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 2009

Contents

IMPORTANT NOTE:

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

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

Company Profile

Sinopec Yizheng Chemical Fibre Company Limited ("**the Company**") and its subsidiary ("**the Group**") is one of the largest modernized manufacturing bases of chemical fibre and chemical fibre raw materials in the People's Republic of China (the "**PRC**"). In terms of polyester capacity in 2009, the Group ranks the seventh largest polyester manufacturer in the world. (Source: PCI Magazine 2009)

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

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

The Company was a major construction project under the PRC's Sixth to Tenth Five-Year Plans. Its production facilities were imported from Germany, Japan, Italy and France etc. The Company's technology has reached an advanced level in the polyester industry through continuous technological improvements. The quality system of the Company's products received an international certificate in respect of ISO9001, and its product quality commands a leading position in the industry. The Company also received an international certificate in respect of ISO14001 environmental management system. At the end of 2009, the Group owned polymerization facilities with an annual capacity of 1,722,000 tonnes, solid-state-polymerization ("**SSP**") facilities with an annual capacity of 420,000 tonnes, spinning and drawing facilities for polyester fibre with an annual capacity of 765,000 tonnes, texturing facilities for polyester filament with an annual capacity of 69,000 tonnes, oxidation and purification facilities for PTA with an annual capacity of 959,000 tonnes and ancillary public utility facilities, which had a great advantage on the economies of scale.

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

Company Profile

5.	**Domestic Newspapers disclosing information**	:	China Securities, Shanghai Securities News, Securities Times
	Internet website designated by HKSE to disclose information	:	http://www.hkexnews.hk
	Internet website designated by the China Securities Regulatory Commission ("CSRC") to publish the Annual Report	:	http://www.sse.com.cn
	Place where the Annual Report available for inspection	:	Board Secretary Office Sinopec Yizheng Chemical Fibre Company Limited
6.	**Places of listing, names and codes of the stock**	:	
	H share – HKSE – Stock name: Yizheng Chemical – Stock code: 1033		A share – SSE – Stock name: S Yihua – Stock code: 600871

Financial Summary

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

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

	For the year ended 31 December or as at 31 December				
	2009	2008	2007	2006	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(as restated)	(as restated)
Turnover	**13,225,029**	15,224,524	17,175,656	17,307,636	15,830,063
Profit/(loss) before taxation	**387,257**	(1,549,301)	11,366	64,333	(1,009,336)
Income tax expense/(credit)	**1,310**	92,016	(11,890)	23,450	(41,343)
Minority interests	**–**	–	944	415	(485)
Profit/(loss) attributable to equity shareholders of the Company	**385,947**	(1,641,317)	22,312	40,468	(967,508)
Total assets	**9,012,882**	8,280,424	9,931,984	10,046,111	9,692,187
Total liabilities	**2,100,403**	1,753,892	1,764,135	1,872,907	1,568,270
Total equity attributable to equity shareholders of the Company	**6,912,479**	6,526,532	8,167,849	8,125,552	8,071,813
Minority interests	**–**	–	–	47,652	52,104
Basic and diluted earnings/(loss) per share	**RMB0.096**	RMB(0.410)	RMB0.006	RMB0.010	RMB(0.242)
Net assets per share	**RMB1.728**	RMB1.632	RMB2.042	RMB2.031	RMB2.018
Ratio of shareholders' equity	**76.70%**	78.82%	82.24%	80.88%	83.28%
Return on net assets	**5.58%**	(25.15%)	0.27%	0.50%	(11.99%)

