new product development projects and 16 new product industrialization projects were completed. In 2012, 26 patent applications were filed and 9 patent rights were granted. In 2012, the Company achieved closer integration of production, marketing and research operations, accelerated product mix adjustment for more high value added products. The Company's total production volume of specialised polyester chips amounted to 938,630 tonnes; the specialised rate was 86.8 per cent, 2.6 percentage points lower than that of last year. The total production volume of differential polyester fibre amounted to 604,441 tonnes and the differential rate of polyester fibre was 88.5 per cent, 0.1 percentage points lower than that of last year.

# Business Review and Prospects (Continued)

## (4) Internal Reform and Management

In 2012, the Company (1) continued to deepen enterprise management to effectively upgrade its management level and comprehensively promoted system standardization and informatization reform, and the Company's system management level and the ability of lawful administration were further improved; (2) Deepened overall target cost management and strictly control the budgeted targets by implementing the cost & expense reduction measures; (3) Strengthened quality management to maintain a comprehensive premium grade rate of more than 99.0 per cent for main products; (4) Enhanced the implementation of internal control system and risk management, adequately exerted supervisory functions of finance, auditing, monitoring and legislation to prevent corporate risks; (5) Implemented basic salary system with establishment of passages for talent development, and realized sustained growth of employee's income with more reasonable distribution patterns, which effectively mobilized enthusiasm of employees.

## (5) Capital Expenditure

In 2012, the Company's total capital expenditure amounted to RMB1,504,067,000. Projects construction of the Company was advancing in an orderly and steady way. The 1, 4-Butanediol project with an annual capacity of 100,000 tonnes has entered the final stage of commissioning and is expected to be put into operation at the end of March 2013. The differentiated staple fibre project (third unit) with an annual capacity of 100,000 tonnes had been put into production in September 2012 and the products had already being successfully put on the market. The specialized polyester chip project with an annual capacity of 400,000 tonnes was progressing smoothly, herein the sixteenth unit had been put into operation in October 2012. The equipment installation for the fifteenth unit is carrying on and is expected to be put into operation in April 2013. The differentiated staple fibre project (ninth unit) with an annual capacity of 100,000 tonnes was undergoing equipment installation and is expected to be finished and put into operation in May 2013. The PTA joint venture project had finished critical equipment procurement and has entered the stage of civil construction in March 2013.

## 4. BUSINESS PROSPECTS AND WORK PLAN

### (1) Market Analysis

In 2013, the domestic polyester industry is still facing difficult operating situation. Firstly, the market conditions could hardly make an effective and positive turning. The world economic situation is intricate and full of variations and uncertainties, and will continue to maintain a low speed growth trend. In view of ongoing appreciation of Renminbi, rising labor costs and prices of production factors hovering at high level, export of polyester products and its downstream textile products may encounter greater challenges. Secondly, international crude oil prices continue to oscillate at a high level, resulting in an increase of PX and MEG prices which used to be the tight supply raw materials, leaving no much room for significant expand of profit margins of polyester products. Thirdly, the newly added domestic polyester capacities will further deteriorate the overcapacity of polyester products and intensify industry competition. Nevertheless, the following advantages are existing in the meantime: Firstly, with Chinese economy showing signs of stability and positive development and a series of new policies being implemented, including facilitating the readjustment of industrial structure, emphasizing the development of real economy, actively promoting urbanization and positively expanding domestic demand, the domestic demand for the polyester products will be effectively stimulated to maintain steady rising. Secondly, with upgrading of polyester product chain, more usage of polyester products to substitute natural fibre such as cotton, the packing materials such as plastics and glass, and construction materials, as well as the enlarged demand for functional, industrial and differentiated fibres will bring about more opportunities for the development of polyester industry.



# Business Review and Prospects (Continued)

## (2) Business Strategy

In 2013, the Company will continue to push forward its sustainable and effective development by centering closely around enhancing development quality and effectiveness on the basis of safety and stability, scientifically organizing production and business operation under market orientation for the best possible economic efficiency, optimizing product structure and strengthening the enterprise management. To achieve these targets, the Company will focus on the following priorities in 2013:

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

The Company will (1) strengthen the market analysis, promptly optimize its production and business strategy to boost the production and sales of value-added products and products with high economic benefit; (2) regulate the rhythm of sales and carry out low inventory strategy so as to realize full sales of all manufactured products for better economic benefits; (3) make adequate preparations for pre-sales of newly launched 1,4-butanediol project and staple fibre project and strive to ensure the balance between production and sales; (4) persist in its customer foremost philosophy, constantly broaden the content of its services to achieve a win-win situation between customers and the Company; (5) closely follow up and study domestic and international raw material markets, analyze market fluctuation and raw material inventory structure in a dynamic manner to ensure the raw material supplies while reducing procurement cost. The Company plans to sale 2,116,000 tonnes of polyester products, 65,000 tonnes of 1,4-butanediol and its related products and 1,200 tonnes of high performance PE fibre respectively to achieve the 100 per cent of sales-to-production ratio.

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

The Company will fully implement HSE management system, implement safe production standardization, continue to deepen the locating and eliminating of hidden dangers and pay close attention to source control and prevention to ensure safe and stable production. The monitoring of facilities operation will be strengthened to avoid non-planned shutdown caused by fluctuation, which affects efficiency. Moreover, the Company will enhance the linking-up between production and sales to swiftly adjust product mix and operation load to increase the production of readily marketable and high value-added products. The upgrading of product and promoting of quality will be vigorously propelled to fully suit customer's demand, and the stable operation and quality improvement of new 1,4-butanediol project and staple fibre project will be taken as key emphasis in work. In 2013, the Company plans to produce 2,606,000 tonnes of polyester products of which self-consumption volume is 489,000 tonnes, 1,037,000 tonnes of PTA, 65,000 tonnes of 1,4-butanediol and its related products, and 1,200 tonnes of high performance PE fibre respectively.

### *III. Intensify the efforts in technological innovation and strengthen the core competitiveness*

The Company will further strengthen technological innovation, vigorously develop new products and technologies to improve technology content and added value of its products; propel the integration of production, marketing and research operations to accelerate adjustment of product structure and reinforce its efforts in the research and development, production and market exploitation of new products; continue to conduct technological development and modification to elevate the technical level of facilities, with emphases on technological breakthroughs and quality optimization of high performance PE fibre and aramid fibre, and actively carry out the basic research and applied research for the Company's sustainable development. In 2013, there are 16 new product items planned for development and 13 product items planned for industrialization. The Company's projected production volume of differentiated fibre and specialized polyester chips for 2013 will be 641,000 tonnes and 1,119,000 tonnes, respectively, while the differentiated rates for polyester fibre and specialized rates for polyester chip products are expected to be 77.9 per cent and 85.0 per cent.

## Business Review and Prospects (Continued)

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

The Company will take standardization system as basis to deepen the construction of system and working procedure, commit to the mechanism of relying on system for enterprise management and employee management; give emphasis on “three Bs” (Basic level construction, Basic work and Basic skill training) to consolidate the management foundations; intensify overall target cost management and carry out the cost reduction and expenditure control measures to achieve the annual cost reduction targets; further propel energy conservation and emission reduction and adhere to the concepts of green, low carbon and sustainable development to fulfill its energy efficiency goals. In 2013, the projected annual comprehensive energy consumption of main products will decrease by 1.3 per cent compared with last year, and the total industrial water consumption will be controlled under 28 million tonnes and total COD of discharged sewage under 565 tonnes.

**V. *Accelerate effective development and place more emphasis on developing quality and effectiveness***

In 2013, the Company will formulate its development plan in an overall manner to transform its development patterns through centering around the concept of better quality, more effective and sustainable development; enhance enterprise value by insisting on the development of raw materials as main role and refining core business; raise the added value of products by sticking to differentiated innovation and development. The Company will organize the production of 1,4-butanediol project with an annual capacity of 100,000 tonnes to realize stable operation at full load as soon as possible, and make efforts in market exploitation and products sales. Meanwhile, the Company will actively promote the construction of specialized polyester chip project with an annual capacity of 400,000 tonnes and the differentiated staple fibre project (ninth unit) with an annual capacity of 100,000 tonnes and endeavor to put two projects into operation in April and May 2013 respectively. The Company will also vigorously promote the construction of PTA joint venture project with expectation of putting it into operation in second half of 2014; and actively prepare to launch the construction of second phase high performance PE fibre project with an annual capacity of 3,000 tonnes and the kiloton level aramid fibre project.

# Management Discussion and Analysis

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

## 1. RESULTS OF OPERATIONS

### (1) Turnover

In 2012, the Company maintained a safe and stable operation and the production volume of polyester products steadily increased. Meanwhile, the Company achieved closer integration of production, marketing and research operations, accelerated product mix adjustment for more high value added products. The total production volume of polyester products was 2,197,022 tonnes, representing an increase of 0.8 per cent as compared with that of 2,180,344 tonnes for last year. The average capacity utilization rate for polyester facilities reached 92.4 per cent. The total production volume of PTA amounted to 1,044,223 tonnes, an increase of 0.2 per cent as compared with that of 1,042,040 tonnes for last year. The average capacity utilization rate for PTA facilities reached 95.3 per cent.

### Production volume

	For the year ended 31 December			
	2012		2011	
	Production volume (tonnes)	Per cent of total production volume %	Production volume (tonnes)	Per cent of total production volume %
Polyester products				
Polyester Chips	1,080,984	49.2	1,072,566	49.2
Bottle-grade polyester chips	396,984	18.1	350,365	16.1
Staple fibre	525,913	23.9	525,715	24.1
Hollow fibre	57,028	2.6	44,773	2.0
Filament	136,113	6.2	186,925	8.6
Total	2,197,022	100.0	2,180,344	100.0

In 2012, due to the constantly weak polyester market, the Company's total sales volume of the polyester products was 1,752,556 tonnes, representing a decrease of 1.3 per cent from the 1,775,577 tonnes sold in 2011. Excluding the self-consumed volume and other factors, the ratio of sales to production reached 99.8 per cent. The export sales volume of the polyester products was 69,366 tonnes, representing an increase of 4.3 per cent compared with the 66,484 tonnes sold in 2011. In 2012, the weighted average prices (excluding VAT) of the Company's polyester products decreased from RMB11,148 per tonne for last year to RMB9,320 per tonne, representing a 16.4 per cent decrease. Because the decrease in prices of polyester products was more than that of polyester raw material, the profit margin of polyester products substantially decreased as compared with last year.

# Management Discussion and Analysis (Continued)

## Sales volume

	For the year ended 31 December			
	2012		2011	
	Sales volume (tonnes)	Per cent of total sales volume (%)	Sales volume (tonnes)	Per cent of total sales volume (%)
Polyester products				
Polyester chips	654,856	37.4	699,297	39.4
Bottle-grade polyester chips	396,302	22.6	350,607	19.8
Staple fibre	541,297	30.9	529,639	29.8
Hollow fibre	56,788	3.2	45,246	2.5
Filament	103,313	5.9	150,788	8.5
Total	1,752,556	100.0	1,775,577	100.0

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

	For the year ended 31 December		
	2012	2011	Change (%)
Polyester products			
Polyester chips	8,821	10,505	(16.0)
Bottle-grade polyester chips	9,096	10,850	(16.2)
Staple fibre	9,711	11,732	(17.2)
Hollow fibre	11,450	12,489	(8.3)
Filament	10,121	12,372	(18.2)
Weighted average price	9,320	11,148	(16.4)

## Turnover

	For the year ended 31 December			
	2012		2011	
	Turnover RMB'000	Per cent of turnover %	Turnover RMB'000	Per cent of turnover %
Polyester products				
Polyester chips	5,776,760	34.0	7,346,044	36.4
Bottle-grade polyester chips	3,604,853	21.2	3,804,094	18.9
Staple fibre	5,256,385	30.9	6,213,622	30.8
Hollow fibre	650,209	3.8	565,084	2.8
Filament	1,045,595	6.2	1,865,482	9.2
Others	654,114	3.9	385,442	1.9
Total	16,987,916	100.0	20,179,768	100.0

# Management Discussion and Analysis (Continued)

In 2012, due to the decrease in the weighted average prices of polyester products (excluding VAT) and the total sales volume of the polyester products by 16.4 per cent and 1.3 per cent respectively as compared with last year, the Company's turnover was RMB16,987,916,000, representing a decrease of 15.8 per cent as compared with RMB20,179,768,000 for last year.

## (2) Cost of sales

In 2012, the Company's cost of sales was RMB16,868,671,000, a decrease of RMB1,738,530,000 compared with RMB18,607,201,000 for 2011, representing 99.3 per cent of turnover. The decrease in cost of sales was mainly due to decrease in the costs of raw materials. Total costs of raw materials decreased by RMB1,901,004,000, from RMB16,213,677,000 in 2011 to RMB14,312,673,000 in 2012, accounting for 84.8 per cent of the cost of sales in 2012. The decrease in the total costs of raw materials was mainly due to the drop in the purchase costs of raw materials. The Company's weighted average purchase prices of polyester raw materials decreased by 11.3 per cent as compared with last year. Of which, the average purchase costs of PTA, PX and MEG decreased by 15.9 per cent, 6.2 per cent and 15.3 per cent respectively as compared with last year.

In 2012, because turnover decreased by 15.8 per cent as compared with last year, and cost of sales decreased by 9.3 per cent as compared with last year, the Company's gross profit decreased by RMB1,453,322,000 to RMB119,245,000. The Company's gross profit margin was 0.7 per cent, a decrease of 7.1 percentage points compared with last year.

## (3) Selling, administrative and net finance income

	For the year ended 31 December		
	2012	2011	Change
	RMB'000	RMB'000 (as restated)	(%)
Selling expenses	<b>209,179</b>	220,430	(5.1)
Administrative expenses	<b>513,169</b>	441,685	16.2
Net finance income	<b>(30,966)</b>	(56,887)	(45.6)
Total	<b>691,382</b>	605,228	14.2

In 2012, due to the decrease in freight and insurance premium resulting from the drop in the prices of products, the Company's selling expenses decreased by RMB11,251,000 as compared with last year. Due to the increase in employees costs, the Company's administrative expenses increased by RMB71,484,000 as compared with last year. Due to the decrease in interest income from deposits and newly increase in interest exchange, the net finance income decreased by RMB25,921,000 as compared with last year. The total increase in selling expenses, administrative expenses and net finance income was 14.2 per cent from that of 2011.

# Management Discussion and Analysis (Continued)

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

	For the year ended 31 December		
	2012 RMB'000	2011 RMB'000	Change %
Operating (loss)/profit	<b>(577,823)</b>	969,056	(159.6)
(Loss)/profit before taxation	<b>(536,627)</b>	1,042,190	(151.5)
Income tax (credit)/expense	<b>(178,171)</b>	202,958	(187.8)
(Loss)/profit attributable to equity shareholders of the Company	<b>(358,456)</b>	839,232	(142.7)
(Loss)/Earnings per share (in RMB)	<b>(0.090)</b>	0.210	(142.7)

In 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 RMB536,627,000 and RMB358,456,000 respectively, while the Company's profit before taxation and profit attributable to equity shareholders of the Company for 2011 was RMB1,042,190,000 and RMB839,232,000 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.

## 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	At	Change %
	31 December 2012 RMB'000	31 December 2011 RMB'000	
Total assets	<b>11,138,204</b>	11,449,599	(2.7)
Current assets	<b>4,578,490</b>	6,130,656	(25.3)
Non-current assets	<b>6,559,714</b>	5,318,943	23.3
Total liabilities	<b>2,624,721</b>	2,457,660	6.8
Current liabilities	<b>2,569,618</b>	2,402,659	6.9
Non-current liabilities	<b>55,103</b>	55,001	0.2
Total equity attributable to equity shareholders of the Company	<b>8,513,483</b>	8,991,939	(5.3)

# Management Discussion and Analysis (Continued)

Total assets were RMB11,138,204,000, representing a decrease of RMB311,395,000 from that as at the end of 2011, of which: Current assets were RMB4,578,490,000, representing a decrease of RMB1,552,166,000 from that as at the end of 2011. The decrease was mainly due to the decrease in cash and cash equivalents by RMB1,344,794,000 owing to the net cash inflow from operating activities and the rise in net cash outflow from investing activities in 2012. Meanwhile, available-for-sale financial assets decreased by RMB200,000,000 because the assets were redeemed at maturity in 2012. Non-current assets were RMB6,559,714,000, representing an increase of RMB1,240,771,000 from that as at the end of 2011, which was mainly due to the increase in construction in progress and interest in jointly controlled entity by RMB669,680,000 and RMB281,730,000 respectively in 2012. Meanwhile, deferred tax assets increased by RMB189,503,000 because deferred tax assets were recognized in 2012 according to deductible tax losses.

Total liabilities were RMB2,624,721,000, representing an increase of RMB167,061,000 from that as at the end of 2011, of which: Current liabilities were RMB2,569,618,000, an increase of RMB166,959,000 as compared with the end of 2011, which was mainly due to the increase of RMB405,000,000 in short-term borrowings and the decrease of RMB238,041,000 in trade and other payables in 2012. Non-current liabilities were RMB55,103,000, an increase of RMB102,000 compared with the end of 2011.

Total equity attributable to equity shareholders of the Company was RMB8,513,483,000, a decrease of RMB478,456,000 as compared with the end of 2011, mainly due to RMB358,456,000 for loss attributable to equity shareholders of the Company in 2012 and RMB120,000,000 of cash payment of final dividends for the year ended 31 December 2011.

As at 31 December 2012, the ratio of total liabilities to total assets was 23.6 per cent, and 21.5 per cent as at 31 December 2011.

## (2) Cash flow analysis

At the end of 2012, cash and cash equivalents decreased by RMB1,344,794,000, representing a decrease from RMB1,506,821,000 as at 31 December 2011 to RMB162,027,000 as at 31 December 2012. The following table lists major items in the consolidated cash flow statement of the Company for the year 2012 and 2011.

Major items in cash flow statement	2012 RMB'000	2011 RMB'000
Net cash used in operating activities	<b>(967,838)</b>	(270,247)
Net cash used in investing activities	<b>(661,956)</b>	(426,734)
Net cash generated from/(used in) financing activities	<b>285,000</b>	(120,000)
Net decrease in cash and cash equivalents	<b>(1,344,794)</b>	(816,981)
Cash and cash equivalents at the beginning of the year	<b>1,506,821</b>	2,323,802
Cash and cash equivalents at the end of the year	<b>162,027</b>	1,506,821

In 2012, the Company's net cash outflow from operating activities was RMB967,838,000, representing an increase of cash outflow by RMB697,591,000 as compared with last year. This was mainly due to the decrease in the profit attributable to equity shareholders of the Company by RMB1,197,688,000 as compared with last year and the decrease in tax paid by RMB390,762,000 as compared with last year.

## Management Discussion and Analysis (Continued)

In 2012, the Company's net cash outflow from investing activities was RMB661,956,000, an increase of cash outflow by RMB235,222,000 as compared with last year. It was mainly due to the decrease in proceeds from maturity of deposits with an initial term more than three months by RMB373,465,000 as compared with last year and the decrease in capital expenditure by RMB147,345,000 as compared with last year.

In 2012, the Company's net cash inflow from financing activities was RMB285,000,000, an increase of cash inflow by RMB405,000,000 compared with last year. It was mainly due to newly increase in short-term borrowings by RMB405,000,000 in 2012.

**(3) Bank borrowings**

As at 31 December 2012, the Company's bank borrowings were RMB405,000,000 (as at 31 December 2011: nil). These borrowings will be due within one year, were fixed-rate loans and denominated in Renminbi.

**(4) Assets charges**

For the year ended 31 December 2012, there were no any charges on the Company's assets.

**(5) Management of foreign exchange risk**

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

**(6) Gearing ratio**

As at December 31, 2012, the gearing ratio of the Company was 4.5% (as at 31 December 2011: nil). The ratio is computed as interest-bearing debts divided by the sum of interest-bearing debts and shareholders' equity.





# Management Discussion and Analysis (Continued)

## 3. CAPITAL EXPENDITURE

In 2012, the Company's capital expenditure amounted to RMB1,504,067,000. The following table provided information on the Company's major construction projects and their returns in 2012.

Name of Main project	Amount invested in 2012 RMB'000	Progress of project	Project return (Actual production volume)
1, 4-butanediol project with an annual capacity of 100,000 tonnes	479,939	Equipment commissioning	–
Specialised polyester chip project with an annual capacity of 400,000 tonnes	240,000	Of which: sixteenth unit has been put into trial production, fifteenth unit is during Installing equipment period	33,529 tonnes
Differential staple fibre project with an annual capacity of 100,000 tonnes (third unit)	169,687	Completed	23,797 tonnes
Differential staple fibre project with an annual capacity of 100,000 tonnes (ninth unit)	97,269	Installing equipment	–
NCIC-YCFC hydrogen pipeline engineering project	62,996	Installing equipment	–
PTA joint project	278,251	Purchasing equipment	–
Others	175,925	–	–
<b>Total</b>	<b>1,504,067</b>	–	<b>57,326 tonnes</b>

The Company's capital expenditure for 2013 is expected to be approximately RMB961,000,000, including: the 1,4-butanediol project with an annual capacity of 100,000 tonnes, specialised polyester chip project with an annual capacity of 400,000 tonnes, thermoelectricity manufacturing center environment comprehensive improvement project, NCIC-YCFC hydrogen pipeline engineering project and differential staple fibre project with an annual capacity of 100,000 tonnes (ninth unit) amounting to RMB240,080, RMB75,610,000, RMB60,000, RMB80,000 and RMB92,990 respectively. To maximise its return on investment, the Company will strengthen its investment management in accordance with the prudence principle. The planned capital expenditures will be funded from cash generated from operations and bank credit facilities.

# Report of the Board of Directors

The Board is pleased to present its report of the board of directors for perusal.

## 1. REVIEW OF RESULTS OF OPERATIONS AND THE BUSINESS PROSPECT OF THE COMPANY DURING THE REPORTING PERIOD

Please refer to the section headed “Business Review & Prospects” in this annual report.

## 2. CHANGES IN THE RELEVANT ITEMS OF INCOME STATEMENT AND CASH FLOW STATEMENT (PREPARED IN ACCORDANCE WITH THE PRC ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES)

	2012 RMB'000	2011 RMB'000	Change (%)
Operating income	<b>16,987,916</b>	20,179,768	(15.8)
Operating costs	<b>16,572,824</b>	18,206,234	(9.0)
Selling and distribution expenses	<b>209,179</b>	220,430	(5.1)
General and administrative expenses	<b>829,424</b>	808,359	2.6
Net financial income	<b>30,966</b>	56,887	(45.6)
Net cash outflow from operating activities	<b>(967,719)</b>	(270,247)	Not applicable
Net cash outflow from investing activities	<b>(696,956)</b>	(835,190)	Not applicable
Net cash inflow/(outflow) from financing activities	<b>284,881</b>	(120,000)	Not applicable
Research and development expenditure	<b>48,406</b>	51,112	(5.3)

For reason for changes, please refer to the section headed “Management Discussion & Analysis” in this Annual Report.

### (1) Influence factors of changes in operating income

In 2012, the Company's operating income was RMB16,987,916,000, representing a decrease of 15.8 per cent as compared with RMB20,179,768,000 for last year. The decrease was mainly due to the decrease in the weighted average prices of polyester products (excluding VAT) and the total sales volume of the polyester products by 16.4 per cent and 1.3 per cent respectively as compared with last year resulting from the constantly weak polyester market.

### (2) Influence factors of operating income of company based on physical sales

In 2012, the Company's operating income decreased by RMB3,191,852,000 as compared with last year. This was mainly due to the decrease in operating income by RMB3,245,755,000 resulting from the drop in weighted average prices of polyester products and the decrease in operating income by RMB214,556,000 resulting from the drop in sales volume of the polyester products. For the production volume and sales volume of polyester products, please refer to the section headed “Management Discussion & Analysis” in this Annual Report.

# Report of the Board of Directors (Continued)

### 3. STATEMENT OF THE COSTS BY PRODUCTS (PREPARED IN ACCORDANCE WITH THE PRC ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES)

Products	Items of costs structure	Amount in 2012 RMB'000	Percentage of amount in 2012 in total costs (%)	Amount in 2011 RMB'000	Percentage of amount in 2011 in total costs (%)	Year-on-year change (%)
Polyester products	Raw materials	14,627,233	91.8	16,482,572	92.4	(11.3)
	Fuel and power	611,010	3.8	648,270	3.7	(5.7)
	Employees costs	393,945	2.5	379,929	2.1	3.7
	Depreciation and amortization	124,995	0.8	127,233	0.7	(1.8)
	Others	182,434	1.1	201,301	1.1	(9.4)
	Total		15,939,617	100.0	17,839,305	100.0

### 4. STATEMENT OF RESEARCH AND DEVELOPMENT EXPENDITURE (PREPARED IN ACCORDANCE WITH THE PRC ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES)

Expended research and development expenditure for 2012	48,406
Capitalized research and development expenditure for 2012	0
Total research and development expenditure for 2012	48,406
Percentage of total research and development expenditure in net assets	0.6
Percentage of total research and development expenditure in operating income	0.3

In 2012, the Company's research and development expenditure was RMB48,406,000, representing a decrease of 5.3 per cent as compared with RMB51,112,000 for last year.

### 5. CHANGES IN CASH FLOW STATEMENT ITEMS (PREPARED IN ACCORDANCE WITH THE PRC ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES)

Item	2012 RMB'000	2011 RMB'000	Change (%)	Reason for change
Cash paid for all types of taxes	136,157	814,982	(83.3)	Decrease in taxable turnover during the current year
Cash received from disposal of investment	406,751	918,090	(55.7)	Decrease in disposal of investment during the current year
Cash paid for acquisition of financial assets	200,000	700,000	(71.4)	Decrease in the acquisition of financial assets during the current year
Cash received from borrowings	405,000	–	Not applicable	Newly increase in short-term loans during the current year

# Report of the Board of Directors (Continued)

## 6. STATEMENT OF THE OPERATIONS BY PRODUCTS (PREPARED IN ACCORDANCE WITH THE PRC ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES)

Products	Operating income for 2012 RMB'000	Cost of sales for 2012 RMB'000	Gross profit margin (%)	Decrease in operating income as compared with last year (%)	Decrease in cost of sales as compared with last year (%)	Compared with last year
Polyester Chips	5,776,760	5,640,980	2.4	(21.4)	(13.8)	Decreased by 8.5 percentage points
Bottle-grade polyester chips	3,604,853	3,486,452	3.3	(5.2)	0.9	Decreased by 5.9 percentage points
Staple and hollow fibre	5,906,594	5,619,246	4.9	(12.9)	(7.0)	Decreased by 6.0 percentage points
Filament	1,045,595	1,192,939	(14.1)	(44.0)	(33.6)	Decreased by 17.8 percentage points

## 7. OPERATING INCOME BY REGIONS (PREPARED IN ACCORDANCE WITH THE PRC ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES)

Region	Operating income for 2012 RMB'000	Decrease from last year (%)
Mainland	16,345,233	(15.9)
Hong Kong, Macau, Taiwan, and overseas	642,683	(13.3)

# Report of the Board of Directors (Continued)

## 8. STATEMENT OF ASSETS AND LIABILITIES ANALYSIS (PREPARED IN ACCORDANCE WITH THE PRC ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES)

Item	Amount at 31 December 2012 RMB'000	Percentage of amount at 31 December 2012 in total assets (%)	Amount at 31 December 2011 RMB'000	Percentage of amount at 31 December 2011 in total assets (%)	Changes from the end of the preceding year to the end of this year (%)
Cash at bank and on hand	162,027	1.5	1,541,821	13.5	(89.5)
Accounts receivable	142,501	1.3	104,668	0.9	36.1
Inventories	1,735,734	15.6	1,756,664	15.3	(1.2)
Long-term equity investments	584,819	5.3	303,089	2.6	93.0
Fixed assets	3,495,550	31.4	3,366,832	29.4	3.8
Construction in progress	1,870,881	16.8	1,201,201	10.5	55.8
Short-term borrowings	405,000	3.6	0	0	Not applicable

For reason for changes, please refer to the section headed "Financial Summary" in this Annual Report.

## 9. PROPOSED SCHEME OF PROFIT DISTRIBUTION

In accordance with the PRC Accounting Standards for Business Enterprises, the net loss of the Company for 2012 was RMB361,367,000 (the loss attributable to equity shareholders of the Company for 2012 was RMB358,456,000 under IFRSs). The total distributable profit, including the undistributed profit of RMB1,683,448,000 brought forward from the previous year (deducting the final cash dividend of RMB120,000,000 paid for the year 2011), was RMB1,202,081,000 at the end of 2012.

According to the relevant regulations of the PRC and the Articles of Association of the Company, the Company proposed no transfer to the statutory surplus reserve, and no final cash dividend would be paid for the year ended 31 December 2012.

The above proposed profit distribution scheme shall be submitted for approval at the 2012 AGM.

