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 2013

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 2013 Annual Report has been approved at the thirteenth meeting of the seventh session of the Board. Nine Directors attended the meeting. Guan Diao-sheng, Director, Yang Xiong-sheng, Independent Director and Qiao Xu, Independent Director, were absent for business affairs, and appointed Shen Xi-jun, Director, Shi Zhen-hua, Independent Director, and Chen Fang-zheng, Independent Director as their proxies respectively.

The financial statements of the Company for 2013, which have been prepared in accordance with the PRC Accounting Standards for Business Enterprises and International Financial Reporting Standards have been audited by PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) and PricewaterhouseCoopers, 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 Mr. Wang Jun-song, Vice Director 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 2013 in accordance with the Company Law and the Articles of Association of the Company.

The 2013 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.

Contents

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 (中國中信集團有限公司)
"CITIC Limited"	CITIC Limited, a substantial shareholder holding 17.25% 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

"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 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
"Sinopec Asset Management"	Sinopec Asset and Management Corporation (中國石化集團資產經營管理有限公司), a subsidiary of CPC
"Yihua Toray"	Yihua Toray Polyester Film Co., Ltd. (儀化東麗聚酯薄膜有限公司)
"Yihua Bonar"	Yihua Bonar Yarns and Fabrics Co., Ltd. (儀化博納織物有限公司)

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 2013, the Company ranks the eighth largest polyester manufacturer in the world. (Source: PCI Magazine 2013)

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 material PTA. Its principal activities include production and distribution of chemical fibre and petrochemical products, production of raw and auxiliary 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. By end of 2013, the Company owned polymerization facilities with an annual capacity of 2,180,000 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 883,000 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 economies of scale.

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

5. Domestic Newspapers disclosing information:	China Securities, Shanghai Securities News, Securities Times
Internet website designated by HKSE to disclose information:	http://www.hkexnews.hk
Internet website designated by CSRC to publish the Annual Report:	http://www.sse.com.cn
Place where the Annual Report available for inspection:	Board Secretary Office Sinopec Yizheng Chemical Fibre Company Limited

6. Places of listing, names and codes of the stock:

H share	*A share*
— HKSE	— SSE
— Stock name: Yizheng Chemical	— Stock name: Yizheng Chemical
— Stock code: 1033	— Stock name before altering: S Yihua
	— Stock code: 600871

7. Other relevant information:

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:	PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership)
Address:	11th Floor, PricewaterhouseCoopers 2 Corporate Avenue, 202 Hu Bin Road Huangpu District, Shanghai, the PRC
Signing accountants:	Wang Chao, Yang Xu-dong
Name of Overseas Auditors:	PricewaterhouseCoopers
Address:	22nd, Prince's Building, Central, Hong Kong

Sponsor Institution performing duties of continuous supervision and guidance during the reporting period:

Name:	Hai Tong Securities Co., Ltd.
Address:	689 Guangdong Road, Shanghai, PRC
The signing sponsor representative:	Yang Nan
The continuous inspection period:	From 7 June 2013 to 20 August 2016

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:	20/F, Fortune Financial Center 5 Dong San Huan Central Road Chaoyang District, Beijing

Share registrars and transfer office:

"H" Share:	Hong Kong Registrars Limited
Address:	Rooms 1712–1716, 17th Floor, Hopewell Centre 183 Queen's Roads East, Hong Kong
"A" Share:	China Securities Registration and Clearing Corporation Limited Shanghai Branch
Address:	36th Floor, China Insurance Building 166 Lujiazui Eastern Road Pudong New District, Shanghai

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				
	2013	2012	2011	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (as restated)	RMB'000 (as restated)
Turnover	**17,677,171**	16,987,916	20,179,768	16,348,366	13,225,029
(Loss)/profit before taxation	**(1,211,469)**	(536,627)	1,042,190	1,140,343	382,018
Income tax expense/(credit)	**238,550**	(178,171)	202,958	(86,954)	–
(Loss)/profit attributable to equity shareholders of the Company	**(1,450,019)**	(358,456)	839,232	1,227,297	382,018
Total assets	**10,629,304**	11,138,204	11,449,599	10,531,202	9,145,813
Total liabilities	**3,565,840**	2,624,721	2,457,660	2,258,495	2,100,403
Total equity attributable to equity shareholders of the Company	**7,063,464**	8,513,483	8,991,939	8,272,707	7,045,410
Basic and diluted (loss)/earnings per share*	**RMB(0.242)**	RMB(0.060)	RMB0.140	RMB0.205	RMB0.064
Net assets per share*	**RMB1.177**	RMB1.419	RMB1.499	RMB1.379	RMB1.174
Ratio of shareholders' equity	**66.45%**	76.43%	78.53%	78.55%	77.03%
Return on net assets	**(20.53%)**	(4.21%)	9.33%	14.84%	5.42%

**Note: The Company's total shares have been increased due to issue of bonus shares by way of capitalization of common reserves in the second half of 2013. The data in prior years have been retrospectively adjusted in accordance with the requirement of accounting standards.*

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 2013	For the year 2012	Year-on-year change (%)	For the year 2011
Operating income	**17,677,171**	16,987,916	4.1	20,179,768
Operating profit ("-" for losses)	**-1,175,631**	-561,987	Not applicable	979,056
Profit before income tax ("-" for losses)	**-1,215,667**	-539,538	Not applicable	1,042,001
Net profit attributable to equity shareholders of the Company ("-" for losses)	**-1,454,217**	-361,367	Not applicable	839,043
Net profit deducted extraordinary gain and loss attributable to equity shareholders of the Company ("-" for losses)	**-1,413,850**	-382,833	Not applicable	778,080
Net cash inflow from operating activities ("-" for outflow)	**-1,073,285**	-967,719	Not applicable	-270,247

	As at the end of 2013	As at the end of 2012	Year-on-year change (%)	As at the end of 2011
Total assets	**10,629,304**	11,138,204	-4.6	11,449,599
Total liabilities	**3,532,816**	2,588,866	36.5	2,418,974
Total equity attributable to equity shareholders of the Company	**7,096,488**	8,549,338	-17.0	9,030,625

*1.2.2 Key financial indicators**

	For the year 2013	For the year 2012	Year-on-year change (%)	For the year 2011
Basic earnings per share (RMB) ("-" for losses)	**-0.242**	-0.060	Not applicable	0.140
Diluted earnings per share (RMB) ("-" for losses)	**-0.242**	-0.060	Not applicable	0.140
Basic earnings per share net of extraordinary gain and loss (RMB) ("-" for losses)	**-0.236**	-0.064	Not applicable	0.130
Weighted average return on net assets (%)	**-18.59**	-4.11	Decrease 14.48 percentage points	9.68
Weighted average return on net assets net of extraordinary gain and loss (%)	**-18.07**	-4.36	Decrease 13.71 percentage points	8.97
Net cash inflow from operating activities per share (RMB) ("-" for outflow)	**-0.18**	-0.16	Not applicable	-0.05

	As at the end of 2013	As at the end of 2012	Year-on-year change (%)	As at the end of 2011
Net assets per share attributable to equity shareholders of the Company (RMB)	**1.183**	1.425	-17.0	1.505
Ratio of total liabilities to total assets (%)	**33.24**	23.24	Increase 10.0 percentage points	21.13

**Note: The Company's total shares have been increased due to issue of bonus shares by way of capitalization of common reserves in the second half of 2013. The data in prior years have been retrospectively adjusted in accordance with the requirement of accounting standards.*

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	2013	2012	2011
Disposal of non-current assets	**-21,984**	12,104	25,427
Government grants recognised in profit or loss during the year	**3,770**	1,857	4,503
Employee reduction expenses	**–**	-578	-93
Investments income from disposal of financial assets	**–**	6,751	16,557
Gain on changes in fair value of investments held for trading	**–**	–	-310
Other non-operating income and expenses excluding the aforesaid items	**-21,822**	8,488	33,015
Tax effect	**-331**	-7,156	-18,136
Total	**-40,367**	21,466	60,963

3. 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 profit attributable to equity shareholders of the Company ("-" for losses)		Total equity attributable to equity shareholders of the Company	
	2013	2012	**2013**	2012
	RMB '000	RMB '000	**RMB '000**	RMB '000
PRC ASBE	**-1,454,217**	-361,367	**7,096,488**	8,549,338
IFRSs	**-1,450,019**	-358,456	**7,063,464**	8,513,483

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

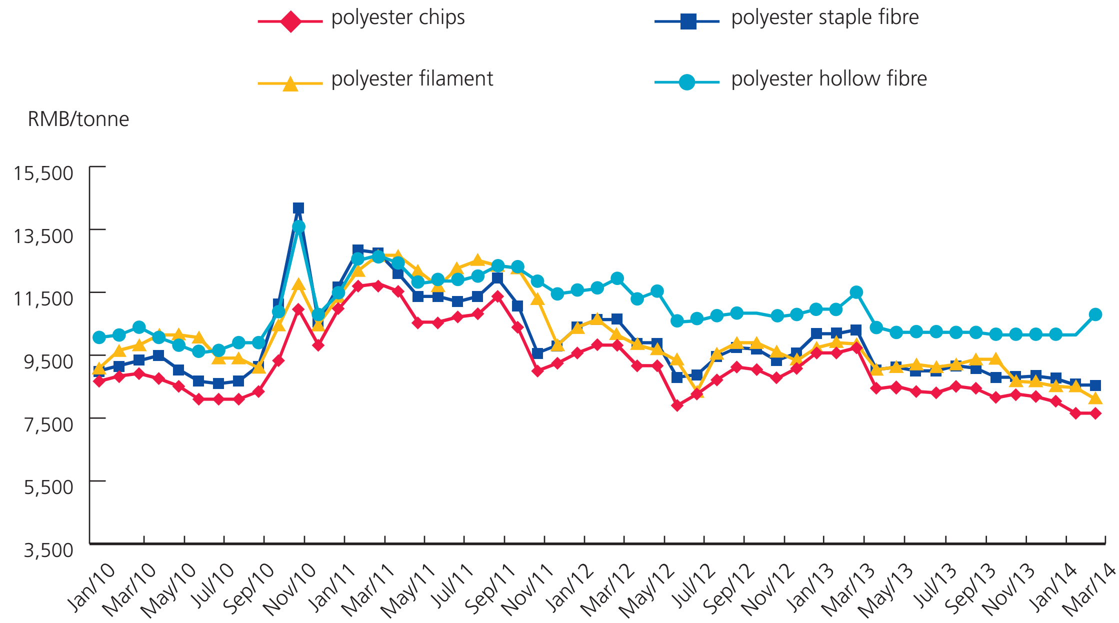
In 2013, the Company's turnover was RMB17,677,171,000 (2012: RMB16,987,916,000), increasing by 4.1 per cent. Affected by insufficient polyester market demand, overcapacity of polyester products, drastic shrinkage in profit margins and other factors, the loss attributable to equity shareholders of the Company was RMB1,450,019,000, and basic loss per share was RMB0.242; while the loss attributable to equity shareholders of the Company was RMB358,456,000 and basic loss per share was RMB0.060 in 2012.

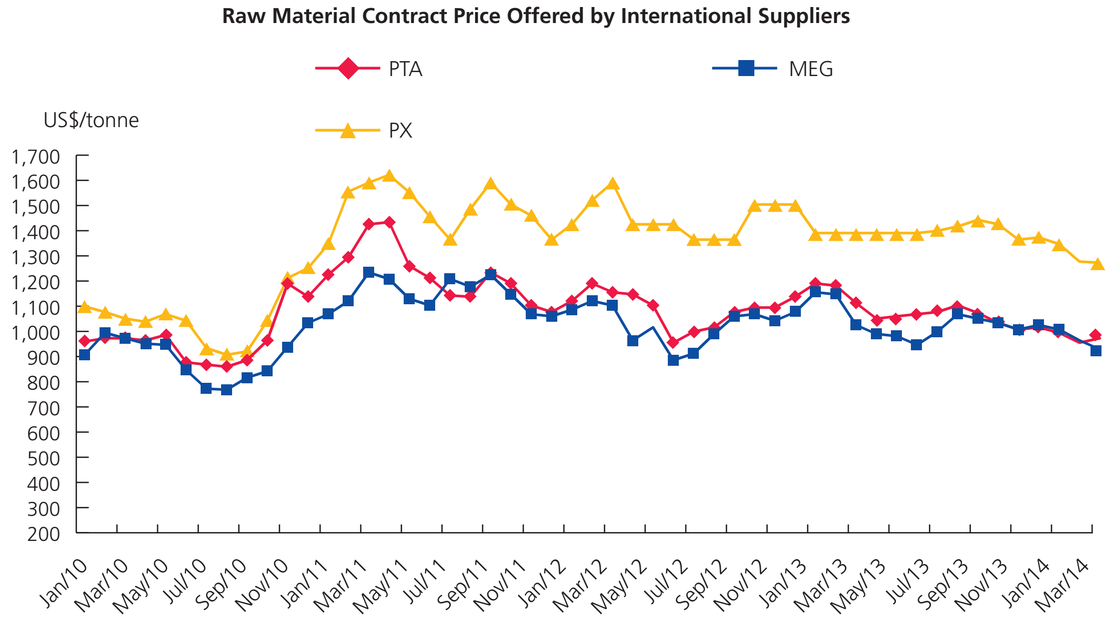
The Board resolved that no final cash dividend would be paid for the year ending 31 December 2013 (No cash dividend paid for the year 2012 either).

2. MARKET REVIEW

In 2013, under the environment that the recovery of the world economy was weak and China was undergoing transition of its economic structure, the market demand of chemical and chemical fibres continued to remain weak. As a consequence, prices of domestic polyester products dropped significantly compared with last year and its profit margins contracted sharply. Meanwhile, the increase of production capacity of PX and MEG was comparatively lagging behind, consequently the profits of polyester industry chain continued to move up to the upstream. Furthermore, owing to the rapid increase in domestic polyester production capacity, the contradiction of domestic polyester overcapacity became more prominent, competition in the polyester industry was further intensified.

Product Prices Quoted by the Company (Excluding VAT)





In 2013, due to the significant increase in domestic polyester production capacity, the newly-added polyester production capacity was almost 3.88 million tonnes and the total polyester production capacity amounted to 42.22 million tonnes by end of December 2013. The volume of the total domestic supply of polyester fibre in 2013 amounted to 34,229,400 tonnes, an increase of 9.3 per cent over that of 2012, of the total volume, the domestic production volume increased by 9.3 per cent as compared with its amounts in 2012. Meanwhile, the growth of domestic demand for polyester fibre continued to slow down. The total domestic consumption volume of polyester fibre amounted to 30,879,000 tonnes, an increase of 6.6 per cent over the 2012 amount, which was 2.4 percentage point lower than that of last year. Nevertheless, the export volume of polyester fibre increased significantly, a 15.7 per cent up the 2012 figure.

	Domestic supply and demand of polyester fibre								
	Polyester filament			Polyester staple fibre			Polyester fibre		
	2013 '000 tonnes	2012 '000 tonnes	+/(-) (%)	**2013 '000 tonnes**	2012 '000 tonnes	+/(-) (%)	**2013 '000 tonnes**	2012 '000 tonnes	+/(-) (%)
Production volume	**23,551.6**	21,552.1	9.3	**9,854.8**	9,018.2	9.3	**33,406.4**	30,570.3	9.3
Import volume	**116.6**	126.0	(7.5)	**128.4**	112.4	14.2	**245.0**	238.4	2.8
Export volume	**1,308.5**	1,095.1	19.5	**733.9**	670.7	9.4	**2,042.4**	1,765.8	15.7
Net import	**(1,191.9)**	(969.1)	23.0	**(605.5)**	(558.3)	8.5	**(1,797.4)**	(1,527.4)	17.7
Inventories at beginning of the year	**353.0**	305.0	15.7	**225.0**	203.0	10.8	**578.0**	508.0	13.8
Year-end inventories	**902.0**	353.0	155.5	**406.0**	225.0	80.4	**1,308.0**	578.0	126.3
Total supply volume	**24,021.2**	21,983.1	9.3	**10,208.2**	9,333.6	9.4	**34,229.4**	31,316.7	9.3
Total consumption volume	**21,810.7**	20,535.0	6.2	**9,068.3**	8,437.9	7.5	**30,879.0**	28,972.9	6.6

Source: *The Chemical Fibre Association of China*

3. PRODUCTION AND OPERATION REVIEW

In 2013, facing the hard operating condition of falling product prices and weak demand, the Company adhered to the policy of market orientation, centered around effectiveness, rigorously enforced fine management and made all-out efforts to organize production and operation. It also strengthened the control over costs and expenditures, optimized product structure, and endeavored to reduce the losses and improve efficiency.

(1) Production and Marketing

In 2013, the Company's production facilities maintained safe and stable operation, and the production volume of main products steadily increased. The total production volume of polyester products amounted to 2,410,760 tonnes, an increase of 9.7 per cent compared with the 2,197,022 tonnes produced in 2012. The utilisation rate of polyester polymerization capacity reached 88.8 per cent. The total production volume of PTA amounted to 1,058,153 tonnes, an increase of 1.3 per cent compared with the 1,044,223 tonnes produced in 2012, achieving the highest historical level. In 2013, facing the austere situation of weak market demand, intensifying market competition and new facilities being put into production, the company vigorously grasped the market trend, continued to optimize its production capacity, facility maintenance arrangement as well as product structure, and strengthened its efforts in customer service. The Company's total sales volume of polyester products amounted to 1,919,029 tonnes in 2013, an increase of 10.4 per cent compared with the 1,737,605 tonnes sold in 2012. Excluding self-consumption volume and other factors, the ratio of sales to production reached 99.1 per cent. In 2013, the Company's export volume of polyester products amounted to 65,992 tonnes, a decrease of 4.9 per cent compared with the 69,366 tonnes for 2012.

(2) Cost control

In 2013, the weighted average price of the Company's polyester products (excluding VAT) decreased by 5.1 per cent compared with last year, while the weighted average purchase prices of the Company's principal outsourced raw materials, such as PTA, MEG and PX, decreased by 2.9 per cent. The Company strengthened 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 2.7 per cent, and total COD discharge reduced by 9.7 per cent year-on-year. Various cost reduction and expenditure control measures were remarkably fulfilled by strictly implementing overall target cost management. Due to the increase in freight and insurance premium brought by the increased sales volume, the Company's selling expenses were 8.4 per cent higher than the 2012 figure. By implementing the cost & expenditure reduction measures, the company's administrative expenses amounted to RMB519,684,000 in 2013, a slight increase compared with last year. Due to the remarkable rising of interest on borrowings, the financial expenses in 2013 amounted to RMB5,236,000, while the financial net income in 2012 was RMB30,966,000.

(3) R&D

In 2013, the Company continued to step up efforts in research and development. As a "propeller" for growth, scientific and technological innovation led to obvious achievements. 12 new product development projects and 13 new product industrialization projects were completed. In 2013, 27 patent applications were filed and 14 patent rights were granted. The environment-friendly titanium-catalyzed PET has been successfully tried and accepted by the customers. With the low-melting polyester production technology essentially mastered, the research and development for the industrialization of super cotton-like staple fibre has achieved positive progress. In 2013, the Company achieved closer integration of production, marketing and research operations, accelerated the adjustment of product structure for more high value added products. The Company's total production volume of specialized polyester chips amounted to 1,096,064 tonnes; the specialized rate was 92.7 per cent, 5.9 percentage points higher than that of last year. The total production volume of differentiated polyester fibre amounted to 615,381 tonnes and the differentiated rate of polyester fibre was 77.1 per cent, 1.0 percentage points lower than that of last year.

(4) Internal Reform and Management

In 2013, the Company (1) continued to deepen enterprise management to effectively upgrade its management level and regulated "three Basics" management (basic level construction, basic work and basic skill training) to continuously push forward the standardization of basic level management; (2) intensified supervision over the implementation of rules and regulations, improved the workflow and evaluation criteria, optimized performance evaluation indicator system and the feedback mechanism for continuous enhancement of the management level; (3) strengthened quality management to maintain a comprehensive premium grade rate of more than 99.0 per cent for main products; (4) proceeded to deepen comprehensive budgeting management and overall target cost management and strictly controlled the cost and expenses within the budgeted targets by implementing the cost reduction measures.

(5) Capital expenditure

In 2013, the Company's total capital expenditure amounted to RMB488,650,000. The development ideas of the Company were specified in clearer and more definite way and the project construction of the company was advancing in an orderly and steady manner. The 100,000 tonnes/year 1, 4-Butanediol project, with its entire process flow being unchoked and circulated, has yielded qualified products in May of 2013, and currently the project is under optimization and improvement. The specialized polyester chip project with an annual capacity of 400,000 tonnes (refer in particular to the fifteenth unit) and the differentiated staple fibre project with an annual capacity of 100,000 tonnes (refer in particular to the ninth unit) have been completed construction and put into production in May and August of 2013 respectively, and the products have already being successfully put on the market. The de-nitration and dust extraction project of the Company's thermoelectric production center has also been launched and is expected to complete renovation by August of 2014.

4. BUSINESS PROSPECTS AND WORK PLAN

(1) Market Analysis

In 2014, the domestic polyester industry is still facing difficult operating situation. Firstly, the world economy will continue to maintain a slowly recovering trend, and affected by its structural transformation, the Chinese economy is still under the pressure of ongoing downturn. Secondly, due to the tight supply of polyester raw material MEG, profits of polyester industry chain continue to move up to the upstream. Thirdly, the newly added domestic polyester capacity will further deteriorate the overcapacity of polyester products and intensify industrial competition. Nevertheless, the following advantages are existing in the meantime: Firstly, the fundamentals of positive economic development in China remain unchanged, and China is now vigorously promoting new urbanization construction and gradually increase the expenditures in people's livelihood, the domestic demand for the polyester products will be effectively stimulated to maintain steady rising. Secondly, Chinese textile products and garment export is maintaining continuous and restorative growth, and export of polyester products also maintains a rapid growth trend. Thirdly, along with the increasing development of differentiated, high performance and high value-added polyester products, its application fields are further enlarged, bringing about more opportunities for the development of polyester industry.

(2) Business strategy

In 2014, the Company will adhere to the policy of market orientation and center around effectiveness, deepen its internal reform and innovation, vigorously improve safety and environment protection, strengthen its fine management, optimize the adjustment of product structure, promote scientific and technological innovation and reduce cost and expenditures to push forward its sustainable and effective development. To achieve these targets, the Company will focus on the following priorities in 2014:

I. *Keep abreast of the market for overall optimization of production & marketing and continuous improvement of business performance*

The Company will (1) strengthen the market analysis, grasp the market trend to dynamically adjust its production and operation as well as its product structure for an overall optimization of important links including supply, production, marketing and inventory, etc; (2) actively explore the market and propel the expansion of new application fields of the products so as to realize full sales of all manufactured products for better economic benefits; (3) enhance customer management and improve service level to achieve customer satisfaction; (4) make adequate preparations for the pre-sales work of newly launched 1,4-butanediol project and strive to ensure the balance between production and sales; (5) strengthen the philosophy of supplying in a safe, just-in-time and economic way, optimize the rythme of raw material procurement to guarantee the supply with reduced cost; (6) reinforce material reserves management, prevent and control the increase of overstocked materials. The Company plans to sell 2,101,000 tonnes of polyester products, 57,000 tonnes of 1, 4-butanediol and its related products and 1,200 tonnes of high performance PE fibre respectively to achieve 100 per cent of sales-to-production ratio.

II. *Pay adequate attention to safety and environmental protection to maintain safe, stable and long-term operation of facilities*

The Company will fully implement HSE management system, normalize the locating and eliminating of hidden dangers with all staff participation, amend and consummate various contingency plans at all levels to ensure safe and stable production. The monitoring of the operation of key facilities and critical parts will be strengthened to avoid non-planned shutdown caused by operational 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 manufacture readily marketable products with high added value, contributing to the adding of profits. The improvement of quality awareness, quality management system and implementation of quality management responsibility will be further propelled to provide high quality products and services to fully suit customer's demands. In 2014, the Company plans to produce 2,571,000 tonnes of polyester products of which the self-consumption volume is 470,000 tonnes, 1,029,000 tonnes of PTA, 57,000 tonnes of 1,4-butanediol and its related products, and 1,200 tonnes of high performance PE fibre respectively.

III. *Intensify technological innovation and promote transitional development*

The Company will vigorously promote technological innovation and give full play to the role of technological innovation as a "*new propeller*" for its structural transition and upgrading; push forward the upgrading of products according to market demand and reinforce its efforts in research and development, production and market exploitation of new products, so as to promote the integration of product development and market exploration in depth; continue to conduct technological development and renovation to elevate the technical level of facilities with emphases on accelerating the quality optimization of high performance PE fibre and industrialization process of aramid fibre, and actively intensify the basic and prospective research for the Company's sustainable development. In 2014, there are17 new product items planned for development and 15 product items planned for industrialization. The Company's projected production volume of differentiated fibre and specialized polyester chips for 2014 will be 642,000 tonnes and 1,192,000 tonnes, respectively, while the differentiated rates for polyester fibre and specialized rates for polyester chip products are expected to be 77.3 per cent and 92.4 per cent.

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

The Company will, in accordance with the requirement of strict management, focus on enhancing the employees' sense of responsibilities and their implementation capacity and give emphasis on "*three Basics*" (basic level construction, basic work and basic skill training) to consolidate the management foundations; improve the construction of system and procedures to form unified and standardized institutional system with clarified responsibility and clearly-established procedure; continue to improve performance assessment to implement effectiveness-oriented assessment and distribution mechanism; intensify overall target cost management and carry out various measures including reducing consumption of materials, energy and auxiliary materials and cutting down cost and expenditures to achieve the annual cost reduction targets; further propel energy conservation and emission reduction and adhere to the concept of green, low carbon and sustainable development to fulfill its energy efficiency goals. In 2014, the projected annual comprehensive energy consumption of main products will decrease by 3.0 per cent compared with last year, and the total industrial water consumption will be controlled under 24,100,000 tonnes and total COD of discharged sewage under 500 tonnes.

V. *Propel effective development and improve quality of development*

In 2014, the company will accelerate its structural adjustment and actively seek differentiation advantages with the goal of improving the added value of its products and establishing competitive advantages of its industry chain. It will organize system optimization and improvement of 1, 4-butanediol project with an annual capacity of 100,000 tonnes to ensure a successful re-start of the production facility in May of 2014 and realize stable operation at full load as soon as possible. The company will also initiate the renovation project of super cotton-like staple fibre production lines with an annual capacity of 60,000 tonnes and aim to complete the project and successfully put it into operation in May of 2014, and in the mean time strengthen the market development supplemented by branding strategy, with improved product performance and added value. With the withdrawal of polyester filament yarn business being carried out correspondingly, the Company will speed up construction of the low melting point staple fibre project with an annual capacity of 40,000 tonnes by using its independent R&D technology, aiming to complete the project and successfully put it into operation by 2015. The construction of second phase high performance PE fibre project with an annual capacity of 3,000 tonnes will be launched with expectation of putting it into operation in second half of 2015.

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 2013, the Company adhered to the principles of market orientation and efficiency, scheduled production load and facility maintenance in reasonable and scientific ways, elevated the operation and stability levels of facilities, continued to optimize product structure to steadily increase the proportion of high value-added products. In 2013, with the Company's new facilities being put into operation in succession, the production volume of polyester products steadily increased. The total production volume of polyester products was 2,410,760 tonnes, representing an increase of 9.7 per cent as compared with that of 2,197,022 tonnes for last year. The average capacity utilization rate for polyester facilities reached 88.8 per cent. The total production volume of PTA amounted to 1,058,153 tonnes, an increase of 1.3 per cent as compared with that of 1,044,223 tonnes for last year. The average capacity utilization rate for PTA facilities reached 96.6 per cent.

Production volume

	For the year ended 31 December			
	2013		2012	
	Production volume (tonnes)	**Per cent in total production volume %**	Production volume (tonnes)	Per cent in total production volume %
Polyester products				
Polyester Chips	**1,184,337**	**49.1**	1,080,984	49.2
Bottle-grade polyester chips	**419,334**	**17.4**	396,984	18.1
Staple fibre	**636,048**	**26.4**	525,913	23.9
Hollow fibre	**71,254**	**3.0**	57,028	2.6
Filament	**99,787**	**4.1**	136,113	6.2
Total	**2,410,760**	**100.0**	2,197,022	100.0

In 2013, due to the constantly weak polyester market, the Company strengthened the linking-up between production and sales and intensified its efforts in customer service. The total sales volume of the polyester products was 1,919,029 tonnes, representing an increase of 10.4 per cent up the 1,737,605 tonnes sold in 2012. Excluding the self-consumed volume and other factors, the ratio of sales to production reached 99.1 per cent. The export sales volume of the polyester products was 65,992 tonnes, representing a decrease of 4.9 per cent compared with the 69,366 tonnes sold in 2012. In 2013, the weighted average prices (excluding VAT) of the Company's polyester products decreased from RMB9,350 per tonne for last year to RMB8,872 per tonne, representing a 5.1 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.

Sales volume

	For the year ended 31 December			
	2013		2012	
	Sales volume (tonnes)	**Per cent in total sales volume %**	Sales volume (tonnes)	Per cent in total sales volume %
Polyster products				
Polyester chips	**744,185**	**38.8**	653,456	37.6
Bottle-grade polyester chips	**420,059**	**21.9**	396,238	22.8
Staple fibre	**620,109**	**32.3**	530,473	30.5
Hollow fibre	**67,064**	**3.5**	56,788	3.3
Filament	**67,612**	**3.5**	100,650	5.8
Total	**1,919,029**	**100.0**	1,737,605	100.0

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

	For the year ended 31 December		
	2013	2012	Change %
Polyester products			
Polyester chips	**8,405**	8,832	-4.8
Bottle-grade polyester chips	**8,753**	9,097	-3.8
Staple fibre	**9,185**	9,784	-6.1
Hollow fibre	**10,800**	11,450	-5.7
Filament	**9,963**	10,235	-2.7
Weighted average price	**8,872**	9,350	-5.1

Turnover

	For the year ended 31 December			
	2013		2012	
	Turnover RMB'000	**Per cent in Turnover %**	Turnover RMB'000	Per cent in Turnover %
Polyester products				
Polyester chips	**6,254,560**	**35.4**	5,771,512	34.0
Bottle-grade polyester chips	**3,676,645**	**20.8**	3,604,629	21.2
Staple fibre	**5,695,650**	**32.2**	5,189,987	30.6
Hollow fibre	**724,284**	**4.1**	650,209	3.8
Filament	**673,583**	**3.8**	1,030,131	6.1
Others	**652,449**	**3.7**	741,448	4.4
Total	**17,677,171**	**100.0**	16,987,916	100.0

In 2013, although the weighted average prices of polyester products (excluding VAT) decreased by 5.1 per cent compared with last year, the total sales volume of the polyester products increased by 10.4 per cent compared with last year, this made the Company achieve a turnover of RMB17,677,171,000, representing an increase of 4.1 per cent as compared with RMB16,987,916,000 for last year.