Financial Summary

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

	For the year ended 31 December or as at 31 December			
	2009 *RMB'000*	2008 *RMB'000*	Increase/ (decrease) from 2008 *(%)*	2007 *RMB'000*
Total assets	**9,145,813**	8,417,284	8.7	10,072,812
Total equity attributable to equity shareholders of the Company	**7,045,410**	6,663,392	5.7	8,308,677
Net assets per share attributable to equity shareholders of the Company	**RMB1.761**	RMB1.666	5.7	RMB2.077
Operating income	**13,225,029**	15,224,524	(13.1)	17,175,656
Profit/(loss) before income tax	**382,018**	(1,554,592)	Not applicable	4,657
Net profit/(loss) attributable to equity shareholders of the Company	**382,018**	(1,645,285)	Not applicable	17,817
Net profit/(loss) deducted extraordinary gain and loss attributable to equity shareholders of the Company	**363,886**	(1,585,466)	Not applicable	69,275*
Basic earnings/(loss) per share	**RMB0.096**	RMB(0.411)	Not applicable	RMB0.004
Diluted earnings/(loss)per share	**RMB0.096**	RMB(0.411)	Not applicable	RMB0.004
Basic earnings/(loss) per share net of extraordinary gain and loss	**RMB0.091**	RMB(0.396)	Not applicable	RMB0.017*
Weighted average return on net assets	**5.57%**	(21.98%)	Increase 27.55 percentage points	0.22%
Weighted average return on net assets net of extraordinary gain and loss	**5.31%**	(21.18%)	Increase 26.49 percentage points	0.84%*
Net cash inflow/(outflow) from operating activities	**1,308,860**	(48,043)	Not applicable	(62,106)
Net cash inflow/(outflow) from operating activities per share	**RMB0.327**	RMB(0.012)	Not applicable	RMB(0.016)

* *The above figures for 2007 have been adjusted. The Group made these retrospective adjustments in accordance with Interpretive Pronouncement on the Preparation of Information Disclosures of Companies Issuing Public Shares No. 1 – Extraordinary Gain and Loss (2008).*

Financial Summary

2. **Details of the Group's results for the year ended 31 December 2009 (extracted from the financial statements prepared in accordance with the PRC Accounting Standards for Business Enterprises)**

(Expressed in RMB'000)

Operating profit	361,977
Profit before income tax	382,018
Net profit attributable to equity shareholders of the Company	382,018
Net profit deducted extraordinary gain and loss attributable to equity shareholders of the Company	363,886
Net cash inflow from operating activities	1,308,860

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

(Expressed in RMB'000)

Disposal of non-current assets	5,984
Government grants recognised in profit or loss during the year	10,866
Employee reduction expenses	(1,909)
Other non-operating income and expenses excluding the aforesaid items	3,191
Subtotal	18,132
Effect on taxation*	–
Total	18,132

* *As the Group made up the previous years' losses during the current period and therefore suffered tax losses, and has not recognised deferred tax assets in respect of the current tax losses, the above extraordinary gain and loss items have no effect on taxation.*

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

(Expressed in RMB'000)

Items	Balance at the beginning of the current year	Balance at the end of the current year	Changes in the current year	Amount affecting the profit of the current year
Available-for-sale financial assets	–	700,000	700,000	–
Total	–	700,000	700,000	–

5. **Statement of impairment of assets (extracted from the financial statements prepared in accordance with the PRC Accounting Standards for Business Enterprises)**

5.1 Statement of impairment of assets of the Group

	At 1 January 2009 RMB'000	Increase through acquisition during the year* RMB'000	Increase for the year RMB'000	Decrease for the year RMB'000	At 31 December 2009 RMB'000
1. Total provisions for bad and doubtful debts	3,819	–	3,370	5,837	**1,352**
Including: Accounts receivable	835	–	1,432	2,267	**–**
Prepayments	162	–	–	162	**–**
Other receivables	2,822	–	1,938	3,408	**1,352**
2. Total provision for diminution in value of inventories	56,243	–	19,892	38,393	**37,742**
Including: Raw materials	2,991	–	1,895	2,991	**1,895**
Finished goods	35,402	–	8,495	35,402	**8,495**
Work in progress	–	–	581	–	**581**
Spare parts and consumables	17,850	–	8,921	–	**26,771**
3. Total provision for impairment of fixed assets	449,430	132,335	140,953	67,936	**654,782**
Including: Plant and buildings	740	6,543	786	78	**7,991**
Machinery, equipment and others	448,690	125,792	140,167	67,858	**646,791**
Total	509,492	132,335	164,215	112,166	**693,876**