Profit distribution for the previous three years in accordance with the ASBE

Year	Dividend in cash per ten shares (RMB, including tax)	Amount of dividends in cash (RMB'000)	Net profit in respect of the year declaring dividends* (RMB'000)	Percentage of dividends to net profit (%)
2012	–	–	(361,367)	–
2011	0.30	120,000	839,043	14.3
2010	0.30	120,000	1,226,542	9.8

# Report of the Board of Directors (Continued)

## Formulation and implementation of cash dividend policy of the Company

The Company has been carrying out prudent cash dividend policy and putting great emphasis on the investment return. And the formulation and implementation of cash dividend 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 dividend 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 dividend 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 dividend 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 dividend policy. The revised version of the Company's Articles of Association has already been reviewed and approved at the first extraordinary general meeting.

## 10. INFORMATION ON THE JOINT VENTURE OF THE COMPANY (PREPARED IN ACCORDANCE WITH THE PRC ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES)

Name of company	Registered capital	Shareholding percentage (%)	Amount of total assets RMB'000	Amount of total liabilities RMB'000	Amount of total net assets RMB'000	Net profit RMB'000
Far Eastern Yihua	US\$230 million	40	1,464,013	1,965	1,462,048	8,696

## 11. INFORMATION ON SOCIAL RESPONSIBILITY

For information on social responsibility, please refer to "Report on Social Responsibility for 2012" of the Company.

The Company is not categorized as an "enterprises with serious pollutions" as announced by the relevant environmental protections authorities and it had no material environmental or other social security issues in 2012.

## 12. RISK FACTORS

In the course of its production and operation, the Company actively took various measures to avoid and mitigate various types of risks. However, in practice, it may not be possible to prevent all risks and uncertainties completely.

### (1) Risks with regard to cyclical effects of the industry

The majority of the business income of the Company comes from the sales of polyester products. Historically, such products have been cyclical in nature and relatively sensitive towards changes in the macro economy as well as regional and global economic conditions, changes in productivity and output, changes in the prices and supply of raw materials, changes in consumer demand and changes in the prices and supply of substitutes. These factors have a major impact, from time to time, on the prices of the Company's products.

### (2) Market competition risk

At present, domestic polyester industry is facing structural oversupply situation and intensifying competitive situation owing to rapid increase in domestic polyester production capacity. Main counterparties are other large-scale polyester enterprises in China. With these counterparties' large-scale and collectivizing development and increasing in self-supporting capacity in polyester industry chain, the Company will face intense overall competition in the human resources, technology, products type and management.

# Report of the Board of Directors (Continued)

## (3) Risks with regard to change of environmental legislation requirements

The Company is governed by a number of environmental protection laws and regulations in China. Wastes (waste water, waste gas and waste residue) are generated during the Company's production operations. Currently the Company's operations are in full compliance with the requirements of all applicable Chinese environmental protection laws and regulations. But the relevant government authorities may promulgate and implement more strict environmental protection laws and regulations, adopt more strict environment protection standards. Under the above-mentioned situation, the Company may incur more expenses in relation to the environment protection accordingly.

## (4) Hidden hazards and force majeure risk

The production of petrochemical products involves certain risks, which may cause unexpected or dangerous event such as personal injuries or death, property damage, environmental damage and disruption to operations, etc. With the expansion in the scale of operations, the hazard risks faced by the Company also increase accordingly. Further, new regulation promulgated by the State in recent years set out higher standard for production safety. The Company has implemented a strict HSE management system and used its best endeavours to avoid the occurrence of accidents. However, the Company cannot completely avoid potential financial losses caused by such contingent incidents. In addition, natural disasters such as earthquake, typhoon and emergency public health events may cause losses to properties and personnel of the Company, and may affect the normal operations of the Company.

## 13. FINANCIAL SUMMARY

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

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

## 14. MANAGEMENT CONTRACT

During the year, the Company did not enter into any management contracts concerning the management or administration of its overall business or any of its material business, nor did any such management contract exist.

## 15. MAJOR EVENTS OR DISCLOSEABLE CIRCUMSTANCES DURING THE YEAR

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

## 16. CONNECTED TRANSACTIONS

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

## 17. PRE-EMPTIVE RIGHTS

There is no provision regarding pre-emptive rights under the Articles of Association or the PRC laws.

## 18. REPURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company did not sell any other securities of the Company, nor did it repurchase or redeem any of the securities of the Company during the twelve months ended 31 December 2012.

# Report of the Board of Directors (Continued)

## 19. RESERVES

Changes in reserves of the Company during the reporting period are set forth in note 27 of the financial statements prepared in accordance with the IFRSs of the Annual Report.

## 20. FIXED ASSETS

Movements in fixed assets of the Company, during the reporting period, are set forth in note 14 of the financial statements prepared in accordance with the IFRSs of the Annual Report.

## 21. BANK LOANS AND OTHER BORROWINGS

Details of bank loans and other borrowings of the Company as at 31 December 2012 are set out in note 24 of the financial statements prepared in accordance with the IFRSs of the Annual Report.

## 22. RETIREMENT PLAN

Particulars of the retirement plan operated by the Company are set forth in note 29 of the financial statements prepared in accordance with the IFRSs of the Annual Report.

## 23. MAJOR SUPPLIERS AND CUSTOMERS

For the year ended 31 December 2012, 61.8 per cent of the total purchases (not including the purchase of items which are of capital nature) were attributable to the Company's largest supplier. The largest supplier is Sinopec and its subsidiaries.

### Details of the Company's five largest suppliers and customers:

For the year ended 31 December 2012, aggregate purchase amounts from the top five largest suppliers were RMB9,958,584,000, representing 63.7 per cent of total purchases amounts. The top one of the five largest suppliers was the controlling shareholder of the Company —Sinopec and its subsidiaries, and had no related relationship with any of the Company's directors.

For the year ended 31 December 2012, aggregate sales amounts to the top five largest customers were RMB2,275,597,000, representing 13.4 per cent of total sales.

## 24. AUDITORS

The Company has continued engaging KPMG Huazhen and KPMG as domestic and international auditors respectively of the Company for 2012.

In 2012, the signing Certified Public Accountants of the Company's domestic auditors, KPMG Huazhen, were Gong Wei-li and Xu Kan-ling.

As recommended by the Audit Committee of the Company, the Board has resolved to appoint PricewaterhouseCoopers Zhong Tian CPAs Limited Company and PricewaterhouseCoopers as the Company's domestic and international auditors for 2013. The proposed appointment of auditors of the Company is subject to approval by the shareholders of the Company at the 2012 AGM.

## 25. SHAREHOLDERS' GENERAL MEETING

The Company held its 2011 AGM and its first extraordinary general meeting for 2012 at its registered place in Yizheng City, Jiangsu Province on 15 June 2012 and 18 October 2012 respectively during the reporting period. Details are set forth in the sub-section "Summary of Shareholders' Meetings" under the section entitled "Corporate Governance" in this Annual Report.



# Report of the Board of Directors (Continued)

## **26. COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE PRACTICES AND THE MODEL CODE**

During the reporting period, the Company has complied with the Code of Corporate Governance Practices as set forth in Appendix 14 to the Listing Rules. The Code of Corporate Governance Practices of the Company is set forth in the sub-section “Compliance With Code of Corporate Governance Practices of HKSE” under the section entitled “Corporate Governance ” in this Annual Report.

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

By Order of the Board

**Lu Li-yong**

*Chairman*

25 March 2013, Nanjing

## Significant Events

1. As approved by 2011 AGM held on 8 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 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.

Because of the significant loss incurred during the reporting period, no final cash dividend was paid for the year ended 31 December 2012, in accordance with the Company's the Article of Association.

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

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

3. During the reporting period, the Company did not have any material litigation or arbitration.
4. During the reporting period, the Company had not acquire or disposals of assets, nor any merger and acquisitions activities.

## Significant Events (Continued)

### 5. Information on connected transactions

The Company's material connected transactions entered into during the year ended 31 December 2012 are as follows:

- (a) The significant connected transactions relating to ordinary operation during the reporting period are as follow.

Related parties	Contents of transaction	Pricing and decision-making process of transaction with related parties	2012		2011	
			Amount of transaction RMB'000	Proportion of the same type of transaction (%)	Amount of transaction RMB'000	Proportion of the same type of transaction (%)
Sinopec and its subsidiaries	Purchase of raw materials	Based on normal commercial terms or relevant agreements	9,661,066	61.8	10,753,982	62.2
	Commission payable	Based on normal commercial terms or relevant agreements	65,410	100.0	67,462	100.0
CPC and its subsidiaries (Sinopec and its subsidiaries and Sinopec Finance are excluded)	Purchase of raw materials	Based on normal commercial terms or relevant agreements	9,681	0.1	–	–
	Construction and overhaul fee payable	Based on normal commercial terms or relevant agreements	104,519	8.5	68,558	6.6
	Miscellaneous service fee charges payable	Based on normal commercial terms or relevant agreements	6,350	100.0	6,350	100.0
	Sale of goods	Based on normal commercial terms or relevant agreements	548,467	3.2	298,274	1.5
	Insurance premium	Based on normal commercial terms or relevant agreements	18,797	100.0	3,700	100.0

#### Other related parties transactions:

Related parties	Contents of transactions	2012 RMB'000	2011 RMB'000
Sinopec Finance	Loans borrowed	300,000	–
	Interest income	7,507	9,766
	Interest expenses	399	–
China CITIC Bank	Interest income	2,874	5,106

# Significant Events (Continued)

## Commitments with related parties\*:

Related parties	Contents of transactions	2012 RMB'000	2011 RMB'000
CPC and its subsidiaries (Sinopec and its subsidiaries are excluded)	Sales of goods	384,767	–

\* Commitments with related parties at 31 December mainly are commitments with related parties, which are contracted to be executed in next Accounting year. Except for the above, the Company had no other material commitment with related parties at 31 December, which are contracted, but not included in the financial statements.

In the opinion of the Company, that the above-mentioned connected transactions with related parties were necessary and continuously occurred, and that the agreements governing these transactions met the requirements of business operation of the Company and the market situation. Meanwhile, purchasing from the above related parties ensures a steady and secured supply of raw materials. Therefore, these connected transactions provided benefits to the Company. These transactions were negotiated at market prices and had no adverse effect on the Company's profit or independence.

- (b) During the reporting period, there were no significant connected transactions related to the transfer of the asset or equity in the Company.
- (c) During the reporting period, the Company did not supply any non-operating funds to the controlling shareholder or its subsidiaries.

The Board believes that the above transactions were under the ordinary course of business and on normal commercial terms or were in accordance with the terms of agreements governing these transactions. Details of connected transactions entered into by the Company during the reporting period, refer to note 5 of the financial statements prepared in accordance with the PRC Accounting Standards for Business Enterprises. Independent directors have reviewed the above-mentioned connected transactions according to the regulations as stipulated in the Listing Rules, and made necessary confirmation in written submitted to the Board on 25 March 2013. Auditors of the Company have reviewed the above-mentioned connected transactions and provided a letter to the Board on 25 March 2013.

- 6. The Company did not lease, contract out or hold in trust any assets for other companies. Furthermore, the Company did not rent or contract any assets from other companies and did not have assets held by other companies.
- 7. During the reporting period, the Company did not make any guarantees or have any secured assets.
- 8. The Company and its shareholders who hold more than 5 per cent of the Company's shares did not have any undertaking, which are required disclosures.
- 9. As at 31 December 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.

## Significant Events (Continued)

10. 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.
11. During the reporting period, the changes in Directors, Supervisors and Senior Management are set forth in the section on “Directors, Supervisors and Senior Management and Employees” of this Annual Report.

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

12. As approved at the 2011 AGM, KPMG Huazhen (Special General Partnership) and KPMG were re-appointed as the Company’s domestic and international auditors for 2012, and the Board was authorised to approve their remunerations.

The amounts of remuneration paid to the domestic and international auditors for the two years ended 31 December 2012 were as follows:

	2012	2011
KPMG Huazhen (Special General Partnership) Audit fee	<b>RMB 1,500,000 yuan (paid)</b>	RMB 1,500,000 yuan (paid)
KPMG Audit fee	<b>RMB 3,300,000 yuan (paid)</b>	RMB 3,300,000 yuan (paid)
Audit fee regarding internal control	<b>RMB 200,000 yuan (paid)</b>	RMB 200,000 yuan (paid)

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

KPMG Huazhen (Special General Partnership) and KPMG have provided continuously audit services to the Company for 20 years.

Under the relevant requirements by the Ministry of Finance of the People’s Republic of China and the State-owned Assets Supervision and Administration Commission of the State Council of the People’s Republic of China, there are certain limits to the number of years for which an auditor may continuously undertake financial auditing work in respect of a state-owned enterprise and its subsidiaries. As a result, the Company will change the auditors. Through investigating the qualification, audit experience and human resources of auditors, the seventh meeting of the seventh term Board of Directors of the Company has resolved to appoint PricewaterhouseCoopers Zhong Tian CPAs Limited Company and PricewaterhouseCoopers as the Company’s domestic and international auditors for 2013, appoint PricewaterhouseCoopers Zhong Tian CPAs Limited Company as the Company’s auditor regarding internal control for 2013, and proposed to authorize the Board to fix their remuneration. The proposed appointment of auditors of the Company is subject to approval by the shareholders of the Company at the 2012 AGM.

13. During the reporting period, neither the Board of the Company nor any of its Directors were subject to investigation by the CSRC, administrative penalties or circulars of criticism released by the CSRC and the Securities and Futures Commission of Hong Kong, nor reprimands published by the SSE or the HKSE.
14. Except for those disclosed above, the Company did not have any major events, or disclosure matters required by the Article 62 of the Security Law of the PRC, Article 60 of the “Provisional Regulations of Administration of the Issuing and Trading of Shares of the PRC” and the Article 30 of “Disclosure of Information by Public Listing Companies” during the reporting period.

# Changes in Share Capital and Information on Shareholders

## CHANGES IN SHARE CAPITAL

1. Details of the share structure are as follows:

Unit of share: 1,000 Shares

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

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

The Company acknowledged that, based on information available to the Company immediately before publishing the 2012 Annual Report, and understood by its Directors as well, the number of its shares held by the public met the requirements in the Listing Rule.

# Changes in Share Capital and Information on Shareholders (Continued)

## SHARE ISSUE AND LISTINGS

1. **Issue of shares in the past three years**

As at the end of the reporting period, there was no issue of shares in the past three years.

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

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

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

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

4. **Pre-emptive rights**

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

5. **Internal employee shares**

The Company has not issued any internal employee shares.

## INFORMATION ON SHAREHOLDERS AND THE ULTIMATE CONTROLLER

1. **Number of shareholders**

Type	Number of shareholders as at 31 December 2012	Number of shareholders as at 19 March 2013
Legal person share ("A" share)	2	2
Social public share ("A" share)	31,707	31,659
"H" share	530	527
Total	32,239	32,188

## Changes in Share Capital and Information on Shareholders (Continued)

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

As at 31 December 2012, the shareholdings of the top ten major shareholders and circulating shareholders of the Company are as follows:

#### *Details of the top ten major shareholders*

Names of shareholders	Nature of shareholders	Number of shares held at the end of the year (shares)	Percent to total share capital (%)	Number of non-circulating shares (shares)	Number of pledged or frozen shares*
Sinopec	Domestic legal person shareholder	1,680,000,000	42.00	1,680,000,000	Nil
HKSCC (Nominees) Limited**	Overseas capital shareholder	1,384,323,005	34.61	Circulating shares	Nil
CITIC Group***	Domestic legal person shareholder	720,000,000	18.00	720,000,000	Nil
China Construction Bank-CIFM China Advantage Securities Investment Fund	Domestic circulating shareholders	28,220,000	0.71	Circulating shares	Not Applicable
Ceng Zhao-lin	Domestic circulating shareholders	3,529,969	0.09	Circulating shares	Not Applicable
Zhongrong International Trust Company Limited-Rongxin No.89 Trust funds Contract	Domestic circulating shareholders	2,523,000	0.06	Circulating shares	Not Applicable
Lin You-ming	Domestic circulating shareholders	1,941,700	0.05	Circulating shares	Not applicable
IP KOW	Overseas capital shareholder	1,900,000	0.05	Circulating shares	Not Applicable
Zhongrong International Trust Company Limited-Zhongrong Dinghui No.1 Securities investment	Domestic circulating shareholders	1,749,940	0.04	Circulating shares	Not Applicable
Chen Zhang-hua	Domestic circulating shareholders	937,000	0.02	Circulating shares	Not Applicable



# Changes in Share Capital and Information on Shareholders (Continued)

## Details of the top ten circulating shareholders

Names of shareholders	Number of circulating shares held at the end of year (shares)	Classification
HKSCC (Nominees) Limited**	1,384,323,005	“H” shares
China Construction Bank-CIFM China Advantage Securities Investment Fund	28,220,000	Circulating “A” shares
Ceng Zhao-lin	3,529,969	Circulating “A” shares
Zhongrong International Trust Company Limited — Rongxin No.89 Trust funds Contract	2,523,000	Circulating “A” shares
Lin You-ming	1,941,700	Circulating “A” shares
IP KOW	1,900,000	“H” shares
Zhongrong International Trust Company Limited — Zhongrong Dinghui No.1 Securities investment	1,749,940	Circulating “A” shares
Chen Zhang-hua	937,000	Circulating “A” shares
Chen Zhang-you	800,000	Circulating “A” shares
Cheng Zhao-cheng	721,108	Circulating “A” shares
Explanation of connected relationship or activities in concert among the above shareholders	Except for Zhongrong International Trust Company Limited-Rongxin No.89 Trust funds Contract and Zhongrong International Trust Company Limited — Zhongrong Dinghui No.1 Securities investment, all of which are under the management of Zhongrong International Trust Company Limited, the Company is not aware of that there is any connected relationship or activities in concert among the above-mentioned shareholders.	

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

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

\*\*\* Shares held on behalf of the State. According to CITIC Group's comprehensive restructuring scheme approved by the Ministry of Finance People's Republic of China, CITIC Group made the investment based on most of its operating assets (including 720,000,000 non-circulating shares in the Company) to establish CITIC Limited with joint initiation of Beijing CITIC Enterprise Management CO., Ltd on 27 December 2011. CITIC Group has transformed into a wholly state-owned company through comprehensive restructuring and changed its name to CITIC Company Corporation. CITIC Company 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 had been completed on 25 February 2013. Detailed information was disclosed in China Securities, Shanghai Securities News, Securities Times and the website of HKSE on 18 January 2012 and 28 February 2013 respectively.

## Changes in Share Capital and Information on Shareholders (Continued)

### 3. Information on Controlling Shareholder and the Ultimate Controller

#### (1) The controlling shareholder

Name of the controlling shareholder	:	Sinopec
Legal representative	:	Fu Cheng-yu
Date of establishment	:	25 February 2000
Organization number	:	71092609-4
Registered capital	:	RMB86.82 billion
Principal activities	:	Engaged in exploring for and developing, producing and trading crude oil and natural gas; processing crude oil into refined oil products, producing refined oil products and trading, transporting, distributing and marketing refined oil products; producing, distributing and trading petrochemical products.
Results of operations, financial position, cash flow and developing strategy	:	Please refer to the 2012 Annual Report of Sinopec

Sinopec's subsidiaries and associates listed in domestic and overseas during the reporting period	Abbreviation	Number of share held (shares)	Shareholding (%)	Remark
	Shanghai Pechem	4,000,000,000	55.56	Directly hold
	Yizheng Chemical	1,680,000,000	42.00	Directly hold
	Taishan Oil Sinopec Kantons	118,140,120 1,500,000,000	24.57 72.34	Directly hold Indirectly held through China International United Petroleum & Chemical Co., Ltd. Sinopec Kantons was established in Bermuda and was listed on the HKSE
	China Gas	210,000,000	4.60	Long-term equity investment

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

# Changes in Share Capital and Information on Shareholders (Continued)

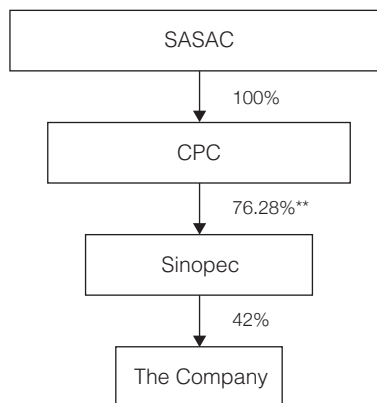
(2) *The ultimate controller*

Name of the ultimate controller	:	China Petrochemical Corporation (“ <b>CPC</b> ”)*
Legal representative	:	Fu Cheng-yu
Date of establishment	:	24 July 1998
Organization number	:	10169286-X
Registered capital	:	RMB231.6 billion
Principal activities	:	Through reorganization in 2000, CPC injected its principal petroleum and petrochemical operations into Sinopec, and retained operations in certain smaller scale petrochemical facilities and refineries, provision of well drilling services, oil testing services, in-well operation services, manufacture and maintenance of production equipment, engineering construction, utility services and social services.

CPC’s subsidiaries and associates listed in domestic and overseas during the reporting period	Abbreviation	Number of share held (shares)	Shareholding (%)
	Merchants	911,886,426	19.32%
	People’s Daily online	2,003,367	0.72%

During the reporting period, there has been no change in the ultimate controller of the Company.

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



\*\* 425,500,000 H shares of Sinopec were held by Sheng Jun Investments International Limited, an wholly-owned subsidiary of Sinopec, through HKSCC Nominees Limited.

## Changes in Share Capital and Information on Shareholders (Continued)

(3) *Other substantial shareholders*

(a) *CITIC Limited*

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

Legal representative	:	Chang Zhen-ming
Registered capital	:	RMB128.0 billion
Organization number	:	71783170-9
Date of establishment	:	27 December 2011
Principal activities	:	Investing and managing domestic and foreign bank, security, insurance, trust, future, rent, fund, information, energy, communication, mine, raw material, machinery manufacturing, real estate development, environmental protection, medicament, bioengineering and new material, aviation, transportation, trade, commerce, engineer; and asset management and capital operation, etc..

(b). The shares held by HKSCC (Nominees) Limited are on behalf of its customers. As at 31 December 2012, the Company was not informed of whether any of its individual "H" shareholder held more than 10 per cent of the total shares of the Company.

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

As at 31 December 2012, so far as the Directors, Supervisors and Senior Management of the Company are aware of, each of the following persons, not being a Director, Supervisor or Senior Management of the Company, had an interest in the Company's shares which is required to be disclosed to the Company and the HKSE under the provisions of Divisions 2 and 3 of Part XV of the SFO:

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

\* As at 31 December 2012, CPC holds 76.28% of the equity interest in Sinopec.

Save as disclosed above and so far as the Directors, Supervisors and Senior Management of the Company are aware of, as at 31 December 2012, no other person had an interest or short position in the Company's shares or underlying shares (as the case may be) which are required to be disclosed to the Company and the HKSE under the provisions of Divisions 2 and 3 of Part XV of the SFO, or was otherwise a substantial shareholder (as such term is defined in the Listing Rules) of the Company.

# Directors, Supervisors, Senior Management and Employees

## 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.

## PROFILES OF PRESENT DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### Directors

1. Mr. Lu Li-yong, aged 51, Chairman of the Company, Secretary of Chinese Communist Party Committee (the “**CCPC**”) of the Company, and Senior Engineer. Mr. Lu joined petrochemical industry in 1982 and had served as Deputy Director and Director of Dispatching Center, and then Director of Production Department of Shijiazhuang Oil Refinery since April 1991. In December 1994, he was appointed as the Assistant to Head of Shijiazhuang Oil Refinery. He was appointed as Deputy Head of Shijiazhuang Oil Refinery in August 1995 and was elected as Director of Shijiazhuang Refining-Chemical Company Limited in August 2000. In October 2003, he was appointed as Head of Shijiazhuang Oil Refinery. He was appointed as President of Sinopec Cangzhou Branch and Head of China Petrochemical Corporation Cangzhou Oil Refinery in December 2004. In July 2010, he was appointed as Secretary of Chinese Communist Party Committee of the Company and General Manager of Yihua. In September 2010, he was elected as Chairman of the Company. In December 2011, he was re-elected as Chairman of the Company. For a long period of time, Mr. Lu has held leading positions in production and administration of petrochemical enterprises and has extensive experience in overall management in large-scale enterprises. Mr. Lu graduated from Hebei University of Engineering in 1982, majoring in petroleum refining. He graduated from the Communist Party Hebei Academy in January 2001, majoring in administration, and pursued postgraduate studies.
2. Ms. Sun Zhi-hong, aged 63, Vice Chairwoman of the Company, Senior Accountant and CPA of the PRC. She held the position of Deputy Director of the Finance Department of CITIC Company since January 1999. She was elected as Vice Chairwoman of the Company in December 1999, and was re-elected in December 2011. Ms. Sun has extensive experience in financial management in large-scale enterprise. Ms. Sun graduated from China Central Broadcasting and Television University in 1986, majoring in accounting and completed the graduate course of International Business Administration in Beijing Economic College in 1995.
3. Mr. Xiao Wei-zhen, aged 59, Vice Chairman and General Manager of the Company, and Senior Engineer (at professor level). Mr. Xiao receives special subsidies by the State Council of the PRC. Mr. Xiao joined Yihua in 1982. Since then, he had served as Deputy Director and Chief Engineer of Polyester Plant No. 2, and then Director of Polyester Plant No. 4 of the Company. In November 1996, he was appointed as Deputy General Manager of the Company. In December 1997, he was transferred to be Head of Production and Marketing Department in China Eastern United Petrochemical (Company) Company Limited (“**Eastern United**”). In January 1998, he was elected as Executive Director of the Company. In May 1998, he was appointed as Deputy General Manager of the Company. In July 2004, he was appointed as Managing Director of the Company and Director of Yihua. He was re-elected as Managing Director of the Company in December 2005. In February 2007, he was elected as Vice Chairman of the Company. In December 2011, he was re-elected as Vice Chairman of the Company. Mr. Xiao has extensive experience in production, technological improvement and business administration in large-scale chemical fibre enterprise. Mr. Xiao graduated from the Department of Chemical Engineering of Zhejiang University in 1982, majoring in macromolecular chemistry. He completed the course of MBA in Nanjing University in 2003.
4. Ms. Long Xing-ping, aged 61, Director of the Company and Deputy Director of Strategy and Planning Department of CITIC Limited and CITIC Group, and Senior Engineer. She was elected as Director of the Company in December 1999. She was appointed as Deputy Director of Overall Planning Department of CITIC Company since April 2002. In December 2011, she was re-elected as Director of the Company. Ms. Long was engaged in the designing of chemical fibre machines and scientific research, and has extensive experience in business administration in large-scale industrial enterprise. Ms. Long graduated from Beijing Chemical Engineering College in 1975, majoring in machinery.

# Directors, Supervisors, Senior Management and Employees (Continued)

5. Mr. Zhang Hong, aged 54, Director of the Company and Deputy Director of Audit Department of CITIC Limited and CITIC Group, Senior Accountant and CPA of the PRC. In December 2002, he was elected as Director of the Company. In December 2011, he was re-elected as Director of the Company. He held the position of Deputy Director of Audit Department of CITIC Company since January 2010. Mr. Zhang was engaged in financial management and internal audit for years, and has extensive experience in internal management systems, financial analysis and auditing in large-scale enterprise. Mr. Zhang graduated from No. 2 Branch, Renmin University of China in 1983, majoring in finance.
6. Mr. Guan Diao-sheng, aged 50, Director of the Company, Deputy Director of Chemicals Segment of Sinopec, Master of Engineering, Senior Engineer. Mr. Guan has joined petrochemical industry since 1985, he served as Deputy Director of Technology Department of Liaoyang Oil & Chemical Fibre Company in 1991, Deputy Director of Technology Section of Production Department of CPC in 1995, Director of Chemical Fibre Section of Refining and Petrochemical Department of CPC in 1998, and Deputy Director of Chemicals Segment of Sinopec in December 2001, in June 2002, he was elected as Director of the Company, and re-elected in December 2011. Mr. Guan has extensive experience in chemical fibre industry management. Mr. Guan graduated from China Textile University in 1985, majoring in chemical fibre.
7. Mr. Sun Yu-guo, aged 49, Director of the Company, Deputy Director of Development and Plan Department of Sinopec, Master of Engineering, Senior Engineer (at professor level). Mr. Sun has joined petrochemical industry since 1987. He served as Deputy Director of Strategic Plan Section of Development and Plan Department of CPC in December 1998, Director of Refining Oil, Transportation and Selling Plan Section of Development and Plan Department of Sinopec in February 2000, Deputy Director of the Asset and Accounting Department of Sinopec Assets Management Corporation in March 2006, and Deputy Director of Development and Plan Department of Sinopec in May 2008. In June 2011, he was elected as Director of the Company, and re-elected in December 2011. Mr. Sun has extensive experience in planning and management in chemicals industry. Mr. Sun graduated from Dalian University of Technology in 1984, majoring in fundamental organic chemical engineering. Mr. Sun obtained Master of Engineering from Dalian University of Technology in 1987, majoring in chemical engineering.
8. Mr. Shen Xi-jun, aged 52, Director and Deputy General Manager of the Company, and Senior Engineer (at professor level). He receives special subsidies awarded by the State Council of the PRC. Mr. Shen joined Yihua in 1982. He had served as Deputy Director of Polyester Plant No.3 and the Assistant to General Manager of Yihua. In January 1996, he was appointed as Deputy General Manager of Yihua. In January 1998, he was appointed as Deputy General Manager of the Company. In August 2004, he was elected as Director of the Company. In December 2011, he was re-elected as Director of the Company. He has extensive experience in production and project management in large-scale enterprises. He has won several titles and awards granted by the Central Committee of the Communist Youth League of the PRC, China National Textile Council, Human Resources Department of Jiangsu Provincial Government and Jiangsu Provincial Communist Party Committee. Mr. Shen graduated from the Department of Chemical Engineering of Dalian Institute of Technology in 1982, specialising in macromolecule chemical engineering. He completed the course of MBA in Nanjing University in 1997. Mr. Shen graduated from Research Institute of Petroleum Processing in 2006, majoring in applied chemistry and became Doctor of engineering in 2006.
9. Mr. Shi Zhen-hua\*, aged 66, Independent Director of the Company and former Chief of Environmental Protection Department of Jiangsu Province. He was appointed as the secretary to the Party Committee and the director general of Xuzhou Environmental Protection Bureau in 1984, the vice director general of Jiangsu Environmental Protection Department in 1990, and the secretary to the Party Committee and the deputy chief to the Jiangsu County Environmental Protection Bureau in 1997. He was off position in 2008. In December 2008, he was elected as Independent Director of the Company, and re-elected in December 2011. Over the years, he has been engaged in various management aspects such as environmental protection, environmental management and environmental resources, and contributed to different environmental reformation and innovation projects. He was awarded with various honors, including the China's Environment Award. He was the Delegate of the 10th National People's Congress. Mr. Shi graduated from the Department of Geography of Nanjing University in 1969.