(2) Cost of sales

In 2013, the Company's cost of sales was RMB18,099,885,000, an increase of RMB1,231,214,000 up RMB16,868,671,000 for 2012, representing 102.4 per cent of turnover. The increase in cost of sales was mainly due to the increase in the costs of raw materials. Total costs of raw materials increased by RMB1,276,729,000, from RMB14,312,673,000 in 2012 to RMB15,589,402,000 in 2013, accounting for 86.1 per cent of the cost of sales in 2013. The increase in the total costs of raw materials was mainly due to the increase in polyester production volume, which further led to substantial increase in raw materials consumption. The Company's weighted average purchase prices of polyester raw materials decreased by 2.9 per cent as compared with last year. Of which, the average purchase costs of PTA and PX decreased by 4.5 per cent and 1.8 per cent respectively, while the average purchase cost of MEG increased by 1.1 per cent as compared with last year.

In 2013, although the turnover increased by 4.1 per cent as compared with last year, cost of sales increased by 7.3 per cent as compared with last year, this made the Company suffer a gross loss of RMB422,714,000, while the Company's gross profit for 2012 was RMB119,245,000.

(3) Selling, administrative and financial expenses

	For the year ended 31 December		
	2013	2012	Change
	RMB'000	RMB'000	%
Selling expenses	**226,661**	209,179	8.4
Administrative expenses	**519,684**	513,169	1.3
Financial expenses/(net income)	**5,236**	(30,966)	Not applicable
Total	**751,581**	691,382	8.7

In 2013, due to the increase in freight and insurance premium resulting from the rising in the sales volume of products, the Company's selling expenses increased by RMB17,482,000 as compared with last year. The Company's administrative expenses increased by RMB6,515,000 up last year's figure. Due to the sharp rise in interest on borrowings, the financial expenses increased by RMB36,202,000 as compared with last year. The total increase in selling expenses, administrative expenses and financial expenses was 8.7 per cent from that of 2012.

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

	For the year ended 31 December		
	2013	2012	Change
	RMB'000	RMB'000	%
Operating (loss)/profit	**(1,206,264)**	(577,823)	Not applicable
(Loss)/profit before taxation	**(1,211,469)**	(536,627)	Not applicable
Income tax expense/(credit)	**238,550**	(178,171)	Not applicable
(Loss)/profit attributable to equity shareholders of the Company	**(1,450,019)**	(358,456)	Not applicable
(Loss)/Earnings per share (in RMB)	**(0.242)**	(0.060)	Not applicable

In 2013, though the Company has made great effort in strengthening fine management, optimizing production and operations, endeavoring to further reduce costs and expenses and optimizing the products structure, subjected to the combined influences of sustained weak polyester market demand, continuous release of newly added polyester capacity and substantial decrease in profit margin of polyester products, the Company's loss before taxation was RMB1,211,469,000, while the loss before taxation in 2012 was RMB536,627,000. In 2013, due to the write-off of deferred income tax assets arising from deductible losses incurred in prior years, the income tax expense amounted to RMB238,550,000, while the credit item of income tax in 2012 was RMB178,171,000. In 2013 the loss attributable to equity shareholders of the Company was RMB1,450,019,000, while the amount in 2012 was RMB358,456,000.

2. FINANCIAL ANALYSIS

The Company's primary sources of funds, coming from operating activities and short-term borrowings etc., are primarily used in operating activities, capital expenditures and repayment of short-term borrowings.

(1) Assets, liabilities and shareholders' equity analysis

	At 31 December 2013	At 31 December 2012	Change
	RMB'000	RMB'000	%
Total assets	**10,629,304**	11,138,204	-4.6
Current assets	**4,320,215**	4,578,490	-5.6
Non-current assets	**6,309,089**	6,559,714	-3.8
Total liabilities	**3,565,840**	2,624,721	35.9
Current liabilities	**3,504,507**	2,569,618	36.4
Non-current liabilities	**61,333**	55,103	11.3
Total equity attributable to equity shareholders of the Company	**7,063,464**	8,513,483	-17.0

In 2013, total assets were RMB10,629,304,000, representing a decrease of RMB508,900,000 from that as at the end of 2012, of which: Current assets were RMB4,320,215,000, representing a decrease of RMB258,275,000 from that as at the end of 2012. The decrease was mainly due to the decrease in inventories by RMB415,090,000 in 2013. Non-current assets were RMB6,309,089,000, representing a decrease of RMB250,625,000 from that as at the end of 2012, which was mainly due to the decrease in deferred tax assets by RMB238,256,000.

Total liabilities were RMB3,565,840,000, representing an increase of RMB941,119,000 from that as at the end of 2012, of which: Current liabilities were RMB3,504,507,000, an increase of RMB934,889,000 as compared with the end of 2012, which was mainly due to the increase of RMB1,197,907,000 in short-term borrowings. Non-current liabilities were RMB61,333,000, an increase of RMB6,230,000 compared with the end of 2012, which was mainly due to an increase of RMB6,230,000 in deferred income.

Total equity attributable to equity shareholders of the Company was RMB7,063,464,000, a decrease of RMB1,450,019,000 as compared with the end of 2012, mainly due to for the loss attributable to equity shareholders of the Company of RMB1,450,019,000 in 2013.

As at 31 December 2013, the ratio of total liabilities to total assets was 33.5 per cent, while the figure as at 31 December 2012 was 23.6 per cent.

(2) Cash flow analysis

The following table lists major items in the consolidated cash flow statement of the Company for the year 2013 and 2012.

Major items in cash flow statement	2013 RMB'000	2012 RMB'000
Net cash used in operating activities	**(1,129,599)**	(967,838)
Net cash used in investing activities	**(151,997)**	(661,956)
Net cash generated from financing activities	**1,201,656**	285,000
Net decrease in cash and cash equivalents	**(79,940)**	(1,344,794)
Foreign exchange gains	**3,710**	–
Cash and cash equivalents at the beginning of the year	**162,027**	1,506,821
Cash and cash equivalents at the end of the year	**85,797**	162,027

In 2013, the Company's net cash outflow from operating activities was RMB1,129,599,000, representing an increase of cash outflow by RMB161,761,000 as compared with last year. This was mainly due to the increase in the loss before taxation as compared with last year.

In 2013, the Company's net cash outflow from investing activities was RMB151,997,000, a decrease of cash outflow by RMB509,959,000 as compared with last year. It was mainly due to the decrease in capital expenditure by RMB539,495,000 as compared with last year.

In 2013, the Company's net cash inflow from financing activities was RMB1,201,656,000, an increase of cash inflow by RMB916,656,000 compared with last year. It was mainly due to the substantial increase in short-term borrowings in 2013.

(3) Bank borrowings

As at 31 December 2013, the Company's bank borrowings were RMB1,602,907,000 (as at 31 December 2012: RMB405,000,000). These borrowings will be due within one year, were fixed-rate loans. Of the total short-term borrowings of the Company as at 31 December 2013, approximately 88.6 per cent were denominated in Renminbi and approximately 11.4 per cent were denominated in US Dollars.

(4) Assets charges

For the year ended 31 December 2013, there was no ledge 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. Receivable and payable items of the Company are settled immediately under trade accounts. Therefore, fluctuations in foreign exchange rates have no material adverse effect on the Company.

(6) Gearing ratio

As at 31 December 2013, the gearing ratio of the Company was 18.5 per cent (as at 31 December 2012: 4.5 per cent). The ratio is computed as interest-bearing debts divided by the sum of interest-bearing debts and shareholders' equity.

3. CAPITAL EXPENDITURE

In 2013, the Company's capital expenditure amounted to RMB488,650,000. The following table provided information on the Company's major construction projects and their returns in 2013.

Name of Main project	**Amount invested in 2013 RMB'000**	Progress of project	Project return (Actual production volume)
1, 4-butanediol project with an annual capacity of 100,000 tonnes	**97,098**	Under system optimization & improvement	–
Specialized polyester chip project with an annual capacity of 400,000 tonnes	**49,998**	Completed	345,999 tonnes
Differential staple fibre project with an annual capacity of 100,000 tonnes (ninth unit)	**52,730**	Completed	50,243 tonnes
NCIC-YCFC hydrogen pipeline engineering project	**12,000**	Installing equipments	–
Denitration and dust extraction project of Thermoelectric Production Center	**59,998**	Under construction	–
Others	**216,826**	–	–
Total	**488,650**	–	396,242 tonnes

The Company's capital expenditure for 2014 is expected to be approximately RMB503,050,000, including: the 1,4-butanediol project with an annual capacity of 100,000 tonnes,de-nitration and dust extraction project of Thermoelectric Production Center, NCIC-YCFC hydrogen pipeline engineering project and the second-phase high performance PE fibre project with an annual capacity of 3,000 tonnes, with capital expenditure amounting to RMB70,000,000, RMB125,140,000, RMB32,000,000 and RMB10,000,000 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)

	2013 RMB'000	2012 RMB'000	**Change (%)**
Operating income	**17,677,171**	16,987,916	4.1
Operating costs	**17,765,544**	16,572,824	7.2
Selling and distribution expenses	**226,661**	209,179	8.4
General and administrative expenses	**848,455**	829,424	2.3
Financial expenses/(net income)	**5,236**	-30,966	Not applicable
Net cash outflow from operating activities	**-1,073,285**	-967,719	Not applicable
Net cash outflow from investing activities	**-151,997**	-696,956	Not applicable
Net cash inflow/(outflow) from financing activities	**1,145,342**	284,881	302.0
Research and development expenditure	**37,258**	48,406	-23.0

For the 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 2013, the Company's operating income was RMB17,677,171,000, representing an increase of 4.1 per cent as compared with RMB16,987,916,000 for last year. This was mainly due to the increase in the sales volume of polyester products by 10.4 per cent and the decrease in the weighted average prices of polyester products (excluding VAT) by 5.1 per cent.

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

In 2013, the Company's operating income increased by RMB689,255,000 as compared with last year. This was mainly due to the increase in operating income by RMB1,576,212,000 resulting from the rise in sales volume of the polyester products and the decrease in operating income by RMB895,695,000 resulting from the drop in weighted average prices of 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.

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

Unit: RMB'000

Products	Items of costs structure	Amount in 2013 RMB'000	Percentage of amount in 2013 in total costs (%)	Amount in 2012 RMB'000	Percentage of amount in 2012 in total costs (%)	Year-on-year change (%)
Polyester products	Raw materials	**15,351,437**	**89.5**	14,126,565	89.0	8.7
	Fuel and power	**624,541**	**3.6**	690,782	4.3	-9.6
	Employees costs	**666,699**	**3.9**	635,079	4.0	5.0
	Depreciation and amortization	**377,559**	**2.2**	335,973	2.1	12.4
	Others	**128,898**	**0.8**	91,656	0.6	40.6
Total		**17,149,134**	**100.0**	15,880,054	100.0	8.0

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

Unit: RMB'000

Expenditured research and development expenditure for 2012	37,258
Capitalized research and development expenditure for 2012	0
Total research and development expenditure for 2012	37,258
Percentage of total research and development expenditure in net assets	0.5
Percentage of total research and development expenditure in operating income	0.2

In 2013, the Company's research and development expenditure was RMB37,258,000, representing a decrease of 23.0 per cent as compared with RMB48,406,000 for last year.

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

Item	2013 RMB'000	2012 RMB'000	Change (%)	Reason for change
Refunds of taxes and fees received	**3,800**	7,002	-45.7	Decrease in export sales and tax rebates accordingly
Other cash received related to operating activities	**163,424**	0	100.0	Taxes overpaid for prior years being received during the current year
Cash paid for all types of taxes	**57,614**	136,157	-57.7	Decrease in taxable turnover during the current year
Cash received from disposal of investment	**–**	406,751	-100.0	Cash not received from disposal of investment during the current year
Net cash from disposing fixed assets	**2,592**	31,923	-91.9	Decrease in disposal of fixed assets during the current year
Cash paid for buying fixed assets and intangible assets	**149,405**	688,900	-78.3	Decrease in capital expenditures for the current year
Cash paid for investment	**–**	200,000	-100.0	Major investment activities not occurred for the current year
Cash received from borrowings	**3,889,325**	405,000	860.3	Substantial increase in short-term loans during the current year
Cash paid for dividends, profits or interest	**56,314**	120,119	-53.1	No cash dividends paid for the current year

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

(1) Statement of operation by products

Products	Operating income for 2013 RMB'000	Cost of sales for 2013 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	**6,254,560**	**6,339,728**	-1.4	8.4	12.5	Decreased by 3.7 percentage points
Bottle-grade polyester chips	**3,676,645**	**3,629,612**	1.3	2.0	4.1	Decreased by 2.0 percentage points
Staple and hollow fibre	**6,419,934**	**6,353,812**	1.0	9.9	14.0	Decreased by 3.5 percentage points
Filament	**673,583**	**825,982**	-22.6	-34.6	-30.1	Decreased by 7.9 percentage points

(2) Operating income by regions

Region	Operating income for 2013 RMB'000	Operating income for 2012	Increase/ Decrease from last year (%)
Mainland China	**16,666,460**	15,772,041	5.7
Hong Kong, Macau, Taiwan, and overseas	**610,342**	642,683	-5.0

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

Item	Amount at 31 December 2013 RMB'000	Percentage of amount at 31 December 2013 in total assets (%)	Amount at 31 December 2012 RMB'000	Percentage of amount at 31 December 2012 in total assets (%)	Changes from the end of the preceding year to the end of this year (%)
Cash at bank and on hand	**105,797**	**1.0**	162,027	1.5	-34.7
Accounts receivable	**140,540**	**1.3**	142,501	1.3	-1.4
Inventories	**1,320,644**	**12.4**	1,735,734	15.6	-23.9
Long-term equity investments	**584,850**	**5.5**	584,819	5.3	–
Fixed assets	**3,963,871**	**37.3**	3,495,550	31.4	13.4
Construction in progress	**1,279,939**	**12.0**	1,870,881	16.8	-31.6
Short-term borrowings	**1,602,907**	**15.1**	405,000	3.6	295.8

For the reason for changes, please refer to the section "supplementary information" of financial statement prepared in accordance with the PRC Accounting Standards for Business Enterprises.

8. PROPOSED SCHEME OF PROFIT DISTRIBUTION

In accordance with the PRC ASBE, the net loss of the Company for 2013 was RMB1,454,217,000 (the loss attributable to equity shareholders of the Company for 2013 was RMB1,450,019,000 under IFRSs). With the undistributed profit of RMB1,202,081,000 brought forward from the previous year included, total accumulated loss was RMB252,136,000 at the end of 2013.

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, no final cash dividend would be paid for the year ended 31 December 2013, and no issue of bonus shares by way of capitalization of common reserves.

The above proposed profit distribution scheme shall be submitted for approval at the 2013 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)	Amount of shares paid for every 10 shares*	Net profit in respect of the year declaring dividends (RMB'000)	Percentage of dividends to net profit (%)
2013	–	–	5	-1,454,217	–
2012	–	–	–	-361,367	–
2011	0.30	120,000	–	839,043	14.3

**Note: The resolution regarding issue of bonus shares be made to the all shareholders of the Company on the basis of 5 new shares for every 10 existing shares by way of capitalization of common reserves has been approved by the first EGM, the first A Shares Class Meeting and the first H Shares Class Meeting respectively for the year 2013 held on 5 November 2013. The above resolution has been implemented in November 2013.*

Formulation and implementation of cash dividend policy of the Company

The Company has been carrying out prudent cash dividend policy and placing great emphasis on the investment return. The articles of Association of the Company currently in effect have made definite provisions on profit distribution of the company. The profit distribution policy shall be durative and stable, taking into account the long-term interests of the Company, the overall interests of all shareholders and the Company's sustainable development. The Company shall give priority to the distribution of dividends in cash. The Company may make interim dividends distribution. The Company shall distribute cash dividends when the Company's net profit and retained earnings, in separate financial statement, are positive and the Company has adequate cash inflows over the requirements of cash outflows of operation and sustainable development. In the three most recent consecutive years, the aggregate profits distributed by cash by the Company shall amount to not less than 30 per cent of the annual average distributable profits realized in those three most recent years.

The scheme of profit distribution of the Company for the year 2013 should be implemented in accordance with the policies and procedural norms stipulated in the articles of Association of the Company, on which the independent directors should give independent opinions.

9. ANALYSIS OF INVESTMENTS

(a) Securities investment

During the reporting period, no security investment items of the Company occurred.

(b) Holding equity shares of other listed companies

During the reporting period, the Company held no equity shares of other listed companies.

(c) Holding equity shares of unlisted financial enterprises.

During the reporting period, the Company held no equity shares of unlisted financial enterprises.

(d) During the reporting period, no entrusted financing, entrusted loans, other investments and financing and derivatives investment items of the Company occurred.

(e) Fund raising and the usage

During the reporting period, no fund-raising activities happened and the condition of the funds raised in earlier years being used up does not exist.

(f) 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	1,480,237	18,168	1,462,069	165

(g) Main project items of non-raised funds

Refer to the section of Capital Expenditure in chapter "Management Discussion and Analysis" herein this annual report.

10. INFORMATION ON SOCIAL RESPONSIBILITY

For information on social responsibility, please refer to "Report on Social Responsibility for 2013" 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 2013.

11. 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 categories and management.

(3) Risks with regard the 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 events such as personal injuries or death, property damage, environmental damage and disruption to operations, etc. With the expansion in the scale of operation, 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.

12. 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.

13. 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.

14. 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.

15. 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.

16. PRE-EMPTIVE RIGHTS

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

17. 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 December 31, 2013.

18. RESERVES

Changes in reserves of the Company during the reporting period are set forth in note 23 of the financial statements prepared in accordance with the IFRSs of the Annual Report.

19. 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.

20. BANK LOANS AND OTHER BORROWINGS

Details of bank loans and other borrowings of the Company as at 31 December 2013 are set out in note 25 of the financial statements prepared in accordance with the IFRSs of the Annual Report.

21. RETIREMENT PLAN

Particulars of the retirement plan operated by the Company are set forth in note 9 of the financial statements prepared in accordance with the IFRSs of the Annual Report.

22. MAJOR SUPPLIERS AND CUSTOMERS

For the year ended 31 December 2013, 67.5 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 2013, aggregate purchase amounts from the top five largest suppliers were RMB14,720,320,000, representing 71.9 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 2013, aggregate sales amounts to the top five largest customers were RMB2,366,491,000, representing 13.4 per cent of total sales.

23. AUDITORS

During the reporting period, the Company has changed the appointment of auditors.

Approved by 2012 AGM, the Company has appointed PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) and PricewaterhouseCoopers as the Company's domestic and international auditors for 2013.

In 2013, the signing Certified Public Accountants of the Company's domestic auditors, PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership), were Wang-chao and Yang Xu-dong.

The Board has recommended extending the appointment of PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) and PricewaterhouseCoopers as the Company's domestic and international auditors for 2014. The proposed appointment of auditors of the Company is subject to approval by the shareholders of the Company at the 2013 AGM.

24. SHAREHOLDERS' GENERAL MEETING

During the reporting period, the Company held its 2012 AGM at its registered place in Yizheng City, Jiangsu Province on 14 June 2013 and the shareholders' meeting for the A shares market by the Company's Share Reform Scheme at its registered place on 8 July 2013; the Company also held its first extraordinary general meeting, the first A Shares Class Meeting and the first H Shares Class Meeting for the year 2013 respectively on 5 November 2013. Details are set forth in the sub-section "Summary of Shareholders' Meetings" under the section entitled "Corporate Governance" in this Annual Report.

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

For the twelve months ended December 31, 2013, the Company has complied with all the code provisions under the Code on Corporate Governance Practices set out in Appendix 14 to the HKSE Listing Rules, except that:

The Company has not set up a nomination committee as at the end of the reporting period. The Articles of Association of the Company has made explicit provision on the nomination of the Directors. 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.

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

27 March 2014, Nanjing

Significant Events

1. In accordance with the Articles of Association of the Company, the Board resolved that no interim dividend was paid for the year ended 31 December 2013.

The resolution regarding issue of bonus shares be made to the all shareholders of the Company on the basis of 5 new shares for every 10 existing shares by way of capitalization of common reserves has been approved by the first EGM, the first A Shares Class Meeting and the first H Shares Class Meeting respectively for the year 2013 held on 5 November 2013.The above resolution has been implemented in November 2013.

In accordance with the Articles of Association of the Company, due to the losses recorded during the reporting period. The Board propose no final cash dividend be paid for the year ended 31 December 2013.

2. The Share Reform Scheme of the Company was approved at the shareholders' meeting for the A shares market held on July 8, 2013. According to such Scheme, holders of tradable A shares of the Company will obtain 5 shares paid by former holders of non-tradable shares of the Company for every 10 tradable shares of the Company held by them. Sinopec and CITIC limited, the former holders of non-tradable shares of the Company, have already paid up a total of 100,000,000 consideration shares for the Share Reform to all holders of tradable A shares. Such shares were listed for trading on August 20, 2013, which was the first trading day after implementation of the reform plan, and the former non-tradable shares held by shareholder of the Company were granted to be listed for trading on the same day.

3. MATERIAL LITIGATION, ARBITRATION AND EVENTS COMMONLY DISPUTABLE BY THE MEDIA

During the reporting period, the Company was not involved in any material litigation or arbitration or events commonly disputable by the media.

4. ACQUISITIONS, DISPOSALS AND MERGERS

During the reporting period, the Company had no major acquisition, disposal of assets and merger activities.

5. INFORMATION ON CONNECTED TRANSACTIONS

The Company's significant connected transactions for the year ended 31 December 2013 are as follows:

(a) The significant connected transactions relating to daily operation during the reporting period are as follows:

The nature of the transaction classification	Related parties	Amount of transaction RMB'000	Proportion of the same type of transaction (%)
Purchase of raw materials	Sinopec and its subsidiaries	11,026,614	67.5
Sale of goods	CPC and its subsidiaries	356,891	2.0
Loans borrowed	Sinopec Finance	1,800,000	46.4
Repayment of loans	Sinopec Finance	1,400,000	52.2

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 Sinopec and its subsidiaries ensures steady and secured supply of raw materials, selling to CPC and its subsidiaries ensures stabilized sales channels and turnover, and borrowings from Sinopec Finance enables the Company to acquire necessary financial resources when in shortage of capital funds. 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 assets or equity in the Company.

The Company entered into a letter of intent on 19 June 2013 with Sinopec Asset Management, a subsidiary of CPC, for the proposed transfer of 50% equity interest in Yihua Toray Polyester Film Co., Ltd. and 40% equity interest in Yihua Bonar Yarns and Fabrics Co., Ltd. to the Company. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times and the website of HKSE on 20 June 2013.

(c) The following is connected obligatory rights and debts during the reporting period:

Unit: RMB'000

Connected parties	Funds provided to connected party			Funds provided to the Company by connected party		
	Opening balance	Occurrence amount	Closing balance	Opening balance	Occurrence amount	Closing balance
Sinopec Finance	–	–	–	300,000	400,000	700,000

The Board believes that the above transactions were under the ordinary course of business and on normal commercial terms or were in accordance with the terms of agreements governing these transactions. Details of connected transactions entered into by the Company during the reporting period, refer to note 6 of the financial statements prepared in accordance with the PRC ASBE 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 27 March 2014. Auditors of the Company have reviewed the above-mentioned connected transactions and provided a letter to the Board on 27 March 2014.

6. CAPITAL OCCUPANCY AND PROGRESS ON SETTLEMENT OF ARREARS

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

7. MATERIAL CONTRACTS AND PERFORMANCE

(a) During the reporting period, there were no trusteeship, sub-contracting and leasing of properties of other companies by the Company which would contribute profit to the Company of 10 per cent or more of its total profits for the current period.

(b) The Company did not make any guarantee or pledge during the reporting period.

The resolution regarding the provision of guarantee by the Company for loan facility to be obtained by Far Eastern Yihua was approved by the 2012 AGM held on 14 June 2013. The Company shall provide a guarantee in respect of the loan facility to be obtained by Far Eastern Yihua of up to USD350 million in proportion to the Company's percentage equity interest in Far Eastern Yihua. At present, the Company owned 40% interest in Far Eastern Yihua. During the reporting period, the amount of guarantee by the Company was nil.

(c) Save as disclosed in this annual report, during the reporting period, the Company did not enter into any material contract which requires disclosure.

8. ENGAGEMENT AND DISENGAGEMENT OF FIRM OF ACCOUNTANTS

The Company has changed its firm of accountants during the reporting period.

Under the relevant requirements by the PRC's Ministry of Finance and the PRC's State-owned Assets Supervision and Administration Commission of the State Council, 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 such, the seventh meeting of the seventh term Board of Directors of the Company has proposed to appoint PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) and PricewaterhouseCoopers as the Company's domestic and international auditors for 2013, and appoint PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) as the Company's auditor regarding internal control for 2013. Such proposal has been approved by the shareholders of the Company at the 2012 AGM.

	2013
PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) Audit fee	**RMB1,500,000 yuan**
PricewaterhouseCoopers Audit fee	**RMB3,170,000 yuan**
Audit fee regarding internal control of PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) Audit fee	**RMB200,000 yuan**

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

PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) and PricewaterhouseCoopers have provided continuously audit services to the Company for 1 year.

9. STOCK OPTION INCENTIVE PLAN AND ITS EFFECT

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

10. PERFORMANCE OF UNDERTAKING

The special commitments by the Company and its shareholders with holdings of more than five per cent and the implementation of commitments ending 31 December 2013:

Commitment Background	Acceptance	Commitments	Performance of commitments
Commitments regarding share reform	Sinopec, CITIC Limited	Within six months from the date their non-tradeable A shares in the Company have obtained the right to be tradeable on the stock market, they will propose to convene a general meeting of the Company to consider a proposal for issuing of four or more new shares for each ten shares by way of capitalization of common reserves to all holders of A Shares and H Shares of the Company, and will vote for the resolution at the general meeting of the Company to approve such proposal.	Completed in November 2013
		Within twelve months from the date their non-tradeable A shares in the Company have obtained the right to be tradeable on the stock market, they will propose that, subject to compliance with the relevant systems of the State-owned Assets Supervision and Administration Commission of the State Council, the Ministry of Finance and CSRC, the board of directors of the Company makes a proposal for a share option incentive scheme, with the exercise price of the first grant of share options being not less than RMB6.64 per A share, the closing price of the A Shares on 30 May 2013 (such minimum exercise price will be subject to adjustment due to matters for exclusion of rights and dividends prior to the announcement of the proposal for the share option incentive scheme)	During the reporting period, Sinopec and CITIC Limited did not breach any relevant undertaking
	Sinopec	Sinopec will continue to support the Company's future development after completion of the Company's share reform to accelerate its transformation and development, and will take it as the development platform for related businesses henceforth.	During the reporting period, Sinopec did not breach any relevant undertaking

Note: Commitments do not include legal commitments made during the Share Reform Scheme.

11. PENALTIES ON THE COMPANY AND ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, SHAREHOLDERS WHO HOLD MORE THAN FIVE PER CENT OF THE COMPANY'S SHARES, ULTIMATE CONTROLLER AND REMEDIES THERETO

During the reporting period, none of the Company or its Directors, Supervisors, senior management, shareholders who hold more than five per cent of the Company's shares or ultimate controller was subject to any investigation by relevant authorities or enforcement by judicial or disciplinary departments or subject to criminal liability, or subject to investigation or administrative penalty by the CSRC, nor any denial of participation in the securities market or deemed unsuitability to act as directors thereby by other administrative authorities or any public criticisms made by a stock exchange.

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

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	
	Numbers of shares	Per cent (%)	New issue	Stock dividends	Conversion from Reserve	Others	Sub-total	Numbers of shares	Per cent (%)
I. Shares with selling restrictions:	2,400,000	60	–	-100,000	+1,150,000	–	+1,050,000	3,450,000	57.5
1. State-owned shares	–	–	–	–	–	–	–	–	–
2. Shares held by state-owned companies	2,400,000	60		-100,000	+1,150,000	–	+1,050,000	3,450,000	57.5
3. Shares held by other domestic investors	–	–	–	–	–	–	–	–	–
4. Shares held by foreign investors	–	–	–	–	–	–	–	–	–
II. Shares without selling restrictions	1,600,000	40	–	+100,000	+850,000	–	+950,000	2,550,000	42.5
1. RMB-denominated ordinary shares	200,000	5	–	+100,000	+150,000	–	+250,000	450,000	7.5
2. Shares traded in non-RMB currencies and listed domestically	–	–	–	–	–	–	–	–	–
3. Shares listed overseas	1,400,000	35	–	–	+700,000	–	+700,000	2,100,000	35
4. Others	–	–	–	–	–	–	–	–	–
III. Total shares	4,000,000	100	–	–	+2,000,000	–	+2,000,000	6,000,000	100

During the reporting period, both total number and structure of share capital have changed. According to the Share Reform Plan of the Company, Sinopec and CITIC Limited, the former holders of non-tradable shares of the Company, have already paid up a total of 100,000,000 consideration shares on the basis of 5 new shares for every 10 existing shares to the Company's tradable A shareholders registered on August 16 of 2013 (Share Record Date), resulting in the change of the Company's share capital structure. Pursuant to the issue of bonus shares by way of capitalization of common reserves, the Company respectively made bonus issue to the A Shareholders whose name appeared on the register of A Shareholders on 20 November 2013 (A Share Record Date) and H Shareholders whose name appeared on the register of H Shareholders on 13 November 2013 (H Share Record Date) on the basis of 5 new shares for every 10 existing shares. After the completion of the bonus issue, the total shares of the Company increased from 4 billion to 6 billion.

The above-mentioned change of share capital has diluted the financial indicators of the Company such as earnings per share and net assets per share in the previous year and the latest period.

2. Changes in Shares with Selling Restrictions

Unit of shares: 1,000 Shares

Name of shareholders	Number of shares with selling restrictions at the beginning of the year	Number of shares with selling restrictions expired in the year	Change in number of shares with selling restrictions in the year	Number of shares with selling restrictions at the end of the year	Reasons for selling restrictions	Date when selling restrictions expired
Sinopec	1,610,000	0	805,000	2,415,000	The original non-circulating shareholder made the commitment of limited sale in the Company's share reform program.	The shares are not to be traded or transferred within twelve months from 20 August 2013. From 20 August 2014, the previous non-circulating shares are to be sold by listed trading through the Stock Exchange, herein the number of shares for selling shall not be more than five percent within twelve months and not be more than ten percent within twenty-four months from that date.
CITIC Limited	690,000	0	345,000	1,035,000	The original non-circulating shareholder made the commitment of limited sale in the Company's share reform program.	
Total	2,300,000	0	1,150,000	3,450,000	–	–

SHARE ISSUE AND LISTINGS

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

2. Changes in the structure of assets and liabilities caused by the changes in total shares and share structure.
   As at 31 December 2013, the total shares of the Company increased from 4 billion to 6 billion. The above-mentioned increase of shares made no effect on the structure of assets and liabilities of the Company.