* *The Company acquired the other 50% equity interest in the jointly controlled entity during the current year. After the acquisition, the jointly controlled entity became a subsidiary of the Company and was included in the consolidated financial statements.*

5.2 Statement of impairment of assets of the Company

	At 1 January 2009 RMB'000	Increase for the year RMB'000	Decrease for the year RMB'000	At 31 December 2009 RMB'000
1. Total provisions for bad and doubtful debts	3,819	117,400	5,837	**115,382**
Including: Accounts receivable	835	115,462	2,267	**114,030**
Prepayments	162	–	162	**–**
Other receivables	2,822	1,938	3,408	**1,352**
2. Total provisions for diminution in value of inventories	56,243	–	38,393	**17,850**
Including: Raw materials	2,991	–	2,991	**–**
Finished goods	35,402	–	35,402	**–**
Work in progress	–	–	–	**–**
Spare parts and consumables	17,850	–	–	**17,850**
3. Total provisions for impairment of fixed assets	449,430	10,789	67,621	**392,598**
Including: Plant and buildings	740	786	78	**1,448**
Machinery, equipment and others	448,690	10,003	67,543	**391,150**
4. Total provisions for impairment of long-term equity investment	–	87,328	–	**87,328**
Total	509,492	215,517	111,851	**613,158**

Financial Summary

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

Item	At 31 December 2009 *RMB'000*	At 31 December 2008 *RMB'000*	Change *(%)*	Reason for change
Accounts receivable	**123,022**	190,378	(35.4)	Decrease in operating income during the current year
Prepayments	**2,734**	23,648	(88.4)	Raw materials in transit deducted prepayments at the end of the year
Other receivables	**36,224**	107,939	(66.4)	Decrease in the other receivables due from equipment suppliers
Inventories	**1,308,019**	831,453	57.3	Increase in the price of materials and volume of inventories at the end of the year
Available-for-sale financial assets	**700,000**	–	100.0	The Company purchased other investments at the end of the year
Long-term equity investments	**–**	25,803	(100.0)	The Company acquired the other 50% equity interest in the jointly controlled entity. After the acquisition, the jointly controlled entity became a subsidiary of the Company and was included in the consolidated financial statements. There is no long-term equity investment at the end of the year.
Bills payable	**240,000**	115,000	108.7	Increase in bills issued for purchasing raw materials at the end of the year
Deferred income	**21,256**	15,000	41.7	Increase in government grant during the current year
Surplus reserve	**–**	1,456,004	(100.0)	The Company used the surplus reserve to make good the previous years' losses during the current year
Accumulated losses	**(61,754)**	(1,899,776)	(96.7)	The Company used the surplus reserve to make good the previous years' losses and recorded a net profit during the current year

Item	For the year ended 2009 *RMB'000*	2008 *RMB'000*	Change *(%)*	Reason for Change
Net financial income	**16,854**	45,946	(63.3)	Decrease in interest income from deposits and net exchange gains during the year
Impairment loss	**158,696**	475,925	(66.7)	Provision for diminution in value of equity investments during the current year
Investment loss	**–**	130,381	(100.0)	The Company acquired the other 50% equity interest in the jointly controlled entity. After the acquisition, the jointly controlled entity became a subsidiary of the Company and was included in the consolidated financial statements. There is no long-term equity investment at the end of the year.
Non-operating income	**24,288**	8,165	197.5	Increase in gains on disposal of fixed assets and reimbursement of urban maintenance and construction tax during the current year
Non-operating expenses	**4,247**	54,943	(92.3)	Decrease in losses on disposal of fixed assets during the current year
Income tax expenses	**–**	90,693	(100.0)	The Company wrote off part of deferred tax assets arising from tax losses in prior years during the corresponding period of last year

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

	Net profit/(loss) attributable to equity shareholders of the Company		Total equity attributable to equity shareholders of the Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
PRC Accounting Standards for Business Enterprises	**382,018**	(1,645,285)	**7,045,410**	6,663,392
IFRSs	**385,947**	(1,641,317)	**6,912,479**	6,526,532

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

Report of the Chairman

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

To all shareholders:

It is my pleasure to present to you the Group's audited annual results for the year ended 31 December 2009.