# Directors, Supervisors, Senior Management and Employees (Continued)

10. Mr. Qiao Xu\*, aged 51, Independent Director of the Company and the Vice President of Nanjing University of Technology. He obtained a Ph.D. in engineering, and is a professor and tutor for doctoral students. He has been a tutor, lecturer, assistant professor and professor at the Nanjing Chemical Institute. Since 1993, he has been the vice head of Department of Chemistry, Deputy Dean of the College of Chemistry and Chemical Engineering, Dean of Pujiang Institute and the Chief of the office of school affairs. He took up his current position in July 2007. In December 2008, he was elected as Independent Director of the Company, and re-elected in December 2011. Mr. Qiao was also appointed as external director of Jiangsu Salt Company Company LTD. Over the years, he was engaged in teaching undergraduates, master and doctoral students in chemistry engineering and technology specialty as well as professional research, and has obtained various honors and achievements in teaching and research aspects. He was named the outstanding teacher of general high school in Jiangsu, the outstanding technologist of Jiangsu, the academic leader and the Young and Middle-aged Technological Leader. Mr. Qiao graduated from the Department of Abiochemistry of Nanjing Chemical Institute in 1982, he obtained his master degree from the Department of Chemical Engineering of Zhejiang University in 1987, and his doctorate degree from the Department of Chemical and Engineering of Nanjing University of Chemistry in 1999.
11. Mr. Yang Xiong-sheng\*, aged 53, Independent Director of the Company and the Accounting Professor of Nanjing University. He possessed a doctorate degree in Accounting, and is also a professor and a tutor for doctoral students. At present, Mr. Yang is a part-time professor for tertiary institutions such as Hohai University, Nanjing University of Science and Technology, Anhui University of Finance and Economics, Anhui University of Technology, Zhejiang University of Finance and Economics. He is also an academic member and Vice-Secretary of the Accounting Society of China, a member of the Committee on Internal Control Standards of Enterprises for the Ministry of Finance, an expert consultant on the accounting standards of the Ministry of Finance, and also the vice president of the Jiangsu Province Accounting Association. In December 2008, he was elected as Independent Director of the Company, and re-elected in December 2011. Over the years, he has been conducting researches on internal controls, accounting theories, financial management and accounting management.
12. Mr. Chen Fang-zheng\*, aged 66, Independent Director of the Company and the Director of Social Security Institute of Tongji University and the tutor for doctoral students of the Faculty of Economics and Management of Tongji University. He served as a visiting scholar in the University of Waterloo in Canada from 1993 to 1994. He was the Director of Finance and Investment Institute, the Director of Finance Department and the Director of Economy Research Center in Southeast University. He was also the executive vice president of Commercial Institute, the Dean of the Department of Economy and Finance and the Director of Applied Economics Subcommittee in Tongji University. He was appointed as a tutor for doctoral students majoring in Management Science and Engineering by Tongji University in 1997. He was the member of CPPCC Jiangsu Province and the member of appraisal team of the ninth five-year plan and tenth five-year plan for Jiangsu Philosophical and Social Science. He was appointed the Dean of Economics and Management Institute by Zhejiang Ocean University. He was appointed expert by the United Nations in 2001 and was also appointed expert by China Development Bank in 2006. He once hosted or participated the projects from United Nations Development Programme, National Natural Science Funds and National Social Science Funds. In December 2008, he was elected as Independent Director of the Company, and re-elected in December 2011. He also served as an independent director in Minmetals International Trust Co., Ltd. Mr. Chen graduated from Hefei University of Technology in 1969, majoring in measurement.

\* *Independent Directors*

# Directors, Supervisors, Senior Management and Employees (Continued)

## Supervisors

1. Mr. Cao Yong, aged 54, Chairman of Supervisory Committee of the Company, Chairman of Trade Union of the Company, Deputy Secretary of the CCPC, and Secretary of the Discipline and Inspection Commission of the Company, Senior P&I Engineer (at professor level). He joined Yihua in 1981. He served as Deputy Director of Planning and Developing Department, Deputy Director and Director of Polyester Plant No.3. In December 1997, he was transferred to be Deputy Director of Planning and Developing Department in Eastern United and in May 1998 he served as Director of Polyester Plant No.1. In August 2001 he was appointed as Assistant to General Manager of Yihua and in January 2003 he was appointed as Deputy General Manager of Yihua. In March 2003, he was appointed as Director of Yihua. In July 2004 he was appointed as Chairman of Trade Union, Deputy Secretary of the CCPC of the Company and Yihua. In August 2004, he was elected as Director of the Company. In December 2005, he was re-elected as Director of the Company. In February 2007, he was elected Chairman of Supervisory Committee of the Company, and re-elected in December 2011. Mr. Cao has extensive experience in planning, production and development in large-scale enterprises. Mr. Cao graduated from Nanjing Chemical Engineering College in 1981, majoring in chemical engineering. He completed the course of MBA in Nanjing University in 2000. In January 2005, he obtained an engineering master degree in Suzhou University, majoring material engineering. Mr. Cao is the Supervisor who represents the staff of the Company.
2. Mr. Sun Shao-bo, aged 52, Deputy Secretary of the Discipline and Inspection Commission and Director of Supervisory Department of the Company, and Economist. Mr. Sun joined Yihua in 1988, he had been engaged in secretarial affairs and Director of secretary section in General Manager Office of the Company successively. In January 1997, he held positions of Deputy Director of General Manager Office of Yihua and the Company and Office for the Party Committee. In December 2001, he held positions of Director of General Manager Office and Office for the Party Committee and Economic Research Center of the Company. He took up his current position in June 2011. He was elected as Supervisor of the Company in December 2011. Mr. Sun has extensive experience in administrative management in large-scale enterprise. Mr. Sun graduated from Journalism Department of Yangzhou Normal Academy in 1981, and graduated from Journalism Department of Jiangsu Institute of Education in 1987. He completed the graduate course of enterprise management in Nanjing University in 1997. Mr. Sun is the Supervisor who represents the staff of the Company.
3. Mr. Chen Jian, aged 50, Supervisor of the Company and Senior Project Manager of Strategy and Planning Department of CITIC Limited and CITIC Group, and Engineer. Mr. Chen had served as technician and engineer in chemical fibre enterprise. He was elected as Supervisor of the Company in December 1999 and re-elected in December 2011. Mr. Chen has extensive experience in the field of chemical fibre production, international trade of related products and investment project management. Mr. Chen graduated from East China Textile Institute of Science and Technology in 1984, majoring in chemical fibre.
4. Mr. Shao Bin\*\*, aged 47, Deputy Director of Jiangsu Branch, China Construction Bank, and Senior Economist. He started work in July 1988. He had been successively engaged in Deputy Manager of International Business Department of Jiangsu Branch, Deputy Director of Changzhou Branch, Deputy Manager of Sales Department of Jiangsu Branch, Director of Credit Business Division and General Manager of Company Financing Department of Jiangsu Branch of China Construction Bank. Mr. Shao took up his current position in July 2005. He was elected as Supervisor of the Company in December 2011. He has extensive experience in banking. Mr. Shao graduated from Jiangxi University of Finance and Economics in 1988, majoring in finance. In May 2001, he obtained an economics master degree in Nanjing University, majoring in political economy.
5. Mr. Chu Bing\*\*, aged 40, General Manager of Company Financing Department of Jiangsu Branch, Bank of China, Economist. He was joined Bank of China in August 1995, and took up his current position in September 2009. He was elected as Supervisor of the Company in December 2011. Mr. Chu has extensive experience in banking. Mr. Chu graduated from Jiangsu University of Science and Technology in 1995, majoring in management engineering. He completed the graduate course of project management in Nanjing University in 2009.

\*\* *Independent Supervisors*



# Directors, Supervisors, Senior Management and Employees (Continued)

## Senior Management

1. Mr. Li Jian-xin, aged 55, Deputy General Manager, and Senior Engineer (at professor level). He joined Yihua in 1982. He is engaged in the work of production, technology, operation and administration of large-scale petrochemical enterprises. He had served as Deputy Director of Intermediate Experiment Factory, Polyester Plant No. 4 and Polyester Plant No. 3 of the former Yizheng Joint Corporation of Chemical Fibre Industry (currently Yihua), Administrative Vice General Manager of Yizheng Chemical Fibre Foshan Polyester Company Limited, Director of Yizheng Chemical Fibre Film Factory, General Manager of Yizheng Chemical Fibre Film Company Limited. In 2003, he was appointed as the Assistant to General Manager of Yihua. In June 2004, he was appointed as Deputy General Manager and Director of Yihua. In June 2007, he was appointed as Deputy Manager of Yihua. In July 2007, he was appointed as Deputy General Manager of the Company, and re-appointed in December 2011. He has ample experience in the production, technology, operation and administration of large-scale petrochemical enterprises. He was awarded the national and provincial Science & Technology Progress Prize several times. Mr. Li graduated from the Department of Fibre Engineering and Equipment of the Beijing Chemical Industry Institute in 1982, and completed the course for an MBA at Nanjing University in 2000.
2. Mr. Zhang Zhong-an, aged 52, Deputy General Manager, and Senior Engineer (at professor level). He joined Yihua in 1982, and served as Deputy Director of Polyester Plant No. 1, Deputy Director and Director of Production Department. In January 2002, He served as Deputy General Engineer and Director of Technology Development Department. In July 2004, he was appointed as Deputy General Manager of the Company and Director of Yihua. In December 2011, he was re-appointed as Deputy General Manager of the Company. Mr. Zhang has extensive experience in production, R&D and technical management. Mr. Zhang graduated from East China Petrochemical Institute in 1982, majoring in macromolecular chemistry. He completed the course of MBA in Nanjing University in 2000.
3. Mr. Li Jian-ping, aged 50, Chief Financial Officer of the Company, Chief Legal Consultant and Senior Accountant (at professor level). Mr. Li has been engaged in audit and financial management of large-scale chemical enterprise for a long period of time. He had held the position of Deputy Director of Audit Department, Director of Finance Department of Jinling Petrochemical Company. He was appointed as Deputy Chief Financial Officer of Sinopec Jinling Petrochemical Corporation Limited ("**Jinling Petrochemical**") in 2000. He was also appointed as Chief Financial Officer of China Petroleum & Chemical Corporation Jinling Branch and Director of Jinling Petrochemical in 2000. He was appointed as Chief Financial Officer of the Company in December 2006, and re-appointed in December 2011. Mr. Li has extensive experience in financial management of large-scale chemical enterprise. Mr. Li graduated from Shanghai University Finance & Economics in 1986, majoring in accountant, and obtained Master of Economics degree in Shanghai University Finance & Economics in 1989.
4. Mr. Tom C. Y. Wu, aged 51, Company Secretary of the Company, and Senior Economist. He joined Yihua in 1982. Mr. Wu was engaged in production management, technology management and business administration. He participated in all of the Phase I, Phase II and Phase III Construction Projects of Yihua and is familiar with the Company's overall operation. In 1994, he served as Deputy Director of PET Film Plant of Yihua. He was elected as Board Secretary and appointed as treasurer of the Company in January 2001. In December 2011, he was re-elected as Board Secretary of the Company. Mr. Wu graduated from the Department of Chemical Engineering of Zhejiang University in 1982, majoring in macromolecular chemistry, and obtained MBA degree in Dalian University of Technology in September 2001.

# Directors, Supervisors, Senior Management and Employees (Continued)

## DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S INTERESTS IN SHARES AND THEIR REMUNERATION

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

Pursuant to the resolution regarding the salaries of the seventh term Directors and Supervisors, approved by the EGM held on 16 December 2011, the resolution regarding the salaries of the Senior Management, approved by the first meeting of the seventh term of the Board held on 16 December 2011, and in accordance with service contract signed between the Company, Directors and Supervisors and with reference to the operating results of the Company in 2012 and the Company's appraisal and assessment system, the Board considered and passed the resolution regarding the Directors', Supervisors' and Senior Management's remuneration in the seventh meeting of the seventh term of the Board held on 25 March 2013.

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

#### (1) Information on the current Directors, Supervisors and Senior Management

Name	Position	Term of office	Number of "A" shares held for personal interests		Stock option of the Company held	Reason for change
			At the beginning of the year	At the end of the year		
Lu Li-yong	Chairman	Dec. 2011–Dec. 2014	–	–	Nil	No Change
Sun Zhi-hong	Vice Chairwoman	Dec. 2011–Dec. 2014	–	–	Nil	No Change
Xiao Wei-zhen	Vice Chairman and General Manager	Dec. 2011–Dec. 2014	–	–	Nil	No Change
Long Xing-ping	Director	Dec. 2011–Dec. 2014	–	–	Nil	No Change
Zhang Hong	Director	Dec. 2011–Dec. 2014	–	–	Nil	No Change
Guan Diao-sheng	Director	Dec. 2011–Dec. 2014	–	–	Nil	No Change
Sun Yu-guo	Director	Dec. 2011–Dec. 2014	–	–	Nil	No Change
Shen Xi-jun	Director, Deputy General Manager	Dec. 2011–Dec. 2014	–	–	Nil	No Change
Shi Zhen-hua	Independent Director	Dec. 2011–Dec. 2014	–	–	Nil	No Change
Qiao Xu	Independent Director	Dec. 2011–Dec. 2014	–	–	Nil	No Change
Yang Xiong-sheng	Independent Director	Dec. 2011–Dec. 2014	–	–	Nil	No Change
Chen Fang-zheng	Independent Director	Dec. 2011–Dec. 2014	–	–	Nil	No Change
Cao Yong	Chairman of Supervisory Committee	Dec. 2011–Dec. 2014	–	–	Nil	No Change
Sun Shao-bo	Supervisor	Dec. 2011–Dec. 2014	–	–	Nil	No Change
Chen Jian	Supervisor	Dec. 2011–Dec. 2014	–	–	Nil	No Change
Shao Bin	Independent Supervisor	Dec. 2011–Dec. 2014	–	–	Nil	No Change
Chu Bing	Independent Supervisor	Dec. 2011–Dec. 2014	–	–	Nil	No Change
Li Jian-xin	Deputy General Manager	From Dec. 2011	–	–	Nil	No Change
Zhang Zhong-an	Deputy General Manager	From Dec. 2011	–	–	Nil	No Change
Li Jian-ping	Chief Financial Officer	From Dec. 2011	–	–	Nil	No Change
Tom C. Y. Wu	Board Secretary	From Dec. 2011	–	–	Nil	No Change
Liu Xiao-qin	Off position	Dec. 2011–Aug. 2012	–	–	Nil	No Change



# Directors, Supervisors, Senior Management and Employees (Continued)

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

Name	Name of corporate shareholders	Position held in corporate shareholders	Term of office	Remuneration and allowance received from the corporate shareholders	Remuneration received from the corporate shareholders (RMB ten thousand)
Sun Zhi-hong	CITIC Limited	Deputy Director of Financial Department	Jan. 1999–Dec. 2011	No	–
Long Xing-ping	CITIC Limited	Deputy Director of Strategy and Planning Department	From April 2002	No	–
Zhang Hong	CITIC Limited	Deputy Director of Audit Department	From January 2010	No	–
Guan Diao-sheng	Sinopec	Deputy Director of Chemical Segment	From December 2001	Yes	51.8
Sun Yu-guo	Sinopec	Deputy Director of Development and Plan Department	From May 2008	Yes	51.8
Chen Jian	CITIC Limited	Senior Project Manager of Strategy and Planning Planning Department	From August 2010	No	–

## (3) Information on Directors and Supervisors holding positions in other enterprises

Name	Name of other enterprises	Position held in other enterprises	Beginning date of term	End date of term
Lu Li-yong	Yihua	General Manager	July 2010	–
Xiao Wei-zhen	Far Eastern Yihua	Vice Chairman and General Manager	Dec. 9 2011	Dec. 8 2014
Long Xing-ping	CITIC Heavy Industries Company Limited	Director	Jan. 25 2011	Jan. 24 2014
Shen Xi-jun	Far Eastern Yihua	Director	Dec. 9 2011	Dec. 8 2014
	Yihua Toray Polyester Film Company Limited	Director	Feb. 25 2013	–
Cao Yong	Far Eastern Yihua	Supervisor	Dec. 9 2011	Dec. 8 2014
Qiao Xu	Jiangsu Salt Group Company Limited	External Director	Sep. 8 2011	Sep. 7 2014
Yang Xiong-sheng	Jiangsu Hongtu High Technology Co., LTD.	Independent Director	July 1 2010	June 30 2013
	Wuhan Boiler Co., LTD.	Independent Director	Oct. 15 2010	Oct. 14 2013
Chen Fang-zheng	Minmetals International Trust Co., LTD.	Independent Director	Oct. 12 2011	Oct. 11 2014

# Directors, Supervisors, Senior Management and Employees (Continued)

(4) *Information on the remuneration of the Company's Directors and Supervisors of the seventh term of the Board and Supervisory Committee and Senior Management in 2012*

Name	Salaries (RMB)
Lu Li-yong	326,160
Sun Zhi-hong	–
Xiao Wei-zhen	326,160
Long Xing-ping	–
Zhang Hong	–
Guan Diao-sheng	–
Sun Yu-guo	–
Shen Xi-jun	278,220
Shi Zhen-hua	50,000
Qiao Xu	50,000
Yang Xiong-sheng	50,000
Chen Fang-zheng	50,000
Cao Yong	278,220
Sun Shao-bo	197,710
Chen Jian	–
Shi Gang	40,000
Wang Bing	40,000
Li Jian-xin	278,220
Zhang Zhong-an	278,220
Li Jian-ping	278,220
Tom C. Y. Wu	200,792
<b>Off position:</b>	
Liu Xiao-qin	136,600
Total remuneration for the year	RMB2,858,522 in total
Allowances to Independent Directors	RMB200,000 in total
Other benefits to Independent Directors	Nil
Name of directors or supervisors who did not receive any remuneration from the Company	Sun Zhi-hong, Long Xing-ping, Zhang Hong, Guan Diao-sheng, Sun Yu-guo, Chen Jian

## **DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S RIGHTS TO ACQUIRE SHARES AND DEBENTURES AND SHORT POSITION**

As at 31 December 2012, none of the Directors, Supervisors and Senior Management of the Company had any interest or short position in shares, underlying shares and/or debentures (as the case may be) of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be notified to the Company and the HKSE pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and short position which any such Director, Supervisor or Senior Management is taken or deemed to have under such provisions of the SFO) or which was required to be entered in the register kept by the Company pursuant to section 352 of the SFO or which was required to be notified to the Company and the HKSE pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") as contained in Appendix 10 to the Listing Rules.

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

# Directors, Supervisors, Senior Management and Employees (Continued)

## **DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS**

Each Director (excluding Independent Directors) of the seventh term of the Board of the Company entered into a service contract with the Company on 16 December 2011. Particulars of these contracts are in all material respects identical and are set out below:

1. Each service contract is for a term of three years commencing 1 January 2012;
2. Each Director (excluding Independent Directors) is entitled to an annual salary of not less than RMB50,000. The aggregate annual salaries of all Directors (excluding Independent Directors) is not more than RMB2,800,000 within the contract term.

Each Independent Director of the seventh term of the Board entered into a service contract with the Company on 16 December 2011. Particulars of these contracts are in all material respects identical and are set out below:

1. Each service contract is for a term of three years commencing 1 January 2012;
2. The aggregate annual allowance payable to all Independent Directors is RMB200,000 (after taxation) within the contract term.

Each Supervisor (excluding Independent Supervisors) of the seventh term of the Supervisory Committee entered into a service contract with the Company on 16 December 2011. Particulars of these contracts are in all material respects identical and are set out below:

1. Each service contract is for a term of three years commencing 1 January 2012;
2. Each Supervisor (excluding Independent Supervisors) is entitled to an annual salary of not less than RMB50,000. The aggregate annual salaries of all Supervisors (excluding Independent Supervisors) is not more than RMB1,000,000 within the contract term.

Each Independent Supervisor of the seventh term of the Supervisory Committee entered into a service contract with the Company on 16 December 2011. Particulars of these contracts are in all material respects identical and are set forth below:

1. Each service contract is for a term of three years commencing 1 January 2012;
2. The aggregate annual allowance payable to all Independent Supervisors is RMB80,000 (after taxation) within the contract.

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

## **DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS**

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

## **SPECIAL TREATMENT TO DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

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

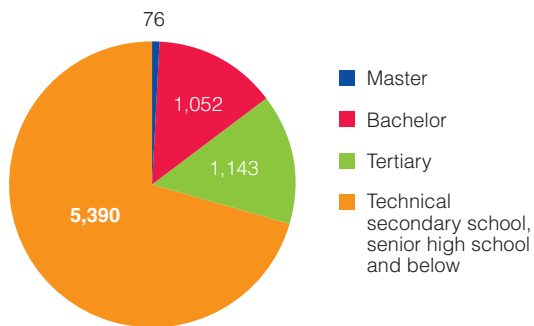
# Directors, Supervisors, Senior Management and Employees (Continued)

## STAFF

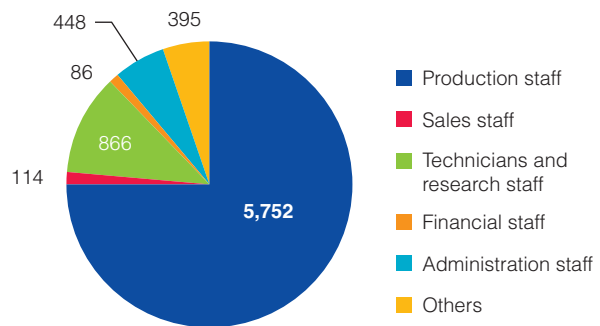
As at 31 December 2012, the Company had 7,661 employees. Total retired staff amounted to 2,547.

The Company had 76 employees with masters degrees or higher, 1,052 employees with bachelor degrees, 1,143 employees with a tertiary, and 5,390 employees with technical secondary school and senior high school or below.

The Company had 5,752 production staff, 114 sales staff, 866 engineers, technicians and research staff at the product technology center, 86 financial staff, 448 administration staff and 395 other staff.



Education Statistical Chart



Professional Construction Statistical Chart

# Corporate Governance

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

## **1. INFORMATION ON CORPORATE GOVERNANCE AND REGISTRATION OF INSIDE INFORMATION INSIDERS**

During the reporting period, the Company actively advanced the work of corporate governance in accordance of the arrangement by regulatory department concerning corporate governance.

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

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

Due to historic changes and features of petrochemical industry, there were connected transactions on purchasing raw materials between the Company and Sinopec and its subsidiaries. These transactions were essential and inevitable in production of the Company due to the relationship of petrochemical chain. Since the Company listed, the connected transactions between the Company and its related parties have been approved and disclosed in accordance with regulatory rules (details are set forth in “information on connected transactions” of the “Significant Events” section in the Annual Report). The Company will strictly regulate the decision procedure of the connected transactions, fulfills the obligations of approval and disclosure, and further put forward connected transactions fair, impartial, reasonable and lawful.

During the reporting period, the Company did not find that inside information insiders traded the Company's shares before the disclosure of price-sensitive information by self-examination. In accordance with “Rules on Registration of Inside Information Insiders”, the Company strictly registered, self-exam and managed the inside information insiders in the course of making this Annual Report and served as a record to regulatory department. The Company did not find that inside information insiders traded the Company's shares by self-examination.

During the reporting period, there was material different between the Company's corporate governance with the Company Law and the relevant regulations of CSRC.

Furthermore, in strict light of “Company Law of the People's Republic of China”, “Securities Law of the People's Republic of China”, “Disclosure of Information by Public Listing Companies” and “Listing Rules of Shanghai Stock Exchange”, the Company will improve internal management system, enhance the level of standard operation and corporate governance, defend the interests of the shareholders and the Company, and promote healthy development of the Company.

# Corporate Governance (Continued)

## 2. SUMMARY OF SHAREHOLDERS' MEETINGS

During the reporting period, the Company held its 2011 AGM and its first extraordinary general meeting for 2012 at its registered place in Yizheng City, Jiangsu Province on 15 June 2012 and 18 October 2012 respectively. Details are as follows:

Name of meeting	Date of meeting	Name of resolutions	Resolutions	Disclosure date of resolutions
2011 AGM	15 June 2012	By way of ordinary resolutions: 1. To receive, consider and approve the Report of the Board of the Directors of the Company for the year 2011. 2. To receive, consider and approve the Report of the Supervisory Committee of the Company for the year 2011. To review the Report on the Fulfillment of Responsibilities by Independent Directors for the year 2011. 3. To receive, consider and approve the audited Financial Statements and the Report of the Auditors of the Company for the year 2011. 4. To receive, consider and approve the scheme of profit distribution of the Company for the year 2011. 5. To re-appoint KPMG Huazhen and KPMG as the domestic and international auditors of the Company for the year 2012 and to re-appoint KPMG Huazhen as the internal control auditor of the Company for the year 2012, and authorize the Board of the Directors to fix their remuneration.	All resolutions were passed	16 June 2012
First extraordinary general meeting for 2012	18 October 2012	By Way of Special Resolutions: To approve the proposed amendments to the Articles of Association of the Company and authorise company secretary of the Company to, on behalf of the Company, deal with all applications, approval, registrations and filing relevant to the proposed amendments to the Articles of Association. (Include the editorial modification based on the relevant approval department.)	The resolution was passed	19 October 2012



# Corporate Governance (Continued)

## 3. PERFORMANCE OF DUTIES BY THE DIRECTORS

### (1) The Directors' attendance at the Board Meetings and Shareholders' Meetings

Name of Director	Whether as Independent Director	Attendance at meetings of the Board during the year	Attendance at the Board meetings				Attendance at shareholders' meetings	
			Attendance in person (no. of times)	Attendance by correspondence (no. of times)	Attendance by proxy (no. of times)	Absence (no. of times)	Whether not attending in person for two consecutive times	Number of attending at shareholders' meetings
Lu Li-yong	No	4	4	0	0	0	No	0
Sun Zhi-hong	No	4	4	0	0	0	No	1
Xiao Wei-zhen	No	4	4	0	0	0	No	1
Long Xing-ping	No	4	4	0	0	0	No	2
Zhang Hong	No	4	4	0	0	0	No	1
Guan Diao-sheng	No	4	3	0	1	0	No	2
Sun Yu-guo	No	4	3	0	1	0	No	1
Shen Xi-jun	No	4	4	0	0	0	No	2
Shi Zhen-hua	Yes	4	4	0	0	0	No	2
Qiao Xu	Yes	4	4	0	0	0	No	1
Yang Xiong-sheng	Yes	4	3	0	1	0	No	0
Chen Fang-zheng	Yes	4	4	0	0	0	No	2

The Board meetings held during the year (no. of times)	4
Including: meetings held on site (no. of times)	4
Meetings held by correspondence (no. of times)	0
Meetings held by correspondence on site and by correspondence (no. of times)	0

### (2) Information on the fulfillment of responsibilities by the Independent Directors

The Independent Directors are responsible and diligent and have played an important role. They protect the interests of the whole Company and legitimate rights and interests of minority shareholders. During the reporting period, the Independent Directors paid attention to the change of operational environment, corporate governance, production and operation, and development of the Company, and earnestly reviewed documents on meetings, records of meetings, corporate governance and papers from regulatory authorities. Meanwhile, the Independent Directors actively grasped the actual information on the Company through considering the report on production and operation and significant events from the Company's senior management, and communicated production and operation, reform and adjustment, project construction, corporate governance, and internal control with senior management. The Independent Directors earnestly attended the shareholders' general meetings, the Board's meetings, and actively participated in the special committee under the Board and played a main role. Meanwhile, the Independent Directors further strengthened to check and supervise the work of annual report and have expressed their independent comments on amendment of the Articles of Association, connected transaction, reappointment of auditors, appointment of internal control auditor, the funds occupied by the controlling shareholders and other related parties and the procedure and documents of the Board's meetings. Report on the fulfillment of responsibilities by the Independent Directors for 2012 was disclosed on the website of SSE and HKSE.