3. Internal employee shares
   The Company has not issued any internal employee shares.

INFORMATION ON SHAREHOLDERS AND THE ULTIMATE CONTROLLER

1. Number of shareholders

The number of shareholders of the Company as at 31 December 2013 was 43,724, including 43,214 holders of A shares and 510 registered holders of H shares. The minimum public float of the Company has met the requirements of the Listing Rules on the HKSE.

The number of shareholders of the Company as at 21 March 2014 was 46,698, including 46,187 holders of A shares and 511 registered holders of H shares.

2. The shareholdings of the top ten shareholders of the Company

Shareholdings of the top ten shareholders

Names of shareholders	Nature of shareholders	Number of shares held (shares)	Percentage to total share capital (%)	Number of shares with selling restrictions (shares)	Number of shares pledged or frozen
Sinopec	State-owned legal person	2,415,000,000	40.25	2,415,000,000	0
HKSCC (Nominees) Limited*	Overseas legal person	2,078,695,507	34.64	0	0
CITIC Limited	State-owned legal person	1,035,000,000	17.25	1,035,000,000	0
Lin You-ming	Domestic natural person	4,491,400	0.075	0	Unknown
Zeng Zhao-lin	Domestic natural person	4,452,473	0.074	0	Unknown
IP KOW	Overseas legal person	2,850,000	0.048	0	Unknown
Liang De-shao	Domestic natural person	2,303,653	0.038	0	Unknown
Wang-Xin	Domestic natural person	2,020,400	0.034	0	Unknown
Ji Tian-xia	Domestic natural person	1,546,283	0.026	0	Unknown
Chen-Hui	Domestic natural person	1,380,652	0.023	0	Unknown

Shareholdings of top ten shareholders of shares without selling restrictions

Name of shareholders	Number of shares without selling restrictions held at the end of the reporting period (shares)	Types of shares
HKSCC (Nominees) Limited*	2,078,695,507	H Shares
Lin You-ming	4,491,400	A Shares
Zeng Zhao-lin	4,452,473	A Shares
IP KOW	2,850,000	H Shares
Liang De-shao	2,303,653	A Shares
Wang-Xin	2,020,400	A Shares
Ji Tian-xia	1,546,283	A Shares
Chen-Hui	1,380,652	A Shares
Industrial and Commercial Bank of China Limited — China Universal SCI Index Securities Investment Fund	1,357,367	A Shares
Xia Xiu-qin	1,291,500	A Shares
Statement on the connected relationship or activities in concert among the above-mentioned shareholders.	The Company is not aware that there is any connected relationship or activities in concert among the above-mentioned shareholders.	

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

3. Number of shares held by the top ten holders of shares with selling restrictions and conditions for sale

Unit: 1,000 Share

Names of shareholders with selling restrictions	Number of shares with selling restrictions	Date when the shares could be traded through listing	Number of additional shares could be traded through listing	Selling restriction
Sinopec	2,415,000	20 August 2014	300,000	1 year
	2,115,000	20 August 2015	300,000	2 years
	1,815,000	22 August 2016	1,815,000	3 years
CITIC Limited	1,035,000	20 August 2014	300,000	1 year
	735,000	20 August 2015	300,000	2 years
	435,000	22 August 2016	435,000	3 years

Statement on the connected relationship or activities in concert among the above-mentioned shareholders.	There is no connected relationship or activities in concert among the above-mentioned shareholders.

4. Information on Controlling Shareholder and the Ultimate Controller

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

(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	RMB89.67 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 2013 Annual Report of Sinopec

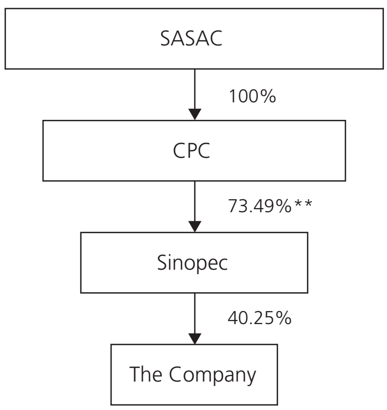
Sinopec's subsidiaries and associates listed in domestic and overseas during the reporting period	Abbreviation	Number of share held (shares)	Shareholding (%)	Remark
	Shanghai Pechem	5,460,000,000	50.56	Directly hold
	Yizheng Chemical	2,415,000,000	40.25	Directly hold
	Taishan Oil	118,140,120	24.57	Directly hold
	Sinopec Kantons	1,500,000,000	60.33	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

(2) The ultimate controller

Name of the ultimate controller	China Petrochemical Corporation ("CPC")*
Legal representative	Fu Cheng-yu
Date of establishment	24 July 1998
Organization number	10169286-X
Registered capital	RMB231.62 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%
	Sinopec SEG	2,967,200,000	67.01%

* *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").*



** *553,150,000 H shares of Sinopec were held by Sheng Jun Investments International Limited, a wholly-owned subsidiary of Sinopec, through HKSCC Nominees Limited.*

(3) Other substantial shareholders

(a). CITIC Limited

CITIC holds 17.25 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 2013, 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.

5. 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 2013, so far as the Directors, Supervisors and Senior Management of the Company are aware of, each of the following persons, not being a Director, Supervisor or Senior Management of the Company, had an interest in the Company's shares which is required to be disclosed to the Company and the HKSE under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance ("SFO").

Name of shareholder	Number of share held (shares)	Per cent of shareholding in the Company's total issued share capital (%)	Per cent of shareholding in the Company's total issued domestic shares (%)	Per cent of shareholding in the Company's total issued H shares (%)	Short position
Sinopec*	2,415,000,000	40.25	61.92	Not applicable	–
CITIC Limited	1,035,000,000	17.25	26.54	Not applicable	–

* *As at 31 December 2013, CPC holds 73.49% 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 2013, 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

During the reporting period, there was no change in Directors, Supervisors and Senior Management.

PROFILES OF PRESENT DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Directors

1. Mr. Lu Li-yong, aged 52, Chairman of the Company, Secretary of Chinese Communist Party Committee (the "CCPC") of the Company, and Senior P&I Engineer (at professor level). 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 64, 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 60, 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 62, 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.

5. Mr. Zhang Hong, aged 55, 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 51, 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 50, 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 53, 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 April 1996, he was appointed as Deputy General Manager of Yihua. In January 1998, he was appointed as Deputy General Manager of the Company and was re-appointed in December 2011. In August 2004, he was elected as Director of the Company. In December 2011, he was re-elected as Director of the Company. He has extensive experience in production and project management in large-scale enterprises. He has won several titles and awards granted by the Central Committee of the Communist Youth League of the PRC, China National Textile Council, Human Resources Department of Jiangsu Provincial Government and Jiangsu Provincial Communist Party Committee. Mr. Shen graduated from the Department of Chemical Engineering of Dalian Institute of Technology in 1982, specialising in macromolecule chemical engineering. He completed the course of MBA in Nanjing University in 1997. Mr. Shen graduated from Research Institute of Petroleum Processing in 2006, majoring in applied chemistry and became Doctor of engineering in 2006.

9. Mr. Shi Zhen-hua*, aged 67, Independent Director of the Company and former Chief of Environmental Protection Department of Jiangsu Province. He was appointed as the secretary to the Party Committee and the director general of Xuzhou Environmental Protection Bureau in 1984, the vice director general of Jiangsu Environmental Protection Department in 1990, and the secretary to the Party Committee and the deputy chief to the Jiangsu County Environmental Protection Bureau in 1997. In December 2008, he was elected as Independent Director of the Company, and re-elected in December 2011. Over the years, he has been engaged in various management aspects such as environmental protection, environmental management and environmental resources, and contributed to different environmental reformation and innovation projects. He was awarded with various honors, including the China's Environment Award. He was the Delegate of the 10th National People's Congress. Mr. Shi graduated from the Department of Geography of Nanjing University in 1969.

10. Mr. Qiao Xu*, aged 52, 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. Over the years, he was engaged in teaching undergraduates, master and doctoral students in chemistry engineering and technology specialty as well as professional research, and has obtained varies honors and achievements in teaching and research aspects. He was named the outstanding teacher of general high school in Jiangsu, the outstanding technologist of Jiangsu, the academic leader and the Young and Middle-aged Technological Leader. Mr. Qiao graduated from the Department of Abiochemistry of Nanjing Chemical Institute in 1982, he obtained his master degree from the Department of Chemical Engineering of Zhejiang University in 1987, and his doctorate degree from the Department of Chemical and Engineering of Nanjing University of Chemistry in 1999.

11. Mr. Yang Xiong-sheng*, aged 54, 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 67, 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. Mr. Chen graduated from Hefei University of Technology in 1969, majoring in measurement.

* *Independent Directors*

Supervisors

1. Mr. Cao Yong, aged 55, 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 53, 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 51, 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 48, 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 41, 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*

Senior Management

1. Mr. Li Jian-xin, aged 56, Deputy General Manager, and Senior Engineer (at professor level). He is engaged in the work of production, technology, operation and administration of large-scale petrochemical enterprises. He had served as Deputy Director of Intermediate Experiment Factory, Polyester Plant No. 4 and Polyester Plant No. 3 of the former Yizheng Joint Corporation of Chemical Fibre Industry (currently Yihua), Administrative Vice General Manager of Yizheng Chemical Fibre Foshan Polyester Company Limited, Director of Yizheng Chemical Fibre Film Factory, General Manager of Yizheng Chemical Fibre Film Company Limited. In 2003, he was appointed as the Assistant to General Manager of Yihua. In June 2004, he was appointed as Deputy General Manager and Director of Yihua. In June 2007, he was appointed as Deputy Manager of Yihua. In July 2007, he was appointed as Deputy General Manager of the Company, 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 53, 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 51, 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 52, 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' 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 2013 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 thirteenth meeting of the seventh term of the Board held on 27 March 2014.

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

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

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

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

Name	Name of corporate shareholders	Position held in corporate shareholders	Term of office	Remuneration and allowance received from the corporate shareholders	Remuneration received from the corporate shareholders (RMB)
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	518,200
Sun Yu-guo	Sinopec	Deputy Director of Development and Plan Department	From May 2008	Yes	525,900
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	July 25 2013
	Wuhan Boiler Co., LTD.	Independent Director	Oct. 15 2010	Oct. 10 2013
	Jiangsu Sunrain Solar Energy Co.Ltd.	Independent Director	Sep. 9 2013	Sep. 11 2016
Chen Fang-zheng	Minmetals International Trust Co., LTD.	Independent Director	Oct. 12 2011	Oct. 11 2014
	Angang Steel Company Limited	Independent Director	July 8 2013	July 7 2016

(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 2013*

Name	Salaries (RMB)
Lu Li-yong	318,260
Sun Zhi-hong	–
Xiao Wei-zhen	318,260
Long Xing-ping	–
Zhang Hong	–
Guan Diao-sheng	–
Sun Yu-guo	–
Shen Xi-jun	271,820
Shi Zhen-hua	50,000
Qiao Xu	50,000
Yang Xiong-sheng	50,000
Chen Fang-zheng	50,000
Cao Yong	272,120
Sun Shao-bo	187,710
Chen Jian	–
Shao Bin	40,000
Chu Bing	40,000
Li Jian-xin	271,820
Zhang Zhong-an	272,520
Li Jian-ping	271,820
Tom C. Y. Wu	190,792
Total remuneration for the year	RMB2,655,122 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' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES AND SHORT POSITION

As at 31 December, 2013, none of the Directors or Supervisors of the Company had any interest and short positions in any shares, underlying shares or debentures of the Company or any associated corporations within the meaning of Part XV of the SFO required to be recorded in the register mentioned under Section 352 of the SFO or as otherwise notifiable to the Company and the Hong Kong Stock Exchange by the Directors and Supervisors pursuant to the Model Code as contained in Appendix 10 to the Listing Rules.

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 remuneration 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 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 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

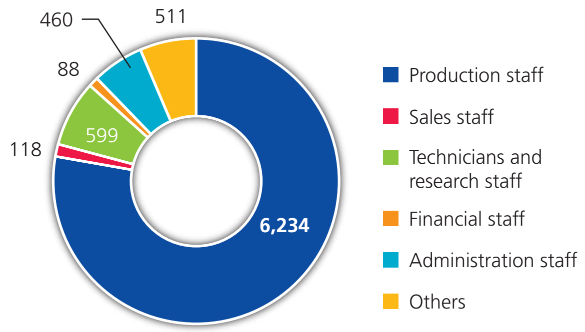
There has been no special treatment granted to the Directors, Supervisors or Senior Management during the reporting period.

STAFF

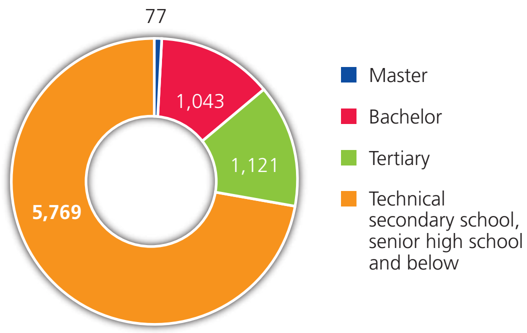
As at 31 December 2013, the Company had 8,010 employees. Total retired staff amounted to 2,695.

The Company had 77 employees with masters degrees or higher, 1,043 employees with bachelor degrees, 1,121 employees with tertiary education, and 5,769 employees with technical secondary school and senior high school or below.

The Company had 6,234 production staff, 118 sales staff, 599 engineers, technicians and research staff at the product technology center, 88 financial personnel, 460 administration staff and 511 other staff.



Professional Construction Statistical Chart



Education Statistical Chart

EMPLOYEE BENEFIT PLAN

Employee benefit plan of the Company are set forth in note 9 of the financial statements prepared in accordance with the IFRSs of the Annual Report.

CHANGES IN THE CORE TECHNOLOGY TEAM AND THE KEY TECHNICAL PERSONNEL

During the reporting period, there was no change in the core technology team or the key technical personnel.

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

During the reporting period, the Company was able to operate normatively compliant to domestic and international regulations.

In accordance with regulatory requirements, the Company self-examined horizontal competition, connected transactions, trading shares of the Company by inside information insiders, and commitment and performance by the Company and its related parties. There was no violation of 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, "Rules on Registration of Inside Information Insiders" of the Company was effectively implemented. The Company did not find that inside information insiders traded the Company's shares against relevant regulations.

During the reporting period, Sinopec and CITIC Limited earnestly honor their commitments made in the Share Reform of the Company. No violation of the commitments was found with Sinopec and CITIC Limited. Details are set forth in the sub-section "Performance of Commitments" under the section entitled "Significant Events" in this Annual Report.

During the reporting period, Corporate Governance of the Company in practice was of no material difference with the Corporate Law and requirements of relevant provisions 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", Administrative Measures on Information Disclosure by Listed Companies and "Listing Rules of SSE and HKSE", 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.

2. SUMMARY OF SHAREHOLDERS' MEETINGS

During the reporting period, the Company held its 2012 AGM at its registered place in Yizheng City, Jiangsu Province on 14 June 2013 and the shareholders' meeting for the A shares market by the Company's Share Reform Scheme at its registered place on 8 July 2013; the Company also held its first extraordinary general meeting, the first A Shares Class Meeting and the first H Shares Class Meeting for the year 2013 respectively on 5 November 2013. Details are as follows:

Name of meeting	Date of meeting	Name of resolutions	Resolutions	Disclosure date of resolutions
2012 AGM	14 June 2013	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 2012. 2. To receive, consider and approve the Report of the Supervisory Committee of the Company for the year 2012. 3. To receive, consider and approve the audited Financial Statements and the Report of the Auditors of the Company for the year 2012. 4. To receive, consider and approve the scheme of profit distribution of the Company for the year 2012. 5. To appoint PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) and PricewaterhouseCoopers as the domestic and international auditors of the Company for the year 2013 and to appoint PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) as the internal control auditor of the Company for the year 2013, and authorize the Board of the Directors to fix their remuneration. 6. To receive, consider and approve the resolution regarding the provision of guarantee by the Company for loan facility to be obtained by Far Eastern Yihua Petrochemical (Yangzhou) Corporation.	All resolutions were passed	17 June 2013
Shareholders' meeting for the A shares Reform	8 July 2013	By way of special resolutions: To consider and approve Share Reform Scheme of Sinopec Yizheng Chemical Fibre Company Limited.	The resolution was passed	9 July 2013

Name of meeting	Date of meeting	Name of resolutions	Resolutions	Disclosure date of resolutions
First extraordinary general meeting for 2013	5 November 2013	By way of special resolutions: 1. To consider and approve the proposed issue of bonus shares by way of capitalization of common reserves, and authorize secretary to the Board of the Company to deal with all procedural requirements such as applications, approvals, registrations and filings in relation to the above-mentioned matter. 2. To approve the proposed amendments to the Articles of Association of the Company and authorize the Board secretary to, on behalf of the Company, deal with all procedural requirements such as applications, approvals, registrations and filings in relation to the proposed amendments to the Articles of Association (including amendments on wording as requested by the regulatory authorities).	All resolutions were passed	6 Nov 2013
First A Shares Class Meeting for 2013	5 November 2013	By way of special resolutions: To consider and approve the proposed issue of bonus shares by way of capitalization of common reserves, and authorize secretary to the Board of the Company to deal with all procedural requirements such as applications, approvals, registrations and filings in relation to the above-mentioned matter.	The resolution was passed	6 Nov 2013
First H Shares Class Meeting for 2013	5 November 2013	By way of special resolutions: To consider and approve the proposed issue of bonus shares by way of capitalization of common reserves, and authorize secretary to the Board of the Company to deal with all procedural requirements such as applications, approvals, registrations and filings in relation to the above-mentioned matter.	The resolution was passed	6 Nov 2013

3. PERFORMANCE OF DUTIES BY THE DIRECTORS

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

		Attendance at the Board meetings						Attendance at shareholders' meetings
Name of Director	Whether as Independent Director	Attendance at meetings of the Board during the year	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	6	6	0	0	0	No	5
Sun Zhi-hong	No	6	5	0	1	0	No	4
Xiao Wei-zhen	No	6	6	0	0	0	No	5
Long Xing-ping	No	6	5	0	1	0	No	4
Zhang Hong	No	6	6	0	0	0	No	1
Guan Diao-sheng	No	6	6	0	0	0	No	2
Sun Yu-guo	No	6	6	0	0	0	No	0
Shen Xi-jun	No	6	6	0	0	0	No	5
Shi Zhen-hua	Yes	6	5	0	1	0	No	1
Qiao Xu	Yes	6	5	0	1	0	No	2
Yang Xiong-sheng	Yes	6	6	0	0	0	No	3
Chen Fang-zheng	Yes	6	6	0	0	0	No	5

The Board meetings held during the year (no. of times)	6
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 follow the rules of due diligence, honesty and credibility, faithfully perform their duties and 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 for four times on external guarantee, connected transaction, appointment of domestic and international auditors, the annual report, communication with auditors, internal control evaluation report and the Share Scheme of the Company, and made four independent director's work records and working papers. Report on the fulfillment of responsibilities by the Independent Directors for 2013 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 2013, 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 14 January 2013. The main agenda of the meeting were to determine through consultation with the then auditor KPMG Huazhen CPAs (Special General Partnership) and KPMG CPAs the audit plan for 2012 annual financial report and communicate on the scope of annual audit, staff composition of audit work group, audit work schedule, risk judgement, assessment and evaluation of risks and frauds, and key audit points for the year 2012. At the sixth auditing meeting on 11 March, 2013, the auditing committee reviewed the financial statement on which the auditors have issued primary auditing opinions. The seventh auditing meeting on 25 March 2013 have reviewed and approved the financial statement for 2012, final report on 2012 audit work by auditors, remuneration of domestic and international auditors and internal control auditor for 2012, the proposal of appointing the Company's domestic and international auditors for 2013, fulfillment of responsibilities of the auditing committee for 2012, etc., which were then submitted to the Board of Directors for review and discussion. In the auditing committee's opinion, the financial statements for the year 2012 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 2012, and the consolidated results of operations and the consolidated cash flows of the Company for the year then ended. The eighth auditing meeting on 28 August 2013 have reviewed and approved the resolution on issue of bonus shares by way of capitalization while not issuing interim dividends and the resolutions on semi-annual financial statement and the audit opinion on the semi-annual for 2013.

During the reporting period, the Audit Committee of the Company suggested auditors should pay more attention to internal control and risk management of the Company in the course of auditing financial statement 2012.

(b) During the reporting period, the second meeting of the seventh term Remuneration Committee of the Board was held. In accordance with the resolution regarding remuneration of the seventh term directors and supervisors approved by the EGM and the resolution regarding remuneration of senior management approved in the first meeting of the seventh term of the Board held on 16 December 2011, and with reference to the service contract signed among the Company, Directors and Supervisors, the annual operating and management targets and its fulfillment, weight of responsibilities of each Directors, Supervisors and Senior Management, and the operating results of the Company in 2012 and the Company's appraisal and assessment system, the Remuneration Committee considered and approved proposals relating to remuneration of the Directors, Supervisors and Senior Management in the year 2012 and would submitted it to the seventh meeting of the seventh term of the Board for approval. Report on the fulfillment of responsibilities by the Remuneration Committee for 2012 was also considered and approved.

4. DURING THE REPORTING PERIOD, THE SUPERVISORY COMMITTEE OF THE COMPANY HAD NO 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.

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 and two meetings in the form of written proposals in 2013. 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 Director 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.

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 is 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.

   During the reporting period, all directors of the Company have attended professional trainings in a continual way to develop and update their knowledge and expertise, therefore all directors could continue to make contributions to the Company with their comprehensive information and knowledge about related conditions. Details of training information the Directors as follows:

Name of Director	Whether as Independent Director	Corporate governance and updates of knowledge on laws & regulations: Read information	Corporate governance and updates of knowledge on laws & regulations: Attend seminars, conferences and activities	Knowledge of corporate management & operation: Read information	Knowledge of corporate management & operation: Site Inspection
Lu Li-yong		✓	✓	✓	
Sun Zhi-hong		✓		✓	✓
Xiao Wei-zhen		✓	✓	✓	
Long Xing-ping		✓		✓	✓
Zhang Hong		✓		✓	✓
Guan Diao-sheng		✓		✓	✓
Sun Yu-guo		✓		✓	✓
Shen Xi-jun		✓	✓	✓	
Shi Zhen-hua	Yes	✓		✓	✓
Qiao Xu	Yes	✓		✓	✓
Yang Xiong-sheng	Yes	✓		✓	✓
Chen Fang-zheng	Yes	✓		✓	✓

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.

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, herein 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 2013 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 by HKSE, 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 eleventh auditing meeting of the seventh term of the Board, the thirteenth meeting of the seventh term Board of Directors of the Company has resolved to re-appoint PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) and PricewaterhouseCoopers as the Company's domestic and international auditors for 2014, appoint PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) as the Company's auditor regarding internal control for 2014, 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 2013 AGM.

An analysis of remuneration in respect of audit services is set forth in item 8 of the "Significant Events" section in this Annual Report.

Information on the fulfillment of responsibilities by the Audit Committee of the seventh 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.

3. 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	4	–	–
Shi Zhen-hua	4	–	–
Qiao Xu	4	–	–
Chen Fang-zheng	4	–	–
Zhang hong	4	–	–

The Remuneration Committee

Name	Times in Person	Times by Proxies	Absence
Sun Zhi-hong	1	–	–
Qiao Xu	1	–	–
Chen Fang-zheng	1	–	–
Sun Shao-bo	1	–	–

E. Communication with shareholders

1. During the reporting period, the Chairman should propose a separate resolution in respect of each substantially separate issue at a shareholders' general meeting. All resolutions are voted by ballots, so that the interests of all share holders could be guaranteed. When the Company is to hold a shareholders' general meeting, it shall issue a written notice 45 days prior to the meeting (the day of meeting not included) informing all the registered shareholders.

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

3. Chairman attends the shareholders' general meetings as president. The members of the Board, the Senior Management attend the shareholders' general meetings to respond to the inquiries from the shareholders. The international auditors of the Company shall also attend the annual general meetings.

4. During the reporting period, the Articles of the Company was amended once, the amendment primarily on the share capital structure of the Company, total share capital and registered capital.

F. Board Secretary

1. The Board Secretary is appointed by the Board of the Company.

2. The Board Secretary reports to the Chairman of the Board and General Manager.

3. 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 to establish, improve and effectively implement internal control system, assess its effectiveness, and faithfully disclose the evaluation report of the system. The supervisory committee supervises over the setup and implementation of internal control system by the board of the Company, while managers of the Company take responsibility to organize and instruct the daily operation of the 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. On 29 August 2013 during the reporting period, the Board of the Company held the tenth meeting of the seventh term of the Board in which the Internal Control System for 2013 was reviewed and revised, and implementation of the system was approved thence.

In 2013, the Board of the Company 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 2013 and considered that the internal control system relating financial report was sound and effectively implemented. On 27 March 2014, the thirteenth meeting of the seventh term of the Board has reviewed and approved Evaluation Report of Internal Control for 2013. The Board and the Supervisory Committee of the Company and its directors, supervisors and senior management warrant that there are no false representations, misleading statements or material omissions in this Evaluation Report of Internal Control and individually and jointly accept full responsibility for the authenticity, accuracy and completeness of the information contained in this report.

Pursuant to the related regulatory requirements, the Company engaged PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) to audit internal control regarding financial report. PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) issued the unqualified audit opinions on 27 March 2014 and considered the Company maintained, in all material aspects, effective internal control regarding financial report on 31 December 2013.

"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.

Independent Auditor's Report

pwc

羅兵咸永道

To the shareholders of Sinopec Yizheng Chemical Fiber 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 66 to 112, which comprise the statement of financial position as at 31 December 2013, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flow 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 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 and to report our opinion 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 judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company as at 31 December 2013, and of the Company's loss and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27 March 2014

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Statement of Comprehensive Income

For the year ended 31 December 2013

(Prepared under International Financial Reporting Standards)

	Note	Year ended 31 December 2013 RMB'000	2012 RMB'000
Revenue	6	**17,677,171**	16,987,916
Cost of sales	8	**(18,099,885)**	(16,868,671)
Gross (loss)/profit		**(422,714)**	119,245
Other income	7	**10,598**	36,155
Distribution costs	8	**(226,661)**	(209,179)
Administrative expenses	8	**(519,684)**	(513,169)
Other expenses		**(47,803)**	(10,875)
Operating loss		**(1,206,264)**	(577,823)
Finance income	10	**57,155**	33,293
Finance costs	10	**(62,391)**	(2,327)
Net finance (expenses)/income	10	**(5,236)**	30,966
Investment income		**–**	6,751
Share of profit of a joint venture	11	**31**	3,479
Loss before income tax		**(1,211,469)**	(536,627)
Income tax expense	12	**(238,550)**	178,171
Loss attributable to owners of the Company for the year		**(1,450,019)**	(358,456)
Other comprehensive income for the year, net of tax		**–**	–
Total comprehensive loss attributable to owners of the Company for the year		**(1,450,019)**	(358,456)
Basic and diluted loss per share (in RMB)	13	**(0.242)**	(0.060)

The financial statements on pages 66 to 70 were authorised for issue by the Board of Directors on 27 March 2014 and were signed on its behalf.

Lu Liyong
Director

Xiao Weizhen
Director

The notes on pages 71 to 112 form an integral part of these financial statements.

Statement of Financial Position

At 31 December 2013

(Prepared under International Financial Reporting Standards)

	Note	31 December 2013 RMB'000	31 December 2012 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	14	**5,387,194**	5,391,113
Lease prepayments	15	**263,262**	271,743
Investment in a joint venture	11	**584,850**	584,819
Deferred tax assets	26	**73,783**	312,039
Total non-current assets		**6,309,089**	6,559,714
Current assets			
Inventories	18	**1,320,644**	1,735,734
Trade and other receivables	17	**2,893,774**	2,539,353
Prepaid taxation		**–**	141,376
Restricted cash	19	**20,000**	–
Cash and cash equivalents	20	**85,797**	162,027
Total current assets		**4,320,215**	4,578,490
Total assets		**10,629,304**	11,138,204
EQUITY			
Share capital	21	**6,000,000**	4,000,000
Share premium	21	**518,833**	2,518,833
Other reserves	23	**230,169**	228,802
Retained earnings	22	**314,462**	1,765,848
Total equity		**7,063,464**	8,513,483

The notes on pages 71 to 112 form an integral part of these financial statements.

Statement of Financial Position (Continued)

At 31 December 2013

(Prepared under International Financial Reporting Standards)

	Note	**31 December 2013 RMB'000**	31 December 2012 RMB'000
LIABILITIES			
Non-current liabilities			
Deferred income	*28*	**61,333**	55,103
Current liabilities			
Trade and other payables	*24*	**1,901,600**	2,164,618
Borrowings	*25*	**1,602,907**	405,000
Total current liabilities		**3,504,507**	2,569,618
Total liabilities		**3,565,840**	2,624,721
Total equity and liabilities		**10,629,304**	11,138,204
Net current assets		**815,708**	2,008,872
Total assets less current liabilities		**7,124,797**	8,568,586

The financial statements on pages 66 to 70 were authorised for issue by the Board of Directors on 27 March 2014 and were signed on its behalf.

Lu Liyong
Director

Xiao Weizhen
Director

The notes on pages 71 to 112 form an integral part of these financial statements.

Statement of Changes in Equity

For the year ended 31 December 2013

(Prepared under International Financial Reporting Standards)

	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total equity RMB'000
Balance at 1 January 2012	4,000,000	2,518,833	228,722	2,244,384	8,991,939
Total comprehensive income for the year	–	–	–	(358,456)	(358,456)
Total transactions with owners, recognised directly in equity for the year:					
— Dividends approved in respect of the previous year *(Note 22)*	–	–	–	(120,000)	(120,000)
— Safety fund accrued *(Note 23)*	–	–	80	(80)	–
Balance at 31 December 2012	4,000,000	2,518,833	228,802	1,765,848	8,513,483
Balance at 1 January 2013	**4,000,000**	**2,518,833**	**228,802**	**1,765,848**	**8,513,483**
Total comprehensive income for the year	**–**	**–**	**–**	**(1,450,019)**	**(1,450,019)**
Total transactions with owners, recognised directly in equity for the year:					
— Share premium converted into share capital *(Note 21)*	**2,000,000**	**(2,000,000)**	**–**	**–**	**–**
— Safety fund accrued *(Note 23)*	**–**	**–**	**1,367**	**(1,367)**	**–**
Balance at 31 December 2013	**6,000,000**	**518,833**	**230,169**	**314,462**	**7,063,464**

The notes on pages 71 to 112 form an integral part of these financial statements.