In the beginning of 2009, affected by global financial crisis, the continuous sluggish downstream polyester market, the declined demand for polyester products and intensified competition in polyester industry have presented the Group with unprecedented challenges. Faced with the unprecedentedly tough situation, the Group maintained its market orientation and focused on profit, extensively expanded market, optimized product structure, strengthened fine management and reduced costs and expenses. Along with the implementation of the economic stimulus package by the Chinese Government, the domestic economic situation was gradually recovering, the polyester market demand and product prices were picking up and the profit margin of polyester products have been improved. Simultaneously, the measures taken by the Group to counter the crisis have proved to be effective. As a result, the Group has accomplished outstanding operation results.

In 2009, the Group's consolidated turnover decreased by 13.1 per cent to RMB13,225,029,000 (2008: RMB15,224,524,000). The profit attributable to equity shareholders of the Company was RMB385,947,000 and basic earning per share was RMB0.096, while the loss attributable to equity shareholders of the Company was RMB1,641,317,000 and basic loss per share was RMB0.410 in 2008. To make good the previous year's losses and pursuant to the requirements of the PRC's Company Law and the Company's Articles of Association, the Board proposed that no final cash dividend would be paid for the year ended 31 December 2009 (final cash dividend for 2008: Nil).

In 2009, the Group's production facilities maintained safe and stable operations, and main economic and technical indices steadily increased. The Group continued to strengthen the linkage among production, supply and sales, improve customer service, expand market share and initially realized the transition from "selling product" to "selling service". Objectives of cost reduction and profit improvement have been achieved by strengthening fine management and continuously improving quality. Significant progress has been made in profit improvement by optimizing product structure, improving specialized polyester chip rate and fibre differentiation rate. Achievements in energy conservation and emission reduction have also been made. Compared with 2008, comprehensive energy consumption for main products, total industrial water consumption and total COD emission decreased by 6.1 per cent, 0.2 per cent and 9.4 per cent respectively, achieving the goal of energy conservation of "Eleventh Five-Year Plan" of the Group in advance.

In 2009, based on the future development of polyester industry and actual condition of the Group, an overall development plan of "optimising existing assets and restructuring and upgrading incremental assets" has been set forth. The Group will continue to optimize product structure, improve profit margin of differentiated products and actively advance construction of new upgrading projects to enhance sustainable development. The high performance polyethylene project with an annual capacity of 300 tonnes has realized stable production, with technical indices reached advanced domestic standards by continuous quality improvement. The aramid fiber project with an annual capacity of 100 tonnes was also put into trial operation, with production leveling off.

Looking into 2010, despite the global economy is showing signs of recovery; the foundation for economic recovery is not that solid. Therefore, the global economic environment will not turn for better fundamentally. Affected by the downturn in petrochemical industry, the increase in demand for polyester products will be slowed down. Meanwhile, we see that Chinese economy looks promising as a whole, domestic consumption is expanding, export of downstream textile garments will recover to some extent, so there'll be opportunities for increasing demand for polyester products.

Report of the Chairman

In 2010, the Group will follow its market orientation and focused on profit, extensively expand market, strengthen fine management, explore potential to improve efficiency; advance science and technology innovation, speed up the work of “optimising existing assets and restructuring and upgrading incremental assets”. To achieve these goals, the Group will (1) extensively expand market, strengthen raw material purchases to expand its profit margin; (2) comprehensively deploy safety and environmental protection responsibility system to maintain safe and stable operation of facilities; (3) deepen scientific and technological innovation, boost product-upgrading and industry-upgrading, (4) strict fine management, explore potential to improve efficiency, promote energy conservation and emission reduction; (5) accelerate efficient development, cultivate new economic growth points.