During the reporting period, none of the Independent Directors of the Company had any disagreement on any Board resolutions or other issues of the year.

(3) **Information on the fulfillment of responsibilities by special committee under the Board**

In 2012, the Audit Committee and the Remuneration Committee under the seventh term of the Board perform its duties earnestly under the guide of the Board.

- (a) During the reporting period, after communicating with auditors, the first auditing meeting of the seventh term of the Board was held on 6 January 2012. On the meeting, the schedule and scope of auditing works were confirmed with the auditor — KPMG Huazhen (Special General Partnership) and KPMG and the financial statement 2011 were reviewed. At the second auditing meeting on 14 March, 2012, the auditing committee reviewed preliminary financial statement 2011 which was examined by auditors. At the third auditing meeting on 26 March, 2012, the financial statement 2011 and report on auditing works by auditors were approved. The proposal of re-appointing KPMG Huazhen (Special General Partnership) and KPMG as the Company's domestic and overseas auditors in 2012 was also accepted and would be submitted to Board of directors for approval. Report on the fulfillment of responsibilities by the Audit Committee for 2011 was also considered and approved. In the auditing committee's opinion, the financial statements for the year 2011 complied with the requirements of China Accounting Standards for Business Enterprises and presented fairly, in all material respects, the consolidated financial position of the Company as at 31 December 2011, and the consolidated results of operations and the consolidated cash flows of the Company for the year then ended. At the fourth auditing meeting on 27 August, 2012, the resolution regarding the review of the Company's interim report was considered and approved.

During the reporting period, the Audit Committee of the Company suggested auditors should pay attention to internal control and risk management of the Company in the course of auditing financial statement 2011 and hoped auditors took their opinions at the end of auditing.

- (b) In 2012, the seventh term Remuneration Committee of the Board held the first meeting. In according with the resolution regarding the remuneration of the sixth term directors and supervisors approved by the EGM held on 23 December 2008, the resolution regarding revising remuneration of the Company's Independent Directors and Independent Supervisors, and drawing up "*Payment of the remuneration of Independent Directors*", approved by the 2008 AGM held on 5 June 2009, the resolution regarding the salaries of the Senior Management, approved by the first meeting of the sixth term of the Board held on 23 December 2008, and in accordance with service contract signed between the Company, Directors and Supervisors and with reference to the operating results of the Company in 2011 and the Company's appraisal and assessment system, the Remuneration Committee considered and approved proposals relating to the remuneration of the Directors, Supervisors and Senior Management in the year 2011 and would submitted it to the third meeting of the seventh term of the Board for approval. Report on the fulfillment of responsibilities by the Remuneration Committee for 2011 was also considered and approved.

**4. DURING THE REPORTING PERIOD, THE SUPERVISORY COMMITTEE OF THE COMPANY HAD ANY DISAGREEMENT IN THE COURSE OF SUPERVISION.**

**5. REGARDING THE PERFORMANCE EVALUATION, STIMULATING AND BINDING MECHANISM**

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

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

# Corporate Governance (Continued)

## 6. COMPLIANCE WITH CODE OF CORPORATE GOVERNANCE PRACTICES OF HKSE

During the reporting period, the Company has been in strict compliance with the Code of Corporate Governance of HKSE. The details are as follows:

### A.1 The Board

1. The Board meets regularly to fulfill their responsibilities. The seventh term of the Board held four regular meetings. The Directors' attendance of the Board meetings is set forth in item 3 "Performance of duties by the Directors" of this section.
2. All Directors can raise matters in the agenda for the Board meetings.
3. The notice has been given 14 days before regular meetings and the notice of the other Board meetings has usually been given 10 days before.
4. The Board Secretary records and keeps the minutes of the Board meetings and meetings of Board Committees. The Articles of Association regulates the contents of the minutes, and the procedure which minutes should be sent to all Directors for their comment and signature after the Board meetings.
5. The Board Secretary provides sustainable service for and reminds of all Directors with a view to ensuring them to follow all applicable rules and regulations.

### A.2 Chairman and Chief Executive Officer

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

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

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

### A.3 The Board composition

1. The Directors have extensive experience in enterprise management, industry administration, economy, finance and bank fields. They have abilities and skills required by the Company's business.
2. The seventh term of the Board includes four Independent Directors, including one Independent Directors who is certified public accountants in the PRC. The four Independent Directors have confirmed their independence of the Company to the HKSE.
3. The Independent Directors are identified in all corporate communications that disclose the names of Directors. The list of the current Directors of the Company had been maintained on its website and the HKSE's website.
4. The names and profiles are set forth in the section "Directors, Supervisors, Senior Management and Employees" in this Annual Report.

## Corporate Governance (Continued)

### A.4 Appointment, re-election and removal

1. All Directors are elected by shareholders' general meetings for a term of not more than 3 years. A Director may serve consecutive terms if re-elected upon the expiration of the term. The Board has no right to appoint temporary directors.
2. The term of office of Independent Directors shall not be more than 6 years.

### A.5 Nomination Committee

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

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

### A.6 Responsibilities of Directors

1. Every newly elected Director has received a comprehensive introduction on the first occasion of his appointment from the legal advisors of the PRC and Hong Kong of the Company, to ensure that he can be aware of his responsibilities to be a director. Directors have to receive at least one training course of the CSRC and its agencies within the term of one year after election and the second term.
2. The detailed responsibilities of Independent Directors are set forth in the Articles of Association and Performance System of Independent Director.
3. Directors shall abstain from voting at the Board meeting due to interests conflicts.
4. After having specifically inquired from all the Directors, the Company confirms that all Directors have fully complied with the standards as set forth in the Model Code. Pursuant to the requirements of the Code of Corporate Governance, the Company also accepted the code for relevant employees in respect of their dealings in the securities of the Company in 2005.
5. Each Director disclosed to the Company the information of offices held in public companies or organizations at the time of his appointment. The Company had disclosed the information pursuant to the Listing Rules and updated.

### A.7 Supply of and access to information

1. The Company provides information relating to business operation of the Company regularly, to help Directors to understand the Company's operation. Where any director requires information, the Company will supply the related materials in a timely manner.
2. All Directors usually acquire adequate information 3 working days before the Board meetings which can help them to make accurate decisions.
3. The Board Secretary provides sustainable services for all Directors who can consult the Board documents and relevant information when necessary.

# Corporate Governance (Continued)

## B. Remuneration of Directors and Senior Management

1. The Remuneration Committee under the Board has been set up with specific written terms of authority and duties. The Remuneration Committee under the seventh term of the Board consists of one external Director Ms. Sun Zhi-hong, two Independent Directors — Mr. Qiao Xu and Mr. Chen Fang-zheng and one Supervisor Mr. Sun Shao-bo who represents the Company staff, and Ms. Sun Zhi-hong is the head of the Remuneration Committee.
2. Pursuant to the principles approved by the shareholders' general meeting, the Service Contract which was entered into between the Company and each Director or Supervisor, the proposal raised by the Remuneration Committee and with reference to the operating results, the Board considered and approved the remuneration of the Directors, Supervisors and Senior Management. The details of the remuneration of the Directors during the reporting period are set forth in the section "Directors, Supervisors, Senior Management and Employees" of this Annual Report.
3. The members of Remuneration Committee can consult Chairman or General Manager, and can consult independent professionals and the Company shall pay such expenses.
4. The terms of reference of Remuneration Committee had been disclosed on the HKSE's website and the Company's website.

Information on the fulfillment of responsibilities by the Remuneration Committee is set forth in the sub-section "Information on the fulfillment of responsibilities by special committee under the Board" under the section "Corporate Governance" in the Annual Report during the reporting period.

## C. Accountability and audit

### C.1 Financial reporting

1. The Company assures that the Senior Management has provided adequate financial information to the Board and the Audit Committee.
2. The Directors are responsible for preparing the accounts for every fiscal year, which can give a view of the state of affairs of the Company as at 31 December 2012 and of the Company's profit and cash flows for the year. The Directors has selected the appropriate accounting policies to carry out, made prudent and reasonable judges and estimates, and prepared accounts on a going concern basis.
3. Required under the Listing Rules, the Company announces and publishes the annual reports, interim reports, quarterly reports and other share price-sensitive affairs timely and accurately.

### C.2 Internal control

1. The Company has set up internal control system to guard on the operational, financial and rule-abiding risks.
2. According to the operating situation, the Company has modified the internal control system. During the year, information of the fulfillment of internal control system is set forth in the section "Internal Control" in this Annual Report.
3. The internal audit department has been set up and been adequately resourced to carry out internal audit function.

### C.3 *The Audit Committee*

1. The Audit Committee under the seventh term of the Board consists of four Independent Directors — Mr. Yang Xiong-Sheng, Mr. Shi Zheng-hua, Mr. Qiao Xu and Mr. Chen Fang-zheng, and one external Director Mr. Zhang Hong, including one Accountant Doctor and one certified public accountants of the PRC. And Mr. Yang Xiong-Sheng is the head of the Audit Committee.
2. The Board Secretary also holds the concurrent post of the Secretary of the Audit Committee and provides sustainable services for the members of the Audit Committee.
3. Required by the revised Listing Rules, the Company amended and added the authority and duties of the Audit Committee in 2005, mainly including the appointment proposal of the external auditor, the review procedures of annual report, interim report and internal control system. In accordance with CSRC's requirements and regulations, the Company revised "Performance Rules of Auditing Committee" on 7 April 2008 and on 30 March 2009, adding several duties and procedures on auditing committee for examining annual report and was carried out in the audit work of annual reports.
4. The terms of reference of Audit Committee had been disclosed on the HKSE's website and the Company's website.
5. The members of the Audit Committee can consult independent professionals and the Company shall pay such expenses.

As the recommend of the seventh auditing meeting of the seventh term of the Board, the seventh meeting of the seventh term Board of Directors of the Company has resolved to appoint PricewaterhouseCoopers Zhong Tian CPAs Limited Company and PricewaterhouseCoopers as the Company's domestic and international auditors for 2013, appoint PricewaterhouseCoopers Zhong Tian CPAs Limited Company as the Company's auditor regarding internal control for 2013, and proposed to authorize the Board to fix their remuneration. The proposed appointment of auditors of the Company is subject to approval by the shareholders of the Company at the 2012 AGM.

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

Information on the fulfillment of responsibilities by the Audit Committee of the sixth term of the Board of is set forth in the sub-section "Information on the fulfillment of responsibilities by special committee under the Board" under the section "Corporate Governance" in the Annual Report during the reporting period.

### D. *Delegation by the Board*

1. The Strategy and Investment Committee, the Audit Committee and the Remuneration Committee under the Board have the specific authority and duties delegated by the Board, and should report to the Board.
2. The Board, the Senior Management and each committees under the Board have specific authority and duties, which are set forth in the Articles of Association, the Rules and Procedures for shareholders' general meeting, the Rules and Procedures for the Board and the Rules for Work Procedures of General Manager.

# Corporate Governance (Continued)

- The attendance record of the seventh term of the Board's Committee meeting is as follows.

### *The Audit Committee*

Name	Times in Person	Times by Proxies	Absence
Yang Xiong-sheng	3	1	–
Shi Zhen-hua	4	–	–
Qiao Xu	4	–	–
Chen Fang-zheng	4	–	–
Zhang hong	4	–	–

### *The Remuneration Committee*

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

### E. Communication with shareholders

- The Chairman should propose a separate resolution in respect of each substantially separate issue at a shareholders' general meeting.
- The circulars to the shareholders of the Company set forth in detail the rights of the shareholders who are entitled to attend the shareholders' general meetings, the agenda and the voting procedures.
- Chairman attends the shareholders' general meetings as president. The members of the Board, the Senior Management attend the shareholders' general meetings to respond to the inquiries from the shareholders. The external auditors attend the shareholders' annual general meeting.

### F. Board Secretary

- The Board Secretary is appointed by the Board of the Company.
- The Board Secretary reports to the Chairman of the Board and General Manager.
- All Directors have access to the advice and services of the Board Secretary to ensure the board procedures, and all applicable law, rules and regulations, are followed.

## Internal Control

It is responsibility for the Board and Management of the Company to establish, and improve and effectively implement internal control system. The Company had set up management and functional departments of the internal control system in March 2003 to lead and develop this special work. In accordance with “Company Law of the People’s Republic of China”, “Securities Law of the People’s Republic of China” and “the Fundamental Principles Government Internal Control”, on 1 January 2005, the Company formally implemented its internal control system, which covers the Company’s production and operational chain and key business sectors. The Board arranged implementation, evaluation and revision of internal control system every year. The Company carried through annual and semi-annual checkup and evaluation of the deployment and therewith revised it.

According to the arrangement of the PRC’s relative Ministry, the Company has carried out the Fundamental Principles Governing Internal Control and Supporting Guidelines for Enterprises Internal Control starting from 2011.

In light of the new regulatory requirements both domestic and overseas, the seventh meeting of the seventh term of the Board has conducted the self-assessment of internal control system involving financial report for 2012 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 2012 and considered that the internal control system relating financial report was sound and effectively implemented. The Evaluation Report of the Board on Internal Control System was considered and approved by the seventh meeting of the seventh term of the Board held on 25 March 2013, and was disclosed on the website of SSE and HKSE.

Pursuant to the related regulatory requirements, the Company engaged KPMG Huazhen (Special General Partnership) to audit internal control regarding financial report. KPMG Huazhen (Special General Partnership) issued the unqualified audit opinions and considered the Company maintained, in all material aspects, effective internal control regarding financial report on 31 December 2012.

“Accountability Rules for Major Errors in the Disclosure of Information in Annual Report” has been approved by the third meeting of the seventh term of the Board held on 26 March 2012 and has been come into effect. During the reporting period, there were no major errors in the disclosure of information in the Company’s Annual Report such as amendments to major accounting errors, supplements to material omission of information or amendments to results forecasts.



# Report of the International Auditors



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

We have audited the financial statements of Sinopec Yizheng Chemical Fibre Company Limited (the “**Company**”) set out on pages 64 to 110, which comprise the statement of financial position as at 31 December 2012, the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

### **DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

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

### **AUDITOR'S RESPONSIBILITY**

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

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

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

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

### **OPINION**

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company as at 31 December 2012 and of the Company's results and cash flows for the year then ended in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

### **KPMG**

*Certified Public Accountants*

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

25 March 2013

# Statement of Comprehensive Income

for the year ended 31 December 2012

(Prepared under International Financial Reporting Standards)

	Note	2012 RMB'000	2011 RMB'000 (consolidated)
<b>Turnover</b>	5	<b>16,987,916</b>	20,179,768
Cost of sales		<b>(16,868,671)</b>	(18,607,201)
<b>Gross profit</b>		<b>119,245</b>	1,572,567
Other income	6	<b>36,155</b>	71,315
Distribution costs		<b>(209,179)</b>	(220,430)
Administrative expenses		<b>(513,169)</b>	(441,685)
Other expenses		<b>(10,875)</b>	(12,711)
<b>(Loss)/profit from operations</b>		<b>(577,823)</b>	969,056
Finance income	8(a)	<b>33,293</b>	58,747
Finance expenses	8(a)	<b>(2,327)</b>	(1,860)
<b>Net finance income</b>	8(a)	<b>30,966</b>	56,887
Investment income	7	<b>6,751</b>	16,247
Share of profit of a jointly controlled entity	17	<b>3,479</b>	–
<b>(Loss)/profit before taxation</b>	8	<b>(536,627)</b>	1,042,190
Income tax	9(a)	<b>178,171</b>	(202,958)
<b>(Loss)/profit for the year</b>		<b>(358,456)</b>	839,232

The notes on pages 71 to 110 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 11. 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 year ended 31 December 2012. The comparative figures in the statement of comprehensive income, the statement of changes in equity, the cash flow statement and relevant explanatory notes represented the consolidated figures as previously reported.

# Statement of Comprehensive Income (Continued)

for the year ended 31 December 2012

(Prepared under International Financial Reporting Standards)

	<i>Note</i>	<b>2012</b> <b>RMB'000</b>	2011 RMB'000 (consolidated)
<b>(Loss)/profit for the year</b>		<b>(358,456)</b>	839,232
<b>Other comprehensive income for the year</b> <b>(after tax and reclassification adjustments)</b>			
Available-for-sale financial assets: net movement in the fair value reserve	10	–	–
<b>Total comprehensive (loss)/income for the year</b>	28	<b>(358,456)</b>	839,232
<b>Basic and diluted (loss)/earnings per share (in RMB)</b>	12	<b>(0.090)</b>	0.210

The notes on pages 71 to 110 form part of these financial statements.

# Statement of Financial Position

At 31 December 2012

(Prepared under International Financial Reporting Standards)

	Note	2012 RMB'000	2011 RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	14	<b>3,520,232</b>	3,411,893
Construction in progress	15	<b>1,870,881</b>	1,201,201
Lease prepayments	16	<b>271,743</b>	280,224
Interest in a jointly controlled entity	17	<b>584,819</b>	303,089
Deferred tax assets	9(c)	<b>312,039</b>	122,536
		<b>6,559,714</b>	5,318,943
<b>Current assets</b>			
Available-for-sale financial assets	18	–	200,000
Inventories	19	<b>1,735,734</b>	1,756,664
Trade and other receivables	20	<b>2,539,353</b>	2,479,706
Prepaid taxation	9(b)	<b>141,376</b>	152,465
Deposits with banks	21	–	35,000
Cash and cash equivalents	22	<b>162,027</b>	1,506,821
		<b>4,578,490</b>	6,130,656
<b>Current liabilities</b>			
Trade and other payables	23	<b>2,164,618</b>	2,402,659
Loans	24	<b>405,000</b>	–
		<b>2,569,618</b>	2,402,659
<b>Net current assets</b>			
		<b>2,008,872</b>	3,727,997
<b>Total assets less current liabilities</b>			
		<b>8,568,586</b>	9,046,940
<b>Non-current liabilities</b>			
Deferred income	25	<b>55,103</b>	55,001
<b>Net assets</b>			
		<b>8,513,483</b>	8,991,939

The notes on pages 71 to 110 form part of these financial statements.

# Statement of Financial Position (Continued)

At 31 December 2012

(Prepared under International Financial Reporting Standards)

	<i>Note</i>	<b>2012</b> RMB'000	2011 RMB'000
<b>Equity</b>			
Share capital	26	<b>4,000,000</b>	4,000,000
Reserves	27	<b>2,747,635</b>	2,747,555
Retained profits	28	<b>1,765,848</b>	2,244,384
<b>Total equity</b>		<b>8,513,483</b>	8,991,939

Approved and authorised for issue by the Board of Directors on 25 March 2013.

**Lu Li-yong**  
*Director*

**Xiao Wei-zhen**  
*Director*

The notes on pages 71 to 110 form part of these financial statements.

# Statement of Changes in Equity

For the year ended 31 December 2012

(Prepared under International Financial Reporting Standards)

	Share capital RMB'000	Reserve RMB'000	Retained profits RMB'000	Total equity RMB'000
<b>Balance at 1 January 2011</b> (consolidated)	4,000,000	2,664,015	1,608,692	8,272,707
Dividends approved in respect of the previous year (Note 11)	–	–	(120,000)	(120,000)
Appropriation of statutory surplus reserve (Note 27)	–	83,540	(83,540)	–
Total consolidated comprehensive income for the year	–	–	839,232	839,232
<b>Balance at 31 December 2011</b>	4,000,000	2,747,555	2,244,384	8,991,939
Dividends approved in respect of the previous year (Note 11)	–	–	(120,000)	(120,000)
Appropriation of safety production fund (Note 27)	–	80	(80)	–
Total comprehensive loss for the year	–	–	(358,456)	(358,456)
<b>Balance at 31 December 2012</b>	4,000,000	2,747,635	1,765,848	8,513,483

The notes on pages 71 to 110 form part of these financial statements.



# Cash Flow Statement

For the year ended 31 December 2012

(Prepared under International Financial Reporting Standards)

	<i>Note</i>	<b>2012</b> <b>RMB'000</b>	2011 RMB'000 (consolidated)
<b>Operating activities</b>			
(Loss)/profit before taxation		<b>(536,627)</b>	1,042,190
Adjustments for:			
Depreciation charge		<b>427,978</b>	389,015
Amortisation of lease prepayments		<b>8,481</b>	8,481
Amortisation of deferred income		<b>(4,688)</b>	(4,873)
Interest income		<b>(26,731)</b>	(53,722)
Interest expense		<b>512</b>	–
Impairment losses of property, plant and equipment		–	5,285
Net gain on disposal of property, plant and equipment		<b>(12,104)</b>	(25,427)
Investment income		<b>(6,751)</b>	(16,247)
Share of profit of a jointly controlled entity		<b>(3,479)</b>	–
<b>Operating (loss)/profit before changes in working capital</b>		<b>(153,409)</b>	1,344,702
Decrease/(increase) in inventories		<b>20,930</b>	(437,895)
Increase in trade and other receivables		<b>(685,138)</b>	(1,039,831)
(Decrease)/increase in trade and other payables		<b>(149,859)</b>	253,782
<b>Cash (used in)/generated from operations</b>		<b>(967,476)</b>	120,758
Interest paid		<b>(119)</b>	–
Tax paid		<b>(243)</b>	(391,005)
<b>Net cash used in operating activities</b>		<b>(967,838)</b>	(270,247)

The notes on pages 71 to 110 form part of these financial statements.

# Cash Flow Statement (Continued)

For the year ended 31 December 2012

(Prepared under International Financial Reporting Standards)

	<i>Note</i>	<b>2012</b> <b>RMB'000</b>	2011 RMB'000 (consolidated)
<b>Investing activities</b>			
Payment for purchase of:			
— available-for-sale financial assets		–	(700,000)
— held-to-maturity investments		<b>(200,000)</b>	–
Proceeds from disposal of:			
— available-for-sale financial assets		<b>204,740</b>	510,000
— held-to-maturity investments		<b>202,011</b>	–
— financial assets held for trading		–	408,090
Capital expenditure		<b>(688,900)</b>	(836,245)
Proceeds from sale of property, plant and equipment		<b>31,923</b>	32,332
Interest received		<b>26,731</b>	53,722
Government grants received		<b>4,790</b>	–
Payment for the acquisition of interest in a jointly controlled entity		<b>(278,251)</b>	(303,089)
Decrease in deposits with banks		<b>35,000</b>	408,456
<b>Net cash used in investing activities</b>		<b>(661,956)</b>	(426,734)
<b>Financing activities</b>			
Proceeds from loans		<b>405,000</b>	–
Dividend paid to equity shareholders of the Company		<b>(120,000)</b>	(120,000)
<b>Net cash generated from/(used in) financing activities</b>		<b>285,000</b>	(120,000)
<b>Net decrease in cash and cash equivalents</b>		<b>(1,344,794)</b>	(816,981)
<b>Cash and cash equivalents at 1 January</b>		<b>1,506,821</b>	2,323,802
<b>Cash and cash equivalents at 31 December</b>	22	<b>162,027</b>	1,506,821

The notes on pages 71 to 110 form part of these financial statements.



# Notes to the Financial Statements

(Prepared under International Financial Reporting Standards)

## 1 BACKGROUND OF THE COMPANY

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

The Company is principally engaged in the production and sale of chemical fibre and chemical fibre raw materials in the PRC.

## 2 SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

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

The Company also prepares a set of financial statements which complies with the PRC Accounting Standards for Business Enterprises (“**ASBE**”). Significant differences between the financial statements prepared in accordance with IFRSs and ASBE are summarised in the supplementary information to the financial statements in the 2012 annual report.

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

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

### (b) Basis of preparation of the financial statements

The financial statements for the year ended 31 December 2012 comprise the Company and the Company’s interest in a jointly controlled entity.

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

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

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

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 34.

# Notes to the Financial Statements (Continued)

*(Prepared under International Financial Reporting Standards)*

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (c) Jointly controlled entities

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

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

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

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

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

### (d) Translation of foreign currencies

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

Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the applicable PBOC rates ruling at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into Renminbi at the closing foreign exchange rate at the date of the transaction.

### (e) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand and time deposits with banks with an initial term of less than three months at acquisition. Cash equivalents are stated at cost, which approximates fair value.

### (f) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see accounting policy (t)). Trade and other receivables are derecognised if the Company's contractual rights to the cash flows from these financial assets expire or if the Company transfers these financial assets to another party without retaining control or substantially all risks and rewards of the assets.

# Notes to the Financial Statements (Continued)

*(Prepared under International Financial Reporting Standards)*

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (g) Inventories

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

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

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

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

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

### (h) Property, plant and equipment

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

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

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

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

Buildings	20 to 50 years
Plant, machinery and equipment	5 to 30 years
Motor vehicles and other fixed assets	4 to 18 years

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

### (i) Lease prepayments

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

# Notes to the Financial Statements (Continued)

*(Prepared under International Financial Reporting Standards)*

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (j) Construction in progress

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

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

No depreciation is provided in respect of construction in progress.

### (k) Investments

Investments that the Company have the positive ability and intention to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are stated at amortised cost less impairment losses (see accounting policy (t)).

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

### (l) Interest-bearing borrowings

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

### (m) Trade and other payables

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

### (n) Provisions and contingent liabilities

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

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

# Notes to the Financial Statements (Continued)

*(Prepared under International Financial Reporting Standards)*

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (o) Revenue recognition

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

#### (i) *Sale of goods*

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

#### (ii) *Rendering of services*

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

#### (iii) *Interest income*

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

#### (iv) *Government grants*

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Company will comply with the conditions attaching to them. Grants that compensate the Company for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Government grants related to assets are recognised initially as deferred income and amortised to profit or loss on a straight-line basis over the useful life of the assets.

### (p) Net finance income

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

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

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

### (q) Repairs and maintenance expenses

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

### (r) Research and development costs

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

# Notes to the Financial Statements (Continued)

*(Prepared under International Financial Reporting Standards)*

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (s) Employee benefits

The contributions payable under the Company's retirement plans are charged to profit or loss according to the contribution determined by the plans. Further information is set out in note 29.

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

### (t) Impairment of assets

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

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

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

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

- For investments in jointly controlled entity (including those recognised using the equity method (see accounting policy (c))), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with accounting policy (t)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with accounting policy (t)(ii).
- For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

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

# Notes to the Financial Statements (Continued)

*(Prepared under International Financial Reporting Standards)*

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (t) Impairment of assets (Continued)

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

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

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

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

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

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

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

- property, plant and equipment;
- construction in progress; and
- lease prepayments.

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

- Calculation of recoverable amount

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

# Notes to the Financial Statements (Continued)

*(Prepared under International Financial Reporting Standards)*

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (t) Impairment of assets (Continued)

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

- Recognition of impairment losses

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

- Reversals of impairment losses

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

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

### (u) Dividends

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

### (v) Income tax

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

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

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

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



# Notes to the Financial Statements (Continued)

*(Prepared under International Financial Reporting Standards)*

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (v) Income tax (Continued)

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

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

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

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

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

- in the case of current tax assets and liabilities, the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

### (w) Segment reporting

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

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

# Notes to the Financial Statements (Continued)

*(Prepared under International Financial Reporting Standards)*

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (x) Related parties

- (a) A person, or a close member of that person's family, is related to the Company if that person:
- (i) has control or joint control over the Company;
  - (ii) has significant influence over the Company; or
  - (iii) is a member of the key management personnel of the Company or the Company's parent.
- (b) An entity is related to the Company if any of the following conditions applies:
- (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

## 3 CHANGES IN ACCOUNTING POLICIES

The IASB has issued a 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.

# Notes to the Financial Statements (Continued)

*(Prepared under International Financial Reporting Standards)*

## 4 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"). In view of the fact that the Company operates mainly in the PRC, no geographical segment information is presented.