Statement of Cash Flows

For the year ended 31 December 2013
(Prepared under International Financial Reporting Standards)

	Note	Year ended 31 December 2013 RMB'000	2012 RMB'000
Cash flows from operating activities			
Cash flows from operations	29	**(1,072,991)**	(967,476)
Interests paid		**(56,314)**	(119)
Income tax paid		**(294)**	(243)
Cash flows used in operating activities		**(1,129,599)**	(967,838)
Cash flows from investing activities			
Purchases of property, plant and equipment		**(149,405)**	(688,900)
Proceeds from disposal of property, plant and equipment		**2,592**	31,923
Acquisition of interest in a joint venture, net of cash acquired		**–**	(278,251)
Purchases of hold-for-maturity financial assets		**–**	(200,000)
Proceeds from disposal of hold-for-maturity financial assets		**–**	202,011
Proceeds from disposal of available-for-sale financial assets		**–**	204,740
Interest received		**1,985**	26,731
Government grants received		**12,831**	4,790
Payment of Restricted cash		**(40,000)**	–
Receipt of Restricted cash		**20,000**	35,000
Cash flows used in investing activities		**(151,997)**	(661,956)
Cash flows from financing activities			
Proceeds from borrowings		**3,889,325**	405,000
Repayments of borrowings		**(2,687,669)**	–
Dividends paid to owners of the Company	27	**–**	(120,000)
Cash flows generated from financing activities		**1,201,656**	285,000
Net decrease in cash and cash equivalents		**(79,940)**	(1,344,794)
Cash and cash equivalents at 1 January	20	**162,027**	1,506,821
Exchange gains		**3,710**	–
Cash and cash equivalents at 31 December	20	**85,797**	162,027

The notes on pages 71 to 112 form an integral part of these financial statements.

Notes to the Financial Statements

(Prepared under International Financial Reporting Standards)

1. GENERAL INFORMATION

Sinopec Yizheng Chemical Fibre Company Limited (the "Company") is principally engaged in the production and sale of chemical fibre and chemical fibre raw materials in the People's Republic of China (the "PRC").

The Company is a joint stock limited liability company incorporated in the PRC. The address of its registered office is Yizheng City, Jiangsu Province, the PRC.

China Petroleum & Chemical Corporation ("Sinopec Corp.") is the Company's immediate parent company and China Petrochemical Corporation ("CPC") is the Company's ultimate parent company.

These financial statements are presented in RMB, unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 27 March 2014.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

2.1.1 Going concern

For the year ended 31 December 2013, the Company incurred a net loss of RMB1,450,019 thousand. Taking into account the Company's ability to generate cash from operating activities, undrawn borrowing facilities of approximately RMB550 million and commitment from the controlling shareholder to provide the Company with finance support for it to continue as a going concern (short-term borrowings of RMB700 million were obtained from CPC as at 31 December 2013), the directors believe that the Company can meet its liabilities as and when they fall due and refinance its borrowings. Consequently, the directors have prepared the current year's financial statements on a going concern basis.

2.1.2 Changes in accounting policy and disclosures

(a) New standards, amendments and interpretations to existing standards which are effective for accounting periods beginning on or after 1 January 2013 and adopted by the Company

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2013 and have no material impact on the Company:

Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments).

Amendments to IAS 36, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in IAS 36 by the issue of IFRS 13. The amendment is not mandatory for the Company until 1 January 2014, however the Company has decided to early adopt the amendment as of 1 January 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

2.1.2 Changes in accounting policy and disclosures (Continued)

(a) New standards, amendments and interpretations to existing standards which are effective for accounting periods beginning on or after 1 January 2013 and adopted by the Company (Continued)

IFRS 11, 'Joint arrangements' focuses on the rights and obligations of the parties to the arrangement rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where the investors have rights to the assets and obligations for the liabilities of an arrangement. A joint operator accounts for its share of the assets, liabilities, revenue and expenses. Joint ventures arise where the investors have rights to the net assets of the arrangement; joint ventures are accounted for under the equity method. Proportional consolidation of joint arrangements is no longer permitted.

IFRS 12 'Disclosure of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.

IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs.

The following new standards, amendments and interpretations to existing standards are mandatory for the first time for the financial year beginning 1 January 2013, but are not currently relevant for the Company:

- IAS 19, 'Employee benefits'
- Amendment to IFRS 7 'Financial instruments'
- IFRS 10, 'Consolidated financial statements'

(b) Standards, amendments and interpretations to existing standards that are not yet effective for the financial year beginning 1 January 2013 and have not been early adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Company:

- IFRS 9, 'Financial instruments'
- IFRIC 21, 'Levies'

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Joint arrangements

Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor. The Company has assessed the nature of its joint arrangement and determined it to be a joint venture. Joint venture is accounted for using the equity method.

Under the equity method of accounting, interests in joint venture are initially recognised at cost and adjusted thereafter to recognise the Company's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Company's share of losses in a joint venture equals or exceeds its interests in the joint venture (which includes any long-term interests that, in substance, form part of the Company's net investment in the joint venture), the Company does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

Unrealised gains on transactions between the Company and its joint venture are eliminated to the extent of the Company's interest in the joint venture. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint venture have been changed where necessary to ensure consistency with the policies adopted by the Company.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the senior executive management that makes strategic decisions.

2.4 Foreign currency translation

(a) *Functional and presentation currency*

Functional currency is determined by the Company on the basis of the currency in which major income and costs are denominated and settled. The Company's functional currency and presentation currency is RMB.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses are presented in the income statement within 'finance income or cost'.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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, an appropriate proportion of production overheads and borrowing costs, interest charges, and foreign exchange differences on related borrowing to the extent that they are regarded as an adjustment to interest charges during the construction period. Construction in progress represents buildings, various plant and equipment under construction and pending installation, and is stated at cost less impairment losses. 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.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

— Buildings	25–50 years
— Machinery	5–30 years
— Vehicles and others	4–18 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other income' or 'Other expenses' in the income statement.

2.6 Lease prepayments

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

2.7 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Financial assets

2.8.1 Classification

The Company classifies its financial assets in the following categories: held-to-maturity, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets held-to-maturity

Financial assets held-to-maturity are stated at amortised cost less impairment losses. A financial asset is classified in this category if the Company has the intention and ability to hold such a financial asset to maturity. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Company's loans and receivables comprise 'trade and other receivables', 'restricted cash' and 'cash and cash equivalents' in the balance sheet (Notes 2.11 and 2.12).

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

2.8.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date — the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Financial assets held-to-maturity, loans and receivables are subsequently carried at amortised cost using the effective interest method.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as 'investment income'.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the Company's right to receive payments is established.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Impairment of financial assets

(a) Assets carried at amortised cost

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement. If a loan or held- to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

(b) Assets classified as available for sale

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Company uses the criteria referred to in (a) above. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — is removed from equity and recognised in profit or loss. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Inventories

Inventories other than spare parts and consumables are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

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.

2.11 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (Note 2.9).

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.

2.12 Cash and cash equivalents

In the statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Cash equivalents are stated at cost, which approximates fair value.

2.13 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.14 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.15 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.16 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.17 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) *Current income tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the PRC. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) *Deferred income tax*

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred tax assets and liability is not discounted.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17 Current and deferred income tax (Continued)

(b) *Deferred income tax* (Continued)

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in joint arrangement only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) *Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.18 Employee benefits

A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. 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 9.

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.

2.19 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns and value added taxes. The Company recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Company; and when specific criteria have been met for each of the Company's activities, as described below. The Company bases its estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) *Sales of goods*

Revenue is recognised when goods are delivered at shipping point or 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 and is after deduction of any trade discounts.

(b) *Rendering of services*

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

(c) *Interest income*

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

(d) *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.

2.21 Finance income

Finance income comprises interest income from bank deposits and net foreign exchange gains.

Exchange gain and loss on foreign currency translation are recognised as an income or expense, except for those that are regarded as adjustment to interest costs and therefore included in borrowing cost capitalisation.

2.22 Finance costs

Finance costs comprise interest payable on borrowings and net foreign exchange losses.

All interest and other costs incurred in connection with borrowings are expensed as incurred as part of finance costs, 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 Research and development costs

Expenditure on the research phase is recognised in profit or loss in the period in which it is incurred. Expenditure on the development phase is capitalised only if all of certain conditions are satisfied.

2.24 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.25 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.26 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. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

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.

(a) Market risk

(i) Foreign exchange risk

Foreign exchange 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, borrowings and trade and other payables denominated in United States Dollars ("US$").

The Company principally reduces the currency risk by monitoring the level of foreign currency assets and liabilities.

The following table details the Company's monetary assets and liabilities denominated in US$ as at the balance sheet date:

	As at 31 December	
	2013	2012
	USD'000	USD'000
Trade and other receivables	**17,102**	13,745
Cash and cash equivalents	**38**	38
Borrowings	**(30,000)**	–
Trade and other payables	**(67,702)**	(129,256)
	(80,562)	(115,473)

At 31 December 2013, if RMB had weakened/strengthened by 5 % against the US dollar with all other variables held constant, the Company's loss for the year would have been RMB 24,559 thousand (2012: RMB 36,290 thousand) higher/lower, mainly as a result of foreign exchange gains/losses on translation of US dollar-denominated trade and other receivables, borrowings and trade and other payable. Profit is less sensitive to movement in RMB/US dollar exchange rates in 2013 than 2012 because of the decreased amount of US dollar-denominated trade and other payables. 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 2012.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(a) *Market risk* (Continued)

(ii) Interest rate risk

Except for cash and cash equivalents (Note 20), restricted cash (Note 19) and borrowings (Note 25), 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.

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

	As at 31 December			
	2013		2012	
	%	**RMB'000**	%	RMB'000
Fixed rate instruments				
Restricted cash *(Note 19)*	**3.08**	**20,000**	–	–
Cash and cash equivalents *(Note 20)*	**–**	**–**	2.86	50,000
Borrowings *(Note 25)*	**5.04**	**1,420,000**	5.04~5.32	405,000
Variable rate instruments				
Cash and cash equivalents *(Note 20)*	**0.35**	**85,770**	0.35	111,999
Borrowings *(Note 25)*	**2.14~2.44**	**182,907**	–	–

At 31 December 2013, it is estimated that a general increase/decrease of 100 basis points in variable interest rates, with all other variables held constant, would decrease/increase the Company's total loss for the year by approximately RMB 12,171 thousand (2012: RMB 86 thousand)(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 2012.

(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, bank acceptance bills and receivables from customers. To limit exposure to credit risk relating to deposits, the Company primarily places cash deposits only with and accepts bank acceptance bills only issued by 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. 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 18.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) *Credit risk* (Continued)

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, 44.72% (2012: 44.02%) of the total trade receivables was due from the Company's five largest customers.

No credit limits were exceeded during the reporting period, and management does not expect any losses from non-performance by these counterparties. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

The Company will provide guarantee in respect of a term loan facility of up to USD140 million for the period of 5 years, which is offered to its joint venture named Far Eastern Yihua Petrochemical (Yangzhou) Co., Ltd. ("FEYP"). Further details are given in Note 11.

(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:

	Within 1 year RMB'000	1 to 2 years RMB'000	2 to 5 years RMB'000	Over 5 years RMB'000
As at 31 December 2013				
Borrowings	**1,624,446**	**–**	**–**	**–**
Trade and other payables	**1,780,246**	**–**	**–**	**–**
As at 31 December 2012				
Borrowings	415,524	–	–	–
Trade and other payables	1,577,698	–	–	–

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

3. FINANCIAL RISK MANAGEMENT (Continued)

3.2 Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the balance sheet plus net debt.

During 2013, the Company's strategy, which was unchanged from 2012, was to maintain the gearing ratio within 20%. The gearing ratios at 31 December 2013 and 2012 were as follows:

	2013 RMB'000	2012 RMB'000
Total borrowings *(Note 25)*	**1,602,907**	405,000
Less: cash and cash equivalents *(Note 20)*	**(85,797)**	(162,027)
Net debt	**1,517,110**	242,973
Total equity	**7,063,464**	8,513,483
Total capital	**8,580,574**	8,756,456
Gearing ratio	**18%**	3%

3.3 Fair value estimation

The financial instruments carried at fair value are categorized at three levels which have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

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 2013 and 2012.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Long-term assets impairment

If circumstances indicate that the carrying amount of an asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with IAS 36 "Impairment of Assets". The carrying amounts of the assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and its 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, gross profit and amount of operating costs. The Company uses all readily available information in determining recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sale volume, selling price, gross profit and amount of operating costs.

(b) Recognition of deferred tax assets

Deferred tax assets are recognised in respect of temporary deductible differences and the 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 recognized and also whether recognized. 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.

(c) Allowance for decline in value of inventories

If the costs of inventories fall below their net realisable values, an allowance for decline 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 decline in value of inventories could be higher than estimated.

(d) Allowance for doubtful debts

The Company estimates impairment losses for 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.

(e) 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.

5. SEGMENT INFORMATION

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 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 cost of sales 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 (loss)/profit" (including inter-segment profit).

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

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

	Polyester chips		Bottle-grade polyester chips		Staple fibre and hollow fibre		Filament		PTA		All others#		Total	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
For the year ended 31 December														
Revenue from external customers	**6,254,560**	5,776,760	**3,676,645**	3,604,853	**6,419,934**	5,906,594	**673,583**	1,045,595	**32**	182,612	**652,417**	471,502	**17,677,171**	16,987,916
Inter-segment revenue	**–**	–	**–**	–	**–**	–	**–**	–	**7,158,971**	7,327,650	**–**	–	**7,158,971**	7,327,650
Reportable segment revenue	**6,254,560**	5,776,760	**3,676,645**	3,604,853	**6,419,934**	5,906,594	**673,583**	1,045,595	**7,159,003**	7,510,262	**652,417**	471,502	**24,836,142**	24,315,566
Gross (loss)/profit from external customers	**(190,801)**	(3,409)	**20,807**	42,316	**(1,391)**	171,651	**(167,851)**	(176,326)	**2**	(4,160)	**(94,770)**	(37,160)	**(434,004)**	(7,088)
Inter-segment profit	**–**	–	**–**	–	**–**	–	**–**	–	**11,290**	141,459	**–**	–	**11,290**	141,459
Reportable segment (loss)/profit	**(190,801)**	(3,409)	**20,807**	42,316	**(1,391)**	171,651	**(167,851)**	(176,326)	**11,292**	137,299	**(94,770)**	(37,160)	**(422,714)**	134,371
Depreciation and amortisation	**56,760**	63,212	**45,098**	13,821	**74,074**	40,177	**3,308**	8,000	**121,450**	163,154	**160,186**	117,219	**460,876**	405,583
As at 31 December														
Reportable segment assets	**677,712**	756,433	**344,996**	182,396	**1,108,438**	691,359	**177,904**	121,485	**777,363**	978,932	**1,812,250**	1,159,160	**4,898,663**	3,889,765

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

5. SEGMENT INFORMATION (Continued)

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

	2013 RMB'000	2012 RMB'000
Revenue		
Revenue for reportable segments	**24,836,142**	24,315,566
Elimination of inter-segment revenue	**(7,158,971)**	(7,327,650)
Turnover	**17,677,171**	16,987,916
(Loss)/profit		
(Loss)/profit for reportable segments	**(422,714)**	134,371
Unallocated loss	**–**	(15,126)
Gross (loss)/profit	**(422,714)**	119,245
Other income	**10,598**	36,155
Distribution costs	**(226,661)**	(209,179)
Administrative expenses	**(519,684)**	(513,169)
Other expenses	**(47,803)**	(10,875)
Net finance (expenses)/income	**(5,236)**	30,966
Investment income	**–**	6,751
Share of profit of a joint venture	**31**	3,479
Loss before income tax	**(1,211,469)**	(536,627)
Depreciation and amortisation		
Depreciation and amortisation for reportable segments	**460,876**	405,583
Unallocated depreciation and amortisation	**17,580**	30,876
Total depreciation and amortisation	**478,456**	436,459

	At 31 December 2013 RMB'000	 2012 RMB'000
Assets		
Assets for reportable segments	**4,898,663**	3,889,765
Unallocated assets	**529,236**	1,366,201
	5,427,899	5,255,966
Other non-current assets	**2,201,834**	3,039,482
Trade and other receivables	**2,893,774**	2,539,353
Prepaid taxation	**–**	141,376
Restricted cash	**20,000**	–
Cash and cash equivalents	**85,797**	162,027
Total assets	**10,629,304**	11,138,204

6. REVENUE

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

7. OTHER INCOME

	2013 RMB'000	2012 RMB'000
Government grants	**6,601**	4,688
Service charges received	**–**	17,078
Net gain on disposal of property, plant and equipment	**–**	12,104
Others	**3,997**	2,285
	10,598	36,155

8. EXPENSES BY NATURE

	2013 RMB'000	2012 RMB'000
Changes in inventories of finished goods and work in progress	**(37,517)**	(110,705)
Raw materials and consumables used	**16,473,700**	15,591,021
Employee benefit expense *(Note 9)*		
— Municipal retirement scheme costs	**116,165**	101,382
— Supplementary retirement scheme costs	**29,571**	29,218
Staff cost	**908,056**	907,162
Depreciation and amortization	**469,975**	427,978
Repairs and maintenance expenses	**328,704**	313,759
Research and development expenses	**37,258**	48,406
Impairment losses/(reversals)	**6,787**	(21,241)
— Trade and other receivables	**(67)**	(2,496)
— Inventory	**6,854**	(18,745)
Amortisation of lease prepayments	**8,481**	8,481
Transportation expenses	**168,939**	141,587
Auditors' remuneration	**4,870**	5,000
Other expenses	**324,454**	170,212
Total cost of sales, distribution expenses and administrative expenses	**18,846,230**	17,591,019

9. EMPLOYEE BENEFIT EXPENSE

	2013 **RMB'000**	2012 RMB'000
Wages and salaries	**908,056**	907,162
Pensions — defined contribution plans		
— Municipal retirement scheme costs	**116,165**	101,382
— Supplementary retirement scheme costs	**29,571**	29,218
	1,053,792	1,037,762

(a) Pensions — defined contribution plans

As stipulated by the regulations of the PRC, the Company participates in basic defined contribution retirement schemes organised by respective municipal government under which it is governed. As of 31 December 2013, the Company and the employees pay 20% and 8% (31 December 2012: 20% and 8%) of salary respectively to basic defined contribution plan.

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 are entitled to participating 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.

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 2013, the Company's contribution to the above two plans amounted to RMB116,165,000 and RMB29,571,000, respectively (2012: RMB101,382,000 and RMB29,218,000, respectively).

9. EMPLOYEE BENEFIT EXPENSE (Continued)

(b) Directors' and chief executive's emoluments

The remuneration of every director and the chief executive for the years ended 31 December 2013 and 31 December 2012 is set out below :

Name	Fees		Salaries, allowance and bonus		Retirement		Total	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Directors:								
Lu Liyong *(CEO)*	**–**	–	**318**	326	**29**	26	**347**	352
Sun Zhihong	**–**	–	**–**	–	**–**	–	**–**	–
Xiao Weizhen	**–**	–	**318**	326	**29**	26	**347**	352
Long Xingping	**–**	–	**–**	–	**–**	–	**–**	–
Zhang Hong	**–**	–	**–**	–	**–**	–	**–**	–
Guan Diaosheng	**–**	–	**–**	–	**–**	–	**–**	–
Sun Yuguo	**–**	–	**–**	–	**–**	–	**–**	–
Shen Xijun	**–**	–	**272**	278	**29**	26	**301**	304
Independent directors:								
Shi Zhenhua	**50**	50	**–**	–	**–**	–	**50**	50
Qiao Xu	**50**	50	**–**	–	**–**	–	**50**	50
Yang Xiongsheng	**50**	50	**–**	–	**–**	–	**50**	50
Chen Fangzheng	**50**	50	**–**	–	**–**	–	**50**	50
Supervisor:								
Cao Yong	**–**	–	**272**	278	**29**	26	**301**	304
Sun Shaobo	**–**	–	**188**	198	**29**	26	**217**	224
Shao Bin	**40**	40	**–**	–	**–**	–	**40**	40
Chu Bing	**40**	40	**–**	–	**–**	–	**40**	40
Senior management:								
Li Jianxin	**–**	–	**272**	278	**29**	26	**301**	304
Zhang Zhongan	**–**	–	**273**	278	**29**	26	**302**	304
Liu Xiaoqin (resigned on 27 August 2012)	**–**	–	**–**	137	**–**	17	**–**	154
Li Jianping	**–**	–	**272**	278	**33**	31	**305**	309
Wu Chaoyang	**–**	–	**191**	201	**29**	26	**220**	227

In addition to the directors' emoluments disclosed above, directors Guan Diaosheng and Sun Yuguo of the Company receive emoluments from the parent company, amounting to RMB518,200 and RMB525,900 during 2013 (2012: 518,000 each), part of which is in respect of their services to the Company. No apportionment has been made as the directors consider that it is impracticable to apportion this amount between their services to the Company and their services to the Company's parent company.

(c) Five individuals with highest emoluments

The five individuals whose emoluments were the highest in the Company for the year include five (2012: five) directors whose emoluments are reflected in the analysis presented above.

10. FINANCE INCOME AND COSTS

	2013 RMB'000	2012 RMB'000
Interest income	**47,059**	26,731
Net foreign exchange gain	**10,096**	6,562
Finance income	**57,155**	33,293
Interest expenses	**(60,043)**	(512)
Others	**(2,348)**	(1,815)
Finance expenses	**(62,391)**	(2,327)
Net finance (expenses)/income	**(5,236)**	30,966

For the years ended 31 December 2013 and 2012, no interest expense was capitalised for construction in progress.

11. INVESTMENT IN A JOINT VENTURE

	2013 RMB'000	2012 RMB'000
At 1 January	**584,819**	303,089
Investment addition	**–**	278,251
Share of profit	**31**	3,479
At 31 December	**584,850**	584,819

11. INVESTMENT IN A JOINT VENTURE (Continued)

The joint venture listed below has share capital consisting solely of ordinary shares, which is held directly by the Company.

Nature of investment in joint venture in 2013 and 2012

Name of entity	Place of business/ country of incorporation	% of ownership interest	Nature of the relationship	Measurement method
Far Eastern Yihua petrochemical (Yang Zhou) Corporation ("FEYP")	PRC	40	Note 1	Equity

Note 1: 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 joint venture.

FEYP is engaged in manufacturing and distribution of crude terephthalic acid and pure terephthalic acid. It was still under construction and has not started operation as at 31 December 2013.

FEYP is a private company and there is no quoted market price available for its shares.

Commitments and contingent liabilities in respect of joint venture

The Company had outstanding commitments of USD8,000 thousand in respect of its investment in FEYP at 31 December 2013, which was not provided for in the financial statements (31 December 2012: USD8,000 thousand).

The Company offered FEYP guarantee in respect of a term loan facility of up to USD140 million for the period of 5 years. There are no contingent liabilities relating to the Company's interest in the joint venture.

Summarised balance sheet for joint venture

	At 31 December 2013 RMB'000	2012 RMB'000
Current		
Cash and cash equivalents	**873,730**	1,258,724
Other current assets	**380,601**	58,463
Total current assets	**1,254,331**	1,317,187
Total non-current assets	**225,906**	148,787
Current liabilities	**(18,168)**	(4,070)
Net assets	**1,462,069**	1,461,904

The information above reflects the amounts presented in the financial statements of the joint ventures, adjusted for differences in accounting policies between the Company and the joint venture, and not the Company's share of those amounts.

11. INVESTMENT IN A JOINT VENTURE (Continued)

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its interest in the joint venture.

Summarised financial information	2013 RMB'000	2012 RMB'000
Opening net assets	**1,461,904**	755,469
Profit for the year	**165**	10,806
Paid-in capital	**–**	695,629
Closing net assets	**1,462,069**	1,461,904
Interest in Joint Venture	**40%**	40%
Carrying value	**584,850**	584,819

12. INCOME TAX EXPENSE

Income tax in the statement of comprehensive income represents:

	2013 RMB'000	2012 RMB'000
Current tax:		
Adjustments in respect of prior years	**294**	11,332
Deferred tax	**238,256**	(189,503)
Income tax expense	**238,550**	(178,171)

The charge for PRC income tax is calculated at the rate of 25% in 2013 (2012: 25%). 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.

12. INCOME TAX EXPENSE (Continued)

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

	2013 RMB'000	2012 RMB'000
Loss before tax	**(1,211,469)**	(536,627)
Expected income tax using the Company's tax rate of 25%	**(302,867)**	(134,157)
Tax effects of:		
— Recognition of previously unrecognised deductible temporary differences	**(2,542)**	(48,464)
— Reversal of previously recognised tax losses (a)	**211,779**	–
— Income not subject to tax	**(708)**	(7,900)
— Expenses not deductible for tax purposes	**62,865**	1,018
— Under-provision in respect of prior year	**294**	11,332
— Tax losses for which no deferred income tax assets were recognized	**269,729**	–
Tax charge	**238,550**	(178,171)

(a) Reversal of previously recognised tax losses

The tax losses of the Company can be carried forward to subsequent 5 years for deduction of the taxable profit in accordance with the PRC tax laws. According to the accounting policy of the Company, deferred tax assets are only recognised to the extent that it is probable that taxable profit will be available in the future. Considering the losses incurred in last two years and uncertainty of future market, management of the Company assess it is significantly uncertain whether the Company can make sufficient taxable income to utilise those tax losses and thus determine to write off the deferred income tax assets amounted to RMB211,799 thousand which was recognized in prior year arisen for tax losses into current year income tax expenses. In addition, the deferred income tax assets amounted to RMB269,729 thousand was not recognized as at 31 December 2013 in respect of tax losses incurred in 2013.

13. LOSS PER SHARE

	2013 RMB'000	2012 RMB'000
Loss attributable to owners of the Company	**(1,450,019)**	(358,456)
Weighted average number of ordinary shares in issue	**6,000,000,000 shares**	6,000,000,000 shares
Basic and diluted loss per share (RMB)	**(0.242)**	(0.060)

(a) Basic loss per share

Basic loss per share is calculated by dividing the loss attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year. Considering 2 billion new shares were issued in 2013 out of share premium, the loss per share for the comparative year was recalculated and presented using adjusted number of shares.

(b) Diluted loss per share

There were no dilutive potential ordinary shares in existence during the year ended 31 December 2013 and 2012.

14. PROPERTY, PLANT AND EQUIPMENT

	Property, plant and equipment RMB'000	Construction in progress RMB'000	Others RMB'000	Total RMB'000
Cost:				
At 1 January 2012	13,307,194	1,201,201	359,628	14,868,023
Addition	–	1,225,816	–	1,225,816
Disposals	(479,435)	–	–	(479,435)
Transferred from construction in progress	554,436	(556,136)	1,700	–
At 31 December 2012	13,382,195	1,870,881	361,328	15,614,404
Addition	–	488,650	–	488,650
Disposals	(264,843)	–	–	(264,843)
Transferred to property, plant and equipment	1,079,592	(1,079,592)	–	–
At 31 December 2013	**14,196,944**	**1,279,939**	**361,328**	**15,838,211**
Accumulated depreciation:				
At 1 January 2012	(9,150,713)	–	(314,567)	(9,465,280)
Depreciation charge	(405,899)	–	(22,079)	(427,978)
Disposals	320,672	–	–	320,672
At 31 December 2012	(9,235,940)	–	(336,646)	(9,572,586)
Depreciation charge	(453,174)	–	(16,801)	(469,975)
Disposals	235,803	–	–	235,803
At 31 December 2013	**(9,453,311)**	**–**	**(353,447)**	**(9,806,758)**
Accumulated impairment loss:				
At 1 January 2012	(789,649)	–	–	(789,649)
Disposals	138,944	–	–	138,944
At 31 December 2012	(650,705)	–	–	(650,705)
Disposals	6,446	–	–	6,446
At 31 December 2013	**(644,259)**	**–**	**–**	**(644,259)**
Carrying amounts:				
At 31 December 2013	**4,099,374**	**1,279,939**	**7,881**	**5,387,194**
At 31 December 2012	3,495,550	1,870,881	24,682	5,391,113

Depreciation expense of RMB408,507 thousand (2012: RMB380,979 thousand) has been charged in 'cost of sales', RMB45 thousand (2012: RMB35 thousand) in 'distribution costs' and RMB44,579 thousand (2012: RMB46,964 thousand) in 'administrative expenses'.

As at 31 December 2013, construction in progress mainly comprises equipment for production line of 1-4 butanediol which are still under installation and trial testing.

15. LEASE PREPAYMENTS

	2013 RMB'000	2012 RMB'000
Cost:		
At 1 January	**406,123**	406,123
Accumulated amortisation:		
At 1 January	**(134,380)**	(125,899)
Charge for the year	**(8,481)**	(8,481)
At 31 December	**(142,861)**	(134,380)
Net book value:		
At 31 December	**263,262**	271,743

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

Lease prepayments represent land use right which 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.

16. FINANCIAL INSTRUMENTS BY CATEGORY

	Loans and receivables RMB'000
31 December 2013	
Assets as per balance sheet	
Trade and other receivables excluding prepayments	**2,706,951**
Restricted cash	**20,000**
Cash and cash equivalents	**85,797**
Total	**2,812,748**

	Other financial liabilities at amortised cost RMB'000
31 December 2013	
Liabilities as per balance sheet	
Borrowings	**1,602,907**
Trade and other payables excluding non-financial liabilities	**1,577,698**
Total	**3,180,605**

	Loans and receivables RMB'000
31 December 2012	
Assets as per balance sheet	
Trade and other receivables excluding prepayments	2,252,486
Cash and cash equivalents	162,027
Total	2,414,513

	Other financial liabilities at amortised cost RMB'000
31 December 2012	
Liabilities as per balance sheet	
Borrowings	405,000
Trade and other payables excluding non-financial liabilities	1,780,246
Total	2,185,246

17. TRADE AND OTHER RECEIVABLES

	31 December 2013 RMB'000	31 December 2012 RMB'000
Trade receivables	**133,446**	131,708
Notes receivable	**2,558,598**	2,092,377
Amounts due from the related parties — trade	**22,094**	36,423
	2,714,138	2,260,508
Other receivables, deposits and prepayments	**180,930**	280,206
Less: allowance for doubtful debts	**(1,294)**	(1,361)
	179,636	278,845
	2,893,774	2,539,353

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

The fair values of trade and other receivables have no material difference against their book value.