### (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.

# Notes to the Financial Statements (Continued)

(Prepared under International Financial Reporting Standards)

## 4 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 year ended 31 December 2012 and 2011 is set out below:

	Polyester chips		Bottle-grade polyester chips		Staple fibre and hollow fibre		Filament		PTA		All others <sup>#</sup>		Total	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(consolidated)		(consolidated)		(consolidated)		(consolidated)		(consolidated)		(consolidated)		(consolidated)	
<b>For the year ended 31 December</b>														
Revenue from external customers	5,776,760	7,346,044	3,604,853	3,804,094	5,906,594	6,778,706	1,045,595	1,865,482	182,612	-	471,502	385,442	16,987,916	20,179,768
Inter-segment revenue	-	-	-	-	-	-	-	-	7,327,650	8,765,942	-	-	7,327,650	8,765,942
<b>Reportable segment revenue</b>	<b>5,776,760</b>	<b>7,346,044</b>	<b>3,604,853</b>	<b>3,804,094</b>	<b>5,906,594</b>	<b>6,778,706</b>	<b>1,045,595</b>	<b>1,865,482</b>	<b>7,510,262</b>	<b>8,765,942</b>	<b>471,502</b>	<b>385,442</b>	<b>24,315,566</b>	<b>28,945,710</b>
Gross (loss)/profit from external customers	(3,409)	211,670	42,316	47,825	171,651	295,046	(176,326)	(93,014)	(4,160)	-	(37,160)	15,574	(7,088)	477,101
Inter-segment profit	-	-	-	-	-	-	-	-	141,459	1,128,943	-	-	141,459	1,128,943
<b>Reportable segment (loss)/profit</b>	<b>(3,409)</b>	<b>211,670</b>	<b>42,316</b>	<b>47,825</b>	<b>171,651</b>	<b>295,046</b>	<b>(176,326)</b>	<b>(93,014)</b>	<b>137,299</b>	<b>1,128,943</b>	<b>(37,160)</b>	<b>15,574</b>	<b>134,371</b>	<b>1,606,044</b>
Depreciation and amortisation	63,212	59,917	13,821	18,150	40,177	35,809	8,000	13,899	163,154	140,182	117,219	96,642	405,583	364,599
Impairment of property, plant and equipment ("PP&E")	-	370	-	-	-	-	-	71	-	4,412	-	432	-	5,285
Write-down of inventories	-	-	-	-	-	-	-	1,093	-	-	-	6,344	-	7,437
<b>As at 31 December</b>														
Reportable segment assets	756,433	580,355	182,396	185,513	691,359	571,201	121,485	176,644	978,932	984,338	1,159,160	1,183,895	3,889,765	3,681,946

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

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

	2012	2011
	RMB'000	RMB'000
		(consolidated)
<b>Revenue</b>		
Revenue for reportable segments excluding other revenue	23,844,064	28,560,268
Other revenue	471,502	385,442
Elimination of inter-segment revenue	(7,327,650)	(8,765,942)
<b>Turnover</b>	<b>16,987,916</b>	<b>20,179,768</b>

# Notes to the Financial Statements (Continued)

*(Prepared under International Financial Reporting Standards)*

## 4 SEGMENT REPORTING (Continued)

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

	2012 RMB'000	2011 RMB'000 (consolidated)
<b>(Loss)/profit</b>		
Profit for reportable segments excluding other profit	171,531	1,590,470
Other (loss)/profit	(37,160)	15,574
Unallocated losses	(15,126)	(33,477)
Gross profit	119,245	1,572,567
Other income	36,155	71,315
Distribution costs	(209,179)	(220,430)
Administrative expenses	(513,169)	(441,685)
Other expenses	(10,875)	(12,711)
Net finance income	30,966	56,887
Investment income	6,751	16,247
Share of profit of a jointly controlled entity	3,479	–
(Loss)/profit before taxation	(536,627)	1,042,190
	2012 RMB'000	2011 RMB'000
<b>Assets</b>		
Assets for reportable segments excluding other assets	2,730,605	2,498,051
Other assets	1,159,160	1,183,895
Unallocated assets	1,366,201	1,486,611
	5,255,966	5,168,557
Other non-current assets	3,039,482	1,907,050
Available-for-sale financial assets	–	200,000
Trade and other receivables	2,539,353	2,479,706
Prepaid taxation	141,376	152,465
Deposits with banks	–	35,000
Cash and cash equivalents	162,027	1,506,821
Total assets	11,138,204	11,449,599

# Notes to the Financial Statements (Continued)

(Prepared under International Financial Reporting Standards)

## 4 SEGMENT REPORTING (Continued)

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

	2012 RMB'000	2011 RMB'000 (consolidated)
<b>Depreciation and amortisation</b>		
Depreciation and amortisation for reportable segments excluding other depreciation and amortisation	288,364	267,957
Other depreciation and amortisation	117,219	96,642
Unallocated depreciation and amortisation	30,876	32,897
Total depreciation and amortisation	<b>436,459</b>	397,496

	2012 RMB'000	2011 RMB'000 (consolidated)
<b>Impairment of PP&amp;E</b>		
Impairment of PP&E for reportable segments excluding other impairment of PP&E	—	4,853
Other impairment of PP&E	—	432
Total impairment of PP&E	—	5,285

	2012 RMB'000	2011 RMB'000 (consolidated)
<b>Write-down of inventories</b>		
Write-down of inventories for reportable segments excluding other write-down of inventories	—	1,093
Other write-down of inventories	—	6,344
Total write-down of inventories	—	7,437

## 5 TURNOVER

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

# Notes to the Financial Statements (Continued)

*(Prepared under International Financial Reporting Standards)*

## 6 OTHER INCOME

	2012 RMB'000	2011 RMB'000 (consolidated)
Service charges received	17,078	–
Net gain on disposal of property, plant and equipment	12,104	25,427
Government grants	4,688	5,447
Reversal of loss on breach of contracts	1,286	19,175
Reversal of non-payable liabilities	964	19,902
Others	35	1,364
	<b>36,155</b>	71,315

## 7 INVESTMENT INCOME

	2012 RMB'000	2011 RMB'000 (consolidated)
Net realised gain on available-for-sale financial assets	4,740	10,000
Net realised gain on held-to-maturity investments	2,011	–
Net realised gain on financial assets held for trading	–	6,247
	<b>6,751</b>	16,247

# Notes to the Financial Statements (Continued)

*(Prepared under International Financial Reporting Standards)*

## 8 (LOSS)/PROFIT BEFORE TAXATION

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

### (a) Net finance income

	2012 RMB'000	2011 RMB'000 (consolidated)
Interest income	(26,731)	(53,722)
Net foreign exchange gain	(6,562)	(5,025)
Finance income	(33,293)	(58,747)
Interest expense	512	–
Others	1,815	1,860
Finance expenses	2,327	1,860
	<b>(30,966)</b>	<b>(56,887)</b>

For the years ended 31 December 2012 and 2011, no interest expense was capitalised for construction in progress.

### (b) Other items

	2012 RMB'000	2011 RMB'000 (consolidated)
Cost of inventories <sup>#</sup>	<b>16,868,671</b>	18,607,201
Employee's pension costs <sup>#</sup>		
— Municipal retirement scheme costs	<b>101,382</b>	86,525
— Supplementary retirement scheme costs	<b>29,218</b>	25,467
Staff costs <sup>#</sup>	<b>907,162</b>	815,106
Depreciation <sup>#</sup>	<b>427,978</b>	389,015
Repairs and maintenance expenses <sup>#</sup>	<b>313,759</b>	358,599
Research and development expenses	<b>48,406</b>	51,112
Auditors' remuneration — audit services	<b>5,000</b>	5,000
Impairment losses		
— Trade and other receivables	<b>(2,496)</b>	(8,075)
— Property, plant and equipment	–	5,285
Amortisation of lease prepayments	<b>8,481</b>	8,481

<sup>#</sup> *Cost of inventories includes RMB1,345,368,000 (2011: RMB1,316,319,000) relating to employee's pension costs, staff costs, depreciation, repairs and maintenance expenses which amount is also included in the respective total amounts disclosed separately in note 8(b) for each of these types of expenses.*



# Notes to the Financial Statements (Continued)

*(Prepared under International Financial Reporting Standards)*

## 9 INCOME TAX

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

	2012 RMB'000	2011 RMB'000 (consolidated)
<b>Current tax</b>		
Provision for the year	–	118,253
Under-provision in respect of prior year	<b>11,332</b>	10,350
<b>Deferred tax</b>		
Origination and reversal of temporary differences	<b>(189,503)</b>	74,355
	<b>(178,171)</b>	202,958

The charge for PRC income tax is calculated at the rate of 25% (2011: 25%) on the estimated assessable income of the year 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.

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

	2012 RMB'000	2011 RMB'000 (consolidated)
(Loss)/profit before taxation	<b>(536,627)</b>	1,042,190
Expected income tax using the Company's tax rate of 25%	<b>(134,157)</b>	260,548
Recognition of previously unrecognised deductible temporary differences	<b>(48,464)</b>	(66,415)
Tax effect of non-taxable income	<b>(7,900)</b>	(1,875)
Tax effect of non-deductible expenses	<b>1,018</b>	350
Under-provision in respect of prior year	<b>11,332</b>	10,350
Actual income tax	<b>(178,171)</b>	202,958

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

	2012 RMB'000	2011 RMB'000
Income tax prepayment	<b>141,376</b>	152,465

# Notes to the Financial Statements (Continued)

(Prepared under International Financial Reporting Standards)

## 9 INCOME TAX (Continued)

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

	Balance at 1 January 2011 RMB'000	Recognised in consolidated statement of comprehensive income RMB'000	Balance at 31 December 2011 RMB'000	Recognised in statement of comprehensive income RMB'000	Balance at 31 December 2012 RMB'000
<b>Current</b>					
Provisions for receivables	1,460	(496)	964	(624)	<b>340</b>
Accrued expenses	6,411	(6,411)	–	17,312	<b>17,312</b>
Accrued sales rebate	11,783	(1,864)	9,919	(9,919)	–
Inventory	8,897	1,461	10,358	(5,622)	<b>4,736</b>
<b>Non-current</b>					
Unutilised tax losses	–	–	–	212,151	<b>212,151</b>
Property, plant and equipment	108,408	(11,192)	97,216	(24,528)	<b>72,688</b>
Impairment for investment in subsidiary	54,871	(54,871)	–	–	–
Deferred income	5,061	(982)	4,079	733	<b>4,812</b>
	<b>196,891</b>	<b>(74,355)</b>	<b>122,536</b>	<b>189,503</b>	<b>312,039</b>

At 31 December 2012, there is no unrecognised deferred tax asset in respect of deductible temporary differences (2011: RMB193,856,000) or unutilised tax losses (2011: RMBnil).

## 10 OTHER COMPREHENSIVE INCOME

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

	2012 RMB'000	2011 RMB'000 (consolidated)
<b>Available-for-sale financial assets:</b>		
Changes in fair value recognised during the year	<b>4,740</b>	10,000
Deferred tax debited to other comprehensive income	<b>(1,185)</b>	(2,500)
Reclassification adjustments for amounts transferred to profit or loss — gains on disposal	<b>(4,740)</b>	(10,000)
Reversal of deferred tax on disposal	<b>1,185</b>	2,500
Net movement in the fair value reserve during the year recognised in other comprehensive income	–	–

# Notes to the Financial Statements (Continued)

*(Prepared under International Financial Reporting Standards)*

## 11 DIVIDENDS

(a) Dividends payable attributable to the year

No final dividends were proposed after the balance sheet date in respect of the year ended 31 December 2012 (2011: RMB120,000,000).

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

	2012 RMB'000	2011 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of RMB0.03 per share (2011: RMB0.03 per share)	<b>120,000</b>	120,000

## 12 (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic loss per share is based on the loss of the Company of RMB358,456,000 (2011: consolidated profit of RMB839,232,000) and the weighted average number of ordinary shares of 4,000,000,000 (2011: 4,000,000,000) in issue during the year.

(b) Diluted (loss)/earnings per share

There were no dilutive potential ordinary shares in existence during the years ended 31 December 2012 and 2011.

# Notes to the Financial Statements (Continued)

(Prepared under International Financial Reporting Standards)

## 13 DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

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

Name	Fees		Basic salaries, allowance and bonus		Retirement scheme contributions		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Directors:</b>								
Lu Li-yong	-	-	326	288	26	23	352	311
Sun Zhi-hong	-	-	-	288	-	-	-	288
Xiao Wei-zhen	-	-	326	288	26	23	352	311
Long Xing-ping	-	-	-	245	-	-	-	245
Zhang Hong	-	-	-	245	-	-	-	245
Guan Diao-sheng	-	-	-	-	-	-	-	-
Sun Yu-guo (appointed on 8 June 2011)	-	-	-	-	-	-	-	-
Qin Wei-zhong (resigned on 9 May 2011)	-	-	-	-	-	-	-	-
Shen Xi-jun	-	-	278	245	26	23	304	268
<b>Independent directors:</b>								
Shi Zhen-hua	50	50	-	-	-	-	50	50
Qiao Xu	50	50	-	-	-	-	50	50
Yang Xiong-sheng	50	50	-	-	-	-	50	50
Chen Fang-zheng	50	50	-	-	-	-	50	50
<b>Supervisors:</b>								
Cao Yong	-	-	278	245	26	23	304	268
Sun Shao-bo (appointed on 16 December 2011)	-	-	198	-	26	-	224	-
Tao Chun-sheng (resigned on 16 December 2011)	-	-	-	147	-	23	-	170
Chen Jian	-	-	-	245	-	-	-	245
Shao Bin (appointed on 16 December 2011)	40	-	-	-	-	-	40	-
Chu Bing (appointed on 16 December 2011)	40	-	-	-	-	-	40	-
Shi Gang (resigned on 16 December 2011)	-	40	-	-	-	-	-	40
Wang Bing (resigned on 16 December 2011)	-	40	-	-	-	-	-	40
<b>Senior management:</b>								
Li Jian-xin	-	-	278	245	26	23	304	268
Zhang Zhong-an	-	-	278	245	26	23	304	268
Liu Xiao-qin (resigned on 27 August 2012)	-	-	137	163	17	16	154	179
Li Jian-ping	-	-	278	245	31	28	309	273
Wu Chao-yang	-	-	201	164	26	23	227	187
	<b>280</b>	280	<b>2,578</b>	3,298	<b>256</b>	228	<b>3,114</b>	3,806

For the years ended 31 December 2012 and 2011, no emolument was paid to directors or supervisors as an inducement to join or upon joining the Company or as compensation for loss of office.

# Notes to the Financial Statements (Continued)

*(Prepared under International Financial Reporting Standards)*

## 13 DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

### (b) Five individuals with highest emoluments

The five individuals with highest emoluments of the Company in 2012 and 2011 were executive directors, supervisors and senior management whose total emoluments have been shown above.

## 14 PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant, machinery and equipment RMB'000	Motor vehicle and other fixed assets RMB'000	Total RMB'000
<b>Cost:</b>				
At 1 January 2011 (consolidated)	2,154,445	10,570,264	798,806	13,523,515
Transferred from construction in progress <i>(note 15)</i>	50,839	263,067	26,082	339,988
Additions	–	–	1,942	1,942
Disposals	(1,759)	(175,194)	(21,670)	(198,623)
At 31 December 2011	2,203,525	10,658,137	805,160	13,666,822
Reclassification	(374,280)	210,956	163,324	–
Transferred from construction in progress <i>(note 15)</i>	87,333	420,278	48,525	556,136
Disposals	(218)	(463,899)	(15,318)	(479,435)
<b>At 31 December 2012</b>	<b>1,916,360</b>	<b>10,825,472</b>	<b>1,001,691</b>	<b>13,743,523</b>
<b>Accumulated depreciation and impairment loss:</b>				
At 1 January 2011 (consolidated)	1,057,723	8,380,653	613,971	10,052,347
Depreciation charge for the year	75,455	288,304	25,256	389,015
Impairment loss for the year	812	3,136	1,337	5,285
Written back on disposals	(1,154)	(169,940)	(20,624)	(191,718)
At 31 December 2011	1,132,836	8,502,153	619,940	10,254,929
Reclassification	(266,161)	155,419	110,742	–
Depreciation charge for the year	61,294	329,887	36,797	427,978
Written back on disposals	(59)	(445,304)	(14,253)	(459,616)
<b>At 31 December 2012</b>	<b>927,910</b>	<b>8,542,155</b>	<b>753,226</b>	<b>10,223,291</b>
<b>Carrying amounts:</b>				
<b>At 31 December 2012</b>	<b>988,450</b>	<b>2,283,317</b>	<b>248,465</b>	<b>3,520,232</b>
At 31 December 2011	1,070,689	2,155,984	185,220	3,411,893

All of the Company's buildings are located in the PRC.

# Notes to the Financial Statements (Continued)

(Prepared under International Financial Reporting Standards)

## 15 CONSTRUCTION IN PROGRESS

	2012 RMB'000	2011 RMB'000
At 1 January	1,201,201	498,043
Additions	1,225,816	1,043,146
Transferred to property, plant and equipment (note 14)	(556,136)	(339,988)
At 31 December	<u>1,870,881</u>	<u>1,201,201</u>

## 16 LEASE PREPAYMENTS

	Land use rights	
	2012 RMB'000	2011 RMB'000
<b>Cost:</b>		
At 1 January	406,123	406,123
<b>Accumulated amortisation:</b>		
At 1 January	(125,899)	(117,418)
Charge for the year	(8,481)	(8,481)
At 31 December	<u>(134,380)</u>	<u>(125,899)</u>
<b>Net book value:</b>		
At 31 December	<u>271,743</u>	<u>280,224</u>

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

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

## 17 INTEREST IN A JOINTLY CONTROLLED ENTITY

	2012 RMB'000	2011 RMB'000
Share of net assets	<u>584,819</u>	<u>303,089</u>



# Notes to the Financial Statements (Continued)

(Prepared under International Financial Reporting Standards)

## 17 INTEREST IN A JOINTLY CONTROLLED ENTITY (Continued)

Details of the Company's interest in the jointly controlled entity which is an unlisted corporate entity as at 31 December 2012 are set out below:

Name of company	Place of incorporation and operation	Issued and fully paid/ Registered capital USD'000	Percentage of equity held by the Company	Type of legal entity	Principal activity
Far Eastern Yihua petrochemical (Yangzhou) Corporation ("FEYP")	PRC	230,000/ 230,000	40%	Limited liability	Manufacturing and distribution of Crude Terephthalic Acid and Pure Terephthalic Acid

In accordance with the contractual agreement between the Company and Far Eastern Polytex Holding Limited ("the other venturer"), the strategic financial and operating decisions relating to activities of FEYP require the unanimous consent of the Company and the other venturer. As a result, FEYP is equity accounted for as a jointly controlled entity.

Summary financial information on jointly controlled entity — the Company's effective interest:

	2012 RMB'000	2011 RMB'000
Non-current assets	58,730	12,432
Current assets	526,875	290,657
Current liabilities	(786)	—
Net assets	584,819	303,089
Income	8,892	—
Expenses	(5,413)	—
Profit for the year	3,479	—

## 18 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2012 RMB'000	2011 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.

# Notes to the Financial Statements (Continued)

*(Prepared under International Financial Reporting Standards)*

## 19 INVENTORIES

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

	2012 RMB'000	2011 RMB'000
Raw materials	581,990	731,317
Work in progress	118,726	102,204
Finished goods	640,982	528,055
Goods in transit	307,243	316,863
	<b>1,648,941</b>	1,678,439
Spare parts and consumables	86,793	78,225
	<b>1,735,734</b>	1,756,664
Carrying amounts of inventories stated at net realisable value	<b>121,023</b>	152,685

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2012 RMB'000	2011 RMB'000
Carrying amount of inventory sold	16,868,671	18,599,764
Written down of inventories	-	7,437
	<b>16,868,671</b>	18,607,201



# Notes to the Financial Statements (Continued)

*(Prepared under International Financial Reporting Standards)*

## 20 TRADE AND OTHER RECEIVABLES

	2012 RMB'000	2011 RMB'000
Trade receivables	131,708	96,965
Bills receivable	2,092,377	2,236,236
Amounts due from the parent company and fellow subsidiaries — trade	36,423	64,992
	<b>2,260,508</b>	2,398,193
Amounts due from the parent company and fellow subsidiaries — non-trade	—	2,410
Other receivables, deposits and prepayments	280,206	82,960
	<b>280,206</b>	85,370
Less: allowance for doubtful debts	<b>(1,361)</b>	(3,857)
	<b>278,845</b>	81,513
	<b>2,539,353</b>	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.

### (a) Ageing analysis

As at 31 December 2012, the ageing analysis of trade receivables, bills receivable, amounts due from the parent company and fellow subsidiaries-trade, based on the invoice date and net of allowance for doubtful debts, are as follows:

	2012 RMB'000	2011 RMB'000
Within 6 months	2,257,721	2,398,193
6 to 12 months	2,787	—
	<b>2,260,508</b>	2,398,193

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

# Notes to the Financial Statements (Continued)

(Prepared under International Financial Reporting Standards)

## 20 TRADE AND OTHER RECEIVABLES (Continued)

### (b) Impairment of trade and other receivables

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

The movement in the allowance for doubtful debts provided for collective loss components during the year is as follows:

	2012 RMB'000	2011 RMB'000
At 1 January	3,857	11,932
Impairment losses reversed	(2,496)	(8,075)
At 31 December	<u>1,361</u>	<u>3,857</u>

At 31 December 2012 and 2011, the Company's trade and other receivables is not individually determined to be impaired.

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

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

	2012 RMB'000	2011 RMB'000
Neither past due nor impaired	<u>2,260,508</u>	<u>2,398,193</u>

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

## 21 DEPOSITS WITH BANKS

	2012 RMB'000	2011 RMB'000
Balances with banks in the PRC	–	35,000

As at 31 December, maturity analysis of deposits with banks is as follows:

	2012 RMB'000	2011 RMB'000
Due within three months	–	20,000
Due after three months but within six months	–	15,000
At 31 December	<u>–</u>	<u>35,000</u>



# Notes to the Financial Statements (Continued)

(Prepared under International Financial Reporting Standards)

## 22 CASH AND CASH EQUIVALENTS

	2012 RMB'000	2011 RMB'000
Cash in hand	28	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”)	13,784	428,815
– China CITIC Bank	50,129	162,529
Balances with banks in the PRC with an initial term less than three months (excluding China CITIC Bank)	98,086	915,456
	<b>162,027</b>	<b>1,506,821</b>

## 23 TRADE AND OTHER PAYABLES

	2012 RMB'000	2011 RMB'000
Trade payables	717,081	693,731
Amounts due to the parent company and fellow subsidiaries — trade	1,208,757	1,257,368
	<b>1,925,838</b>	1,951,099
Amounts due to the parent company and fellow subsidiaries — non-trade	4,716	912
Other payables and accrued expenses	234,064	450,648
	<b>2,164,618</b>	<b>2,402,659</b>

As at 31 December, the ageing analysis of trade payables and amounts due to the parent company and fellow subsidiaries-trade, based on the invoice date, are as follows:

	2012 RMB'000	2011 RMB'000
Within 3 months	1,813,776	1,923,725
3 to 6 months	46,432	4,088
Over 6 months but within 12 months	65,630	23,286
	<b>1,925,838</b>	1,951,099

# Notes to the Financial Statements (Continued)

(Prepared under International Financial Reporting Standards)

## 24 LOANS

As at 31 December, the loans were repayable as follows:

	2012 RMB'000	2011 RMB'000
Loans from related parties		
– Sinopec Finance	300,000	–
Loans from banks	105,000	–
	<b>405,000</b>	–

As at 31 December 2012, all of the loans were unsecured and expected to be settled within one year. The interest rates of the related-party loans and bank loans are 5.32% per annum and 5.04% per annum respectively. The weighted average interest rate for the Company was 5.25% per annum at 31 December 2012.

## 25 DEFERRED INCOME

	2012 RMB'000	2011 RMB'000
At 1 January	55,001	59,874
Government grants received during the year	4,790	–
Recognised in the statement of comprehensive income for the year	<b>(4,688)</b>	(4,873)
At 31 December	<b>55,103</b>	55,001

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

## 26 SHARE CAPITAL

	2012 RMB'000	2011 RMB'000
<b>Registered, issued and paid up capital:</b>		
2,400,000,000 “Domestic non-public legal person A” shares of RMB1 each	<b>2,400,000</b>	2,400,000
200,000,000 “Social public A” shares of RMB1 each	<b>200,000</b>	200,000
1,400,000,000 “H” shares of RMB1 each	<b>1,400,000</b>	1,400,000
	<b>4,000,000</b>	4,000,000

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

# Notes to the Financial Statements (Continued)

*(Prepared under International Financial Reporting Standards)*

## 26 SHARE CAPITAL (Continued)

### Capital management

In order to maintain or adjust the capital structure, the Company may issue new shares, adjust the capital expenditure plan, or sell assets to reduce liabilities. The Company monitors capital on the basis of liability-to-asset ratio, which is calculated by dividing total liabilities by total assets. The Company's strategy is to make appropriate adjustments according to the operating and investment needs and the changes of market conditions, and to maintain the liability-to-asset ratio at a range considered as reasonable by management. As at 31 December 2012, the liability-to-asset ratio of the Company was 23.6% (2011: 21.5%).

The schedule of the capital commitments is disclosed in note 31.

There were no changes in the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements.

## 27 RESERVES

	Share premium RMB'000	Capital reserve RMB'000	Statutory surplus reserves RMB'000 <i>(note (a))</i>	Specific reserves RMB'000 <i>(note (b))</i>	Total RMB'000
At 1 January 2011 (consolidated)	2,518,833	28,339	116,843	–	2,664,015
Appropriation	–	–	83,540	–	83,540
At 31 December 2011	2,518,833	28,339	200,383	–	2,747,555
Appropriation	–	–	–	80	80
<b>At 31 December 2012</b>	<b>2,518,833</b>	<b>28,339</b>	<b>200,383</b>	<b>80</b>	<b>2,747,635</b>

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

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

During the year ended 31 December 2012, there's no profit appropriation to statutory surplus reserve (2011: RMB83,540,000).

- (b) According to the relevant PRC regulations, the Company is required to transfer an amount to specific reserve for the safety production fund based on the turnover of certain liquefied gas products. During the year ended 31 December 2012, the Company transferred RMB80,000 (2011: RMBnil) from retained profits to specific reserve for the safety production fund.

# Notes to the Financial Statements (Continued)

*(Prepared under International Financial Reporting Standards)*

## 28 RETAINED PROFITS

	2012 RMB'000	2011 RMB'000 (consolidated)
<b>Retained profits at 1 January</b>	<b>2,244,384</b>	1,608,692
Total comprehensive (loss)/income for the year	<b>(358,456)</b>	839,232
Statutory surplus reserve appropriated	–	(83,540)
Specific reserve appropriated	<b>(80)</b>	–
Dividends approved in respect of the previous year	<b>(120,000)</b>	(120,000)
<b>Retained profits at 31 December</b>	<b>1,765,848</b>	2,244,384

According to the Company's Articles of Association, the amount of retained profits available for distribution to shareholders of the Company is the lower of the amount determined in accordance with the PRC ASBE and the amount determined in accordance with IFRSs. As at 31 December 2012, the amount of retained profits, which was the amount determined in accordance with PRC ASBE, was RMB1,202,081,000 (2011: RMB1,683,448,000). No dividend in respect of the financial year 2012 (2011: RMB120,000,000) was proposed after the end of the reporting period.

## 29 RETIREMENT BENEFITS

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

Administrator	Beneficiary	Contribution rate	
		2012	2011
Yizheng Municipal Government, Jiangsu Province	Employees of the Company	<b>20%</b>	20%

In addition, the Company provides a supplementary defined contribution retirement plan for its staff at rates not exceeding 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. For the year ended 31 December 2012, the company's contribution to the above two plans amounted to RMB101,382,000 and RMB29,218,000 respectively (2011: RMB86,525,000 and RMB25,467,000 respectively).

# Notes to the Financial Statements (Continued)

*(Prepared under International Financial Reporting Standards)*

## 30 RELATED PARTY TRANSACTIONS

China Petrochemical Corporation (“**CPC**”), China Petroleum & Chemical Corporation (“**Sinopec Corp**”) and CITIC Group Corporation (formerly “China International Trust and Investment Corporation”) 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 were transferred to CITIC Limited on 25 February 2013.

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.

# Notes to the Financial Statements (Continued)

*(Prepared under International Financial Reporting Standards)*

## 30 RELATED PARTY TRANSACTIONS (Continued)

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

	2012 RMB'000	2011 RMB'000
<b>Sinopec Corp and its subsidiaries</b>		
Purchase of raw materials	9,661,066	10,753,982
Service charges payable	65,410	67,462
<b>Sinopec Finance</b>		
Interest income	7,507	9,766
Interest expenses	399	–
Loans borrowed	300,000	–
<b>CPC and its subsidiaries (excluding Sinopec Corp and its subsidiaries and Sinopec Finance)</b>		
Sales of goods	548,467	298,274
Purchase of raw materials	9,681	–
Miscellaneous service fee charges	6,350	6,350
Construction and overhaul fee	104,519	68,558
Insurance premium	18,797	3,700
<b>China CITIC Bank</b>		
Interest income	2,874	5,106
<b>FEYP</b>		
Service charges	17,078	–

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



# Notes to the Financial Statements (Continued)

*(Prepared under International Financial Reporting Standards)*

## 30 RELATED PARTY TRANSACTIONS (Continued)

### (b) 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 related parties, the Company has transactions with other state-controlled entities, which are mainly state-controlled banks. The transactions include but are not limited to the following:

- depositing money;
- borrowing loans;
- purchasing raw materials; 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.

### (c) Commitments with related parties

	2012 RMB'000	2011 RMB'000
<b>CPC and its subsidiaries (excluding Sinopec Corp and its subsidiaries and Sinopec Finance)</b>		
Sales of goods	384,767	–

Except for the above, the Company had no other material commitment with related parties at 31 December, which are contracted, but not included in the financial statements.