At 31 December 2013 and 2012, the ageing analysis of the trade receivables, notes receivable, amounts due from the related parties — trade, based on the invoice date were as follows:

	31 December 2013 RMB'000	31 December 2012 RMB'000
Within 6 months	**2,710,430**	2,257,721
7 to 12 months	**3,708**	2,787
	2,714,138	2,260,508

17. TRADE AND OTHER RECEIVABLES (Continued)

The carrying amounts of the Company's trade and other receivables are denominated in the following currencies:

	31 December 2013 RMB'000	31 December 2012 RMB'000
RMB	**2,789,502**	2,452,952
USD	**104,272**	86,401
	2,893,774	2,539,353

Movements on the Company's allowance for impairment of trade receivables during the year are as follows:

	2013 RMB'000	2012 RMB'000
At 1 January	**1,361**	3,857
Reversal upon receipt	**(67)**	(2,496)
At 31 December	**1,294**	1,361

The creation and release of provision for impaired receivables have been included in 'administrative expenses' in the income statement. Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Company does not hold any collateral as security.

As of 31 December 2013 and 2012, no trade and notes receivables were past due but not impaired.

18. INVENTORIES

	31 December 2013 RMB'000	31 December 2012 RMB'000
Raw materials	**451,396**	593,382
Work in progress	**140,116**	118,726
Finished goods	**666,697**	650,575
Goods in transit	**16,470**	307,243
Spare parts and consumables	**91,654**	104,643
	1,366,333	1,774,569
Less: Allowance for decline in value of inventory	**(45,689)**	(38,835)
	1,320,644	1,735,734

The cost of inventories recognised as expense and included in 'cost of sales' amounted to RMB17,733,048 thousand (2012: RMB16,526,584 thousand), which included inventory write-down of RMB6,854 thousand (2012: -RMB18,745 thousand).

19. RESTRICTED CASH

As at 31 December 2013, Restricted cash represents the deposits in PRC banks with initial maturity due for six months, which are pledged for issuance of bank acceptance notes.

20. CASH AND CASH EQUIVALENTS

	31 December 2013 RMB'000	31 December 2012 RMB'000
Cash on hand	**27**	28
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")	**2,282**	13,784
— China CITIC Bank	**21,715**	50,129
Balances with third-party banks and other financial institutions with an initial term less than three months	**61,773**	98,086
	85,797	162,027

21. SHARE CAPITAL AND SHARE PREMIUM

	31 December 2013 RMB'000	31 December 2012 RMB'000
Registered, issued and paid:		
"Domestic non-public legal person A" shares of RMB1 each	**3,450,000**	2,400,000
"Social public A" shares of RMB1 each	**450,000**	200,000
"H" shares of RMB1 each	**2,100,000**	1,400,000
	6,000,000	4,000,000

The Company issued 1,000,000,000 H shares in March 1994, 200,000,000 A shares in January 1995 and 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 Approval for A Share Reform Scheme of Sinopec Yizheng Chemical Fibre Company Limited" (Guo Zi Chan Quan [2013] No.442) issued by the State-owned Assets Supervision and Administration Commission and "the Approval for A Share Reform Scheme of Sinopec Yizheng Chemical Fibre Company Limited" (Cai Jin Han [2013] No.61) issued by Ministry of Finance of the PRC, the Company implemented the A Share Reform in 2013 under which the non-circulating shareholders of the Company paid 5 shares for each 10 circulating A shares that were registered on 16 August 2013 (the date of registration as agreed in the reform plan). As a result, 100,000,000 shares were paid in total. After the payment, the shares held by Sinopec Corp. and CITIC Limited in the Company decreased from 42% and 18% to 40.25% and 17.25%, respectively. From 16 August 2013, all non-circulating shares obtained circulating rights in the Shanghai Stock Exchange. However, in accordance with the agreed terms of restriction on tradability, as at 31 December 2013, all shares held by Sinopec Corp and CITIC Limited have not been available for trading.

Pursuant to the resolutions of general meeting of shareholders of the Company, the Company converted 5 shares for each 10 H shares and A shares that were registered on 13 November 2013 and 20 November 2013, respectively from share premium into share capital. Additional 700,000,000 H shares and additional 1,300,000,000 A shares were thus issued and the transaction was completed on 22 November 2013.

	Number of shares '000	Ordinary shares RMB'000	Share premium RMB'000	Total RMB'000
At 1 January and 31 December 2012	4,000,000	4,000,000	2,518,833	6,518,833
Share premium converted into share capital	2,000,000	2,000,000	(2,000,000)	–
At 31 December 2013	**6,000,000**	**6,000,000**	**518,833**	**6,518,833**

22. RETAINED EARNINGS

	2013 **RMB'000**	2012 RMB'000
At 1 January	**1,765,848**	2,244,384
Total comprehensive loss for the year	**(1,450,019)**	(358,456)
Specific reserve appropriated *(Note 23)*	**(1,367)**	(80)
Dividends approved in respect of the previous year	**–**	(120,000)
At 31 December	**314,462**	1,765,848

23. OTHER RESERVES

	Capital reserve RMB'000	**Surplus reserves (a)** RMB'000	**Specific reserves (b)** RMB'000	**Total** RMB'000
At 1 January 2012	28,339	200,383	–	228,722
Safety fund appropriation	–	–	80	80
At 31 December 2012	28,339	200,383	80	228,802
Safety fund appropriation	–	–	1,367	1,367
At 31 December 2013	**28,339**	**200,383**	**1,447**	**230,169**

(a) In accordance with the Company Law and the Company's Articles of Association, the Company should appropriate 10% of net profit for the year to the statutory surplus reserve, and the Company can cease appropriation when the statutory surplus reserve accumulated to more than 50% of the registered capital. The statutory surplus reserve can be used to make up for the loss or increase the paid in capital after approval from the appropriate authorities.

During 2013, there's no profit appropriation to statutory surplus reserve (2012: Nil).

(b) According to relevant PRC regulations, the Company is required to transfer an amount to reserve for the safety fund based on the revenue of certain petrochemical products at rates specified in the related regulations. During the year ended 31 December 2013, the Company transferred RMB1,367 thousand from retained earnings to reserve for the safety fund (2012: RMB80 thousand).

24. TRADE AND OTHER PAYABLES

	31 December 2013 RMB'000	31 December 2012 RMB'000
Trade payables	**617,927**	717,081
Amounts due to the related parties — trade	**892,917**	1,208,757
	1,510,844	1,925,838
Amounts due to the related parties — non-trade	**43,168**	4,716
Other payables and accrued expenses	**347,588**	234,064
	390,756	238,780
	1,901,600	2,164,618

At 31 December 2013, the ageing analysis of the trade payables (including amounts due to related parties of trading in nature) based on invoice date were are follows:

	31 December 2013 RMB'000	31 December 2012 RMB'000
Within 3 months	**1,439,947**	1,813,776
4 to 6 months	**29,946**	46,432
7 to 12 months	**24,458**	65,630
Over 12 months	**16,493**	–
	1,510,844	1,925,838

25. BORROWINGS

	31 December 2013 RMB'000	31 December 2012 RMB'000
Borrowings from related parties — unsecured *(Note 32(c))*	**700,000**	300,000
Borrowings from banks — unsecured	**902,907**	105,000
	1,602,907	405,000

Bank borrowings mature within one year at 31 December 2013 and 2012 and bear average interest rate of 4.73% per annum (2012: 5.25% per annum).

The Company has the following undrawn borrowing facilities:

	31 December 2013 RMB'000	31 December 2012 RMB'000
Floating rate:	**550,000**	750,000

These facilities have been arranged to help finance the working capitals and also ongoing investments on long-term assets.

The carrying amounts of short-term borrowings approximate their fair value.

The carrying amounts of the Company's borrowings are denominated in the following currencies.

	31 December 2013 RMB'000	31 December 2012 RMB'000
RMB	**1,420,000**	405,000
USD	**182,907**	–
	1,602,907	405,000

26. DEFERRED TAX ASSETS

The analysis of deferred tax assets is as follows:

	2013 RMB'000	2012 RMB'000
Deferred tax asset to be recovered after more than 12 months	**71,741**	294,363
Deferred tax asset to be recovered within 12 months	**2,042**	17,676
	73,783	312,039

The gross movement on the deferred tax assets is as follows:

	2013 RMB'000	2012 RMB'000
At 1 January	**312,039**	122,536
Income statement (credit)/charge	**(238,256)**	189,503
At 31 December	**73,783**	312,039

The movement in deferred tax assets during the year is as follows:

	Balance at 1 January 2012 RMB'000	Recognised in statement of comprehensive income RMB'000	Balance at 31 December 2012 RMB'000	Recognised in statement of comprehensive income RMB'000	Balance at 31 December 2013 RMB'000
Provisions for receivables	964	(624)	340	(16)	**324**
Accrued expenses	–	17,336	17,336	(15,618)	**1,718**
Accrued sales rebate	9,919	(9,919)	–	–	**–**
Inventory	10,358	(5,622)	4,736	1,713	**6,449**
Unutilised tax losses	–	211,779	211,779	(211,779)	**–**
Property, plant and equipment	97,216	(24,180)	73,036	(14,821)	**58,215**
Deferred income	4,079	733	4,812	2,265	**7,077**
	122,536	189,503	312,039	(238,256)	**73,783**

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Company did not recognise deferred income tax assets of RMB481,508 thousand in respect of losses amounting to RMB1,926,032 thousand that can be carried forward against future taxable income. Losses amounting to RMB 847,115 thousand and RMB 1,078,917 thousand will expire in 2017 and 2018, respectively.

27. DIVIDENDS

The dividends paid in 2013 and 2012 were Nil and RMB120,000 thousand (RMB0.03 per share) respectively. The Board of Directors of the Company did not recommend a payment of any dividend for the year ended 31 December 2013 (2012: Nil).

28. DEFERRED INCOME

	2013 RMB'000	2012 RMB'000
At 1 January	**55,103**	55,001
Government grants received during the year	**12,831**	4,790
Recognised in the statement of comprehensive income for the year	**(6,601)**	(4,688)
At 31 December	**61,333**	55,103

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.

29. CASH USED IN OPERATIONS

	2013 RMB'000	2012 RMB'000
Loss before income tax	**(1,211,469)**	(536,627)
Adjustments for:		
— Assets impairment charge	**6,787**	(21,241)
— Depreciation of property, plant and equipment *(Note 14)*	**469,975**	427,978
— Amortisation of lease prepayment *(Note 15)*	**8,481**	8,481
— Amortisation of deferred income *(Note 28)*	**(6,601)**	(4,688)
— Loss/(profit) on disposal of property, plant and equipment (see below)	**20,002**	(12,104)
— Finance expenses/(income) — net *(Note 10)*	**55,554**	(26,219)
— Share of profit of a joint venture *(Note 11)*	**(31)**	(3,479)
— Investment income	**–**	(6,751)
Changes in working capital:		
— Inventories	**408,237**	39,675
— Trade and other receivables	**(604,840)**	(682,642)
— Trade and other payables	**(219,086)**	(149,859)
Cash used in operations	**(1,072,991)**	(967,476)

29. CASH USED IN OPERATIONS (Continued)

In the statement of cash flows, proceeds from sale of property, plant and equipment comprise:

	2013 RMB'000	2012 RMB'000
Net book amount *(Note 14)*	**22,594**	19,819
(Loss)/profit on disposal of property, plant and equipment	**(20,002)**	12,104
Proceeds from disposal of property, plant and equipment	**2,592**	31,923

Non-cash transactions

During 2013, the principal non-cash transaction is endorsement of notes receivables amounted to RMB300,000 thousand to settle the payment for capital expenditures (2012: RMB625,491 thousand).

30. CONTINGENT LIABILITIES

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 2013. 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.

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 2013 not provided for in the financial report as follows:

	2013 RMB'000	2012 RMB'000
Authorised and contracted for	**233,050**	294,915
Authorised but not contracted for	**300,676**	269,172
	533,726	564,087

(b) Investment commitments

The Company had outstanding commitments of USD8,000 thousand in respect of its investment in FEYP not provided for as at 31 December 2013(31 December 2012: USD8,000 thousand).

32. RELATED-PARTY TRANSACTIONS

CPC, 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, joint ventures and associates of CPC and Sinopec Corp. and other subsidiaries and joint ventures 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 joint venture of which the Company and the other venturer have the ability to exercise jointly control over it.

The following transactions were carried out with related parties:

(a) Sales of goods and services

	2013 RMB'000	2012 RMB'000
Sales of goods:		
— CPC and its subsidiaries (excluding Sinopec Corp and its subsidiaries and Sinopec Finance)	**356,891**	548,467
Interest income:		
— Sinopec Finance	**942**	7,507
— China CITIC Bank	**612**	2,874
Miscellaneous service fee charges:		
— FEYP	**–**	17,078
Total	**358,445**	575,926

32. RELATED-PARTY TRANSACTIONS (Continued)

(b) Purchases of goods and services

	2013 RMB'000	2012 RMB'000
Purchases of goods:		
— Sinopec Corp and its subsidiaries	**11,026,614**	9,661,066
— CPC and its subsidiaries (excluding Sinopec Corp and its subsidiaries and Sinopec Finance)	**26,640**	9,681
Insurance premium:		
— CPC and its subsidiaries (excluding Sinopec Corp and its subsidiaries and Sinopec Finance)	**40,480**	18,797
Service charges:		
— Sinopec Corp and its subsidiaries	**47,084**	65,410
Construction and overhaul fee:		
— CPC and its subsidiaries (excluding Sinopec Corp and its subsidiaries and Sinopec Finance)	**48,230**	104,519
Miscellaneous service charges:		
— CPC and its subsidiaries (excluding Sinopec Corp and its subsidiaries and Sinopec Finance)	**6,980**	6,350
Total	**11,196,028**	9,865,823

32. RELATED-PARTY TRANSACTIONS (Continued)

(c) Others

	2013 RMB'000	2012 RMB'000
Interest expenses:		
— Sinopec Finance	**29,562**	399
Borrowings received:		
— Sinopec Finance	**1,800,000**	300,000
Borrowings repaid:		
— Sinopec Finance	**1,400,000**	–

(d) Key management compensation

Key management compensation amounted to RMB2,921 thousand for the year ended 31 December 2013 (2012: RMB3,114 thousand):

	2013 RMB'000	2012 RMB'000
Salaries and other short-term benefits	**2,656**	2,858
Retirement scheme contribution	**265**	256
Total	**2,921**	3,114

32. RELATED-PARTY TRANSACTIONS (Continued)

(e) Year-end balances arising from sales/purchases of goods/services

	31 December 2013 RMB'000	31 December 2012 RMB'000
Balances with banks:		
— Sinopec Finance	**2,282**	13,784
— China CITIC Bank	**21,715**	50,129
	23,997	63,913
Receivables from related parties:		
— CPC and its subsidiaries (excluding Sinopec Corp and its subsidiaries and Sinopec Finance)	**7,094**	10,793
— Sinopec Corp and its subsidiaries	**15,000**	25,630
	22,094	36,423
Payables to related parties:		
— Sinopec Corp and its subsidiaries	**490,001**	1,179,097
— CPC and its subsidiaries (excluding Sinopec Corp and its subsidiaries and Sinopec Finance)	**445,006**	34,213
— Sinopec Finance	**1,078**	163
	936,085	1,213,473
Borrowings from related parties:		
— Sinopec Finance	**700,000**	300,000

The receivables from related parties arise mainly from sale transactions and are due two months after the date of sales. The receivables are unsecured in nature and bear no interest. No provisions are held against receivables from related parties (2012: nil).

The payables to related parties arise mainly from purchase transactions and are due two months after the date of purchase. The payables bear no interest.

(f) Guarantee

Pursuant to the Joint Banks Loan Agreement, FEYP is offered a term loan facility of up to USD350 million for the period of 5 years. The Company and Far Eastern Polytex Holding Limited ("FEPH") will provide guarantee in respect of the Loan Facility, which is severally liable and prorate to their respective percentage equity interest in FEYP. Based on the percentage equity interest of the Company and FEPH in FEYP as at 15 May 2013, the Company and FEPH will guarantee 40% and 60% of the liabilities of FEYP under the Loan Facility respectively. As at 31 December 2013, FEYP has not borrowed in any loans under this facility.

Report of the PRC Auditor

普华永道

To the Board of Directors of Sinopec Yizheng Chemical Fibre Company Limited:

We have audited the accompanying financial statements of Sinopec Yizheng Chemical Fibre Company Limited (hereinafter "the Company"), which comprise the balance sheet as at 31 December 2013, the income statement, the cash flow statement and the statement of changes in shareholders' equity for the year then ended and the notes to the financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management of the Company is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of Accounting Standards for Business Enterprises, and for such internal control as management determines 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. We conducted our audit in accordance with China Standards on Auditing. 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 judgment, 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 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 accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2013, and its financial performance and cash flow for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises.

PricewaterhouseCoopers Zhong Tian LLP

Shanghai, the People's Republic of China
27 March 2014

Balance Sheet

As at 31 December 2013

(All amounts in RMB'000 Yuan unless otherwise stated)

(English translation for reference only)

ASSETS	*Notes*	**31 December 2013**	31 December 2012
Current assets			
Cash at bank and on hand	*4(1)*	**105,797**	162,027
Notes receivable	*4(2)*	**2,558,598**	2,092,377
Accounts receivable	*4(3)*	**140,540**	142,501
Advances to suppliers	*4(5)*	**28,358**	38,106
Other receivables	*4(4)*	**7,813**	17,608
Inventories	*4(6)*	**1,320,644**	1,735,734
Other current assets	*4(7)*	**158,465**	390,137
Total current assets		**4,320,215**	4,578,490
Non-current assets			
Long-term equity investments	*4(8)*	**584,850**	584,819
Fixed assets	*4(9)*	**3,963,871**	3,495,550
Construction in progress	*4(10)*	**1,279,939**	1,870,881
Intangible assets	*4(11)*	**271,143**	296,425
Long-term prepaid expenses	*4(12)*	**135,503**	–
Deferred tax assets	*4(13)*	**73,783**	312,039
Total non-current assets		**6,309,089**	6,559,714
TOTAL ASSETS		**10,629,304**	11,138,204

Balance Sheet (Continued)

As at 31 December 2013
(All amounts in RMB'000 Yuan unless otherwise stated)
(English translation for reference only)

LIABILITIES AND SHAREHOLDERS' EQUITY	*Notes*	**31 December 2013**	31 December 2012
Current liabilities			
Short-term borrowings	*4(15)*	**1,602,907**	405,000
Notes payable	*4(16)*	**400,000**	–
Accounts payable	*4(17)*	**800,758**	1,535,245
Advances from customers	*4(18)*	**310,086**	311,022
Employee benefits payable	*4(19)*	**2,246**	60,269
Taxes payable	*4(20)*	**11,570**	13,081
Interest payable	*4(21)*	**2,793**	393
Other payables	*4(22)*	**374,147**	244,608
Total current liabilities		**3,504,507**	2,569,618
Non-current liabilities			
Deferred income	*4(23)*	**28,309**	19,248
Total liabilities		**3,532,816**	2,588,866
Shareholders' equity			
Share capital	*4(24)*	**6,000,000**	4,000,000
Capital surplus	*4(25)*	**1,146,794**	3,146,794
Specific reserve	*4(26)*	**1,447**	80
Surplus reserve	*4(27)*	**200,383**	200,383
(Accumulated losses)/Undistributed profits	*4(28)*	**(252,136)**	1,202,081
Total shareholders' equity		**7,096,488**	8,549,338
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**10,629,304**	11,138,204

The accompanying notes form an integral part of these financial statements.

Legal representative:	*General Manager:*	*Chief Financial Officer:*	*Vice Director of the Asset and Accounting Department:*
Lu Liyong	**Xiao Weizhen**	**Li Jianping**	**Wang Junsong**

Income Statement

For year ended 31 December 2013
(All amounts in RMB'000 Yuan unless otherwise stated)
(English translation for reference only)

	Notes	2013	2012
1. Revenue	4(29)	**17,677,171**	16,987,916
Less: Cost of sales	4(29)	**(17,765,544)**	(16,572,824)
Taxes and surcharges	4(30)	**(150)**	(913)
Selling and distribution expenses	4(31)	**(226,661)**	(209,179)
General and administrative expenses	4(32)	**(848,455)**	(829,424)
Financial (expenses)/income — net	4(33)	**(5,236)**	30,966
Asset impairment (loss)/reversal	4(34)	**(6,787)**	21,241
Investment income	4(35)	**31**	10,230
Including: Share of profit of a joint venture		**31**	3,479
2. Operating loss		**(1,175,631)**	(561,987)
Add: Non-operating income	4(36)	**8,550**	40,107
Less: Non-operating expenses	4(37)	**(48,586)**	(17,658)
Including: Loss on disposal of non-current assets		**(22,766)**	(6,783)
3. Total loss		**(1,215,667)**	(539,538)
Less: Income tax expenses	4(38)	**(238,550)**	178,171
4. Net loss		**(1,454,217)**	(361,367)
5. Loss per share	4(39)		
Basic loss per share (RMB Yuan)		**(0.24)**	(0.06)
Diluted loss per share (RMB Yuan)		**(0.24)**	(0.06)
6. Other comprehensive income		**–**	–
7. Total comprehensive income		**(1,454,217)**	(361,367)

The accompanying notes form an integral part of these financial statements.

Legal representative:	*General Manager:*	*Chief Financial Officer:*	*Vice Director of the Asset and Accounting Department:*
Lu Liyong	**Xiao Weizhen**	**Li Jianping**	**Wang Junsong**

Cash Flow Statement

For the year ended 31 December 2013
(All amounts in RMB'000 Yuan unless otherwise stated)
(English translation for reference only)

	Notes	2013	2012
1. Cash flows from operating activities			
Cash received from sales of goods		**17,361,754**	17,230,491
Refund of taxes and surcharges		**3,800**	7,002
Cash received relating to other operating activities	*4(40)(a)*	**163,424**	–
Sub-total of cash inflows		**17,528,978**	17,237,493
Cash paid for goods and services		**(17,034,361)**	(16,480,654)
Cash paid to and on behalf of employees		**(1,078,029)**	(1,039,420)
Payments of taxes and surcharges		**(57,614)**	(136,157)
Cash paid relating to other operating activities	*4(40)(b)*	**(432,259)**	(548,981)
Sub-total of cash outflows		**(18,602,263)**	(18,205,212)
Net cash flows from operating activities	*4(41)(a)*	**(1,073,285)**	(967,719)
2. Cash flows from investing activities			
Cash received from disposal of investments		**–**	406,751
Net cash received from disposal of fixed assets		**2,592**	31,923
Cash received relating to other investing activities	*4(40)(c)*	**34,816**	31,521
Sub-total of cash inflows		**37,408**	470,195
Cash paid to acquire fixed assets and intangible assets		**(149,405)**	(688,900)
Cash paid to acquire investments		**–**	(200,000)
Cash paid to acquire financial assets		**–**	(278,251)
Cash paid relating to other investing activities	*4(40)(d)*	**(40,000)**	–
Sub-total of cash outflows		**(189,405)**	(1,167,151)
Net cash flows from investing activities		**(151,997)**	(696,956)

Cash Flow Statement (Continued)

For the year ended 31 December 2013
(All amounts in RMB'000 Yuan unless otherwise stated)
(English translation for reference only)

	Notes	2013	2012
3. Cash flows from financing activities			
Cash received from borrowings		**3,889,325**	405,000
Cash repayments of borrowings		**(2,687,669)**	–
Cash payments for interest expenses and distribution of dividends		**(56,314)**	(120,119)
Sub-total of cash outflows		**(2,743,983)**	(120,119)
Net cash flows from financing activities		**1,145,342**	284,881
4. Effect of foreign exchange rate changes on cash and cash equivalents		**3,710**	–
5. Net decrease in cash and cash equivalents	*4(41)(c)*	**(76,230)**	(1,379,794)
Add: Cash and cash equivalents at beginning of year		**162,027**	1,541,821
6. Cash and cash equivalents at end of year	*4(41)(d)*	**85,797**	162,027

The accompanying notes form an integral part of these financial statements.

Legal representative:	*General Manager:*	*Chief Financial Officer:*	*Vice Director of the Asset and Accounting Department:*
Lu Liyong	**Xiao Weizhen**	**Li Jianping**	**Wang Junsong**

Statement of Changes in Shareholders' Equity

For the year ended 31 December 2013
(All amounts in RMB'000 Yuan unless otherwise stated)
(English translation for reference only)

Item	Notes	Share capital	Capital surplus	Specific reserve	Surplus reserve	(Accumulated losses)/ Undistributed profits	Total shareholders' equity
Balance at 1 January 2012		4,000,000	3,146,794	–	200,383	1,683,448	9,030,625
Movements for the year ended 31 December 2012							
Net loss		–	–	–	–	(361,367)	(361,367)
Profit distribution — distribution to shareholders		–	–	–	–	(120,000)	(120,000)
Production safety fund — accrual		–	–	920	–	–	920
— utilisation		–	–	(840)	–	–	(840)
Balance at 31 December 2012		4,000,000	3,146,794	80	200,383	1,202,081	8,549,338
Balance at 1 January 2013		**4,000,000**	**3,146,794**	**80**	**200,383**	**1,202,081**	**8,549,338**
Movements for the year ended 31 December 2013							
Net loss		**–**	**–**	**–**	**–**	**(1,454,217)**	**(1,454,217)**
Internal equity transfer — conversion of capital surplus into paid-in capital	*4(24)*	**2,000,000**	**(2,000,000)**	**–**	**–**	**–**	**–**
Production safety fund — accrual		**–**	**–**	**1,728**	**–**	**–**	**1,728**
— utilisation		**–**	**–**	**(361)**	**–**	**–**	**(361)**
Balance at 31 December 2013		**6,000,000**	**1,146,794**	**1,447**	**200,383**	**(252,136)**	**7,096,488**

The accompanying notes form an integral part of these financial statements.

Legal representative:	*General Manager:*	*Chief Financial Officer:*	*Vice Director of the Asset and Accounting Department:*
Lu Liyong	**Xiao Weizhen**	**Li Jianping**	**Wang Junsong**

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards for Business Enterprises (ASBE))
(All amounts in RMB'000 Yuan unless otherwise stated)
(English translation for reference only)

1. GENERAL INFORMATION

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

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

The Company issued 1 billion H share in March 1994, 200 million A share in January 1995 and further 400 million new H share in April 1995. The Company's H share and new H share were listed on HKSE on 29 March 1994 and 26 April 1995 respectively, and the Company's A share was listed on SSE on 11 April 1995.

Pursuant to the directives on the reorganisation of certain companies involving the Company and Yihua as issued by the State Council and other government authorities of the PRC, China Eastern United Petrochemical (Group) Company Limited ("CEUPEC") became the largest shareholder of the Company on 19 November 1997, holding the 1,680,000,000 A shares (representing 42% of the Company's issued share capital) previously held by Yihua. CITIC Group Corporation ("CITIC", formerly "CITIC Group") continues to hold 720,000,000 A shares (representing 18% of the Company's issued share capital) 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, in total 1,600,000,000 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.

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 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 have been transferred to CITIC Limited as part of its capital contributions on 25 February 2013 and CITIC Limited thus holds 18% of the Company's share capital.

Pursuant to "the Approval for A Share Reform Scheme of Sinopec Yizheng Chemical Fibre Company Limited" (Guo Zi Chan Quan [2013] No.442) issued by the State-owned Assets Supervision and Administration Commission and "the Approval for A Share Reform Scheme of Sinopec Yizheng Chemical Fibre Company Limited" (Cai Jin Han [2013] No.61) issued by Ministry of Finance of the PRC, the Company implemented the A Share Reform in 2013 under which the non-circulating shareholders of the Company paid 5 shares for each 10 circulating A shares that were registered on 16 August 2013 (the date of registration as agreed in the reform plan). As a result, 100,000,000 shares were paid in total. After the payment, the shares held by Sinopec Corp. and CITIC Limited in the Company decreased from 42% and 18% to 40.25% and 17.25%, respectively. From 22 August 2013, all non-circulating shares obtained circulating rights in the Shanghai Stock Exchange. However, in accordance with the agreed terms of restriction on tradability, as at 31 December 2013, all shares held by Sinopec Corp. and CITIC Limited have not been available for trading.

1. GENERAL INFORMATION (Continued)

Pursuant to the resolutions of general meeting of shareholders of the Company, the Company converted 5 shares for each 10 H shares and A shares that were registered on 13 November 2013 and 20 November 2013, respectively from share premium into share capital. Additional 700,000,000 H shares and additional 1,300,000,000 A shares were thus issued and the transaction was completed on 22 November 2013.

The Company is principally engaged in the production of chemical fibre, chemical products and its raw materials, ancillary raw materials and textile machinery, research and development in textile technology and technological services, instalment and maintenance of equipment and facilities, power generation, computer and software service; and services of accommodation, catering, culture and entertainment (limited to branches).

These financial statements have been approved for issue by the Company's Board of Directors on 27 March 2014.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(1) Basis of preparation

(i) Standards and regulations of preparation

The financial statements were prepared in accordance with the Basic Standard of the Accounting Standards for Business Enterprises issued by the Ministry of Finance on 15 February 2006, and the Application Guidance for Accounting Standards for Business Enterprises, Interpretations of Accounting Standards for Business Enterprises and other relevant regulations issued thereafter (hereafter collectively referred to as "the Accounting Standards for Business Enterprises" or "CAS") and the disclosure requirements in the Preparation Convention of Information Disclosure by Companies Offering Securities to the Public No.15 — General Rules on Financial Reporting (2010 revised) issued by the China Securities Regulatory Commission.

(ii) Going concern basis

For the year ended 31 December 2013, the Company incurred a net loss of RMB1,454 million. The accumulated losses amounted to RMB252 million as at 31 December 2013. Taking into account the Company's ability to generate cash from operating activities, undrawn borrowing facilities of approximately RMB550 million and commitment from the controlling shareholder to provide the Company with finance support for it to continue as a going concern (short-term borrowings of RMB700 million were obtained from CPC as at 31 December 2013), the management and directors of the Company believe that the Company can meet its liabilities as and when they fall due and refinance its borrowings within the 12 months after 31 December 2013. Consequently, the Company prepared the current year's financial statements on a going concern basis.

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

The financial statements of the Company for the year ended 31 December 2013 are in compliance with the Accounting Standards for Business Enterprises, and truly and completely present the financial position of the Company as of 31 December 2013 and of its financial performance, cash flows and other information for the year then ended.

(3) Accounting year

The Company's accounting year starts on 1 January and ends on 31 December.