### (d) 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:

	2012 RMB'000	2011 RMB'000
Short-term employee benefits	2,858	3,578
Retirement scheme contributions	256	228

### (e) Contributions to defined contribution retirement schemes

The Company participates in basic defined contribution retirement plans organised by municipal governments for its staff. The details of the Company’s employee benefits plan are disclosed in note 29. As at 31 December 2012 and 2011, the accrual for the contributions to defined contribution retirement plans was not material.

# Notes to the Financial Statements (Continued)

*(Prepared under International Financial Reporting Standards)*

## 30 RELATED PARTY TRANSACTIONS (Continued)

### (f) Applicability of the Listing Rules relating to connected transactions

The related party transactions in respect of the transactions with Sinopec Corp and its subsidiaries, jointly controlled entities and associates, CPC and its subsidiaries, jointly controlled entities and associates (excluding Sinopec Corp and its subsidiaries, jointly controlled entities and associates) and CITIC Group Corporation and its subsidiaries and jointly controlled entities above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited are provided in section 16 of the Reports of the directors.

## 31 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 31 December not provided for in the financial statements as follows:

	2012 RMB'000	2011 RMB'000
Contracted for	294,915	635,848
Authorised but not contracted for	269,172	766,296
	<b>564,087</b>	1,402,144

### (b) Investment commitments

The Company had outstanding commitments of RMB50,284,000 in respect of its investment in FEYP at 31 December 2012 not provided for in the financial statements (31 December 2011: RMB75,461,000).

## 32 CONTINGENT LIABILITY

With respect to uncertainties about enterprise income tax differences arising from 2006 and before as originated from a tax circular (Circular No.664) issued by the State Administrative of Taxation in June 2007, the Company has been informed by the relevant tax authority to settle the enterprise income tax ("EIT") for 2007 at a rate of 33 percent and for 2008 and thereafter at a rate of 25 percent. To date, the Company has not been requested to pay additional EIT in respect of any years prior to 2007. There is no further development of this matter during the year ended 31 December 2012. No provision has been made in the annual financial report for this uncertainty for tax years prior to 2007 because management believes it cannot reliably estimate the amount of the obligation, if any, that might exist.

## 33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

### (a) Overview

Financial assets of the Company include cash and cash equivalents, deposits with banks, available-for-sale financial assets, held-to-maturity investment and trade and other receivables. Financial liabilities of the Company include trade and other payables and loans. The Company has no derivative instruments that are designated and qualified as hedging instruments at 31 December 2012 and 2011.

# Notes to the Financial Statements (Continued)

*(Prepared under International Financial Reporting Standards)*

## **33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES** (Continued)

### **(a) Overview** (Continued)

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

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

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

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 Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations. Internal audit department undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Company's audit committee.

### **(b) Credit risk**

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

The majority of the Company's trade and other receivables relate to sales of chemical fibre products to third parties operating in the consumer product industries. The Company performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on trade receivables. The Company maintains an impairment loss for doubtful debts and actual losses have been within management's expectations. No single customer accounted for greater than 10% of total trade and other receivables. The details of the Company's credit policy and quantitative disclosures in respect of the Company's exposure on credit risk for trade and other receivables are set out in Note 20.

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 end of the reporting period, 44.02% (2011: 54.9%) of the total trade receivables was due from the Company's five largest customers.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position. The Company does not provide any guarantees which would expose the Company to credit risk.

# Notes to the Financial Statements (Continued)

*(Prepared under International Financial Reporting Standards)*

## 33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

### (c) Liquidity risk

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

The following table sets out the remaining contractual maturities at the balance sheet date of the Company's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on prevailing rates current at the balance sheet date) and the earliest date the Company would be required to repay:

	Carrying amount RMB'000	Total contractual undiscounted cash outflow within 1 year or on demand RMB'000
<b>At 31 December 2012</b>		
Loans	405,000	415,114
Trade and other payables	2,164,618	2,164,618
	<u>2,569,618</u>	<u>2,579,732</u>
<b>At 31 December 2011</b>		
Trade and other payables	2,402,659	2,402,659
	<u>2,402,659</u>	<u>2,402,659</u>

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

### (d) Interest rate risk

Except for cash and cash equivalents (note 22), deposits with banks (note 21) and loans (note 24), the Company has no other significant interest-bearing assets and liabilities. The Company's income and operating cash flows are substantially independent of changes in market interest rates.

# Notes to the Financial Statements (Continued)

*(Prepared under International Financial Reporting Standards)*

## 33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

### (d) Interest rate risk (Continued)

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

	2012		2011	
	Effective interest rate %	RMB'000	Effective interest rate %	RMB'000
<b>Fixed rate instruments</b>				
Deposits with banks <i>(note 21)</i>	–	–	3.3%	35,000
Cash and cash equivalent <i>(note 22)</i>	<b>2.86%</b>	<b>50,000</b>	3.1%	1,210,000
Loans <i>(note 24)</i>	<b>5.04%~5.32%</b>	<b>(405,000)</b>	–	–
<b>Variable rate instruments</b>				
Cash and cash equivalent <i>(note 22)</i>	<b>0.35%</b>	<b>111,999</b>	0.5%~1.49%	296,800

At 31 December 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 profit for the year and retained profits by approximately RMB1,119,990 (2011: RMB2,968,000) (the related income tax impact was not considered). This sensitivity analysis has been determined assuming that the change in interest rates had occurred at the end of the reporting period and the change was applied to the 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 2011.

### (e) Currency risk

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

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

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

	2012 US\$'000	2011 US\$'000
Trade and other receivables	<b>13,745</b>	10,337
Cash and cash equivalents	<b>38</b>	39
Trade and other payables	<b>(129,256)</b>	(160,593)
	<b>(115,473)</b>	(150,217)

# Notes to the Financial Statements (Continued)

*(Prepared under International Financial Reporting Standards)*

## 33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

### (e) Currency risk (Continued)

A five percent strengthening of Renminbi against US\$ at 31 December would have increased profit for the year and retained profits of the Company by the amounts shown below. This analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period and had been applied to the foreign currency balances to which the Company has significant exposure as stated above, the related income tax impact was not considered, and that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2011.

	2012 RMB'000	2011 RMB'000
US\$	<b>36,290</b>	47,326

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

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

### (f) Fair values

The disclosures of the fair value estimates, and their methods and assumptions of the Company's financial instruments, are made to comply with the requirements of IFRS 7 and IAS 39 and should be read in conjunction with the Company's financial statements and related notes. The estimated fair value amounts have been determined by the Company using market information and valuation methodologies considered appropriate. However, considerable judgement is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realise in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

As at 31 December 2011, the fair value of available-for-sale financial assets is determined by reference to the quoted prices in active markets for similar financial instruments.

The carrying amounts of all other financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2012 and 2011.

## 34 ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

# Notes to the Financial Statements (Continued)

*(Prepared under International Financial Reporting Standards)*

## **34 ACCOUNTING ESTIMATES AND JUDGEMENTS** (Continued)

### **Impairments**

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

### **Depreciation**

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

### **Impairment for bad and doubtful debts**

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

### **Allowance for diminution in value of inventories**

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

### **Recognition of deferred tax assets**

Deferred tax assets are recognised in respect of temporary deductible differences and the carryforward of unused 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. The Company recognises a previously unrecognised deferred tax asset to the extent that it is probable that future taxable profit will allow the deferred tax asset to be utilised. 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.

# Notes to the Financial Statements (Continued)

*(Prepared under International Financial Reporting Standards)*

## **35 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2012**

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and five new standards which are not yet effective for the year ended 31 December 2012 and which have not been adopted in these financial statements.

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

## **36 IMMEDIATE AND ULTIMATE CONTROLLING PARTY**

As at 31 December 2012, the directors consider the immediate parent and the ultimate controlling party of the Company to be Sinopec Corp and CPC respectively, which are established in the PRC. The immediate parent produces financial statements available for public use.



# Report of the PRC Auditors



## All Shareholders of Sinopec Yizheng Chemical Fibre Company Limited:

We have audited the accompanying financial statements of Sinopec Yizheng Chemical Fibre Company Limited (“the Company”), which comprise the balance sheet as at 31 December 2012, the income statement, the cash flow statement, the statement of changes in shareholders’ equity for the year then ended, and notes to the financial statements.

### MANAGEMENT’S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Company’s management is responsible for the preparation and fair presentation of these financial statements. This responsibility includes: (1) preparing these financial statements in accordance with Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People’s Republic of China, and fairly presenting them; (2) designing, implementing and maintaining internal control which is necessary to enable that the financial statements are free from material misstatement, whether due to fraud or error.

### AUDITORS’ RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors’ judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2012, and the financial performance and the cash flows of the Company for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People’s Republic of China.

KPMG Huazhen  
(Special General Partnership)

China Beijing

*Certified Public Accountants  
Registered in the People’s Republic of China*

**Gong Wei-li**

**Xu Kan-ling**

25 March 2013

# Balance Sheet

As at 31 December 2012

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

(Expressed in thousands of Renminbi yuan)

Assets	Note	2012	2011
<b>Current assets:</b>			
Cash at bank and on hand	4(1)	<b>162,027</b>	1,541,821
Bills receivable	4(2)	<b>2,092,377</b>	2,236,236
Accounts receivable	4(3)	<b>142,501</b>	104,668
Prepayments	4(4)	<b>38,106</b>	59,625
Other receivables	4(5)	<b>17,608</b>	11,718
Inventories	4(6)	<b>1,735,734</b>	1,756,664
Available-for-sale financial assets	4(7)	–	200,000
Other current assets	4(8)	<b>390,137</b>	219,924
Total current assets		<b>4,578,490</b>	6,130,656
<b>Non-current assets:</b>			
Long-term equity investments	4(9)	<b>584,819</b>	303,089
Fixed assets	4(10)	<b>3,495,550</b>	3,366,832
Construction in progress	4(11)	<b>1,870,881</b>	1,201,201
Intangible assets	4(12)	<b>296,425</b>	325,285
Deferred tax assets	4(13)	<b>312,039</b>	122,536
Total non-current assets		<b>6,559,714</b>	5,318,943
<b>Total assets</b>		<b>11,138,204</b>	11,449,599

The notes on pages 118 to 178 form part of these financial statements.

# Balance Sheet (Continued)

As at 31 December 2012

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

(Expressed in thousands of Renminbi yuan)

Liabilities and shareholders' equity	Note	2012	2011
<b>Current liabilities:</b>			
Short-term loans	4(15)	<b>405,000</b>	–
Accounts payable	4(16)	<b>1,535,245</b>	1,605,443
Advances from customers	4(17)	<b>311,022</b>	345,656
Employee benefits payable	4(18)	<b>60,269</b>	61,927
Taxes payable	4(19)	<b>13,081</b>	12,322
Interest payable	4(20)	<b>393</b>	–
Other payables	4(21)	<b>244,608</b>	377,311
		<b>2,569,618</b>	2,402,659
<b>Non-current liabilities:</b>			
Deferred income	4(22)	<b>19,248</b>	16,315
		<b>19,248</b>	16,315
Total liabilities		<b>2,588,866</b>	2,418,974
<b>Shareholders' equity:</b>			
Share capital	4(23)	<b>4,000,000</b>	4,000,000
Capital reserve	4(24)	<b>3,146,794</b>	3,146,794
Specific reserve	4(25)	<b>80</b>	–
Surplus reserve	4(26)	<b>200,383</b>	200,383
Retained earnings	4(27)	<b>1,202,081</b>	1,683,448
		<b>8,549,338</b>	9,030,625
Total shareholders' equity		<b>8,549,338</b>	9,030,625
<b>Total liabilities and shareholders' equity</b>		<b>11,138,204</b>	11,449,599

These financial statements were approved by the Board of Directors of the Company on 25 March 2013.

**Lu Li-yong**  
Legal Representative

**Xiao Wei-zhen**  
General Manager

**Li Jian-ping**  
Chief Financial Officer

**Xu Xiu-yun**  
Supervisor of the Asset and  
Accounting Department

The notes on pages 118 to 178 form part of these financial statements.

# Income Statement

For the year ended 31 December 2012

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

(Expressed in thousands of Renminbi yuan)

	Note	2012	2011
			Note 9
1. Operating income	4(28)	<b>16,987,916</b>	20,179,768
2. Less: Operating costs	4(28)	<b>16,572,824</b>	18,206,234
Business taxes and surcharges	4(29)	<b>913</b>	39,514
Selling and distribution expenses	4(30)	<b>209,179</b>	220,430
General and administrative expenses	4(31)	<b>829,424</b>	808,359
Financial income	4(32)	<b>-30,966</b>	-56,887
Impairment losses	4(35)	<b>-21,241</b>	-691
Add: Losses from changes in fair value	4(33)	<b>-</b>	-310
Investment income	4(34)	<b>10,230</b>	16,557
3. Operating profit ("-" for losses)		<b>-561,987</b>	979,056
Add: Non-operating income	4(36)	<b>40,107</b>	72,655
Less: Non-operating expenses	4(37)	<b>17,658</b>	9,710
Including: Losses from disposal of non-current assets		<b>6,783</b>	2,284
4. Profit before income tax ("-" for losses)		<b>-539,538</b>	1,042,001
Less: Income tax expenses	4(38)	<b>-178,171</b>	202,958
5. Net profit for the year ("-" for losses)		<b>-361,367</b>	839,043
6. Earnings per share:			
(1) Basic earnings per share (in RMB) ("-" for losses)	4(39)	<b>-0.090</b>	0.210
(2) Diluted earnings per share (in RMB) ("-" for losses)	4(39)	<b>-0.090</b>	0.210
7. Other comprehensive income for the year	4(40)	<b>-</b>	-
8. Total comprehensive income for the year		<b>-361,367</b>	839,043

These financial statements were approved by the Board of Directors of the Company on 25 March 2013.

**Lu Li-yong**  
Legal Representative

**Xiao Wei-zhen**  
General Manager

**Li Jian-ping**  
Chief Financial Officer

**Xu Xiu-yun**  
Supervisor of the Asset and  
Accounting Department

The notes on pages 118 to 178 form part of these financial statements.

# Cash Flow Statement

For the year ended 31 December 2012

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

(Expressed in thousands of Renminbi yuan)

	Note	2012	2011
			Note 9
<b>1. Cash flows from operating activities:</b>			
Cash received from sale of goods and rendering of services		17,230,491	20,781,749
Refund of taxes		7,002	17,008
Sub-total of cash inflows		17,237,493	20,798,757
Cash paid for goods and services		-16,480,654	-18,708,184
Cash paid to and for employees		-1,039,420	-926,460
Cash paid for all types of taxes		-136,157	-814,982
Cash paid relating to other operating activities	4(41)(a)	-548,981	-619,378
Sub-total of cash outflows		-18,205,212	-21,069,004
<b>Net cash outflow from operating activities</b>	4(42)(a)	<b>-967,719</b>	-270,247
<b>2. Cash flows from investing activities:</b>			
Cash received from disposal of investment		406,751	918,090
Net cash received from disposal of fixed assets		31,923	32,334
Cash received relating to other investing activities	4(41)(b)	31,521	53,722
Sub-total of cash inflows		470,195	1,004,146
Cash paid for acquisition of fixed assets and intangible assets		-688,900	-836,247
Cash paid for acquisition of financial assets		-200,000	-700,000
Cash paid for acquisition of investment in jointly controlled enterprises		-278,251	-303,089
Sub-total of cash outflows		-1,167,151	-1,839,336
<b>Net cash outflow from investing activities</b>		<b>-696,956</b>	-835,190

The notes on pages 118 to 178 form part of these financial statements.

# Cash Flow Statement (Continued)

For the year ended 31 December 2012

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

(Expressed in thousands of Renminbi yuan)

	Note	2012	2011
			<i>Note 9</i>
<b>3. Cash flows from financing activities:</b>			
Cash received from borrowings		<b>405,000</b>	–
Sub-total of cash inflows		<b>405,000</b>	–
Cash paid for dividends or interest		<b>-120,119</b>	-120,000
Sub-total of cash outflows		<b>-120,119</b>	-120,000
<b>Net cash inflow from financing activities (“-” for outflow)</b>		<b>284,881</b>	-120,000
<b>4. Effect of foreign exchange rate changes on cash and cash equivalents</b>		<b>–</b>	–
<b>5. Net decrease in cash and cash equivalents</b>	4(42)(a)	<b>-1,379,794</b>	-1,225,437
Add: Cash and cash equivalents at the beginning of the year		<b>1,541,821</b>	2,767,258
<b>6. Cash and cash equivalents at the end of the year</b>	4(42)(b)	<b>162,027</b>	1,541,821

These financial statements have been approved by the Board of Directors of the Company on 25 March 2013.

**Lu Li-yong**  
Legal Representative

**Xiao Wei-zhen**  
General Manager

**Li Jian-ping**  
Chief Financial Officer

**Xu Xiu-yun**  
Supervisor of the Asset and  
Accounting Department

The notes on pages 118 to 178 form part of these financial statements.

# Statement of Changes in Shareholders' Equity

For the year ended 31 December 2012

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

(Expressed in thousands of Renminbi yuan)

	Note	2012					2011						
		Share capital	Capital reserve	Specific reserve	Surplus reserve	Retained earnings	Total	Share capital	Capital reserve	Specific reserve	Surplus reserve	Retained earnings	Total
1. Balance at the beginning of the year		4,000,000	3,146,794	-	200,383	1,683,448	9,030,625	4,000,000	3,146,794	755	116,843	1,047,945	8,312,337
2. Changes in equity for the year ("-" for decreases)													
(1) Net profit for the year ("-" for losses)		-	-	-	-	-361,367	-361,367	-	-	-	-	839,043	839,043
(2) Other comprehensive income		-	-	-	-	-	-	-	-	-	-	-	-
Sub-total of (1) & (2)		-	-	-	-	-361,367	-361,367	-	-	-	-	839,043	839,043
(3) Appropriation of profits	4(27)												
(a) Appropriation for surplus reserve		-	-	-	-	-	-	-	-	-	83,540	-83,540	-
(b) Distributions to shareholders		-	-	-	-	-120,000	-120,000	-	-	-	-	-120,000	-120,000
Sub-total of (a) & (b)		-	-	-	-	-120,000	-120,000	-	-	-	83,540	-203,540	-120,000
(4) Specific reserve													
(a) Accrued		-	-	920	-	-	920	-	-	904	-	-	904
(b) Utilised		-	-	-840	-	-	-840	-	-	-1,659	-	-	-1,659
Sub-total of (a) & (b)		-	-	80	-	-	80	-	-	-755	-	-	-755
3. Balance at the end of the year		4,000,000	3,146,794	80	200,383	1,202,081	8,549,338	4,000,000	3,146,794	-	200,383	1,683,448	9,030,625

These financial statements were approved by the Board of Directors of the Company on 25 March 2013.

**Lu Li-yong**  
Legal Representative

**Xiao Wei-zhen**  
General Manager

**Li Jian-ping**  
Chief Financial Officer

**Xu Xiu-yun**  
Supervisor of the Asset and  
Accounting Department

The notes on pages 118 to 178 form part of these financial statements.

# Notes to the Financial Statements

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

(Expressed in thousands of Renminbi yuan unless otherwise indicated)

## 1 COMPANY STATUS

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

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

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

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

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

The reorganisation of CPC was completed on 25 February 2000 and CPC set up a joint stock limited company, China Petroleum & Chemical Corporation (“**Sinopec Corp**”), in the PRC. From that date, the 1,680,000,000 A shares (representing 42% of the issued share capital of the Company), which were previously held by Yihua, were transferred to Sinopec Corp and Sinopec Corp became the largest shareholder of the Company. Pursuant to a special resolution passed in the Shareholders’ Meeting on 18 October 2000, the name of the Company was changed from “Yizheng Chemical Fibre Company Limited” to “Sinopec Yizheng Chemical Fibre Company Limited”.

On 27 December 2011, CITIC Group established CITIC Limited in PRC and a restructuring agreement was signed. Whereby 720,000,000 of the Company’s non-public shares held by CITIC Group were transferred to CITIC Limited on 25 February 2013 as part of its capital contributions and CITIC limited holds 18% of the Company’s share capital.

The principal activities of the Company are the manufacturing and sale of chemical fibre and chemical fibre raw materials.



# Notes to the Financial Statements (Continued)

*(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))*

*(Expressed in thousands of Renminbi yuan unless otherwise indicated)*

## 2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

### (1) Basis of preparation

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 31 December 2012, and the financial performance and the cash flows of the Company for the year then ended.

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

### (3) Accounting year

The accounting year of the Company 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 and its subsidiaries 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.

### (6) Foreign currency 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 on the dates of the transactions.

A spot exchange rate is an exchange rate quoted by the People’s Bank of China.

Monetary items denominated in foreign currencies are translated to Renminbi at the spot exchange rate at the balance sheet date. The resulting exchange differences are recognised in profit or loss. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated to Renminbi using the foreign exchange rates at the transaction dates.

# Notes to the Financial Statements (Continued)

*(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))*

*(Expressed in thousands of Renminbi yuan unless otherwise indicated)*

## 2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### (7) Financial instruments

Financial instruments include cash at bank and on hand, receivables, available-for-sale financial assets, payables, loans 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 related 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.

— 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 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.

— 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.

# Notes to the Financial Statements (Continued)

*(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))*

*(Expressed in thousands of Renminbi yuan unless otherwise indicated)*

## 2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### (7) Financial instruments (Continued)

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

##### — Other financial liabilities

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

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

#### (b) *Presentation of financial assets and financial liabilities*

Financial assets and financial liabilities are presented separately in the 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 entirety meets the criteria of the derecognition, the difference between the two amounts below is recognised in profit or loss:

- the 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 shareholders' 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.

# Notes to the Financial Statements (Continued)

*(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))*

*(Expressed in thousands of Renminbi yuan unless otherwise indicated)*

## 2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### (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, an impairment loss is recognised.

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

- (i) significant financial difficulty of the issuer 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 borrower 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;
- (vi) a significant decline in the fair value (i.e. a decline of 20% in the fair value) or a prolonged decline in the fair value (i.e. a decline in the fair value persisting for a period of 6 months) 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.

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.

# Notes to the Financial Statements (Continued)

*(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))*

*(Expressed in thousands of Renminbi yuan unless otherwise indicated)*

## 2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### (7) Financial instruments (Continued)

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

##### — Held-to-maturity investments (Continued)

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.

### (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 what the amortised cost would have been had no impairment loss been recognised in prior years.

# Notes to the Financial Statements (Continued)

*(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))*

*(Expressed in thousands of Renminbi yuan unless otherwise indicated)*

## 2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### (8) Impairment of receivables (Continued)

**(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 provisioning 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.

**(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)	—	—
1 and 2 years (inclusive)	30%	30%
2 and 3 years (inclusive)	60%	60%
Over 3 years	100%	100%

# Notes to the Financial Statements (Continued)

*(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))*

*(Expressed in thousands of Renminbi yuan unless otherwise indicated)*

## 2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### (9) Inventories

#### (a) *Classification*

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

#### (b) *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.

At the balance sheet date, inventories are carried at the lower of cost and net realisable value.

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 is recognised in profit or loss.

#### (d) *Inventory system*

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.

# Notes to the Financial Statements (Continued)

*(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))*

*(Expressed in thousands of Renminbi yuan unless otherwise indicated)*

## 2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### (10) Long-term equity investments

#### (a) *Investment cost*

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 (see Note 2(10)(c)) in accordance with a contractual agreement between the Company and other parties.

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

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

- Where the initial investment cost of a long-term equity investment exceeds the Company's interest in the fair value of the investee's identifiable net assets at the date of acquisition, the investment is initially recognised at the initial investment cost. Where the initial investment cost is less than the Company's interest in the fair value of the investee's identifiable net assets at the date of acquisition, the investment is initially recognised at the investor's share of the fair value of the investee's identifiable net assets, and the difference is charged to profit or loss.
- After the acquisition of the investment, the 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 investee after the carrying amount of the long-term equity investment and any 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 investee other than those arising from net profits or losses, and recognises the corresponding adjustment in shareholders' equity.



# Notes to the Financial Statements (Continued)

*(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))*

*(Expressed in thousands of Renminbi yuan unless otherwise indicated)*

## 2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### (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 investments in jointly controlled enterprises, refer to Note 2(15).

### (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 assets 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.

# Notes to the Financial Statements (Continued)

*(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))*

*(Expressed in thousands of Renminbi yuan unless otherwise indicated)*

## 2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### (11) Fixed assets (Continued)

#### (b) Depreciation of fixed assets

The cost of fixed asset, less its estimated residual value and accumulated impairment losses, is depreciated using the straight-line method over its estimated useful life.

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	4-18 years	3%	5.4%-24.3%

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

(c) For the method of impairment testing and measurement, refer to Note 2(15).

#### (d) Disposal of fixed assets

The carrying amount of a fixed asset is derecognised:

- when the fixed asset is on disposal; or
- when no future economic benefits is 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 assets includes the cost of materials, direct labour, capitalised borrowing costs (see Note 2. (13)), 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.

Construction in progress is stated in the balance sheet at cost less accumulated impairment losses (see Note 2. (15)).

# Notes to the Financial Statements (Continued)

*(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))*

*(Expressed in thousands of Renminbi yuan unless otherwise indicated)*

## 2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### (13) Borrowing costs

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

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

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

- Where funds are borrowed specifically for the acquisition, construction or production of a qualifying asset, the amount of interest to be capitalised is the interest expense calculated using effective interest rates during the period less any interest income earned from depositing the borrowed funds or any investment income on the temporary investment of those funds before being used on the asset.
- Where funds are borrowed generally and used for the acquisition, construction or production of a qualifying asset, the amount of interest to be capitalised on such borrowings is determined by applying a capitalisation rate to the weighted average of the excess amounts of cumulative expenditures on the asset over the above amounts of specific borrowings. The capitalisation rate is the weighted average of the interest rates applicable to the general-purpose borrowings.

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

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

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

# Notes to the Financial Statements (Continued)

*(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))*

*(Expressed in thousands of Renminbi yuan unless otherwise indicated)*

## 2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### (14) Intangible assets

Intangible assets are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note 2(15)). For an intangible asset with finite useful life, its cost less estimated residual value and accumulated impairment losses is amortised on the straight-line method over its estimated useful life.

The respective amortisation periods for such intangible assets are as follows:

Item	Amortisation periods (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 the 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. Other development expenditure is recognised as an expense in the period in which it is incurred.

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

The carrying amounts of the following assets are reviewed at each balance sheet date based on the internal and external sources of information to determine whether there is any indication of impairment:

- fixed assets
- construction in progress
- intangible assets
- long-term equity investments in jointly controlled enterprises

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

The recoverable amount of an asset, asset group or set of asset groups is the higher of its fair value less costs to sell and its present value of expected future cash flows.

# Notes to the Financial Statements (Continued)

*(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))*

*(Expressed in thousands of Renminbi yuan unless otherwise indicated)*

## 2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

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

*(Continued)*

An asset group is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or asset groups. An asset group is composed of assets directly relating to cash-generation. Identification of an asset group is based on whether major cash inflows generated by the asset group are largely independent of the cash inflows from other assets or asset groups. In identifying an asset group, the 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 loss of the asset is recognised accordingly. For impairment losses related to an asset group or a set of asset groups, first reduce the carrying amount of any goodwill allocated to the asset group or set of asset groups, and then reduce the carrying amount of the other assets in the asset group or set of asset groups on a pro rata basis. However, the carrying amount of an impaired asset will not be reduced below the highest of its individual fair value less costs to sell (if determinable), the present value of expected future cash flows (if determinable) and zero.

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

### (16) 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.

# Notes to the Financial Statements (Continued)

*(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))*

*(Expressed in thousands of Renminbi yuan unless otherwise indicated)*

## 2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### (16) Revenue (Continued)

#### (b) *Rendering of services*

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

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

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

#### (c) *Interest income*

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

### (17) Employee benefits

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

#### (a) *Social insurance and housing fund*

Pursuant to the relevant laws and regulations of the PRC, employees of the 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, 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.

# Notes to the Financial Statements (Continued)

*(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))*

*(Expressed in thousands of Renminbi yuan unless otherwise indicated)*

## 2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### (18) 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.

### (19) 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.

### (20) Income tax

Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to a business combination or items recognised directly in equity (including other comprehensive income).

Current tax is the expected tax payable calculated at the applicable tax rate on taxable income for the year, plus any adjustment to tax payable in respect of previous years.

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

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

Deferred tax is not recognised for the temporary differences arising from the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit nor taxable profit (or tax loss).

# Notes to the Financial Statements (Continued)

*(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))*

*(Expressed in thousands of Renminbi yuan unless otherwise indicated)*

## 2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### (20) Income tax (Continued)

At the balance sheet date, the amount of deferred tax recognised is measured based on the expected manner of recovery or settlement of the carrying amount of the assets and liabilities, using tax rates that are expected to be applied in the period when the asset is recovered or the liability is settled in accordance with tax laws.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date. The carrying amount of a deferred tax asset is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the benefit of the deferred tax asset 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 deferred tax liabilities are offset if all the following conditions are met:

- the taxable entity has a legally enforceable right to offset current tax liabilities and current tax assets
- 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 current tax 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 deferred tax assets are expected to be settled or recovered.