(4) Recording currency

The recording currency is Renminbi (RMB). Recording currency is determined by the Company on the basis of the currency in which major income and costs are denominated and settled.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(5) Cash and cash equivalents

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

(6) Foreign currency translation — Foreign currency transactions

Foreign currency transactions are translated into RMB using the exchange rates prevailing at the dates of the transactions.

At the balance sheet date, monetary items denominated in foreign currencies are translated into RMB using the spot exchange rates on the balance sheet date. Exchange differences arising from these translations are recognised in profit or loss for the current period, except for those attributable to foreign currency borrowings that have been taken out specifically for the acquisition or construction of qualifying assets, which are capitalised as part of the cost of those assets. Non-monetary items denominated in foreign currencies that are measured at historical costs are translated at the balance sheet date using the spot exchange rates at the date of the transactions. The effect of exchange rate changes on cash is presented separately in the cash flow statement.

(7) Financial instruments

(a) Financial assets

(i) Classification of financial assets

Financial assets are classified into the following categories at initial recognition: financial assets at fair value through profit or loss, receivables, available-for-sale financial assets and held-to-maturity investments. The classification of financial assets depends on the Company's intention and ability to hold the financial assets.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for the purpose of selling in the short term. They are presented as financial assets held for trading on the balance sheet.

Receivables

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

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories at initial recognition. Available-for-sale financial assets are included in other current assets on the balance sheet if management intends to dispose of them within 12 months after the balance sheet date.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed maturity and fixed or determinable payments that management has the positive intention and ability to hold to maturity. Held-to-maturity investments with maturities over 12 months when the investments were made but are due within 12 months at the balance sheet date are included in the current portion of non-current assets; held-to maturity investments with maturities no more than 12 months when the investments were made are included in other current assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(7) Financial instruments (Continued)

(a) Financial assets (Continued)

(ii) Recognition and measurement

Financial assets are recognised at fair value on the balance sheet when the Company becomes a party to the contractual provisions of the financial instrument. In the case of financial assets at fair value through profit or loss, the related transaction costs incurred at the time of acquisition are recognised in profit or loss for the current period. For other financial assets, transaction costs that are attributable to the acquisition of the financial assets are included in their initially recognised amounts.

Financial assets at fair value through profit or loss and available-for-sale financial assets are subsequently measured at fair value. Investments in equity instruments are measured at cost when they do not have a quoted market price in an active market and whose fair value cannot be reliably measured. Receivables and held-to-maturity investments are measured at amortised cost using the effective interest method.

Gains or losses arising from change in the fair value of financial assets at fair value through profit or loss are recognised in profit or loss. Interests and cash dividends received during the period in which such financial assets are held, as well as the gains or losses arising from disposal of these assets are recognised in profit or loss for the current period.

Gains or losses arising from change in fair value of available-for-sale financial assets are recognised directly in equity, except for impairment losses and foreign exchange gains and losses arising from translation of monetary financial assets. When such financial assets are derecognised, the cumulative gains or losses previously recognised directly into equity is recycled into profit or loss for the current period. Interests on available-for-sale investments in debt instruments calculated using the effective interest method during the period in which such investments are held and cash dividends declared by the investee on available-for-sale investments in equity instruments are recognised as investment income, which is recognised in profit or loss for the period.

(iii) Impairment of financial assets

The Company assesses the carrying amounts of financial assets other than those at fair value through profit or loss at each balance sheet date. If there is objective evidence that a financial asset is impaired, an impairment loss is provided for.

The objective evidence proving that the financial asset has been impaired refers to the actually incurred events which, after the financial asset is initially recognized, have an impact on the predicted future cash flow of the said financial asset that can be reliably measured by the enterprise, including but not limited to:

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

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

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

(d) the disappearance of an active market for that financial asset because of financial difficulties faced by the issuer;

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

(f) a significant decline in the fair value of an investment in an equity instrument below its cost (ie.,fair value decline over 20%) or a prolonged decline (ie., fair value decline lasting six months) etc..

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(7) Financial instruments (Continued)

(a) *Financial assets* (Continued)

(iii) Impairment of financial assets (Continued)

When an impairment loss on a financial asset carried at amortised cost has occurred, the amount of loss is provided for at the difference between the asset's carrying amount and the present value of its estimated future cash flows (excluding future credit losses that have not been incurred). If there is objective evidence that the value of the financial asset recovered and the recovery is related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed and the amount of reversal is recognised in profit or loss.

If there is objective evidence that an impairment loss on available-for-sale financial assets incurred, the cumulative losses arising from the decline in fair value that had been recognised directly in equity are transferred out from equity and into impairment loss. For an investment in debt instrument classified as available-for-sale on which impairment losses have been recognised, if, in a subsequent period, its fair value increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the previously recognised impairment loss is reversed into profit or loss for the current period. For an investment in an equity instrument classified as available-for-sale on which impairment losses have been recognised, the increase in its fair value in a subsequent period is recognised directly in equity.

(iv) Derecognition of financial assets

A financial asset is derecognised when any of the below criteria is met: (i) the contractual rights to receive the cash flows from the financial asset expire; (ii) the financial asset has been transferred and the Company transfers substantially all the risks and rewards of ownership of the financial asset to the transferee; or (iii) the financial asset has been transferred and the Company has not retained control of the financial asset, although the Company neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received and the cumulative changes in fair value that had been recognised directly in equity, is recognised in profit or loss.

(b) *Financial liabilities*

Financial liabilities are classified into the following categories at initial recognition: financial liabilities at fair value through profit or loss and other financial liabilities. The financial liabilities of the Company mainly comprise other financial liabilities, including payables and borrowings etc.

Payables, including accounts payable and other payables, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Other financial liabilities with maturities no more than one year are classified as current liabilities. Other financial liabilities with maturities over one year but are due within one year at the balance sheet date are classified as the current portion of non-current liabilities. Others are classified as non-current liabilities.

A financial liability is derecognised or partly derecognised when the current obligation is discharged or partly discharged. The difference between the carrying amount of the financial liability or the derecognised part of the financial liability and the consideration paid is recognised in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(7) Financial instruments (Continued)

(c) *Presentation of financial assets and financial liabilities*

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

- The Company has a legal right to set off the recognised amounts and the legal right is currently enforceable; and
- The Company intends either to settle on a net basis, or to realise the financial asset and settle the financial liability simultaneously.

(d) *Determination of fair value of financial instrument*

The fair value of a financial instrument that is traded in an active market is determined at the quoted price in the active market. The fair value of a financial instrument that is not traded in an active market is determined by using a valuation technique. Valuation techniques include using prices of recent market transactions between knowledgeable and willing parties, reference to the current fair value of another financial asset that is substantially the same with this instrument, and discounted cash flow analysis, etc. When a valuation technique is used to establish the fair value of a financial instrument, it makes the maximum use of observable market inputs and relies as little as possible on entity-specific inputs.

(8) Receivables

Receivables comprise accounts receivable and other receivables. Accounts receivable arising from sale of goods or rendering of services are initially recognised at fair value of the contractual payments from the buyers or service recipients.

(a) *Receivables with amounts that are individually significant and subject to separate assessment for provision for bad debts*

Receivables with amounts that are individually significant are subject to assessment for impairment on the individual basis. If there exists objective evidence that the Company will not be able to collect the amount under the original terms, a provision for impairment of that receivable is made.

The criterion for determining "individually significant" amounts is that any individual amount is more than 5% of balance of receivables.

The method of providing for bad debts for those individually significant amounts is as follows: the amount of the present value of the future cash flows expected to be derived from the receivable below its carrying amount.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(8) Receivables (Continued)

(b) *Receivables that are subject to provision for bad debts on the grouping basis*

Receivables with amounts that are not individually significant and those receivables that have been individually assessed for impairment and have not been found impaired are classified into certain groupings based on their credit risk characteristics. The provision for bad debts is determined based on the historical loss experience for the groupings of receivables with similar credit risk characteristics, taking into consideration of the current circumstances.

The method of determining provision for bad debts is the ageing analysis method, and the provision ratios are as follows:

	Provision ratios used for accounts receivable	Provision ratios used for other receivables
Within 1 year (inclusive)	–	–
Over 1 year but within 2 years (inclusive)	30%	30%
Over 2 years but within 3 years (inclusive)	60%	60%
Over 3 years	100%	100%

(c) *Receivables with amounts that are not individually significant but subject to separate assessment for provision for bad debts*

The reason for making separate assessment for provision for bad debts is that there exists objective evidence (for example receivables which are overdue more than 1 year or with special characteristics) that the Company will not be able to collect the amount under the original terms of the receivable.

The provision for bad debts is determined based on the amount of the present value of the future cash flows expected to be derived from the receivable below its carrying amount.

(9) Inventories

(a) *Classification*

Inventories include raw materials, work in progress, finished goods, spare parts and turnover materials, and are measured at the lower of cost and net realisable value.

(b) *Costing of inventories*

Cost is determined using the weighted average method. The cost of finished goods and work in progress comprise raw materials, direct labour and systematically allocated production overhead based on the normal production capacity.

(c) *Basis for determining net realisable values of inventories and method for making provision for decline in the value of inventories*

Provision for decline in the value of inventories is determined at the excess amount of the carrying amounts of the inventories over their net realisable value. Net realisable value is determined based on the estimated selling price in the ordinary course of business, less the estimated costs to completion and estimated costs necessary to make the sale and related taxes.

(d) The Company adopts the perpetual inventory system.

(e) *Amortisation methods of spare parts and turnover materials*

Turnover materials include low-value consumables, packaging materials and other materials. Spare parts and turnover materials are amortised into expenses in full.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(10) Long-term equity investments

Long-term equity investment is the Company's long-term equity investment in its joint venture. Joint ventures are the investees over which the Company is able to exercise joint control together with other venturers.

(a) *Determination of investment cost*

The Company's interest in the joint ventures is acquired by payment in cash and the initial investment cost shall be the purchase price actually paid.

(b) *Subsequent measurement and recognition of related profit and loss*

For long-term equity investments in joint ventures accounted for using the equity method, where the initial investment cost of a long-term equity investment exceeds the Company's share of the fair value of the investee's identifiable net assets at the acquisition date, the long-term equity investment is measured at the initial investment cost; where the initial investment cost is less than the Company's share of the fair value of the investee's identifiable net assets at the acquisition date, the difference is included in profit or loss and the cost of the long-term equity investment is adjusted upwards accordingly.

For long-term equity investments accounted for using the equity method, the Company recognises the investment income according to its share of net profit or loss of the investee. The Company discontinues recognising its share of net losses of an investee after the carrying amount of the long-term equity investment together with any long-term interests that, in substance, form part of the investor's net investment in the investee are reduced to zero. However, if the Company has obligations for additional losses and the criteria with respect to recognition of provisions under the accounting standards on contingencies are satisfied, the Company continues recognising the investment losses and the provisions. For changes in owners' equity of the investee other than those arising from its net profit or loss, the Company records its proportionate share directly into capital surplus, provided that the Company's proportion of shareholding in the investee remains unchanged. The carrying amount of the investment is reduced by the Company's share of the profit distribution or cash dividends declared by an investee. The unrealised profits or losses arising from the intra-group transactions amongst the Company and its investees are eliminated in proportion to the Company's equity interest in the investees, and then based on which the investment gains or losses are recognised. For the loss on the intra-group transaction amongst the Company and its investees attributable to asset impairment, any unrealised loss is not eliminated.

(c) *Basis for determining existence of control over investees*

Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing 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) *Impairment of long-term equity investments*

The carrying amounts of long-term equity investments in joint ventures are reduced to the recoverable amounts when the recoverable amounts are below their carrying amounts (Note 2 (16)). For other long-term equity investments which are not quoted in an active market and whose fair values cannot be reliably measured, the excess of their carrying amounts over the present values of future cash flows discounted at the prevailing market yield rate for similar financial assets is recognised as impairment loss and cannot be reversed once recognised.

(All amounts in RMB'000 Yuan unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(11) Fixed assets

(a) *Recognition and initial measurement of fixed assets*

Fixed assets comprise buildings, machinery and equipment, motor vehicles, and other fixed assets.

Fixed assets are recognised when it is probable that the related economic benefits will flow to the Company and the costs can be reliably measured. Fixed assets purchased or constructed by the Company are initially measured at cost at the acquisition date. The fixed assets contributed by the State shareholders at the reorganisation of the Company into a corporation entity are recognised based on the revaluated amounts approved by the state-owned assets administration department.

Subsequent expenditures incurred for a fixed asset are included in the cost of the fixed asset when it is probable that the associated economic benefits will flow to the Company and the related cost can be reliably measured. The carrying amount of the replaced part is derecognised. All the other subsequent expenditures are recognised in profit or loss in the period in which they are incurred.

(b) *Depreciation methods of fixed assets*

Fixed assets are depreciated using the straight-line method to allocate the cost of the assets to their estimated residual values over their estimated useful lives. For the fixed assets that have been provided for impairment loss, the related depreciation charge is prospectively determined based upon the adjusted carrying amounts over their remaining useful lives.

The estimated useful lives, the estimated residual values expressed as a percentage of cost and the annual depreciation rates of fixed assets are as follows:

	Estimated useful lives	Estimated residual values	Annual depreciation rates
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%

The estimated useful life, the estimated net residual value of a fixed asset and the depreciation method applied to the asset are reviewed, and adjusted as appropriate at each year-end.

(c) The carrying amount of a fixed asset is reduced to the recoverable amount when the recoverable amount is below the carrying amount (Note 2 (16)).

(d) *Disposal of fixed assets*

A fixed asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The amount of proceeds from disposals on sale, transfer, retirement or damage of a fixed asset net of its carrying amount and related taxes and expenses is recognised in profit or loss for the current period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(12) Construction in progress

Construction in progress is measured at actual cost. Actual cost comprises construction costs, installation costs, borrowing costs that are eligible for capitalisation and other costs necessary to bring the fixed assets ready for their intended use. Construction in progress is transferred to fixed assets when the assets are ready for their intended use, and depreciation begins from the following month. The carrying amount of construction in progress is reduced to the recoverable amount when the recoverable amount is below the carrying amount (Note 2 (16)).

(13) Borrowing costs

The borrowing costs that are directly attributable to the acquisition and construction of a fixed asset that needs a substantially long period of time for its intended use commence to be capitalised and recorded as part of the cost of the asset when expenditures for the asset and borrowing costs have been incurred, and the activities relating to the acquisition and construction that are necessary to prepare the asset for its intended use have commenced. The capitalisation of borrowing costs ceases when the asset under acquisition or construction becomes ready for its intended use and the borrowing costs incurred thereafter are recognised in profit or loss for the current period. Capitalisation of borrowing costs is suspended during periods in which the acquisition or construction of a fixed asset is interrupted abnormally and the interruption lasts for more than 3 months, until the acquisition or construction is resumed.

For the specific borrowings obtained for the acquisition or construction of a fixed asset qualifying for capitalisation, the amount of borrowing costs eligible for capitalisation is determined by deducting any interest income earned from depositing the unused specific borrowings in the banks or any investment income arising on the temporary investment of those borrowings during the capitalisation period.

For the general borrowings obtained for the acquisition or construction of a fixed asset qualifying for capitalisation, the amount of borrowing costs eligible for capitalisation is determined by applying the weighted average effective interest rate of general borrowings, to the weighted average of the excess amount of cumulative expenditures on the asset over the amount of specific borrowings. The effective interest rate is the rate at which the estimated future cash flows during the period of expected duration of the borrowings or applicable shorter period are discounted to the initial amount of the borrowings.

(14) Intangible assets

Intangible assets include land use rights, patent rights and technology rights, and are measured at cost. The intangible assets contributed by the State shareholders at the reorganisation of the Company into a corporation are recognised based on the revaluated amounts as approved by the state-owned assets administration department.

(a) *Land use rights*

Land use rights are amortised on the straight-line basis over their approved use period of 44–50 years.

(b) *Patent rights*

Patent rights are amortised on a straight-line basis over the patent protection period of 10 years as stipulated by the laws.

(c) *Technology rights*

Technology rights are amortised on a straight-line basis over the useful life of 10 years as agreed in agreement.

(d) *Periodical review of useful life and amortisation method*

For an intangible asset with a finite useful life, review of its useful life and amortisation method is performed at each year-end, with adjustment made as appropriate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(14) Intangible assets (Continued)

(e) Research and development

The expenditure on an internal research and development project is classified into expenditure on the research phase and expenditure on the development phase based on its nature and whether there is material uncertainty that the research and development activities can form an intangible asset at end of the project.

Expenditure on the research phase is recognised in profit or loss in the period in which it is incurred. Expenditure on the development phase is capitalised only if all of the following conditions are satisfied:

- it is technically feasible to complete the intangible asset so that it will be available for use or sale;
- management intends to complete the intangible asset, and to use or sell it;
- it can be demonstrated how the intangible asset will generate economic benefits;
- there are adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible asset; and
- the expenditure attributable to the intangible asset during its development phase can be reliably measured.

Other development expenditures that do not meet the conditions above are recognised in profit or loss in the period in which they are incurred. Development costs previously recognised as expenses are not recognised as an asset in a subsequent period. Capitalised expenditure on the development phase is presented as development costs in the balance sheet and transferred to intangible assets at the date that the asset is ready for its intended use.

(f) Impairment of intangible assets

The carrying amount of intangible assets is reduced to the recoverable amount when the recoverable amount is below the carrying amount (Note 2 (16)).

(15) Long-term prepaid expenses

Long-term prepaid expenses are that have been incurred but should be recognised as expenses over more than one year in the current and subsequent periods. Long-term prepaid expenses are amortised on the straight-line basis over the expected beneficial period and are presented at actual expenditure net of accumulated amortisation.

(16) Impairment of long-term assets

Fixed assets, construction in progress, intangible assets with finite useful lives, and long-term equity investments in joint ventures are tested for impairment if there is any indication that the assets may be impaired at the balance sheet date. If the result of the impairment test indicates that the recoverable amount of an asset is less than its carrying amount, a provision for impairment and an impairment loss are recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognised on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

Once the above asset impairment loss is recognised, it will not be reversed for the value recovered in the subsequent periods.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(17) Employee benefits

Employee benefits mainly include wages or salaries, bonuses, allowances and subsidies, staff welfare, social security contributions, housing funds, labour union funds, employee education funds and other expenditures incurred in exchange for service rendered by employees.

Where the Company terminates the employment relationship with employees before the end of the employment contract or offers compensation for encouraging employees to accept voluntary redundancy, a provision for termination benefits for the compensation arising from termination of the employment relationship with employees is recognised, with a corresponding charge to profit or loss when the Company has made a formal plan for termination of the employment relationship or an offer for voluntary redundancy which will be implemented immediately and cannot be withdrawn by the Company unilaterally.

Except for the compensation to employees for termination of the employment relationship, the employee benefits are recognised in the accounting period in which the service has been rendered by the employees, and as costs of assets or expenses to whichever the employee service is attributable.

(18) Dividend distribution

Cash dividend is recognised as a liability for the period in which the dividend is approved by the shareholders' meeting.

(19) Revenue recognition

The amount of revenue is determined in accordance with the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown net of discounts and returns.

Revenue is recognised when the economic benefits associated with the transaction will flow to the Company, the related revenue can be reliably measured, and the specific revenue recognition criteria have been met for each type of the Company's activities as described below:

(a) *Sale of goods*

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods are transferred to the buyer, the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and it is probable that the economic benefit associated with the transaction will flow to the Company and the relevant revenue and costs can be measured reliably.

(b) *Rendering of services*

The Company provides lifting and transportation service to external parties. The related revenue is recognised using the percentage of completion method, with the stage of completion being determined based on proportion of costs incurred to date to the estimated total costs.

(c) *Transfer of asset use rights*

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

Income from an operating lease is recognised on a straight-line basis over the period of the lease.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(20) Government grants

Government grants are transfers of monetary assets or non-monetary assets from the government to the Company at no consideration, principally financial subsidies, 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 the conditions attached to it can be complied with and the government grant can be received. For a government grant in the form of transfer of monetary assets, it is measured at the amount received or receivable. For a government grant in the form of transfer of non-monetary assets, it is measured at fair value; if the fair value is not reliably determinable, the grant is measured at nominal amount.

The government grants related to assets refer to those used in acquisition or construction of or in other manners to form long-term assets. The government grants related to income refer to the government grants other than those related to assets.

A government grant related to an asset is recognised as deferred income, and evenly amortised to profit or loss over the useful life of the related asset. Government grants measured at nominal amounts are recognised immediately in profit or loss for the current period.

For government grants related to income, where the grant is a compensation for related expenses or losses to be incurred by the Company in the subsequent periods, the grant is recognised as deferred income, and included in profit or loss over the periods in which the related costs are recognised; where the grant is a compensation for related expenses or losses already incurred by the Company, the grant is recognised immediately in profit or loss for the current period.

(21) Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities are calculated and recognised based on the differences arising between the tax bases of assets and liabilities and their carrying amounts (temporary differences). Deferred tax asset is recognised for the deductible losses that can be carried forward to subsequent years for deduction of the taxable profit in accordance with the tax laws. No deferred tax liability is recognised for a temporary difference arising from the initial recognition of goodwill. No deferred tax asset or deferred tax liability is recognised for the temporary differences resulting from the initial recognition of assets or liabilities due to a transaction other than a business combination, which affects neither accounting profit nor taxable profit (or deductible loss). At the balance sheet date, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

Deferred tax assets are only recognised for deductible temporary differences, deductible losses and tax credits to the extent that it is probable that taxable profit will be available in the future against which the deductible temporary differences, deductible losses and tax credits can be utilised.

Deferred tax assets and liabilities are offset when:

- the deferred taxes assets and liabilities are related to the income tax paid by the Company to the same taxation authority; and

- the Company has a legally enforceable right to offset current tax assets against current tax liabilities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(22) Leases — operating leases

An operating lease is a lease that has not transferred substantially all the risks and rewards incidental to ownership of an asset. Lease payments under an operating lease are recognised on a straight-line basis over the period of the lease, and are either capitalised as part of the cost of related assets, or charged as an expense for the current period.

(23) Production safety fund

The Company accrued production safety fund according to the national regulations for high-risk industry. The production safety fund accrued is charged to the cost of related products, and recorded in the specific reserve. As production safety 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.

(24) Segment information

The Company identifies operating segments based on the internal organisation structure, management requirements and internal reporting system, and discloses segment information of reportable segments which is determined on the basis of operating segments.

An operating segment is a component of the Company that satisfies all of the following conditions: (1) the component is able to earn revenues and incur expenses from its ordinary activities; (2) whose operating results are regularly reviewed by the Company's management to make decisions about resources to be allocated to the segment and to assess its performance, and (3) for which the information on financial position, operating results and cash flows is available to the Company.

Two or more operating segments may be aggregated into one single operating segment if the segments have similar economic characteristics and are same or similar in:

- the nature of each products or service;
- the nature of production processes;
- the type or class of customers for the products and services;
- methods used to distribute the products or provide the services, and
- the nature of the regulatory environment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(25) Related parties

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

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

(a) the Company's parent company;

(b) enterprises that are controlled by the same parent company;

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

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(25) Related parties (Continued)

In addition to the related parties stated above determined in accordance with the requirements of CAS, the following enterprises and individuals are considered as (but not restricted to) related parties based on the disclosure requirements of Administrative Procedures on the Information Disclosures of Listed Companies issued by the CSRC:

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

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

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

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

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

(26) Critical accounting estimates and judgments

The Company continually evaluates the critical accounting estimates and key judgments applied based on historical experience and other factors, including expectations of future events that are believed to be reasonable.

The critical accounting estimates and key assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next accounting year are outlined below:

(a) Impairment of receivables

As described in Note 2(8), receivables that are measured at amortisation cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is provided. Objective evidence of impairment includes observable data that comes to the attention of the Company about loss events such as a significant decline in the estimated future cash flow of an individual debtor or the portfolio of debtors, and significant changes in the financial condition that have an adverse effect on the debtor. If there is objective evidence of a recovery in value of receivables which can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed.

(b) Provision for decline 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 decline 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 decline in value of inventories. The net profit or loss may then be affected in the period when the provision for decline in value of inventories is adjusted.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(26) Critical accounting estimates and judgments (Continued)

(c) Tax

There are many transactions and events for which the ultimate tax determination is uncertain during the ordinary course of business. Significant judgment is required from the Company in determining the provision for income taxes in each of these jurisdictions. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Besides, recognition of deferred tax assets in respect of temporary deductible differences and the tax losses largely depends on whether the Company is likely to obtain future taxable profit to offset deductible loss and tax deduction, while calculation of the future taxable profit need large amount of estimates and judgments in combination with tax planning strategies. Different estimates and judgments shall influence the amount of deferred tax.

(d) Impairment of long-term assets

As described in Note 2(16), long-term assets 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. If significant changes with an adverse effect that have taken place in relevant assumptions, the Company would need to recognise further impairment against long-term assets.

(e) Depreciation and amortisation of assets such as fixed assets, intangible assets and long-term prepaid expenses

As described in Note 2(11), (14) and (15), fixed assets, intangible assets and long-term prepaid expenses 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 experiences of similar assets and the estimated technical changes, the amortisation periods for the long-term prepaid expenses are determined by the Company in accordance with the expected benefit period of each expense. If there have been significant changes in the factors used to determine the depreciation or amortisation, the rate of depreciation or amortisation is revised.

(All amounts in RMB'000 Yuan unless otherwise stated)

3 TAXATION

The main categories and rates of taxes applicable to the Company are set out below:

Category	Tax base	Tax rate
Enterprise income tax	Taxable income	25%
Value added tax	Taxable value added amount (Tax payable is calculated using the taxable sales amount multiplied by the applicable tax rate less deductible VAT input of current period)	6%, 13% or 17%
Business tax	Taxable turnover amount	3% or 5%
City maintenance and construction tax	Amount of paid VAT and business tax	7%
Education fee surcharge	Amount of paid VAT and business tax	5%
Land use tax	Based on the actual area of land occupied	RMB4 per square meter

Pursuant to the Notice of Ministry of Finance and State Administration of Taxation on Pilot Proposals for the Change from Business Tax to Value-Added Tax (Cai Shui [2012] No.110) and the State Administration of Taxation on the Tax Policies for Implementing the Pilot Program of Levying Value-Added Tax in Lieu of Business Tax on the Transportation Industry and Some Modern Service Industries (Cai Shui [2012] No.71), starting from 1 October 2012, the Company's transportation service income is subject to Value Added Tax (VAT), with a tax rate of 6%. Before 1 October 2012, the transportation service income was subject to business tax with a tax rate of 3%.

4 NOTES TO THE FINANCIAL STATEMENTS

(1) Cash at bank and on hand

	31 December 2013			31 December 2012		
	Amount in foreign currency	**Exchange rate**	**Amount in RMB**	Amount in foreign currency	Exchange rate	Amount in RMB
Cash on hand						
— RMB	**–**	**–**	**27**	–	–	28
Bank deposits						
— RMB	**–**	**–**	**81,542**	–	–	97,847
— USD	**38**	**6.0969**	**232**	38	6.2855	239
			81,774			98,086
Deposits with related party *(Note 6(5))*						
— RMB	**–**	**–**	**23,996**	–	–	63,913
			105,797			162,027

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

As at 31 December 2013, bank deposits include a deposit of RMB20,000 thousand (31 December 2012: Nil) pledged for issuing bank acceptance notes (Note 4(16)).

(All amounts in RMB'000 Yuan unless otherwise stated)

4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(2) Notes receivable

	31 December 2013	31 December 2012
Bank acceptance notes	**2,558,598**	2,092,377

As at 31 December 2013 and 31 December 2012, notes receivable are neither pledged nor overdue.

As at 31 December 2013, the five largest notes receivable that are not mature but have been endorsed to other parties are as follows:

	Issuance date	Maturity date	Amount
Issuer 1	17 December 2013	17 March 2014	10,442
Issuer 2	9 December 2013	9 March 2014	10,073
Issuer 2	13 December 2013	13 March 2014	10,000
Issuer 3	2 August 2013	2 February 2014	10,000
Issuer 2	23 October 2013	23 January 2014	10,000
			50,515

(3) Accounts receivable

	31 December 2013	31 December 2012
Accounts receivable	**140,540**	142,501
Less: provision for bad debts	**–**	–
	140,540	142,501

(All amounts in RMB'000 Yuan unless otherwise stated)

4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(3) Accounts receivable (Continued)

(a) The ageing of accounts receivable is analysed as follows:

	31 December 2013	31 December 2012
Within 1 year	**140,540**	142,501

(b) Accounts receivable are analysed by categories as follows:

	31 December 2013				31 December 2012			
	Ending balance		Provision for bad debts		Ending balance		Provision for bad debts	
	Amount	% of total balance	Amount	Ratio	Amount	% of total balance	Amount	Ratio
Accounts receivable that the related provision for bad debts is provided on the grouping basis	**140,540**	**100%**	**–**	**–**	142,501	100%	–	–

The Company performed the impairment test on accounts receivables in accordance with the accounting policy set out in Note 2(8). As at 31 December 2013 and 31 December 2012, there were no significant or insignificant accounts receivable that were individually determined to be impaired.

(c) Accounts receivable that the related provision for bad debts is provided on grouping basis using the ageing analysis method are analysed as follows:

	31 December 2013				31 December 2012			
	Ending balance		Provision for bad debts		Ending balance		Provision for bad debts	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Within 1 year	**140,540**	**100%**	**–**	**–**	142,501	100%	–	–

(d) During the reporting period, the Company did not have accounts receivable for which a full provision or a significant provision was made in the previous years that were recovered or reversed partly or in full amount.

(All amounts in RMB'000 Yuan unless otherwise stated)

4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(3) Accounts receivable (Continued)

(e) As at 31 December 2013, the five largest accounts receivable are analysed as follows:

	Relationship with the Company	Amount	Ageing	Percentage of total accounts receivable
Entity A	Third party	28,567	Within 1 year	20.33%
Entity B	Third party	10,107	Within 1 year	7.19%
Entity C	Third party	9,722	Within 1 year	6.92%
Entity D	Third party	7,276	Within 1 year	5.18%
Entity E	Third party	7,177	Within 1 year	5.11%
		62,849		44.73%

(f) Balance due from related parties:

		31 December 2013			31 December 2012		
	Relationship with the Company	Amount	Percentage of accounts receivable	Provision for bad debts	Amount	Percentage of accounts receivable	Provision for bad debts
CPC and its subsidiaries	Ultimate holding company	**7,094**	**5.05%**	**–**	10,793	7.58%	–

Except for those listed above, as at 31 December 2013 and 2012, there were no accounts receivable from shareholders holding more than 5% (including 5%) of the voting rights of the Company or from related parties.

(g) Accounts receivable denominated in foreign currencies are as follows:

	31 December 2013			31 December 2012		
	Amount in foreign currency	Exchange rate	Amount in RMB	Amount in foreign currency	Exchange rate	Amount in RMB
USD	**17,102**	**6.0969**	**104,269**	13,745	6.2855	86,401

(All amounts in RMB'000 Yuan unless otherwise stated)

4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(4) Other receivables

	31 December 2013	31 December 2012
Amounts due from third parties	**9,107**	18,969
Less: Provision for bad debts	**(1,294)**	(1,361)
	7,813	17,608

(a) The ageing of other receivables is analysed as follows:

	31 December 2013	31 December 2012
Within 1 year	**7,813**	17,573
1 to 2 years	**–**	50
Over 3 years	**1,294**	1,346
	9,107	18,969
Less: provision for bad debts	**(1,294)**	(1,361)
	7,813	17,608

(All amounts in RMB'000 Yuan unless otherwise stated)

4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(4) Other receivables (Continued)

(b) Other receivables are analysed by categories as follows:

	31 December 2013				31 December 2012			
	Ending balance		Provision for bad debts		Ending balance		Provision for bad debts	
	Amount	% of total balance	Amount	Ratio	Amount	% of total balance	Amount	Ratio
Other receivable that the related provision for bad debts is provided on the grouping basis	**9,107**	**100%**	**(1,294)**	**14%**	18,969	100%	(1,361)	7%

The Company performed the impairment test on other receivables in accordance with the accounting policy set out in Note 2(8). As at 31 December 2013 and 31 December 2012, there were no significant or insignificant other receivables that were individually determined to be impaired.

(c) Other receivables that the related provision for bad debts is provided on grouping basis using the ageing analysis method are analysed as follows:

	31 December 2013				31 December 2012			
	Ending balance		Provision for bad debts		Ending balance		Provision for bad debts	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Within 1 year	**7,813**	**86%**	**–**	**–**	17,573	93%	–	–
1 to 2 years	**–**	**–**	**–**	**–**	50	–	(15)	30%
Over 3 years	**1,294**	**14%**	**(1,294)**	**100%**	1,346	7%	(1,346)	100%
	9,107	**100%**	**(1,294)**	**14%**	18,969	100%	(1,361)	7%

(d) During the reporting period, the Company did not have other receivables for which a full provision or a significant provision was made in the previous years that were recovered or reversed partly or in full amount.

(All amounts in RMB'000 Yuan unless otherwise stated)

4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(4) Other receivables (Continued)

(e) As at 31 December 2013, the five largest other receivables are analysed as follows:

	Relationship with the Company	Amount	Ageing	% of total balance
Entity A	Third party	5,903	Within 1 year	64.82%
Entity B	Third party	893	Within 1 year	9.81%
Entity C	Third party	401	Within 1 year	4.40%
Entity D	Third party	217	Over 3 years	2.38%
Entity E	Third party	185	Within 1 year	2.03%
		7,599		83.44%

(f) As at 31 December 2013 and 31 December 2012, no balances denominated in foreign currencies were included in other receivables of the Company.

(5) Advances to suppliers

(a) The ageing of advances to suppliers is analysed below:

	31 December 2013		31 December 2012	
	Amount	**% of total balance**	Amount	% of total balance
Within 1 year	**28,358**	**100%**	38,106	100%

(All amounts in RMB'000 Yuan unless otherwise stated)

4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(5) Advances to suppliers (Continued)

(b) As at 31 December 2013, the five largest advances to suppliers are analysed as follows:

	Relationship with the Company	Amount	% of total balance	Date of making advance	Reason for being unsettled
CPC and its subsidiaries	Related parties	15,000	53%	Within 1 year	Advances for goods
Entity B	Third party	9,590	34%	Within 1 year	Advances for goods
Entity C	Third party	2,106	7%	Within 1 year	Advances for equipment
Entity D	Third party	796	3%	Within 1 year	Advances for goods
Entity E	Third party	540	2%	Within 1 year	Advances for goods
		28,032	99%		

(c) Advances to related parties are analysed as follows:

	31 December 2013			31 December 2012		
	Amount	**% of total balance**	**Provision for bad debts**	Amount	% of total balance	Provision for bad debts
CPC and its subsidiaries	**15,000**	**53%**	**–**	–	–	–
Sinopec Corp. and its subsidiaries	**–**	**–**	**–**	25,630	67%	–
	15,000	**53%**	**–**	25,630	67%	–

Except for those listed above, as at 31 December 2013 and 31 December 2012, there were not advances paid to shareholders holding 5% or more of the voting rights of the Company.

(d) As at 31 December 2013 and 31 December 2012, no balances denominated in foreign currencies were included in advances to supplies of the Company.

(All amounts in RMB'000 Yuan unless otherwise stated)

4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(6) Inventories

(a) Inventories are summarised by categories as follows:

	31 December 2013			31 December 2012		
	Ending balance	Provision for decline in the value of inventories	Carrying amount	Ending balance	Provision for decline in the value of inventories	Carrying amount
Raw materials	**467,866**	**(11,392)**	**456,474**	900,620	(11,392)	889,228
Work in progress	**140,116**	**–**	**140,116**	118,726	–	118,726
Finished goods	**666,697**	**(16,447)**	**650,250**	650,570	(9,593)	640,977
Spare parts and turnover materials	**91,654**	**(17,850)**	**73,804**	104,653	(17,850)	86,803
	1,366,333	**(45,689)**	**1,320,644**	1,774,569	(38,835)	1,735,734

As at 31 December 2013 and 31 December 2012, no capitalised borrowing costs were included in the balance of inventories, and the above inventories were not pledged.

(b) Provision for decline in the value of inventories is analysed as follows:

	Balance at the beginning of the year	Provision made for the year	Written back during the year	Balance at the end of the year
Raw materials	11,392	–	–	11,392
Finished goods	9,593	6,854	–	16,447
Spare parts and turnover materials	17,850	–	–	17,850
	38,835	6,854	–	45,689

(7) Other current assets

	31 December 2013	31 December 2012
Prepaid enterprise income tax	**–**	141,376
VAT to be offset	**151,124**	241,407
Others	**7,341**	7,354
	158,465	390,137

(All amounts in RMB'000 Yuan unless otherwise stated)

4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(8) Long-term equity investments

	31 December 2013	31 December 2012
Joint venture	**584,850**	584,819
Less: provision for impairment of long-term equity investment	**–**	–
	584,850	584,819

There is no restriction on sale of the long-term equity investments held by the Company

	Accounting method	Investment cost	31 December 2012	Share of net profit/ (loss) using the equity method	31 December 2013	Share holding (%)	Voting rights (%)
Far Eastern Yihua Petrochemical (Yangzhou) Co., Ltd. ("FEYP")	Equity method	581,340	584,819	31	**584,850**	40%	40%

The Company and the other investor of FEYP agreed that the financial and operating decisions of FEYP need to be agreed by both parties, therefore, FEYP is accounted for as a joint venture.

(All amounts in RMB'000 Yuan unless otherwise stated)

4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(9) Fixed assets

	31 December 2012	Increase in the year/Provision made for the year	Written back during the year	31 December 2013
Cost	13,382,195	927,245	(264,843)	**14,044,597**
Buildings	1,916,360	69,909	(786)	**1,985,483**
Machinery and equipment	10,464,144	829,872	(251,204)	**11,042,812**
Motor vehicles and other fixed assets	1,001,691	27,464	(12,853)	**1,016,302**
Accumulated depreciation	(9,235,940)	(436,330)	235,803	**(9,436,467)**
Buildings	(919,624)	(64,818)	553	**(983,889)**
Machinery and equipment	(7,617,996)	(336,356)	222,980	**(7,731,372)**
Motor vehicles and other fixed assets	(698,320)	(35,156)	12,270	**(721,206)**
Net book value	4,146,255	–	–	**4,608,130**
Buildings	996,736	–	–	**1,001,594**
Machinery and equipment	2,846,148	–	–	**3,311,440**
Motor vehicles and other fixed assets	303,371	–	–	**295,096**
Provision for impairment	(650,705)	–	6,446	**(644,259)**
Buildings	(8,286)	–	33	**(8,253)**
Machinery and equipment	(587,513)	–	6,189	**(581,324)**
Motor vehicles and other fixed assets	(54,906)	–	224	**(54,682)**
Carrying amount	3,495,550	–	–	**3,963,871**
Buildings	988,450	–	–	**993,341**
Machinery and equipment	2,258,635	–	–	**2,730,116**
Motor vehicles and other fixed assets	248,465	–	–	**240,414**

As at 31 December 2013 and 31 December 2012, no fixed assets of the Company were pledged.

(All amounts in RMB'000 Yuan unless otherwise stated)

4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(9) Fixed assets (Continued)

For the year ended 31 December 2013, depreciation charged to fixed assets amounts to RMB436,330 thousand (2012: RMB405,889 thousand), of which RMB411,852 thousand (2012: RMB380,979 thousand) has been charged in costs of goods sold, RMB45 thousand (2012: 35 thousand) in selling expenses, and RMB24,433 thousand (2012: 24,885 thousand) in general and administrative expenses.

The costs of fixed assets transferred from construction in progress amounted to RMB927,245 thousand in 2013 (2012: RMB554,436 thousand).

As at 31 December 2013, the buildings and the machinery and equipment with a carrying amount of RMB4,022 thousand and a cost of RMB74,517 thousand are temporarily idle for the reason of production arrangement (31 December 2012: a carrying amount of RMB1,793 and a cost of RMB57,208), which are analysed as follows:

	Cost	Accumulated depreciation	Provision for impairment	Carrying amount
Buildings	382	(250)	(120)	12
Machinery and equipment	63,517	(35,522)	(24,304)	3,691
Motor vehicles and other fixed assets	10,618	(4,023)	(6,276)	319
	74,517	(39,795)	(30,700)	4,022

(10) Construction in progress

	31 December 2013			31 December 2012		
	Ending balance	**Provision for impairment**	**Carrying amount**	Ending balance	Provision for impairment	Carrying amount
100 thousand tonne/year 1, 4-butanediol project	**1,027,276**	**–**	**1,027,276**	1,429,935	–	1,429,935
Improvements of existing plants and equipment	**107,669**	**–**	**107,669**	120,656	–	120,656
NCIC-YCFC hydrogen gas pipeline project	**74,996**	**–**	**74,996**	62,996	–	62,996
Thermal center denitration and dust removal retrofit project	**59,998**	**–**	**59,998**	–	–	–
Synthetic fiber processing and application center project (Yizheng)	**10,000**	**–**	**10,000**	–	–	–
400 thousand tonne/year polyester polymerization project	**–**	**–**	**–**	117,047	–	117,047
100 thousand tone/year differential staple fibre project	**–**	**–**	**–**	140,247	–	140,247
	1,279,939	**–**	**1,279,939**	1,870,881	–	1,870,881

(All amounts in RMB'000 Yuan unless otherwise stated)

4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(10) Construction in progress (Continued)

(a) *Movement of significant projects of construction in progress*

Name	Budgeted amount	31 December 2012	Increase in the year	Transfer to fixed assets	Transfer to long-term prepaid expenses	31 December 2013	Proportion of expenditures incurred to budgeted amount	Progress of construction	Source of funds
100 thousand tonne/year 1, 4-butanediol project	1,670,082	1,429,935	97,098	(347,410)	(152,347)	**1,027,276**	91%	91%	Own fund
Improvements of existing plants and equipment	631,115	120,656	206,826	(219,813)	–	**107,669**	52%	52%	Own fund
400 thousand tonne/year polyester polymerization project	365,607	117,047	49,998	(167,045)	–	**–**	100%	100%	Own fund
100 thousand tone/year differential staple fibre project (unit 9)	218,377	140,247	52,730	(192,977)	–	**–**	100%	100%	Own fund
Thermal center denitration and dust removal retrofit project	185,203	–	59,998	–	–	**59,998**	32%	32%	Own fund
NCIC-YCFC hydrogen gas pipeline project	159,800	62,996	12,000	–	–	**74,996**	47%	47%	Own fund
Synthetic fiber processing and application center project (Yizheng)	42,930	–	10,000	–	–	**10,000**	23%	23%	Own fund
		1,870,881	488,650	(927,245)	(152,347)	**1,279,939**			

(b) *As at 31 December 2013, the progress of significant projects of construction in progress is analysed as follows:*

Project name	Progress	Remark
100 thousand tonne/year 1,4-butanediol project	91%	Part of equipment has been transferred to fixed assets, remaining equipment is under test
NCIC-YCFC hydrogen pipeline engineering project	47%	Pipeline in Yizheng section has been completed, Nanjing section is under construction
Thermal center denitration and dust removal retrofit project	32%	Equipment is under installation
Synthetic fiber processing and application center project (Yizheng)	23%	Equipment is under installation

(All amounts in RMB'000 Yuan unless otherwise stated)

4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(11) Intangible assets

	31 December 2012	Increase in the year	Decrease in the year	31 December 2013
Cost	767,451	–	–	**767,451**
Land use rights	406,123	–	–	**406,123**
Patents	208,893	–	–	**208,893**
Technology rights	152,435	–	–	**152,435**
Accumulated amortisation	(471,026)	(25,282)	–	**(496,308)**
Land use rights	(134,380)	(8,481)	–	**(142,861)**
Patents	(196,271)	(12,622)	–	**(208,893)**
Technology rights	(140,375)	(4,179)	–	**(144,554)**
Carrying amount	296,425	–	–	**271,143**
Land use rights	271,743	–	–	**263,262**
Patents	12,622	–	–	**–**
Technology rights	12,060	–	–	**7,881**

For the year ended 31 December 2013, amortisation of intangible assets amounted to RMB25,282 thousand (2012: 30,560 thousand), were included in profit and loss.

As at 31 December 2013 and 31 December 2012, the above intangible assets were not pledged.

(12) Long-term prepaid expenses

	31 December 2012	Increase in the year	Amortisation in the year	Other decreases	31 December 2013
Long-acting catalysts	–	152,347	(16,844)	–	**135,503**

As at 31 December 2013, the long-term prepaid expenses represent the long-acting catalysts for production equipment and are amortized according to useful life specified in its technical specification.

(All amounts in RMB'000 Yuan unless otherwise stated)

4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(13) Deferred tax assets

	31 December 2013		31 December 2012	
	Deferred tax assets	**Deductible temporary differences and tax loss**	Deferred tax assets	Deductible temporary differences and tax loss
Provision for assets impairment and influence on depreciation	**64,989**	**259,956**	78,092	312,369
Deferred income	**7,077**	**28,309**	4,812	19,248
Accrued expenses	**1,293**	**5,174**	17,336	69,343
Production safety fund	**–**	**–**	20	80
Tax losses	**–**	**–**	211,779	847,115
Others	**424**	**1,695**	–	–
	73,783	**295,134**	312,039	1,248,155

The tax losses of the Company can be carried forward to subsequent 5 years for deduction of the taxable profit in accordance with the PRC tax laws. According to the accounting policy of the Company, deferred tax assets are only recognised to the extent that it is probable that taxable profit will be available in the future. Considering the losses incurred in last two years and uncertainty of future market, management of the Company assess it is significantly uncertain whether the Company can make sufficient taxable income to utilise those tax losses and thus determine to write off the deferred income tax assets amounted to RMB211,779 thousand which was recognized in prior year arisen for tax losses into current year income tax expenses. In addition, the deferred income tax assets amounted to RMB269,729 thousand was not recognized as at 31 December 2013 in respect of tax losses incurred in 2013.

Tax losses that are not recognized as deferred tax assets are analysed as follows:

	31 December 2013	31 December 2012
Tax losses	**1,926,032**	–

Tax losses that are not recognized as deferred tax assets will be expired as follows:

	31 December 2013	31 December 2012
2017	**847,115**	–
2018	**1,078,917**	–
	1,926,032	–

(All amounts in RMB'000 Yuan unless otherwise stated)

4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(14) Provision for asset impairment

	31 December 2012	Increase in the year	Decrease in the year Reversal	Decrease in the year Write-off	31 December 2013
Provision for bad debts of other receivables	1,361	–	(67)	–	**1,294**
Provision for decline in value of inventories	38,835	6,854	–	–	**45,689**
Provision for impairment of fixed assets	650,705	–	–	(6,446)	**644,259**
	690,901	6,854	(67)	(6,446)	**691,242**

(15) Short-term borrowings

	Currency	31 December 2013	31 December 2012
Unsecured borrowings from related parties *(Note 6(5))*	RMB	**700,000**	300,000
Unsecured borrowings from third parties	RMB	**720,000**	105,000
	USD	**182,907**	–
		1,602,907	405,000

As at 31 December 2013, the weighted average interest rate of short-term borrowings is 4.73% annually (31 December 2012: 5.25%).

As at 31 December 2013, the Company had no overdue short-term borrowings.

As at 31 December 2013, the unused facility of short-term borrowings is RMB550,000 thousand (31 December 2012: RMB750,000 thousand).

(All amounts in RMB'000 Yuan unless otherwise stated)

4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(16) Notes payable

	31 December 2013	31 December 2012
Bank acceptance notes	**400,000**	–

As at 31 December 2013, a bank deposit of RMB20,000 thousand was pledged as collateral for the notes payable (Note 4(1)), which are mature within one year (31 December 2012: Nil).

(17) Accounts payable

	31 December 2013	31 December 2012
Accounts payable to related parties *(Note 6(5))*	**488,661**	1,204,769
Accounts payable to third parties	**312,097**	330,476
	800,758	1,535,245

(a) *Accounts payable to related parties*

	31 December 2013	31 December 2012
Sinopec Corp. and its subsidiaries	**488,565**	1,177,670
CPC and its subsidiaries	**96**	27,099
	488,661	1,204,769

Except for those listed above, as at 31 December 2013 and 31 December 2012, no accounts payable to shareholders holding more than 5% (including 5%) of the voting rights of the Company or to related parties were included in the balance.

(b) As at 31 December 2013, no accounts payable with aging over 1 year with significant amount are included in the balance.

(All amounts in RMB'000 Yuan unless otherwise stated)

4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(17) Accounts payable (Continued)

(c) Accounts payable denominated in foreign currencies are as follows:

	31 December 2013			31 December 2012		
	Amount in foreign currency	**Exchange rate**	**Amount in RMB**	Amount in foreign currency	Exchange rate	Amount in RMB
RMB	**–**	**–**	**387,986**	–	–	722,742
USD	**67,702**	**6.0969**	**412,772**	129,256	6.2855	812,503
			800,758			1,535,245

(18) Advances from customers

	31 December 2013	31 December 2012
Advances from related parties *(Note 6(5))*	**4,256**	4,113
Advances from third parties	**305,830**	306,909
	310,086	311,022

(a) *Advances from related parties*

	31 December 2013	31 December 2012
CPC and its subsidiaries	**4,256**	4,113

Except for those listed above, as at 31 December 2013 and 31 December 2012, no advances from customers holding more than 5% (including 5%) of the voting rights of the Company or to related parties were included in the balance.

(b) As at 31 December 2013, no advances with aging over 1 year with significant amount are included in the balance.

(c) As at 31 December 2013 and 31 December 2012, no balance denominated in foreign currency is included in the advances from customers of the Company.

(All amounts in RMB'000 Yuan unless otherwise stated)

4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(19) Employee benefits payable

	31 December 2012	Increase in the year	Decrease in the year	31 December 2013
Wages and salaries, bonuses, allowances and subsidies	57,912	621,726	(679,638)	–
Employee welfare	–	75,016	(75,016)	–
Social security contributions	327	286,975	(287,302)	–
Including: Medical insurance	–	50,179	(50,179)	–
Basic pension	–	116,165	(116,165)	–
Unemployment insurance	–	11,615	(11,615)	–
Work injury insurance	327	4,590	(4,917)	–
Supplementary medical insurance	–	16,943	(16,943)	–
Supplementary pension	–	87,483	(87,483)	–
Housing funds	–	74,002	(74,002)	–
Labor union funds and employees' education funds	1,838	17,900	(17,554)	**2,184**
Others	192	36,085	(36,215)	**62**
	60,269	1,111,704	(1,169,727)	**2,246**

As at 31 December 2013, no defaulted payables are included in the employee benefits payable.

The in-service employees of the Company are subject to basic pension and medical insurance, which are extracted and paid according to regulated rates and set up and governed by local government. In addition, the Company provides a supplementary defined contribution retirement plan for its employees at rates not exceeding 5% of their salaries. Employees who have served the Company for more than one year 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. The Company has no other material obligation for the payment of pension benefits associated with the basic and supplementary pension plans beyond the annual contributions described above.

(All amounts in RMB'000 Yuan unless otherwise stated)

4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(20) Taxes payable

	31 December 2013	31 December 2012
Land use tax payable	**4,266**	4,266
Withheld individual income tax	**3,817**	5,517
Property tax payable	**3,468**	3,285
Business tax payable	**19**	13
	11,570	13,081

(21) Interest payable

	31 December 2013	31 December 2012
Accounts payable to related parties *(Note 6(5))*	**1,078**	163
Accounts payable to third parties	**1,715**	230
	2,793	393

(22) Other payables

	31 December 2013	31 December 2012
Payables for construction and equipment	**311,699**	189,539
Others	**62,448**	55,069
	374,147	244,608

(All amounts in RMB'000 Yuan unless otherwise stated)

4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(22) Other payables (Continued)

(a) Other payables to related parties

	31 December 2013	31 December 2012
Sinopec Corp. and its subsidiaries	**1,436**	1,427
CPC and its subsidiaries	**40,654**	3,001
	42,090	4,428

Except for those listed above, as at 31 December 2013 and 31 December 2012, there were no payables to shareholders holding more than 5% (including 5%) of the voting rights of the Company or to related parties in the balance.

(b) As at 31 December 2013, other payables with aging over 1 year with a carrying amount of RMB74,764 thousand (31 December 2012: RMB21,931 thousand) are mainly payables for construction projects within guarantee period, which are unsettled.

(c) As at 31 December 2013 and 31 December 2012, no balance denominated in foreign currency is included in other payables of the Company.

(23) Deferred income

	31 December 2013	31 December 2012
Government grants related to assets	**26,309**	17,026
Government grants related to income	**2,000**	2,222
	28,309	19,248

(All amounts in RMB'000 Yuan unless otherwise stated)

4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(23) Deferred income (Continued)

Government grants project	31 December 2012	Increase in current year	Recognised in non-operating income in current year	31 December 2013	Related to assets/income
300 tonne HPPE project	9,554	–	(929)	**8,625**	Related to assets
220t/h boiler flue gas desulfurization project	5,472	–	(361)	**5,111**	Related to assets
R&D and industrialization for dry spinning complete technology of 3,000 tonne/year HPPE	2,000	4,000	–	**6,000**	Related to assets
Environment protection, energy conservation and emission reduction — odor collection system upgrading project	–	1,500	(27)	**1,473**	Related to assets
Special equipment and asset grants — high-performance fiber key laboratory	–	2,000	–	**2,000**	Related to assets
Guide funds special for industrial and IT industry transformation	–	3,100	–	**3,100**	Related to assets
Environment protection, energy conservation and emission reduction project	–	7	(7)	**–**	Related to assets
	17,026	10,607	(1,324)	**26,309**	
R&D and industrialization for dry spinning complete technology of 3,000 tonne/year HPPE	1,000	1,000	–	**2,000**	Related to income
Super cotton project	1,222	1,005	(2,227)	**–**	Related to income
Others	–	219	(219)	**–**	Related to income
	2,222	2,224	(2,446)	**2,000**	
	19,248	12,831	(3,770)	**28,309**	

For the year ended 31 December 2013, amortisation of the government grants related to assets of the Company amounts to RMB1,324 thousand and was recorded in non-operating income (2012: RMB1,857 thousand).

(All amounts in RMB'000 Yuan unless otherwise stated)

4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(24) Share capital

	31 December 2013	31 December 2012
Held by state-owned legal person (A share)	**3,450,000**	2,400,000
RMB public shares (A share)	**450,000**	200,000
Foreign shares listed overseas (H share)	**2,100,000**	1,400,000
	6,000,000	4,000,000

As mentioned in Note 1, pursuant to the A Share Reform Scheme, Sinopec Corp. and CITIC Limited commits to hold those non-circulating shares without trading and transferring within 12 months since they obtains the circulating right. After the maturity of the restriction period, Sinopec Corp. and CITIC Limited can trade those non-circulating shares up to 5% of the Company's total shares within 12 months and 10% within 24 months. As at 31 December 2013, all shares held by original non-circulating shareholders have not been available for trading.

Pursuant to approved A Share Reform Scheme, the Company is allowed to convert 5 shares for each 10 shares from capital surplus into share capital. The conversion of 2,000,000,000 share was completed on 22 November 2013 and has been verified by PricewaterhouseCoopers Zhong Tian LLP pursuant to the capital verification report (PwC ZT Yan Zi (2014) No. 138).

(25) Capital surplus

	31 December 2012	**Increase in the year**	**Decrease in the year**	**31 December 2013**
Share premium *(Note 4(24))*	3,078,825	–	(2,000,000)	**1,078,825**
Other capital surplus	67,969	–	–	**67,969**
Including: Government contribution for projects	39,630	–	–	**39,630**
	3,146,794	–	(2,000,000)	**1,146,794**

	31 December 2011	Increase in current year	Decrease in current year	31 December 2012
Share premium	3,078,825	–	–	3,078,825
Other capital surplus	67,969	–	–	67,969
Including: government contribution for projects	39,630	–	–	39,630
	3,146,794	–	–	3,146,794

(All amounts in RMB'000 Yuan unless otherwise stated)

4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(26) Specific reserve

	31 December 2012	Increase in the year	Decrease in the year	31 December 2013
Specific reserve — production safety fund	80	1,728	(361)	**1,447**

In accordance with PRC regulations, the Company appropriated production safety fund of RMB1,728 thousand to specific reserve for the year ended 31 December 2013 (2012: RMB920 thousand), which was recognised in the cost of related products and the Specific reserve. For the year ended 31 December 2013, the Company utilised production safety fund amounting to RMB361 thousand (2012: RMB840 thousand) which was of expenditure nature.

(27) Surplus reserve

	31 December 2012	Increase in the year	Decrease in the year	31 December 2013
Statutory surplus reserve	200,383	–	–	**200,383**

	31 December 2011	Increase in the year	Decrease in the year	31 December 2012
Statutory surplus reserve	200,383	–	–	200,383

In accordance with the Company Law and the Company's Articles of Association, the Company should appropriate 10% of net profit for the year to the statutory surplus reserve, and the Company can cease appropriation when the statutory surplus reserve accumulated to more than 50% of the registered capital. The statutory surplus reserve can be used to make up for the loss or increase the paid in capital after approval from the appropriate authorities

(28) (Accumulated losses)/undistributed profits

	2013		2012	
	Amount	**Appropriation/ distribution ratio**	Amount	Appropriation/ distribution ratio
Undistributed profits at the beginning of the year	**1,202,081**	**N/A**	1,683,448	N/A
Less: Net loss of the year	**(1,454,217)**	**N/A**	(361,367)	N/A
Less: Ordinary share dividends payable	**–**	**N/A**	(120,000)	N/A
(Accumulated losses)/undistributed profits at the end of the year	**(252,136)**		1,202,081	

(All amounts in RMB'000 Yuan unless otherwise stated)

4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(29) Revenue and cost of sales

	2013	2012
Revenue from main operations	**17,276,802**	16,414,724
Revenue from other operations	**400,369**	573,192
	17,677,171	16,987,916

	2013	2012
Cost of sales from main operations	**17,430,006**	16,035,168
Cost of sales from other operations	**335,538**	537,656
	17,765,544	16,572,824

(a) *Revenue and cost of sales from main operations*

The Company is engaged in chemical fibre. Analysis by products is as follows:

	2013		2012	
	Revenue from main operations	**Cost of sales from main operations**	Revenue from main operations	Cost of sales from main operations
PET chip	**6,254,560**	**6,339,728**	5,771,512	5,636,921
Bottle-grade polyester chips	**3,676,645**	**3,629,612**	3,604,629	3,486,356
Staple fibre and hollow fibre	**6,419,934**	**6,353,812**	5,840,196	5,575,143
Filament	**673,583**	**825,982**	1,030,131	1,181,634
Others	**252,080**	**280,872**	168,256	155,114
	17,276,802	**17,430,006**	16,414,724	16,035,168

Analysis by locations is as follows:

	2013		2012	
	Revenue from main operations	**Cost of sales from main operations**	Revenue from main operations	Cost of sales from main operations
China mainland	**16,666,460**	**16,814,252**	15,772,041	15,407,346
Hong Kong, Macao, Taiwan and overseas	**610,342**	**615,754**	642,683	627,822
	17,276,802	**17,430,006**	16,414,724	16,035,168

(All amounts in RMB'000 Yuan unless otherwise stated)

4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(29) Revenue and cost of sales (Continued)

(b) Revenue and cost of sales from other operations

	2013		2012	
	Revenue from other operations	**Cost of sales from other operations**	Revenue from other operations	Cost of sales from other operations
Utilities	**302,073**	**235,816**	304,164	281,037
Others	**98,296**	**99,722**	269,028	256,619
	400,369	**335,538**	573,192	537,656

(c) Revenue from the five largest customers of the Company

For the year ended 31 December 2013, revenue from the five largest customers of the Company with an amount of RMB2,366,491 thousand (2012: RMB2,275,597 thousand) accounts for 13.39% (2012: 13.41%) of the total revenue of the Company, as analysed below:

	Revenue	**% of total revenue**
Company 1	699,564	3.96%
Company 2	533,454	3.02%
Company 3	411,446	2.33%
Company 4	376,921	2.13%
Company 5	345,106	1.95%
	2,366,491	13.39%

(30) Taxes and surcharges

	2013	2012
Business tax	**77**	703
City maintenance and construction tax	**42**	122
Educational surcharge	**31**	88
	150	913

(All amounts in RMB'000 Yuan unless otherwise stated)

4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(31) Selling and distribution expenses

	2013	2012
Freight	**168,939**	147,238
Commission fee	**31,736**	43,483
Other selling and distribution expenses	**25,986**	18,458
	226,661	209,179

(32) General and administrative expenses

	2013	2012
Repair and maintenance fee	**328,704**	313,759
Salaries	**288,874**	292,128
Community service fee	**41,058**	39,830
Taxes	**37,156**	30,854
Technology development fee	**37,258**	48,406
Depreciation and amortization	**27,297**	27,607
Other general and administrative expenses	**88,108**	76,840
	848,455	829,424

(33) Financial expenses/(income) — net

	2013	2012
Interest expenses	**60,043**	512
Interest income	**(47,059)**	(26,731)
Net exchange gains or losses	**(10,096)**	(6,562)
Others	**2,348**	1,815
	5,236	(30,966)

(All amounts in RMB'000 Yuan unless otherwise stated)

4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(34) Asset impairment loss/(reversal)

	2013	2012
Impairment loss reversal on other receivables	**(67)**	(2,496)
Provision/(reversal) for decline in the value of inventories	**6,854**	(18,745)
	6,787	(21,241)

(35) Investment income

	2013	2012
Income from disposal of available-for-sale financial assets	**–**	4,740
Income from long-term equity investment under equity method (a)	**31**	3,479
Income from disposal of held-to-maturity investments	**–**	2,011
	31	10,230

(a) *Investment income from long-term equity investment under equity method*

Investment income of investees are as follows:

	2013	2012	Reason for current year movement
FEYP	**31**	3,479	FEYP was under construction in 2013 and decreased bank deposits resulted in decrease in interest income and meanwhile operating expenses increased

(36) Non-operating income

	2013	2012	Amount recognised in non-recurring profit or loss in the year
Gains on disposal of fixed assets	**782**	18,887	782
Government grants	**3,770**	1,857	3,770
Service income *(Note 6(4)(b))*	**–**	17,078	–
Others	**3,998**	2,285	3,998
	8,550	40,107	8,550

(All amounts in RMB'000 Yuan unless otherwise stated)

4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(37) Non-operating expenses

	2013	2012	Amount recognised in non-recurring profit or loss in the year
Loss on disposal of fixed assets	**22,766**	6,783	22,766
Others	**25,820**	10,875	25,820
	48,586	17,658	48,586

(38) Income tax expenses

	2013	2012
Current income tax calculated based on tax law and related regulations	**294**	11,332
Deferred income tax	**238,256**	(189,503)
	238,550	(178,171)

The reconciliation from income tax calculated based on the applicable tax rates and total loss presented in the financial statements to the income tax expenses is as follows:

	2013	2012
Total loss	**(1,215,667)**	(539,538)
Income tax expenses calculated at applicable tax rates	**(303,917)**	(134,885)
Recognition of deferred tax assets arising from previously unrecognized deductible temporary differences	**(2,542)**	(47,736)
Write-off of tax losses that were not previously recognized as deferred tax assets	**211,779**	–
Non-deductible expenses	**63,207**	1,018
Payment of income tax expenses related to previous years	**294**	11,332
Non-taxable revenue	**–**	(7,900)
Tax losses not recognised as deferred tax assets for the current year	**269,729**	–
Income tax expenses	**238,550**	(178,171)

(All amounts in RMB'000 Yuan unless otherwise stated)

4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(39) Loss per share

(a) *Basic loss per share*

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

	2013	2012
Net loss attributable to ordinary shareholders of the Company	**(1,454,217)**	(361,367)
Weighted average number of ordinary shares Outstanding *(Note)*	**6,000,000 thousand shares**	6,000,000 thousand shares
Basic loss per share	**(0.24)**	(0.06)

Note: As mentioned in Note 1, the Company converted 2,000,000 thousand shares out of share surplus in 2013. The loss per share of the Company for the comparative year was therefore recalculated and presented using adjusted number of shares.