### (21) Profit distributions to shareholders

Dividends or profit distributions proposed in the profit appropriation plan, which will be authorised and declared after the balance sheet date, are not recognised as a liability at the balance sheet date but disclosed in the notes separately.

### (22) Related parties

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

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

- (a) the Company's parent;
- (b) the Company's subsidiaries;
- (c) enterprises that are controlled by the Company's parent;
- (d) investors that exercise significant influence over the Company;
- (e) enterprises or individuals if a party has control or joint control over both the enterprises or individuals and the Company;



# Notes to the Financial Statements (Continued)

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## 2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### (22) Related parties (Continued)

- (f) joint ventures of the Company, including subsidiaries of joint ventures;
- (g) principal individual investors of the Company and close family members of such individuals;
- (h) key management personnel of the Company and close family members of such individuals;
- (i) key management personnel of the Company's parent;
- (j) close family members of key management personnel of the Company's parent; and
- (k) other enterprises that are controlled or jointly controlled by principal individual investors, key management personnel of the 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:

- (l) enterprises or persons that act in concert, that hold more than 5% of the Company's shares;
- (m) individuals who directly or indirectly hold more than 5% of the Company's shares and their close family members, supervisors of the listed companies and their close family members;
- (n) enterprises that satisfy any of the aforesaid conditions in (a), (c) and (l) during the past 12 months or will satisfy them within the next 12 months pursuant to a relevant agreement;
- (o) individuals who satisfy any of the aforesaid conditions in (h), (i) and (m) during the past 12 months or will satisfy them within the next 12 months pursuant to a relevant agreement; and
- (p) enterprises, other than the Company, which are controlled directly or indirectly by an individual defined in (h), (i), (m) or (o), or in which such an individual assumes the position of a director or senior executive.

### (23) Segment reporting

Reportable segments are identified based on operating segments which are determined based on the structure of the 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, results of operations and cash flows is available.

Two or more operating segments may be aggregated into a single operating segment if the segments have same or similar economic characteristics and are similar in respect of the nature of each products and service, the nature of production processes, the type or class of customers for the products and services, the methods used to distribute the products or provide the services, and the nature of the regulatory environment.

# Notes to the Financial Statements (Continued)

*(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))*

*(Expressed in thousands of Renminbi yuan unless otherwise indicated)*

## 2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### (23) Segment reporting (Continued)

Inter-segment revenues are measured on the basis of comparable market price for such transactions for segment reporting, and segment accounting policies are consistent with those for the financial statements.

### (24) Significant accounting estimates and judgments

The preparation of financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Note 8(2) contain information about the assumptions and their risk factors relating to 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 amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, an impairment loss is recognised. 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.

#### (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 losses 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(20), 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.

# Notes to the Financial Statements (Continued)

*(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))*

*(Expressed in thousands of Renminbi yuan unless otherwise indicated)*

## 2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### (24) Significant accounting estimates and judgments (Continued)

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

As described in Note 2(15), 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 recognised.

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 value in use, significant judgements are exercised over the asset'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 assumptions.

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

As described in Note 2(11) and (14), assets such as fixed assets and intangible assets are depreciated and amortised over their useful lives after taking into account residual value. The estimated 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 experience 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 prospectively.

## 3 TAXATION

### Major types of taxes and corresponding 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 revenue	3% or 5%
City maintenance and construction tax	Based on business tax and VAT paid and approved export VAT exempted and offset	7%
Education surcharge	Based on business tax and VAT paid 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 profit	25%

The income tax rate applicable to the Company for the year is 25% (2011: 25%).

## Notes to the Financial Statements (Continued)

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

(Expressed in thousands of Renminbi yuan unless otherwise indicated)

### 4 NOTES TO FINANCIAL STATEMENTS

#### (1) Cash at bank and on hand

Item	2012			2011		
	Original Currency	Exchange Rate	RMB/RMB equivalents	Original Currency	Exchange Rate	RMB/RMB equivalents
Cash on hand:						
RMB	—	—	<b>28</b>	—	—	21
Deposits with bank:						
RMB	—	—	<b>97,847</b>	—	—	950,210
US Dollars	<b>38</b>	<b>6.286</b>	<b>239</b>	39	6.301	246
			<b>98,086</b>			950,456
Deposits with related parties:						
RMB	—	—	<b>63,913</b>	—	—	591,344
Total			<b>162,027</b>			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 receivables

Item	2012	2011
Bank acceptance bills	<b>2,092,377</b>	2,236,236

All of the above bills are due within six months.

As at 31 December 2012 and 31 December 2011, the Company did not have any outstanding discounted bank acceptance bills (with recourse). As at 31 December 2012 the Company’s outstanding endorsed bank acceptance bills (with recourse) were RMB655,278,000 (31 December 2011: RMB628,424,000). These endorsed bills will be due by 30 June 2013 (31 December 2011: due by 30 June 2012). These amounts are not included in the above balance.

As at 31 December 2012 and 31 December 2011, the above bills were not pledged.

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

# Notes to the Financial Statements (Continued)

*(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))*

*(Expressed in thousands of Renminbi yuan unless otherwise indicated)*

## 4 NOTES TO FINANCIAL STATEMENTS (Continued)

### (2) Bills receivable (Continued)

(b) *At the end of year, the five largest outstanding endorsed bills that have not matured*

Issuer	Issuing date	Due date	Amount	Note
Entity A	30/11/2012	01/03/2013	10,000	Bank acceptance bills
Entity B	31/10/2012	29/01/2013	8,000	Bank acceptance bills
Entity C	28/11/2012	28/02/2013	8,000	Bank acceptance bills
Entity D	30/10/2012	30/01/2013	7,689	Bank acceptance bills
Entity E	23/10/2012	23/01/2013	6,791	Bank acceptance bills
Total			40,480	

### (3) Accounts receivable

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

Type	Note	2012	2011
Amounts due from related parties	5(5)	10,793	7,703
Amounts due from third parties		131,708	96,965
Total		142,501	104,668

As at 31 December 2012 and 31 December 2011, the Company did not provide any provision for bad and doubtful debts.

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	2012	2011
Within 1 year (inclusive)	142,501	104,668

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

# Notes to the Financial Statements (Continued)

*(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))*

*(Expressed in thousands of Renminbi yuan unless otherwise indicated)*

## 4 NOTES TO FINANCIAL STATEMENTS (Continued)

### (3) Accounts receivable (Continued)

#### (c) Accounts receivable by category:

Category	2012				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*	142,501	100	-	-	104,668	100	-	-

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

During the year ended 31 December 2012, the Company performed the impairment test in accordance with the accounting policy set out in Note 2(8) and there was no significant or insignificant accounts receivable individually determined to be impaired. The Company did not write off any individually material balance or collect any amounts fully or substantially impaired in previous years.

#### (d) Accounts receivable by currency:

Item	2012			2011		
	Original currency	Exchange rate	RMB/RMB equivalent	Original currency	Exchange rate	RMB/RMB equivalent
RMB	—	—	56,100	—	—	39,535
USD	13,745	6.286	86,401	10,337	6.301	65,133
Total			142,501			104,668

#### (e) Five largest accounts receivable

Debtor	Relationship with the Company	Amount	Ageing	Percentage of total accounts receivable (%)
1. Entity A	Third Party	17,601	Within 1 year	12.35
2. Entity B	Third Party	16,257	Within 1 year	11.41
3. Entity C	Third Party	10,209	Within 1 year	7.16
4. CPC and its subsidiaries	With a common ultimate holding company	9,969	Within 1 year	7.00
5. Entity D	Third Party	8,699	Within 1 year	6.10
Total		62,735		44.02



## Notes to the Financial Statements (Continued)

*(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))*

*(Expressed in thousands of Renminbi yuan unless otherwise indicated)*

### 4 NOTES TO FINANCIAL STATEMENTS (Continued)

#### (3) Accounts receivable (Continued)

##### (f) Accounts receivable due from related parties

Debtor	Note	Relationship with the Company	Amount	Percentage of total accounts receivable (%)
Subsidiary A of CPC		With a common ultimate holding company	9,969	7.00
Subsidiary B of CPC		With a common ultimate holding company	824	0.58
Total	5(5)		10,793	7.58

#### (4) Prepayments

##### (a) Prepayments by category:

Item	Note	2012	2011
Prepayments to related parties	5(5)	25,630	57,289
Prepayments to third parties		12,476	2,336
Total		38,106	59,625

As at 31 December 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	2012		2011	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year (inclusive)	38,106	100	59,625	100

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

# Notes to the Financial Statements (Continued)

*(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))*

*(Expressed in thousands of Renminbi yuan unless otherwise indicated)*

## 4 NOTES TO FINANCIAL STATEMENTS (Continued)

### (4) Prepayments (Continued)

#### (c) Five largest prepayments:

Debtor	Relationship	Amount	Percentage of total prepayment (%)	Date of prepayment	Reason for unsettlement
1. CPCC and its subsidiary A	With a common holding company	23,434	61.50	Within 1 year	Prepayment for goods
2. Entity A	Third party	3,000	7.87	Within 1 year	Prepayment for goods
3. Entity B	Third party	2,990	7.85	Within 1 year	Prepayment for goods
4. CPCC and its subsidiary B	With a common holding company	2,196	5.76	Within 1 year	Prepayment for goods
5. Entity C	Third party	2,058	5.40	Within 1 year	Prepayment for equipments
Total		33,678	88.38		

### (5) Other receivables

#### (a) Other receivables by customer type:

Customer type	Note	2012	2011
Amounts due from related parties	5(5)	–	2,410
Amounts due from third parties		<b>18,969</b>	13,165
Sub-total		<b>18,969</b>	15,575
Less: Provision for bad and doubtful debts		<b>1,361</b>	3,857
Total		<b>17,608</b>	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.



# Notes to the Financial Statements (Continued)

*(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))*

*(Expressed in thousands of Renminbi yuan unless otherwise indicated)*

## 4 NOTES TO FINANCIAL STATEMENTS (Continued)

### (5) Other receivables (Continued)

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

Ageing	2012	2011
Within 1 year (inclusive)	17,573	9,957
Over 1 year but within 2 years (inclusive)	50	86
Over 2 years but within 3 years (inclusive)	–	4,150
Over 3 years	1,346	1,382
Sub-total	18,969	15,575
Less: Provision for bad and doubtful debts	1,361	3,857
Total	17,608	11,718

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

(c) *Other receivables by category:*

Category	Note	2012				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)	18,969	100	1,361	100	15,575	100	3,857	100

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

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

During the year ended 31 December 2012, the Company performed the impairment test in accordance with the accounting policy set out in Note 2(8) and there was no significant or insignificant other receivables individually determined to be impaired.

There was no other receivables written off during the year.

As at 31 December 2012, the Company had no individually significant other receivables due over 3 years.

## Notes to the Financial Statements (Continued)

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

(Expressed in thousands of Renminbi yuan unless otherwise indicated)

### 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	2012			2011		
	Carrying amount Amount	Percentage (%)	Provision for bad and doubtful debts	Carrying amount Amount	Percentage (%)	Provision for bad and doubtful debts
Within 1 year (inclusive)	17,573	92.64	–	9,957	63.93	–
Over 1 year but within 2 years	50	0.26	15	86	0.55	25
Over 2 years but within 3 years	–	–	–	4,150	26.65	2,450
Over 3 years	1,346	7.10	1,346	1,382	8.87	1,382
Total	18,969	100	1,361	15,575	100	3,857

(e) Reversal or recovery of provision for bad and doubtful debts during the year

Other receivables for which a full provision or a significant provision was made in the previous periods that are recovered or reversed partly or in full amount during the year are as follows:

Other receivables	Reason for reversal or recovery	Reason for original provision	Accumulated provision for bad and doubtful debts before reversal or recovery	Amount reversed or recovered
Prepayment for equipments	Termination of procurement contract	Provision provided by ageing analysis	4,315	4,315

(f) Five largest other receivables:

Debtor	Relationship with the Company	Amount	Ageing	Percentage of total other receivables (%)
1. Entity A	Third party	12,263	Within 1 year	64.65
2. Entity B	Third party	3,572	Within 1 year	18.83
3. Entity C	Third party	945	Over 3 years	4.98
4. Entity D	Third party	553	Within 1 year	2.92
5. Entity E	Third party	463	Within 1 year	2.44
Total		17,796		93.82

# Notes to the Financial Statements (Continued)

*(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))*

*(Expressed in thousands of Renminbi yuan unless otherwise indicated)*

## 4 NOTES TO FINANCIAL STATEMENTS (Continued)

### (6) Inventories

#### (a) Inventories by category:

Item	2012			2011		
	Book value	Provision for diminution in value of inventories	Carrying amount	Book value	Provision for diminution in value of inventories	Carrying amount
Raw materials	900,620	-11,387	889,233	1,052,256	-11,387	1,040,869
Work in progress	118,726	–	118,726	102,204	–	102,204
Finished goods	650,570	-9,588	640,982	556,388	-28,333	528,055
Spare parts and consumables	104,653	-17,860	86,793	103,396	-17,860	85,536
Total	1,774,569	-38,835	1,735,734	1,814,244	-57,580	1,756,664

All the above inventories are purchased or self-manufactured.

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

As at 31 December 2012 and 31 December 2011, the above inventories were not pledged or guaranteed.

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

Item	Balance at the beginning of the year	Additions during the year	Reductions during the year	Balance at the end of the year
Raw materials	1,052,256	15,626,573	-15,778,209	900,620
Work in progress	102,204	27,129,916	-27,113,394	118,726
Finished goods	556,388	27,113,394	-27,019,212	650,570
Spare parts and consumables	103,396	1,189,871	-1,188,614	104,653
Sub-total	1,814,244	71,059,754	-71,099,429	1,774,569
Less: Provision for diminution in value of inventories	57,580	–	-18,745	38,835
Total	1,756,664	71,059,754	-71,080,684	1,735,734

## Notes to the Financial Statements (Continued)

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

(Expressed in thousands of Renminbi yuan unless otherwise indicated)

### 4 NOTES TO FINANCIAL STATEMENTS (Continued)

#### (6) Inventories (Continued)

##### (c) Provision for diminution in value of inventories:

Item	Balance at the beginning of the year	Provision made for the year	Reversal during the year	Balance at the end of the year
Raw materials	11,387	–	–	11,387
Finished goods	28,333	–	-18,745	9,588
Spare parts and consumables	17,860	–	–	17,860
Total	57,580	–	-18,745	38,835

Reversal of provisions for diminution in value of inventories during the year is as follows:

Inventory category	Basis of provision	Reason for reversals	Percentage of reversals to the closing balances of inventories
Finished goods	The net realisable value was lower than the cost	Market price risen	2.88%

#### (7) Available-for-sale financial assets

Details of available-for-sale financial asset

Item	2012	2011
Investment funds purchased from banks	–	200,000

As at 31 December 2011, the Company held an investment fund of RMB200,000,000 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	2012	2011
Prepaid CIT	141,376	152,465
Prepaid VAT	241,407	67,459
Others	7,354	–
Total	390,137	219,924

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

# Notes to the Financial Statements (Continued)

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

(Expressed in thousands of Renminbi yuan unless otherwise indicated)

## 4 NOTES TO FINANCIAL STATEMENTS (Continued)

### (9) Long-term equity investments

#### (a) Long-term equity investments by category:

Item	2012	2011
Investments in joint ventures	<b>584,819</b>	303,089

As at 31 December 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 year are as follows:

Investee	Investment cost	Balance at the beginning of the year	Additions during the year	Balance at the end of the year	Shareholding percentage (%)	Voting right percentage (%)
Equity method – Joint ventures						
Far Eastern Yihua Petrochemical (Yangzhou) Corporation (“FEYP”)	581,340	303,089	281,730	584,819	40	40

#### (c) Details of major joint ventures

Details of the joint venture are as follows:

Name of investee	Business Nature	Registered place	legal representative	Business scope	Registered capital	Shareholding percentage (%)	Voting right (%)	Organisation code
FEYP	Limited liability company	Yangzhou Jiangsu Province	Wu Gao-shan	Manufacturing, and distributing of Crude terephthalic acid (CTA) and Pure terephthalic acid (PTA)	USD 230,000,000	40	40	58665 581-2

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

Name of investee	Total assets at the end of the year	Total liabilities at the end of the year	Net assets at the end of the year	Total operating income for the year	Net profit for the year
FEYP	1,464,013	1,965	1,462,048	–	8,696

#### (d) Commitments to joint venture

The Company had outstanding commitments of RMB50,284,000 in respect of its investment in FEYP at 31 December 2012 not provided for in the financial report (31 December 2011: RMB75,461,000).

# Notes to the Financial Statements (Continued)

*(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))*

*(Expressed in thousands of Renminbi yuan unless otherwise indicated)*

## 4 NOTES TO FINANCIAL STATEMENTS (Continued)

### (10) Fixed Assets

#### (a) Fixed assets movement

Item	Plant & buildings	Machinery & equipment	Motor vehicles & other fixed assets	Total
<b>Cost</b>				
Balance at the beginning of the year	2,203,525	10,298,509	805,160	13,307,194
Reclassification	-374,280	210,956	163,324	-
Transfer from construction in progress	87,333	418,578	48,525	554,436
Disposal during the year	-218	-463,899	-15,318	-479,435
Balance at the end of the year	1,916,360	10,464,144	1,001,691	13,382,195
<b>Accumulated depreciation</b>				
Balance at the beginning of the year	1,123,788	7,415,854	611,071	9,150,713
Reclassification	-265,399	200,904	64,495	-
Charge for the year	61,294	307,808	36,797	405,899
Written off during the year	-59	-306,570	-14,043	-320,672
Balance at the end of the year	919,624	7,617,996	698,320	9,235,940
<b>Provision for impairment</b>				
Balance at the beginning of the year	9,048	771,732	8,869	789,649
Reclassification	-762	-45,485	46,247	-
Written off on disposal	-	-138,734	-210	-138,944
Balance at the end of the year	8,286	587,513	54,906	650,705
<b>Carrying amounts</b>				
At the end of the year	988,450	2,258,635	248,465	3,495,550
At the beginning of the year	1,070,689	2,110,923	185,220	3,366,832

The Company did not recognise any provision for impairment during the year.

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

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

# Notes to the Financial Statements (Continued)

*(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))*

*(Expressed in thousands of Renminbi yuan unless otherwise indicated)*

## 4 NOTES TO FINANCIAL STATEMENTS (Continued)

### (10) Fixed Assets (Continued)

#### (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	2012			2011		
	Book value	Provision for impairment	Carrying amount	Book value	Provision for impairment	Carrying amount
100 thousand tonne/year 1,4-butanediol project	1,429,935	-	1,429,935	949,996	-	949,996
400 thousand tonne/year polyester polymerization project	117,047	-	117,047	49,822	-	49,822
100 thousand tonne/year differential staple fibre project (Unit 3)	-	-	-	45,997	-	45,997
100 thousand tonne/year differential staple fibre project (Unit 9)	140,247	-	140,247	42,978	-	42,978
NCIC-YCFC Hydrogen gas pipeline project	62,996	-	62,996	-	-	-
Voltage reducing station No.2	-	-	-	19,983	-	19,983
Improvement of existing plants and equipment	120,656	-	120,656	92,425	-	92,425
Total	1,870,881	-	1,870,881	1,201,201	-	1,201,201

# Notes to the Financial Statements (Continued)

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

(Expressed in thousands of Renminbi yuan unless otherwise indicated)

## 4 NOTES TO FINANCIAL STATEMENTS (Continued)

### (11) Construction in progress (Continued)

#### (b) Movements of major construction projects in progress during the year

Item	Budget	Balance	Additions during the year	Transfer to fixed assets	Transfer to intangible assets	Balance at the end of the year	Percentage		Sources of funds
		at the beginning of the year					of actual cost to budget (%)	Project progress (%)	
100 thousand tonne/year 1,4-butanediol project	1,670,082	949,996	479,939	-	-	1,429,935	85	85	Own fund
400 thousand tonne/year polyester polymerization project	365,607	49,822	240,000	-172,775	-	117,047	79	79	Own fund
100 thousand tonne/year differential staple fibre project (Unit 3)	238,989	45,997	169,687	-215,684	-	-	90	100	Own fund
100 thousand tonne/year differential staple fibre project (Unit 9)	218,377	42,978	97,269	-	-	140,247	64	64	Own fund
NCIC-YCFC Hydrogen gas pipeline project	158,000	-	62,996	-	-	62,996	40	40	Own fund
Voltage reducing station No.2	29,632	19,983	8,017	-28,000	-	-	94	100	Own fund
Improvements of existing plants and equipment	391,959	92,425	167,908	-137,977	-1,700	120,656	66	-	Own fund
Total		1,201,201	1,225,816	-554,436	-1,700	1,870,881			

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

Item	Project progress	Note
100 thousand tonne/year 1,4-butanediol project	85%	The major construction has been completed, supporting facilities are under installation
400 thousand tonne/year polyester polymerization project	79%	Equipment procurement and installation is being carried out
100 thousand tonne/year differential staple fibre project (Unit 9)	64%	Equipments are under installation
NCIC-YCFC Hydrogen gas pipeline project	40%	Equipments are under installation



# Notes to the Financial Statements (Continued)

*(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))*

*(Expressed in thousands of Renminbi yuan unless otherwise indicated)*

## 4 NOTES TO FINANCIAL STATEMENTS (Continued)

### (12) Intangible assets

Item	Land use rights	Patent rights	Technology use rights	Total
Cost				
Balance at the beginning of the year	406,123	208,893	150,735	765,751
Additions during the year	–	–	1,700	1,700
Balance at the end of the year	406,123	208,893	152,435	767,451
Accumulated amortisation				
Balance at the beginning of the year	125,899	175,382	139,185	440,466
Charge for the year	8,481	20,889	1,190	30,560
Balance at the end of the year	134,380	196,271	140,375	471,026
Carrying amounts				
At the end of the year	271,743	12,622	12,060	296,425
At the beginning of the year	280,224	33,511	11,550	325,285

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

### (13) Deferred tax assets

#### (a) Recognised deferred tax assets

Item	2012		2011	
	Deductible temporary difference	Deferred tax assets	Deductible temporary difference	Deferred tax assets
<b>Deferred tax assets:</b>				
Provision for impairment	240,223	60,056	361,574	90,393
Deductible tax losses	848,604	212,151	–	–
Deferred income	19,248	4,812	16,315	4,079
Fixed assets	70,835	17,708	68,816	17,204
Accrued expenses	69,245	17,312	39,677	9,919
Inventories	–	–	3,763	941
Total	1,248,155	312,039	490,145	122,536

## Notes to the Financial Statements (Continued)

*(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))*

*(Expressed in thousands of Renminbi yuan unless otherwise indicated)*

### 4 NOTES TO FINANCIAL STATEMENTS (Continued)

#### (13) Deferred tax assets (Continued)

##### (b) Details of unrecognised deferred tax assets

Item	2012	2011
Deductible temporary differences	–	193,856

#### (14) Provisions for impairment

Item	Note	Balance at the beginning of the year	Charge for the year	Reversal during the year	Balance at the end of the year
Provisions for bad and doubtful debts	4(5)	3,857	1,819	-4,315	1,361
Provisions for diminution in value of inventories	4(6)	57,580	–	-18,745	38,835
Provisions for impairment of fixed assets	4(10)	789,649	–	-138,944	650,705
Total		851,086	1,819	-162,004	690,901

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

#### (15) Short-term loans

Short-term loans by category:

Category	2012	2011
Unsecured loans	<b>405,000</b>	–

As at 31 December 2012 and 31 December 2011, the Company did not have any past due short-term loans.

#### (16) Accounts payable

Details of accounts payable are as follows:

Item	Note	2012	2011
Amounts due to related parties	5(5)	<b>1,204,769</b>	1,250,861
Amounts due to third parties		<b>330,476</b>	354,582
Total		<b>1,535,245</b>	1,605,443

# Notes to the Financial Statements (Continued)

*(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))*

*(Expressed in thousands of Renminbi yuan unless otherwise indicated)*

## 4 NOTES TO FINANCIAL STATEMENTS (Continued)

### (16) Accounts payable (Continued)

*Accounts payable by currency:*

Item	2012			2011		
	Original Currency	Exchange Rate	RMB/RMB equivalents	Original Currency	Exchange Rate	RMB/RMB equivalents
RMB	—	—	722,742	—	—	593,547
US Dollars	129,256	6.286	812,503	160,593	6.301	1,011,896
Total			1,535,245			1,605,443

As at 31 December 2012 and 31 December 2011, there were no individually significant accounts payable aged over one year.

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

### (17) Advances from customers

Details of advances from customers are as follows:

Item	Note	2012	2011
Amounts due to related parties	5(5)	4,113	6,507
Amounts due to third parties		306,909	339,149
Total		311,022	345,656

As at 31 December 2012 and 31 December 2011, there were no individually significant advances from customers aged over one year.

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

## Notes to the Financial Statements (Continued)

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

(Expressed in thousands of Renminbi yuan unless otherwise indicated)

### 4 NOTES TO FINANCIAL STATEMENTS (Continued)

#### (18) Employee benefits payable

Item	Balance at the beginning of the year	Accrued during the year	Paid during the year	Balance at the end of the year
Salaries, bonuses, allowances	57,912	593,450	-593,450	57,912
Staff welfare	–	103,603	-103,603	–
Social insurance				
Including:				
Basic medical insurance	–	41,823	-41,823	–
Basic pension insurance	–	101,382	-101,382	–
Unemployment insurance	–	10,175	-10,175	–
Work injury and maternity insurance	–	3,998	-3,671	327
Supplementary medical insurance	–	14,718	-14,718	–
Supplementary pension insurance	–	29,218	-29,218	–
Housing fund	–	65,524	-65,524	–
Termination benefits (including early retirement expenses)	–	578	-578	–
Others				
Including:				
Labour union fee and staff and workers' education fee	3,755	19,832	-21,749	1,838
Others	260	53,461	-53,529	192
<b>Total</b>	<b>61,927</b>	<b>1,037,762</b>	<b>-1,039,420</b>	<b>60,269</b>

As at 31 December 2012, there were no payables in arrears included in the balance of the employee benefits payable.

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	
		2012	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 less than 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.

# Notes to the Financial Statements (Continued)

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

(Expressed in thousands of Renminbi yuan unless otherwise indicated)

## 4 NOTES TO FINANCIAL STATEMENTS (Continued)

### (19) Taxes payable

Item	2012	2011
Individual income tax	5,517	6,998
Others	7,564	5,324
Total	13,081	12,322

### (20) Interests payable

Item	2012	2011
Interest payable for short-term loans	393	–

### (21) Other payables

Details of other payables are as follows:

Item	Note	2012	2011
Amounts due to related parties	5(5)	4,428	912
Amounts due to third parties		240,180	376,399
Total		244,608	377,311

Other payables mainly represent payables for construction projects.

As at 31 December 2012 and 31 December 2011, there were no individually significant other payables aged over one year.

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

### (22) Deferred income

Item	2012	2011
Government grants	19,248	16,315

Deferred income mainly includes government grants received. The Company received the government grants of RMB2,000,000 (2011: Nil) related to relevant assets and RMB2,790,000 (2011: Nil) to be recognised as income in later period.

# Notes to the Financial Statements (Continued)

*(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))*

*(Expressed in thousands of Renminbi yuan unless otherwise indicated)*

## 4 NOTES TO FINANCIAL STATEMENTS (Continued)

### (23) Share capital

	2012	2011
2,400,000,000 "Domestic non-public legal person A" shares	<b>2,400,000</b>	2,400,000
200,000,000 "Social public A" shares	<b>200,000</b>	200,000
1,400,000,000 "H" shares	<b>1,400,000</b>	1,400,000
Total	<b>4,000,000</b>	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.

### (24) Capital reserve

Item	2012	2011
Share premium	<b>3,078,825</b>	3,078,825
Other capital reserve	<b>67,969</b>	67,969
Including: government capital contribution	<b>39,630</b>	39,630
Total	<b>3,146,794</b>	3,146,794

### (25) Specific reserve

Item	Balance at the beginning of the year	Increase during the year	Decrease during the year	Balance at the end of the year
Specific reserve	–	920	-840	80

In accordance with PRC regulations, the Company appropriated safety production fee of RMB920,000 to specific reserve for the year ended 31 December 2012 (2011: RMB904,000), which was recognised in the cost of related products. During the year ended 31 December 2012, the Company utilised the safety production fee amounting to RMB840,000 (2011: RMB1,659,000) which was of expenditure nature.

### (26) Surplus reserve

Item	Balance at the beginning of the year	Additions during the year	Reductions during the year	Balance at the end of the year
Statutory surplus reserve	200,383	–	–	200,383

# Notes to the Financial Statements (Continued)

*(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))*

*(Expressed in thousands of Renminbi yuan unless otherwise indicated)*

## 4 NOTES TO FINANCIAL STATEMENTS (Continued)

### (27) Retained earnings

Item	Note	Amount
Retained earnings at the beginning of the year		1,683,448
Add: Net losses for the year		-361,367
Less: Dividends payables	(a)	120,000
Retained earnings at the end of year		1,202,081

#### (a) Distribution of dividends of ordinary shares declared during the year

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), totaling RMB120,000,000 (2011: RMB120,000,000) was declared and paid to the Company's ordinary shareholders on 27 July 2012.

### (28) Operating income and operating costs

#### (a) Operating income and operating costs

Item	2012	2011
Operating income from principal activities	16,588,041	19,997,839
Other operating income	399,875	181,929
Operating costs	16,572,824	18,206,234

#### (b) Principal activities (by industry)

Industry	2012		2011	
	Operating income	Operating costs	Operating income	Operating costs
Chemical fibre	16,987,916	16,572,824	20,179,768	18,206,234

#### (c) Principal activities (by products)

Product	2012		2011	
	Operating income	Operating costs	Operating income	Operating costs
Polyester chips	5,776,760	5,640,980	7,346,044	6,544,918
Bottle-grade polyester chips	3,604,853	3,486,452	3,804,094	3,455,907
Staple fibre and hollow fibre	5,906,594	5,619,246	6,778,706	6,042,406
Filaments	1,045,595	1,192,939	1,865,482	1,796,074
Others	654,114	633,207	385,442	366,929
Total	16,987,916	16,572,824	20,179,768	18,206,234

# Notes to the Financial Statements (Continued)

*(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))*

*(Expressed in thousands of Renminbi yuan unless otherwise indicated)*

## 4 NOTES TO FINANCIAL STATEMENTS (Continued)

### (28) Operating income and operating costs (Continued)

#### (d) Principal activities (by geographical area)

Geographical area	2012		2011	
	Operating income	Operating costs	Operating income	Operating costs
Mainland	<b>16,345,233</b>	<b>15,941,572</b>	19,438,858	17,531,502
Hong Kong, Macau, Taiwan, and overseas	<b>642,683</b>	<b>631,252</b>	740,910	674,732
Total	<b>16,987,916</b>	<b>16,572,824</b>	20,179,768	18,206,234

#### (e) Operating income from the top five customers in 2012

Name of customer	Operating income	Percentage to total operating income (%)
Customer A	770,518	4.54
Customer B	502,009	2.96
Customer C	372,975	2.20
Customer D	316,872	1.87
Customer E	313,223	1.84
Total	<u>2,275,597</u>	

### (29) Business taxes and surcharges

Item	2012	2011	Taxation basis and rates
Business tax	<b>703</b>	706	3% or 5% of operating income
City maintenance and construction tax	<b>122</b>	24,607	7% of business tax and VAT paid and approved export VAT exempted and offset
Education surcharges	<b>88</b>	14,201	5% of business tax and VAT paid and approved export VAT exempted and offset
Total	<b>913</b>	39,514	





# Notes to the Financial Statements (Continued)

*(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))*

*(Expressed in thousands of Renminbi yuan unless otherwise indicated)*

## 4 NOTES TO FINANCIAL STATEMENTS (Continued)

### (30) Selling and distribution expenses

Item	2012	2011
Freight	147,238	154,898
Commission fee	43,483	43,452
Other selling expenses	18,458	22,080
Total	209,179	220,430

### (31) General and administrative expenses

Item	2012	2011
Repair and maintenance fee	313,759	358,599
Salary	292,128	217,807
Technology development fee	48,406	51,112
Community service fee	39,830	39,995
Taxes	30,854	40,535
Depreciation and amortization	27,607	28,305
Other general and administrative expenses	76,840	72,006
Total	829,424	808,359

### (32) Financial income

Item	2012	2011
Interest income from deposits	-26,731	-53,722
Net exchange gains	-6,562	-5,025
Interest expenses from loans	512	-
Other financial expenses	1,815	1,860
Total	-30,966	-56,887

The Company did not have any capitalised borrowing cost for 2011 and 2012.

### (33) Losses from changes in fair value

Item	2012	2011
Financial assets held for trading — Changes in fair value during the year	-	-310

## Notes to the Financial Statements (Continued)

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

(Expressed in thousands of Renminbi yuan unless otherwise indicated)

### 4 NOTES TO FINANCIAL STATEMENTS (Continued)

#### (34) Investment income

Item	Note	2012	2011
Investment income from disposal of available-for-sale financial assets		4,740	10,000
Income from long-term equity investments accounted for using the equity method	(a)	3,479	–
Investment income from disposal of held-to-maturity investments		2,011	–
Investment income from disposal of financial assets held for trading		–	6,557
Total		10,230	16,557

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

Investee	2012	2011	Reason for changes over previous year
FEYP	3,479	–	In 2011, FEYP did not start operation

#### (35) Impairment losses (“-” for reversal)

Item	2012	2011
Provisions for diminution in value of inventories	-18,745	2,099
Provision of bad and doubtful debts of other receivables	-2,496	-8,075
Provisions for fixed assets impairment	–	5,285
Total	-21,241	-691

# Notes to the Financial Statements (Continued)

*(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))*

*(Expressed in thousands of Renminbi yuan unless otherwise indicated)*

## 4 NOTES TO FINANCIAL STATEMENTS (Continued)

### (36) Non-operating income

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

Item	Note	2012	2011	Amounts recognised in extraordinary gain and loss in 2012
Total gains on disposal of non-current assets		<b>18,887</b>	27,711	18,887
Including:				
Disposal of fixed assets		<b>18,887</b>	27,711	18,887
Service fee income		<b>17,078</b>	–	17,078
Government grants	(b)	<b>1,857</b>	4,503	1,857
Reversal of loss on breach of contracts		<b>1,286</b>	19,175	1,286
Reversal of non-payable liabilities		<b>964</b>	19,902	964
Others		<b>35</b>	1,364	35
Total		<b>40,107</b>	72,655	40,107

(b) *Details of government grants*

Item	2012	2011	Note
Allowance for high performance polyethylene project	<b>929</b>	929	Amortisation of allowance for Hi-tech achievement transformation project from Jiangsu Science and Technology Department
Allowance for project of stove desulphurization	<b>361</b>	500	Amortisation of allowance for specific project from Yizheng Finance Bureau
Allowance for air separation project	–	2,500	Funds received on liquid separation project from governments
Others	<b>567</b>	574	Other funds received relating to operation
Total	<b>1,857</b>	4,503	

# Notes to the Financial Statements (Continued)

*(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))*

*(Expressed in thousands of Renminbi yuan unless otherwise indicated)*

## 4 NOTES TO FINANCIAL STATEMENTS (Continued)

### (37) Non-operating expenses

Item	2012	2011	Amounts recognised in extraordinary gain and loss in 2012
Total losses on disposal of non-current assets	<b>6,783</b>	2,284	6,783
Including:			
Disposal of fixed assets	<b>6,783</b>	2,284	6,783
Others	<b>10,875</b>	7,426	10,875
Total	<b>17,658</b>	9,710	17,658

### (38) Income tax expense

Item	Note	2012	2011
Current expenses for the year based on tax law and regulations		–	118,253
Changes in deferred tax assets	(a)	<b>-189,503</b>	74,355
Under provision for income tax in respect of preceding year		<b>11,332</b>	10,350
Total		<b>-178,171</b>	202,958

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

Item	2012	2011
Origination and reversal of temporary differences	<b>-141,767</b>	140,958
Changes in unrecognised deductible temporary differences	<b>-47,736</b>	-66,603
Total	<b>-189,503</b>	74,355

# Notes to the Financial Statements (Continued)

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

(Expressed in thousands of Renminbi yuan unless otherwise indicated)

## 4 NOTES TO FINANCIAL STATEMENTS (Continued)

### (38) Income tax expense (Continued)

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

Item	2012	2011
Profits before taxation ("-" for losses)	-539,538	1,042,001
Expected income tax expense at tax rate of 25%	-134,885	260,500
Add: Recognition of previously unrecognised deductible temporary differences	-47,736	-66,603
Under provision for income tax in respect of preceding year	11,332	10,350
Non-taxable income	-7,900	-1,639
Non-deductible expenses	1,018	350
Income tax expense	-178,171	202,958

### (39) Basic earnings per share and diluted earnings per share ("-" for losses)

(a) Basic earnings per share ("-" for losses)

Basic earnings per share ("-" for losses) is calculated by dividing the net profit/losses attributable to ordinary shareholders of the Company by weighted average number of ordinary shares outstanding:

	2012	2011
Net profit attributable to ordinary shareholders of the Company ("-" for losses)	-361,367	839,043
Weighted average number of ordinary shares outstanding	4,000,000,000	4,000,000,000
Basic earnings per share (RMB/share) ("-" for losses)	-0.090	0.210

(b) Diluted earnings per share

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

### (40) Other comprehensive income

Item	2012	2011
Gains arising from available-for-sale financial assets	4,740	10,000
Less: Reclassification adjustments for amounts transferred to profit or loss	4,740	10,000
Total	-	-

## Notes to the Financial Statements (Continued)

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

(Expressed in thousands of Renminbi yuan unless otherwise indicated)

### 4 NOTES TO FINANCIAL STATEMENTS (Continued)

#### (41) Notes to cash flow statement

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

Item	2012	2011
Repair and maintenance expenses	<b>313,759</b>	358,599
Freight	<b>147,238</b>	154,898
Technology development expenses	<b>48,406</b>	51,112
Commission fee	<b>43,483</b>	43,452
Community service fee	<b>39,830</b>	39,995
Net exchange gains	<b>-6,562</b>	-5,025
Others	<b>-37,173</b>	-23,653
Total	<b>548,981</b>	619,378

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

Item	2012	2011
Interests received	<b>26,731</b>	53,722
Government grants received	<b>4,790</b>	-
Total	<b>31,521</b>	53,722

#### (42) Supplementary information to cash flow statement

##### (a) Supplement to cash flow statement

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

Item	2012	2011
Net profit ("-" for losses)	<b>-361,367</b>	839,043
Add: Impairment provision for assets ("-" for decrease)	<b>-21,241</b>	-691
Depreciation of fixed assets	<b>405,899</b>	367,715
Amortisation of intangible assets	<b>30,560</b>	29,781
Amortisation of deferred income	<b>-1,857</b>	-3,929
Net gains on disposal of fixed assets	<b>-12,104</b>	-25,427
Losses on changes in fair value	<b>-</b>	310
Financial income	<b>-26,219</b>	-53,722
Investment income	<b>-10,230</b>	-16,557
Decrease in deferred tax assets ("-" for increase)	<b>-189,503</b>	74,355
Decrease in gross inventories ("-" for increase)	<b>39,675</b>	-439,994
Increase in specific reserves ("-" for decrease)	<b>80</b>	-755
Increase in operating receivables	<b>-671,553</b>	-1,184,221
Increase in operating payables ("-" for decrease)	<b>-149,859</b>	143,845
Net cash outflow from operating activities	<b>-967,719</b>	-270,247

# Notes to the Financial Statements (Continued)

*(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))*

*(Expressed in thousands of Renminbi yuan unless otherwise indicated)*

## 4 NOTES TO FINANCIAL STATEMENTS (Continued)

### (42) Supplementary information to cash flow statement (Continued)

#### (a) Supplement to cash flow statement (Continued)

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

Item	2012	2011
Cash at the end of the year	<b>162,027</b>	1,541,821
Less: Cash at the beginning of the year	<b>1,541,821</b>	2,469,388
Cash equivalents at the beginning of the year	–	297,870
Net decrease in cash and cash equivalents	<b>-1,379,794</b>	-1,225,437

#### (b) Details of cash and cash equivalents

Item	2012	2011
Cash at bank and on hand	<b>162,027</b>	1,541,821
Including: Cash on hand	<b>28</b>	21
Bank deposits available on demand	<b>161,999</b>	1,541,800
Closing balance of cash and cash equivalents	<b>162,027</b>	1,541,821

*Note: 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	Share-	Percentage	Ultimate	party of the company	Organisation code
						holding percentage (%)	of voting right (%)	controlling		
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 joint ventures of the Company

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

# Notes to the Financial Statements (Continued)

*(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))*

*(Expressed in thousands of Renminbi yuan unless otherwise indicated)*

## 5 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 bellow transactions with related parties were conducted under normal commercial terms or relevant agreements.

#### (a) Purchasing of goods/receiving services

##### The Company

Name of related party	Nature of transaction	Pricing and decision-making procedure	2012		2011	
			Amount	Percentage of the same type of transaction (%)	Amount	Percentage of the same type of transaction (%)
Sinopec Corp and its subsidiaries	Purchase of raw materials	Based on normal commercial terms or relevant agreements	9,661,066	61.82	10,753,982	62.22
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	9,681	0.06	–	–
Sinopec Corp and its subsidiaries	Commission payable	Based on normal commercial terms or relevant agreements	65,410	100.00	67,462	100.00
CPC and its subsidiaries (Sinopec Corp and its subsidiaries and Sinopec Finance are excluded)	Construction and overhaul fee payable	Based on normal commercial terms or relevant agreements	104,519	8.53	68,558	6.57
CPC and its subsidiaries (Sinopec Corp and its subsidiaries and Sinopec Finance are excluded)	Miscellaneous service fee charges payable	Based on normal commercial terms or relevant agreements	6,350	100.00	6,350	100.00
Key management personnel	Remuneration	Based on normal commercial terms or relevant agreements	2,858	0.48	3,578	0.61
Key management personnel	Retirement scheme contribution	Based on normal commercial terms or relevant agreements	256	0.19	228	0.20



# Notes to the Financial Statements (Continued)

*(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))*

*(Expressed in thousands of Renminbi yuan unless otherwise indicated)*

## 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		2011	
			Amount	Percentage of the same type of transaction (%)	Amount	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	548,467	3.23	298,274	1.49

#### (c) Other related party 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	18,797	3,700
Sinopec Finance	Loans received	300,000	–
Sinopec Finance	Interest income receivable	7,507	9,766
China CITIC Bank	Interest income receivable	2,874	5,106
Sinopec Finance	Interest expense	399	–
FEYP	Miscellaneous service fee income	17,078	–

## Notes to the Financial Statements (Continued)

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

(Expressed in thousands of Renminbi yuan unless otherwise indicated)

### 5 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

#### (5) Receivables from and payables to related parties

##### Receivables from related parties

##### The Company

Item	Related party	2012		2011	
		Carrying amount	Provisions for bad and doubtful debts	Carrying amount	Provisions for bad and doubtful debts
Prepayments	Sinopec Corp and its subsidiaries	25,630	–	57,289	–
Accounts receivable	CPC and its subsidiaries	10,793	–	7,703	–
Other receivables	CPC and its subsidiaries	–	–	2,410	–

##### Payables to related parties

##### The Company

Item	Related party	2012	2011
Short-term loans	Sinopec Finance	300,000	–
Interest payable	Sinopec Finance	163	–
Accounts payable	Sinopec Corp and its subsidiaries	1,177,670	1,249,540
Other payables	Sinopec Corp and its subsidiaries	1,427	887
Accounts payable	CPC and its subsidiaries	27,099	1,321
Advances from customers	CPC and its subsidiaries	4,113	6,507
Other payables	CPC and its subsidiaries	3,001	25

#### (6) Commitments to related parties

Related party	Nature of commitment	Pricing and decision-making procedure	2012	2011
CPC and its subsidiaries	Sales of goods	Based on normal commercial terms or relevant agreements	384,767	–

# Notes to the Financial Statements (Continued)

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

(Expressed in thousands of Renminbi yuan unless otherwise indicated)

## 6 CONTINGENCY

With respect to uncertainties about enterprise income tax differences arising from 2006 and before as originated from a tax circular (Circular No.664) issued by the State Administrative of Taxation in June 2007, the Company has been informed by the relevant tax authority to settle the corporate income tax ("CIT") for 2007 at a rate of 33 percent. To date, the Company has not been requested to pay additional CIT in respect of any years prior to 2007. There is no further development of this matter during the period ended 31 December 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	2012	2011
Authorised and contracted for acquisition of fixed assets and significant construction contracts being or to be executed	294,915	635,848
Authorised but not contracted for acquisition of fixed assets and significant construction contracts	269,172	766,296
Total	564,087	1,402,144

## 8 OTHER SIGNIFICANT MATTERS

### (1) Segment reporting

The Company has five reportable segments based on the structure of its internal organisation, management requirements and internal reporting system. 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.

Segments revenues, profits or losses and assets:

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, intangible 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.

# Notes to the Financial Statements (Continued)

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

(Expressed in thousands of Renminbi yuan unless otherwise indicated)

## 8 OTHER SIGNIFICANT MATTERS (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:

Item	2012								
	Polyester chips	Bottle-grade polyester chips	Staple fibre and hollow fibre	Filament	PTA	Others	Elimination	Unallocated items	Total
Operating income from external customer	5,776,760	3,604,853	5,906,594	1,045,595	182,612	471,502	-	-	16,987,916
Inter-segment operating income	-	-	-	-	7,327,650	-	-7,327,650	-	-
Reportable segments operating income	5,776,760	3,604,853	5,906,594	1,045,595	7,510,262	471,502	-7,327,650	-	16,987,916
Profit from external customer ("-" for losses)	-3,409	42,316	171,651	-176,326	-4,160	-37,160	-	-	-7,088
Inter-segment profit	-	-	-	-	141,459	-	-	-15,126	126,333
Reportable segments profit ("-" for losses)	-3,409	42,316	171,651	-176,326	137,299	-37,160	-	-15,126	119,245
Other material items:									
— Depreciation & amortisation	63,212	13,821	40,177	8,000	163,154	117,219	-	30,876	436,459
— Impairment of fixed assets	-	-	-	-	-	-	-	-	-
— Write-down of inventories	-	-	-	-	-	-	-	-	-
— Reportable segments assets	756,433	182,396	691,359	121,485	978,932	1,159,160	-	1,366,201	5,255,966

Item	2011								
	Polyester chips	Bottle-grade polyester chips	Staple fibre and hollow fibre	Filament	PTA	Others	Elimination	Unallocated items	Total
Operating income from external customer	7,346,044	3,804,094	6,778,706	1,865,482	-	385,442	-	-	20,179,768
Inter-segment operating income	-	-	-	-	8,765,942	-	-8,765,942	-	-
Reportable segments operating income	7,346,044	3,804,094	6,778,706	1,865,482	8,765,942	385,442	-8,765,942	-	20,179,768
Profit from external customer ("-" for losses)	211,670	47,825	295,046	-93,014	-	15,574	-	-	477,101
Inter-segment profit	-	-	-	-	1,128,943	-	-	-33,477	1,095,466
Reportable segments profit ("-" for losses)	211,670	47,825	295,046	-93,014	1,128,943	15,574	-	-33,477	1,572,567
Other material items:									
— Depreciation & amortisation	59,917	18,150	35,809	13,899	140,182	96,642	-	32,897	397,496
— Impairment of fixed assets	370	-	-	71	4,412	432	-	-	5,285
— Write-down of inventories	-	-	-	1,093	-	6,344	-	-	7,437
— Reportable segments assets	580,355	185,513	571,201	176,644	984,338	1,183,895	-	1,486,611	5,168,557

# Notes to the Financial Statements (Continued)

*(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))*

*(Expressed in thousands of Renminbi yuan unless otherwise indicated)*

## 8 OTHER SIGNIFICANT MATTERS (Continued)

### (1) Segment reporting (Continued)

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.

### (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 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.

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 doubtful debts and actual losses have been within management's expectations.

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

# Notes to the Financial Statements (Continued)

*(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))*

*(Expressed in thousands of Renminbi yuan unless otherwise indicated)*

## 8 OTHER SIGNIFICANT MATTERS (Continued)

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

#### (a) *Credit Risk* (Continued)

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 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, 44.02% (2011: 54.88%) of the total accounts receivable were due from the five largest customers of the Company. In addition, receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. The 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 and its individual subsidiaries are responsible for their own cash management, including short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's board when the borrowings exceed certain predetermined levels of authority. 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.

# Notes to the Financial Statements (Continued)

*(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))*

*(Expressed in thousands of Renminbi yuan unless otherwise indicated)*

## 8 OTHER SIGNIFICANT MATTERS (Continued)

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

#### (b) *Liquidity Risk* (Continued)

The following tables show the remaining contractual maturities at the balance sheet date of the Company's financial assets and financial liabilities, which are based on contractual cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Company can be required to pay:

Item	2012 Contractual undiscounted cash flow within 1 year or on demand	Carrying amount at balance sheet date
Financial assets		
Cash at bank and on hand	162,392	162,027
Bills receivable	2,092,377	2,092,377
Accounts receivable and other receivables	160,109	160,109
Sub-total	2,414,878	2,414,513
Financial liabilities		
Short-term loans	-415,114	-405,000
Accounts payable and other payables	-1,779,853	-1,779,853
Sub-total	-2,194,967	-2,184,853
Total	219,911	229,660

# Notes to the Financial Statements (Continued)

*(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))*

*(Expressed in thousands of Renminbi yuan unless otherwise indicated)*

## 8 OTHER SIGNIFICANT MATTERS (Continued)

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

#### (b) *Liquidity Risk* (Continued)

Item	2011 Contractual undiscounted cash flow within 1 year or on demand	Carrying amount at balance sheet date
Financial assets		
Cash at bank and on hand	1,551,776	1,541,821
Bills receivable	2,236,236	2,236,236
Accounts receivable and other receivables	116,386	116,386
Available-for-sale financial assets	204,740	200,000
Sub-total	4,109,138	4,094,443
Financial liabilities		
Accounts payable and other payables	-1,982,754	-1,982,754
Sub-total	-1,982,754	-1,982,754
Total	2,126,384	2,111,689



# Notes to the Financial Statements (Continued)

*(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))*

*(Expressed in thousands of Renminbi yuan unless otherwise indicated)*

## 8 OTHER SIGNIFICANT MATTERS (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 31 December, The Company held the following interest-bearing financial instruments:

Fixed rate instruments:

Item	2012		2011	
	Annual interest rate	Amount	Annual interest rate	Amount
Financial assets				
— Cash at bank	2.86%	50,000	3.10%–3.30%	1,245,000
Financial liabilities				
— Short-term loans	5.04%–5.32%	405,000	–	–

Variable rate instruments:

Item	2012		2011	
	Annual interest rate	Amount	Annual interest rate	Amount
Financial assets				
— Cash at bank	0.35%	111,999	0.50%–1.49%	296,800

#### (ii) Sensitivity analysis

As at 31 December 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 RMB1,120,000 (2011: RMB2,968,000), and decrease/increase net losses by RMB1,120,000 (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 previous year.

# Notes to the Financial Statements (Continued)

*(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))*

*(Expressed in thousands of Renminbi yuan unless otherwise indicated)*

## 8 OTHER SIGNIFICANT MATTERS (Continued)

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

#### (d) Foreign currency risk

In respect of accounts receivables and payables denominated in foreign currencies other than the functional currency, the 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 31 December, 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	2012 USD	2011 USD
Cash at bank and on hand	239	246
Accounts receivable	86,401	65,133
Accounts payable	-812,503	-1,011,896
Net balance sheet exposure	<b>-725,863</b>	-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	
	2012	2011	2012	2011
USD	<b>6.313</b>	6.459	<b>6.286</b>	6.301

- (iii) Sensitivity analysis

Assuming all other risk variables remained constant and the related income tax impact was not considered, a 5% strengthening of Renminbi against the US dollar at 31 December would have increased shareholders' equity and decreased net loss/increase net profit 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 31 December 2012 USD	<b>36,290</b>	<b>36,290</b>
As at 31 December 2011 USD	47,326	47,326

A 5% weakening of the Renminbi against the US dollar at 31 December would have had the equal but opposite effect on them to the amounts shown above, on the basis that all other variables remained constant.

The sensitivity analysis above assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the 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.

# Notes to the Financial Statements (Continued)

*(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))*

*(Expressed in thousands of Renminbi yuan unless otherwise indicated)*

## 8 OTHER SIGNIFICANT MATTERS (Continued)

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

#### (e) Fair values

##### (i) Financial instruments carried at fair value

The following table presents the carrying value of financial instruments measured at fair value as at 31 December 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).

As at 31 December 2012, there were no financial instruments carried at fair value. As at 31 December 2011, the carrying value of available-for-sale financial assets held by the Company is determined on the basis of input of level 2.

During the year ended 31 December 2012, there were no significant transfers between instruments in Level 1 and Level 2.

During the year ended 31 December 2012, there were no changes in valuation technique used in estimation of fair value of the Company's financial instruments.

##### (ii) Fair value of other financial instruments (carried at other than fair value)

All financial instruments are carried at amounts not materially different from their fair value as at 31 December 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 values of financial assets, financial liabilities and items set out in 8(2)(e) above that measured at fair value on the balance sheet date.

##### (i) Debts and investment funds

Fair value is based on quoted market prices at the balance sheet date for financial assets held for trading (excluding derivatives) if there is an active market. If an active market does not exist for available-for-sale financial asset, the fair value is determined using valuation techniques.

##### (ii) Receivables

The fair value is estimated as the present value of the future cash flows, discounted at the market interest rates at the balance sheet date.

##### (iii) Loans

The fair value is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date.

## Notes to the Financial Statements (Continued)

*(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))*

*(Expressed in thousands of Renminbi yuan unless otherwise indicated)*

### 8 OTHER SIGNIFICANT MATTERS (Continued)

#### (3) Assets measured at fair value

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

### 9 COMPARATIVE FIGURES

As a result of the merger of the Company's sole subsidiary YCFC Jingwei Fibre Company Limited with the Company on 28 December 2011, the Company had no subsidiary during the year ended 31 December 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.

# Supplementary information

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

(Expressed in thousands of Renminbi yuan unless otherwise indicated)

## 1 EXTRAORDINARY GAIN AND LOSS IN 2012

Item	Amount	Note
(1) Gains on disposal of non-current assets	12,104	Gains on disposal of fixed assets
(2) Employee reduction expenses	-578	Compensation paid for dismissing the labor contract
(3) Government grants recognised in 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)	1,857	Government grants received
(4) Investment income on disposal of financial assets	6,751	Recognition of gains on disposal of investment
(5) Other non-operating income and expenses besides items above	8,488	
(6) Income tax effect	<u>-7,156</u>	
Total	<u>21,466</u>	

Note: The extraordinary gain and loss items listed above are presented in the amount before taxation.

## Supplementary information (Continued)

*(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))*

*(Expressed in thousands of Renminbi yuan unless otherwise indicated)*

### 2 DIFFERENCES IN THE FINANCIAL STATEMENTS PREPARED UNDER DIFFERENT ACCOUNTING STANDARDS

The differences between the financial statements prepared under the International Financial Reporting Standard (“IFRS”) and PRC accounting standards (“PRC GAAP”) on net profit (“-” for losses) and net assets are as follows:

	Net profit		Net assets	
	2012	2011	2012	2011
Amounts under PRC GAAP	<b>-361,367</b>	839,043	<b>8,549,338</b>	9,030,625
Adjustments under IFRS:				
a. Government grants	<b>2,831</b>	944	<b>-35,855</b>	-38,686
b. Specific reserve	<b>80</b>	-755	-	-
c. Tax effects of the above adjustments	-	-	-	-
Amounts under IFRS	<b>-358,456</b>	839,232	<b>8,513,483</b>	8,991,939

**(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 of fixed asset is offset against the specific reserves and the same amount of accumulated depreciation is recognised, then the fixed asset is no longer depreciated in its useful life.

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

## Supplementary information (Continued)

*(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))*

*(Expressed in thousands of Renminbi yuan unless otherwise indicated)*

### 3 RETURN ON NET ASSETS AND EARNINGS PER SHARE (“-” for losses)

In accordance with “Regulation on the Preparation of Information Disclosures by Companies Issuing Public Shares, No.9 – Calculation and Disclosure of the Return on Net Assets and Earnings Per Share” (2010 Revised) issued by the CSRC, the Company’s return on net assets and earnings per share (“-” for losses) are summarised as follows:

Profit for the current year	Weighted average return on net assets (%)	Basic earnings per share	Diluted earnings per share
Net profit attributable to the Company’s ordinary equity shareholders (“-” for losses)	-0.041	RMB-0.090	RMB-0.090
Net profit deducted extraordinary gain and loss attributable to the Company’s ordinary equity shareholders (“-” for losses)	-0.044	RMB-0.096	RMB-0.096

## Documents Available for Inspection

The following documents are available for inspection at the legal address of the Company from 26 March 2013 (Tuesday) upon requests by related supervisory institute and shareholders in accordance with the Articles of Association of the Company and relevant regulations:

1. The original copy of the annual report signed by the Chairman and the General Manager of the Company;
2. The financial statements signed by the Chairman, General Manager, Chief Financial Officer and the Head of the Accounting Department;
3. The original reports of the auditors and the accounts prepared in accordance with the PRC Accounting Standards for Business Enterprises signed by the Certified Public Accountants, registered the PRC under the seal of KPMG Huazhen(Special General Partnership);

The original reports of the auditors and the financial statements prepared in accordance with IFRSs signed by KPMG;

4. Documents and Announcements disclosed in the report period;
5. The Article of Associations of the Company;
6. Copies of the Annual Reports and Interim Reports from 1993 to 2012 and the First Quarter Report and the Third Quarter Report from 2002 to 2012 of the Company.

*This Annual Report has been drafted in both English and Chinese. In the event that different interpretation occurs, with the exception of the financial statements prepared in accordance with IFRSs and the auditors' report thereon, the Chinese version is considered to be more accurate.*