(b) *Diluted loss per share*

Diluted loss per share is calculated by dividing net loss attributable to ordinary shareholders of the Company adjusted based on the dilutive potential ordinary shares by the adjusted weighted average number of ordinary shares outstanding. As there were no dilutive potential ordinary shares for the year ended 31 December 2013 (2012: Nil), diluted loss per share is equal to basic loss per share.

(40) Notes to the cash flow statement

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

	2013	2012
Return of prepaid corporate income tax	**141,376**	–
Others	**22,048**	–
	163,424	–

(All amounts in RMB'000 Yuan unless otherwise stated)

4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(40) Notes to the cash flow statement (Continued)

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

	2013	2012
Freight	**169,332**	147,238
Commission fee	**31,736**	43,483
Community service fee	**41,058**	39,830
Technology development fee	**37,258**	48,406
Others	**152,875**	270,024
	432,259	548,981

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

	2013	2012
Bank deposits interest	**3,163**	26,731
Collection of time deposit	**20,000**	–
Others	**11,653**	4,790
	34,816	31,521

(d) *Cash paid relating to other investing activities*

	2013	2012
Payment of time deposit	**40,000**	–

(All amounts in RMB'000 Yuan unless otherwise stated)

4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(41) Supplementary information to the cash flow statement

(a) Reconciliation from net loss to cash flows from operating activities

	2013	2012
Net loss	**(1,454,217)**	(361,367)
Add: Provision for assets impairment	**6,787**	(21,241)
Depreciation of fixed assets *(Note 4(9))*	**436,330**	405,899
Amortisation of intangible assets *(Note 4(11))*	**25,282**	30,560
Amortisation of long-term prepaid expenses *(Note 4(12))*	**16,844**	–
Amortisation of deferred income	**(3,770)**	(1,857)
Loss/(gain) on disposal of fixed assets	**21,984**	(12,104)
Financial expenses/(income) — net	**55,554**	(26,219)
Investment income	**(31)**	(10,230)
Decrease/(increase) in deferred tax assets	**238,256**	(189,503)
Decrease in inventories	**408,236**	39,675
Increase in specific reserve	**1,367**	80
Increase in operating receivables	**(604,840)**	(671,553)
Decrease in operating receivables	**(221,067)**	(149,859)
Net cash flows from operating activities	**(1,073,285)**	(967,719)

(b) Significant investing and financing activities that do not involve cash receipts and payments

	2013	2012
Endorsed bills to settle payables for construction and equipment	**300,000**	625,491

(c) Net decrease in cash and cash equivalents

	2013	2012
Cash at the end of the year	**85,797**	162,027
Less: cash at the beginning of the year	**(162,027)**	(1,541,821)
Net decrease in cash during the year	**(76,230)**	(1,379,794)

(All amounts in RMB'000 Yuan unless otherwise stated)

4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

(d) Cash

	31 December 2013	31 December 2012
Cash on hand	**27**	28
Deposits that can be readily drawn on demand	**85,770**	161,999
Cash at the end of the year	**85,797**	162,027
Restricted deposits	**20,000**	–
Cash at bank and on hand at the end of the year	**105,797**	162,027

5 SEGMENT INFORMATION

The Company has identified five reportable segments based on the internal structure, management requirements and internal reporting policy. The five reportable segments are: polyester chips, bottle-grade polyester chips, staple fibre and hollow fibre, filament and PTA. All segments manufacture and sell chemical fibre products and raw materials, and are primarily engaged in the PRC. The Company's executive management reviews reportable segments' financial information periodically for the purposes of allocating resources and assessing the performance.

Inter-segment transfers are measured by reference to market price. The assets are allocated based on the operations of the segment and the physical location of the asset.

The resources related to interest income, interest expenses, long-term equity investment and investment (loss)/income on joint venture, income tax expenses as well as shared assets of all segments are centrally managed and accounted for by the Company, and thus are not allocated among segments.

(a) Segment information as at and for the year ended 31 December 2013:

	2013								
	Polyester chips	Bottle-grade polyester chips	Staple fibre and hollow fibre	Filament	PTA	Others	Elimination	Unallocated	Total
Revenue from external customers	6,254,560	3,676,645	6,419,934	673,583	32	652,417	–	–	17,677,171
Inter-segment revenue	–	–	–	–	7,158,971	–	(7,158,971)	–	–
Subtotal of reportable segments revenue	6,254,560	3,676,645	6,419,934	673,583	7,159,003	652,417	(7,158,971)	–	17,677,171
Reportable segments profit/(loss)	(190,801)	20,807	(1,391)	(167,851)	11,292	(94,770)	–	–	(422,714)
Interest income	–	–	–	–	–	–	–	(47,059)	(47,059)
Interest expenses	–	–	–	–	–	–	–	60,043	60,043
Share of profit of a joint venture	–	–	–	–	–	–	–	31	31
Depreciation and amortisation	(56,760)	(45,098)	(74,074)	(3,308)	(121,450)	(160,186)	–	(17,580)	(478,456)
Income tax expenses	–	–	–	–	–	–	–	238,550	238,550
Long-term equity investments in a joint venture	–	–	–	–	–	–	–	584,850	584,850
Reportable segments assets	677,712	344,996	1,108,438	177,904	777,363	1,812,250	–	529,236	5,427,899

(All amounts in RMB'000 Yuan unless otherwise stated)

5 SEGMENT INFORMATION (Continued)

(b) Segment information as at and for the year ended 31 December 2012:

	2012								
	Polyester chips	Bottle-grade polyester chips	Staple fibre and hollow fibre	Filament	PTA	Others	Elimination	Unallocated	Total
Revenue from external customers	5,776,760	3,604,853	5,906,594	1,045,595	182,612	471,502	–	–	16,987,916
Inter-segment revenue	–	–	–	–	7,327,650	–	(7,327,650)	–	–
Subtotal of reportable segments revenue	5,776,760	3,604,853	5,906,594	1,045,595	7,510,262	471,502	(7,327,650)	–	16,987,916
Reportable segments profit/(loss)	(3,409)	42,316	171,651	(176,326)	137,299	(37,160)	–	(15,126)	119,245
Interest income	–	–	–	–	–	–	–	19,255	19,255
Interest expenses	–	–	–	–	–	–	–	–	–
Share of profit of a joint venture	–	–	–	–	–	–	–	–	–
Depreciation and amortisation	63,212	13,821	40,177	8,000	163,154	117,219	–	30,876	436,459
Income tax expenses	–	–	–	–	–	–	–	–	–
Long-term equity investments in a joint venture	–	–	–	–	–	–	–	–	–
Reportable segments assets	756,433	182,396	691,359	121,485	978,932	1,159,160	–	1,366,201	5,255,966

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.

6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(1) Information of the parent company

(a) General information of the parent company

	Type	Place of registration	Legal representative	Nature of business	Code of organisation
Sinopec Corp.	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	71092609-4

The Company's ultimate controlling party is CPC.

(All amounts in RMB'000 Yuan unless otherwise stated)

6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(1) Information of the parent company (Continued)

(b) *Registered capital and changes in registered capital of the parent company*

	31 December 2012	Increase in the year	Decrease in the year	31 December 2013
Sinopec Corp.	86.8 billion	29.8 billion	–	**116.6 billion**

(c) *The percentages of share holding and voting rights in the Company held by the parent company*

	31 December 2013		31 December 2012	
	Share holding (%)	**Voting rights (%)**	Share holding (%)	Voting rights (%)
Sinopec Corp.	**40.25%**	**40.25%**	42.00%	42.00%

(2) Information of joint ventures

	Type	Place of registration	Legal representative	Nature of business	Registered capital	Share holding (%)	Voting rights (%)	Code of organisation
FEYP	Limited liability company	Yangzhou, Jiangsu Province	Wu Gao-shan	Manufacturing and distributing of Crude terephthalic acid (CTA) and Pure terephthalic acid (PTA)	USD230 million	40%	40%	58665581-2

(3) Information of other related parties

	Relationship with the Company	Code of organisation
CITIC Limited	Shareholder holding more than 5% of the voting rights of the Company	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 CITIC Limited	10169072-5

(All amounts in RMB'000 Yuan unless otherwise stated)

6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(4) Related party transactions

(a) Sale and purchase of goods, and rendering and receiving of services

Nature of the transaction	Type of the transaction	Name	Pricing policy and procedure for decision-making	2013 Amount	2013 % of the total amount of similar transactions	2012 Amount	2012 % of the total amount of similar transactions
Purchase of raw materials	Purchase of goods	Sinopec Corp. and its subsidiaries	Based on normal commercial terms or relevant agreements	**11,026,614**	**67.51%**	9,661,066	61.82%
Purchase of raw materials	Purchase of goods	CPC and its subsidiaries	Based on normal commercial terms or relevant agreements	**26,640**	**0.16%**	9,681	0.06%
Commission fee	Receiving services	Sinopec Corp. and its subsidiaries	Based on normal commercial terms or relevant agreements	**47,084**	**100.00%**	65,410	100.00%
Construction fee	Receiving of services	CPC and its subsidiaries	Based on normal commercial terms or relevant agreements	**48,230**	**9.87%**	104,519	8.53%
Miscellaneous services	Receiving of services	CPC and its subsidiaries	Based on normal commercial terms or relevant agreements	**6,980**	**100.00%**	6,350	100.00%
Sale of products	Sale of products	CPC and its subsidiaries	Based on normal commercial terms or relevant agreements	**356,891**	**2.02%**	548,467	3.32%

(All amounts in RMB'000 Yuan unless otherwise stated)

6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(4) Related party transactions (Continued)

(b) Other related party transactions

Nature of the transaction	Type of the transaction	Name	Pricing policy and procedure for decision-making	2013 Amount	2013 % of the total amount of similar transactions	2012 Amount	2012 % of the total amount of similar transactions
Safety and insurance funds expenses	Insurance	CPC and its subsidiaries	Based on normal commercial terms or relevant agreements	**40,480**	**100.00%**	18,797	100.00%
Interest income	Deposits	Sinopec Finance	Based on normal commercial terms or relevant agreements	**942**	**2.00%**	7,507	28.08%
Interest income	Deposits	China CITIC Bank	Based on normal commercial terms or relevant agreements	**612**	**1.30%**	2,874	10.75%
Miscellaneous services	Rendering of services	FEYP	Based on normal commercial terms or relevant agreements	**–**	**–**	17,078	3.40%
Interest expenses	Borrowings	Sinopec Finance	Based on normal commercial terms or relevant agreements	**29,562**	**49.23%**	399	77.93%
Borrowings obtained	Borrowings	Sinopec Finance	Based on normal commercial terms or relevant agreements	**1,800,000**	**46.40%**	300,000	74.07%
Borrowings repaid	Borrowings	Sinopec Finance	Based on normal commercial terms or relevant agreements	**1,400,000**	**52.21%**	–	–

For the year ended 31 December 2013, the Company borrowed short-term loans from Sinopec Finance totally amounting to RMB1,800,000 thousand, bearing the interest at 5.04% and 5.32% per annum (2012: the Company borrowed short-term loans from Sinopec Finance totally amounting to RMB300,000 thousand, bearing the interest at 5.32% per annum).

For the year ended 31 December 2013, the Company repaid loans to Sinopec Finance totally amounting to RMB1,400,000 thousand (2012: Nil).

(c) Remuneration of key management personnel

	2013	2012
Remuneration	**2,656**	2,858
Retirement scheme contribution	**265**	256
	2,921	3,114

(All amounts in RMB'000 Yuan unless otherwise stated)

6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) Receivables from and payables to related parties

		31 December 2013	31 December 2012
Bank deposits	Sinopec Finance	2,281	13,784
	China CITIC Bank	21,715	50,129
		23,996	63,913
Accounts receivable	CPC and its subsidiaries	7,094	10,793
Advances to suppliers	CPC and its subsidiaries	15,000	–
	Sinopec Corp. and its subsidiaries	–	25,630
		15,000	25,630
Accounts payable	Sinopec Corp. and its subsidiaries	488,565	1,177,670
	CPC and its subsidiaries	96	27,099
		488,661	1,204,769
Other payables	Sinopec Corp. and its subsidiaries	1,436	1,427
	CPC and its subsidiaries	40,654	3,001
		42,090	4,428
Advances from customers	CPC and its subsidiaries	4,256	4,113
Short-term borrowings	Sinopec Finance	700,000	300,000
Interests payable	Sinopec Finance	1,078	163
Notes payable	CPC and its subsidiaries	400,000	–

(All amounts in RMB'000 Yuan unless otherwise stated)

7. CONTINGENCY

With respect to uncertainties about enterprise income tax differences arising from 2006 and before as originated from a tax circular (Circular No. 664) issued by the State Administrative of Taxation in June 2007, the Company has been informed by the relevant tax authority to settle the 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 as at 31 December 2013. No provision has been made in the financial statements for this uncertainty for tax years prior to 2007 because management believes it cannot reliably estimate the amount of the obligation, if any, that might exist.

8 COMMITMENTS

(1) Capital commitments

(a) Capital expenditures contracted for but not yet necessary to be recognised on the balance sheet

	31 December 2013	31 December 2012
Buildings, machinery and equipment	**233,050**	294,915

(b) Capital commitments authorised by the management but are not yet contracted for

	31 December 2013	31 December 2012
Buildings, machinery and equipment	**300,676**	269,172

(2) Operating lease commitments

The future minimum lease payments due under the signed irrevocable operating leases contracts are summarised as follows:

	31 December 2013	31 December 2012
Within 1 year	**1,564**	–
1 to 2 years	**117**	–
	1,681	–

(3) Investment commitments

The Company had outstanding commitments of USD8,000 thousand in respect of its investment in FEYP at 31 December 2013 not provided for in the financial statements (31 December 2012: USD8,000 thousand).

(4) External guarantees and commitments

In light of its 40% equity interest in FEYP, the Company will guarantee 40% of the liabilities of FEYP under a loan facility up to USD350 million, which was discussed and approved in the general meeting of shareholders on 14 June 2013. As at 31 December 2013, FEYP has not borrowed in any loans under this facility.

(5) Fulfillment of commitments for the previous period

The Company has fulfilled the capital and operating lease commitments as at 31 December 2012.

(All amounts in RMB'000 Yuan unless otherwise stated)

9 FINANCIAL INSTRUMENT AND RISK

The Company's activities expose it to a variety of financial risks: market risk (primarily currency risk and interest rate risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

(1) Market risk

(a) Foreign exchange risk

The Company's major operational activities are carried out in Mainland China and a majority of the transactions are denominated in RMB, except for part of the revenue and purchasement which are denominated in USD. The Company is exposed to foreign exchange risk arising from the recognized assets and liabilities, and future transactions denominated in foreign currencies, primarily with respect to US dollars. The Company's finance department is responsible for monitoring the amount of assets and liabilities, and transactions denominated in foreign currencies. The Company may consider entering into forward exchange contracts or currency swap contracts to mitigate the foreign exchange risk. For the years ended 31 December 2013 and 2012, the Company did not enter into any forward exchange contracts or currency swap contracts.

As at 31 December 2013 and 31 December 2012, the carrying amounts in RMB equivalent of the Company's assets and liabilities denominated in foreign currencies are summarised below:

	31 December 2013		
	USD	Others	Total
Financial assets denominated in foreign currency —			
Cash at bank and on hand	231	–	231
Receivables	104,272	–	104,272
	104,503	–	104,503
Financial liabilities denominated in foreign currency —			
Short-term borrowings	182,907	–	182,907
Payables	412,771	–	412,771
	595,678	–	595,678

(All amounts in RMB'000 Yuan unless otherwise stated)

9 FINANCIAL INSTRUMENT AND RISK (Continued)

(1) Market risk (Continued)

(a) *Foreign exchange risk* (Continued)

	31 December 2012		
	USD	Others	Total
Financial assets denominated in foreign currency —			
Cash at bank and on hand	239	–	239
Receivables	86,401	–	86,401
	86,640	–	86,640
Financial liabilities denominated in foreign currency —			
Payables	812,503	–	812,503

As at 31 December 2013, if the currency had strengthened/weakened by 5% against the USD while all other variables had been held constant and not considering income tax impact, the Company's total loss for year ended 30 December 2013 would have been approximately RMB24,559 thousand (31 December 2012: RMB36,290 thousand) lower/higher for various financial assets and liabilities denominated in USD.

(b) *Interest rate risk*

The Company's interest rate risk arises from short-term bank loans. Financial liabilities issued at floating rates expose the Company to cash flow interest rate risk. Financial liabilities issued at fixed rates expose the Company to fair value interest rate risk. The Company determines the relative proportions of its fixed rate and floating rate contracts depending on the prevailing market conditions.

The Company's finance department continuously monitors the interest rate position of the Company. Increases in interest rates will increase the cost of new borrowing and the interest expenses with respect to the Company's outstanding floating rate borrowings, and therefore could have a material adverse effect on the Company's financial position. The Company's management will make decisions with reference to the latest market conditions. The Company may enter into interest rate swap agreements to mitigate its exposure to interest rate risk. For the years ended 31 December 2013 and 2012, the Company did not enter into any interest rate swap agreements.

Fixed rate financial instruments:

	31 December 2013		31 December 2012	
	Annual interest rate	**Amount**	Annual interest rate	Amount
Financial assets				
— Cash at bank and on hand	**3.08%**	**20,000**	2.86%	50,000

(All amounts in RMB'000 Yuan unless otherwise stated)

9 FINANCIAL INSTRUMENT AND RISK (Continued)

(1) Market risk (Continued)

(b) *Interest rate risk* (Continued)

Floating rate financial instrument:

	31 December 2013 Annual interest rate	31 December 2013 Amount	31 December 2012 Annual interest rate	31 December 2012 Amount
Financial assets				
— Cash at bank and on hand	**0.35%**	**85,770**	0.35%	111,999
Financial liabilities				
— Short-term borrowings	**1.30% to 5.32%**	**1,602,907**	5.04% to 5.32%	405,000

For the year ended 31 December 2013, if interest rates on the floating rate borrowings had risen/fallen 100 basis points while all other variables had been held constant, the Company's total loss would have increased/decreased by approximately RMB12,171 thousand (2012: RMB86 thousand).

(2) Credit risk

Credit risk is managed on a Company basis. Credit risk mainly arises from cash at bank and on hand, accounts receivable, other receivables, notes receivable etc.

The Company expects that there is no significant credit risk associated with cash at bank and notes receivable since they are either deposited or will be accepted by at state-owned banks and other medium or large size listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

In addition, the Company has policies to limit the credit exposure on accounts receivables and other receivables. The Company assesses the credit quality of and sets credit limits on its customers by taking into account their financial position, the availability of guarantee from third parties, their credit history and other factors such as current market conditions. The credit history of the customers is regularly monitored by the Company. In respect of customers with a poor credit history, the Company will use written payment reminders, or shorten or cancel credit periods, to ensure the overall credit risk of the Company is limited to a controllable extent.

(All amounts in RMB'000 Yuan unless otherwise stated)

9 FINANCIAL INSTRUMENT AND RISK (Continued)

(3) Liquidity risk

Cash flow forecasting is performed by Company's finance department. The Company's finance department monitors rolling forecasts of the Company's short-term and long-term liquidity requirements to ensure it has sufficient cash and securities that are readily convertible to cash to meet operational needs, while maintaining sufficient headroom on its undrawn committed borrowing facilities from major financial institution so that the Company does not breach borrowing limits or covenants on any of its borrowing facilities to meet the short-term and long-term liquidity requirements.

The financial assets and liabilities of the Company at the balance sheet date are analysed by their maturity date below at their undiscounted contractual cash flows:

	31 December 2013				
	Within 1 year	**1 to 2 years**	**2 to 4 years**	**Over 4 years**	**Total**
Financial assets —					
Cash at bank and on hand	**105,797**	**–**	**–**	**–**	**105,797**
Receivables	**2,708,245**	**–**	**–**	**–**	**2,708,245**
	2,814,042	**–**	**–**	**–**	**2,814,042**
Financial liabilities —					
Short-term borrowings	**1,624,446**	**–**	**–**	**–**	**1,624,446**
Payables	**1,574,905**	**–**	**–**	**–**	**1,574,905**
	3,199,351	**–**	**–**	**–**	**3,199,351**

	31 December 2012				
	Within 1 year	1 to 2 years	2 to 4 years	Over 4 years	Total
Financial assets —					
Cash at bank and on hand	162,392	–	–	–	162,392
Receivables	2,253,847	–	–	–	2,253,847
	2,416,239	–	–	–	2,416,239
Financial liabilities —					
Short-term borrowings	415,524	–	–	–	415,524
Payables	1,779,853	–	–	–	1,779,853
	2,195,377	–	–	–	2,195,377

(4) Fair value

As at 31 December 2013 and 31 December 2012, financial assets and liabilities not measured at fair value mainly represent receivables, short-term borrowings and payables. The carrying amount of the financial assets and liabilities not measured at fair value is a reasonable approximation of their fair value.

Supplementary Information

For the year ended 31 December 2013
(All amounts in RMB'000 Yuan unless otherwise stated)
(English translation for reference only)

1 STATEMENT OF NON-RECURRING PROFIT OR LOSS

	2013	2012
Net (loss)/gain on disposal of non-current assets	**(21,984)**	12,104
Severance costs	**–**	(578)
Government grants recognised in profit or loss for the period	**3,770**	1,857
Investment income on disposal of financial assets held for trading	**–**	6,751
Non-operating income/(expenses) other than aforesaid items	**(21,822)**	8,488
	(40,036)	28,622
Effect of income tax	**(331)**	(7,156)
	(40,367)	21,466

Basis for preparation of statement of non-recurring profit or loss

Under the requirements in Explanatory announcement No. 1 on information disclosure by companies offering securities to the public — non-recurring profit or loss [2008] from CSRC, non-recurring profit or loss refer to those arises from transactions and events that are not directly relevant to ordinary activities, or that are relevant to ordinary activities, but are extraordinary and not expected to recur frequently that would have an influence on users of financial statements making economic decisions on the financial performance and profitability of an enterprise.

2 DIFFERENCES IN THE FINANCIAL STATES 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 discrepancy and amount are as follows:

	Net loss		**Net assets**	
			31 December	31 December
	2013	2012	**2013**	2012
Amounts under PRC GAAP	**(1,454,217)**	(361,367)	**7,096,488**	8,549,338
Discrepancy and amount —				
Government grants (a)	**2,831**	2,831	**(33,024)**	(35,855)
Specific reserve(b)	**1,367**	80	**–**	–
Amounts under IFRS	**(1,450,019)**	(358,456)	**7,063,464**	8,513,483

(All amounts in RMB'000 Yuan unless otherwise stated)

2 DIFFERENCES IN THE FINANCIAL STATES PREPARED UNDER DIFFERENT ACCOUNTING STANDARDS (Continued)

(a) 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 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.

(b) Specific reserve

Under PRC GAAP, accrued production safety fund is recognised as expenses in profit or loss and separately recorded as a specific reserve in shareholders' equity according to the national regulation. As using production 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.

3 RETURN ON NET ASSETS AND EARNINGS/(LOSS) PER SHARE

	Weighted average return on net assets (%)		Earnings/(loss) per share Basic earnings/(loss) per share		Basic earnings/(loss) per share	
	2013	2012	**2013 (Yuan/share)**	2012 (Yuan/share)	**2013 (Yuan/share)**	2012 (Yuan/share)
Net loss attributable to the Company's ordinary equity shareholders	**(18.59)**	(4.11)	**(0.242)**	(0.060)	**(0.242)**	(0.060)
Net loss attributable to the Company's ordinary equity shareholders after deduction of non-recurring profit or loss	**(18.07)**	(4.36)	**(0.236)**	(0.064)	**(0.236)**	(0.064)

For the year ended 31 December 2013
(All amounts in RMB'000 Yuan unless otherwise stated)
(English translation for reference only)

4 DESCRIPTION ON CHANGES OF MAJOR FINANCIAL STATEMENTS ITEMS

(1) Balance sheet item

Item	31 December 2013	31 December 2012	Change (amount)	Change (%)	Reason for change
Assets:					
Cash at bank and on hand	**105,797**	162,027	(56,230)	-35%	Increase in net cash outflow in operating activities during the year
Notes receivable	**2,558,598**	2,092,377	466,221	22%	Decrease in notes receivable discounted due to increased cost
Advances to suppliers	**28,358**	38,106	(9,748)	-26%	Settlement of certain transactions at the end of the year
Inventories	**1,320,644**	1,735,734	(415,090)	–24%	Decrease in raw materials during the year
Other current assets	**158,465**	390,137	(231,672)	-59%	No prepayment of income tax during the year
Fixed assets	**3,963,871**	3,495,550	468,321	13%	Multiple transfers from construction in progress to fixed assets during the year
Construction in progress	**1,279,939**	1,870,881	(590,942)	-32%	Multiple transfers from construction in progress to fixed assets during the year
Long-term prepaid expenses	**135,503**	–	135,503	N/A	Catalysts used in 1-4 butanediol project was put into use and subject to amortization in the year
Deferred tax assets	**73,783**	312,039	(238,256)	-76%	Write-off of tax losses that were previously recognised as deferred tax assets
Liabilities and shareholders' equity:					
Short-term borrowings	**1,602,907**	405,000	1,197,907	296%	Increase in borrowings during the year
Notes payable	**400,000**	–	400,000	N/A	Start to use bank notes to settle payables for purchase of goods during the year
Accounts payable	**800,758**	1,535,245	(734,487)	-48%	Settlement of certain payable for goods carried forward from previous year-end
Other payables	**374,147**	244,608	129,539	53%	Increase in purchase of equipment at the end of the year
Share capital	**6,000,000**	4,000,000	2,000,000	50%	Conversion from capital surplus to share capital
Capital surplus	**1,146,794**	3,146,794	(2,000,000)	-64%	Conversion from capital surplus to share capital
(Accumulated losses)/ Undistributed profits	**(252,136)**	1,202,081	(1,454,217)	-121%	Current year loss

(All amounts in RMB'000 Yuan unless otherwise stated)

4 DESCRIPTION ON CHANGES OF MAJOR FINANCIAL STATEMENTS ITEMS (Continued)

(2) Income statement item

Item	2013	2012	Change (amount)	Change (%)	Reason for change
Revenue	**17,677,171**	16,987,916	689,255	4%	Increase of sales volume during the year
Cost of sales	**17,765,544**	16,572,824	1,192,720	7%	Increase of material cost during the year
Taxes and surcharges	**150**	913	(763)	-84%	Decrease of urban construction tax and educational surcharges due to less turnover tax payment during the year
Selling and distribution expenses	**226,661**	209,179	17,482	8%	Increase of sales volume during the year
General and administrative expenses	**848,455**	829,424	19,031	2%	Increase of maintenance and repair expenses during the year
Financial expenses/(income) — net	**5,236**	(30,966)	36,202	-117%	Increase in interest expenses in line with rise in borrowings during the year
Asset impairment loss/(reversal)	**6,787**	(21,241)	28,028	-132%	Provision for decline in the value of inventories due to decrease in selling price of products
Investment income	**31**	10,230	(10,199)	-100%	The joint venture started construction in 2013 and had no significant financial income
Non-operating income	**8,550**	40,107	(31,557)	-79%	Decrease in gains on disposal of fixed assets during the year
Non-operating expenses	**48,586**	17,658	30,928	175%	Increase in external labor services expenses during the year
Income tax expenses	**238,550**	(178,171)	416,721	-234%	Write-off of deferred tax assets arising from tax losses that were recognised in previous year

Documents Available for Inspection

The following documents are available for inspection at the legal address of the Company from 28 March 2014 (Friday) 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 PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership);

   The original reports of the auditors and the financial statements prepared in accordance with IFRSs signed by PricewaterhouseCoopers;

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 2013 and the First Quarter Report and the Third Quarter Report from 2002 to 2013 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.