In 2010, the Group will accelerate efficient development in accordance with the overall development plan of “optimising existing assets and restructuring and upgrading incremental assets”. The Group will launch the construction of 1,000 tonnes-grade high performance polyethylene project. The project has been examined and approved by national projects financed by treasury bonds and is expected to complete and put into production in 2011. The Group will continue the construction of 1, 4-Butanediol with an annual capacity of 100,000 tonnes, and carry out technical modification for aramid fibre project with an annual capacity of 100 tonnes to prepare for the construction of 1,000 tonnes-grade aramid fibre project. In 2010, the Group will conscientiously formulate the “Twelfth Five-Year” development plan in accordance with the overall development plan for sustainable and efficient development of the Company.

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

Qian Heng-ge
Chairman

29 March 2010, Nanjing

Business Review and Prospects

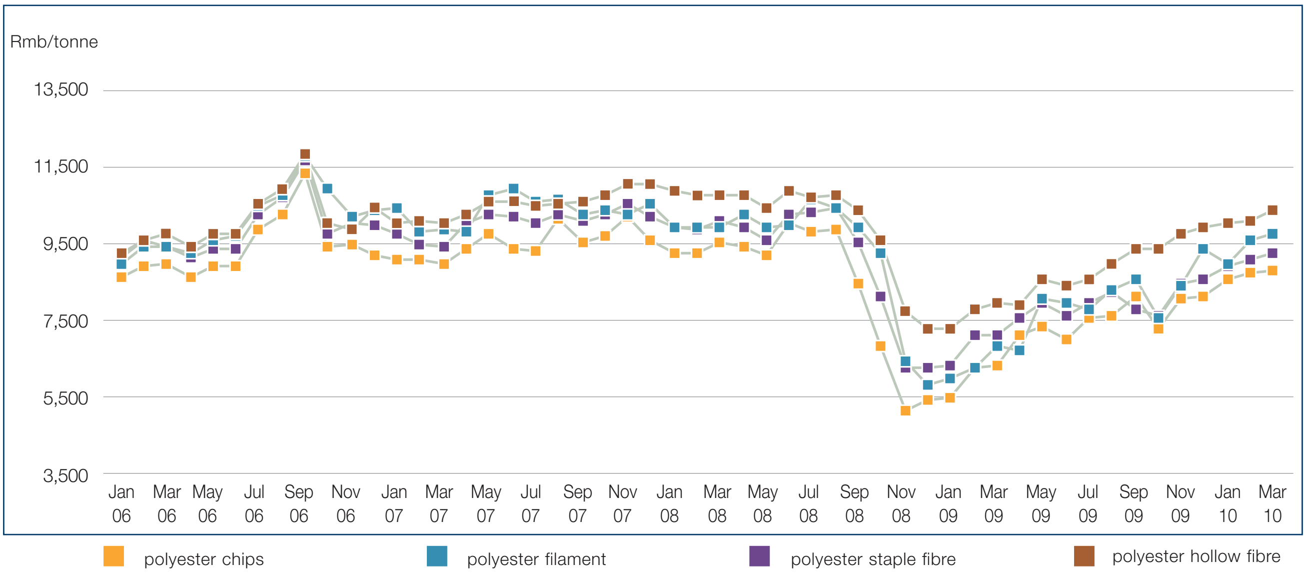
Financial figures, where applicable, contained herein have been extracted from the financial statements prepared in accordance with IFRSs.

In 2009, by chasing the favor opportunity of trending toward stability and starting to rise in the prices of polyester products, the Group endeavoured to expand its markets, optimised its products structure to meet market demand, strengthened fine management and made efforts to reduce its costs and expenses. As a result, The Group successfully achieved a better profit in its operational results.

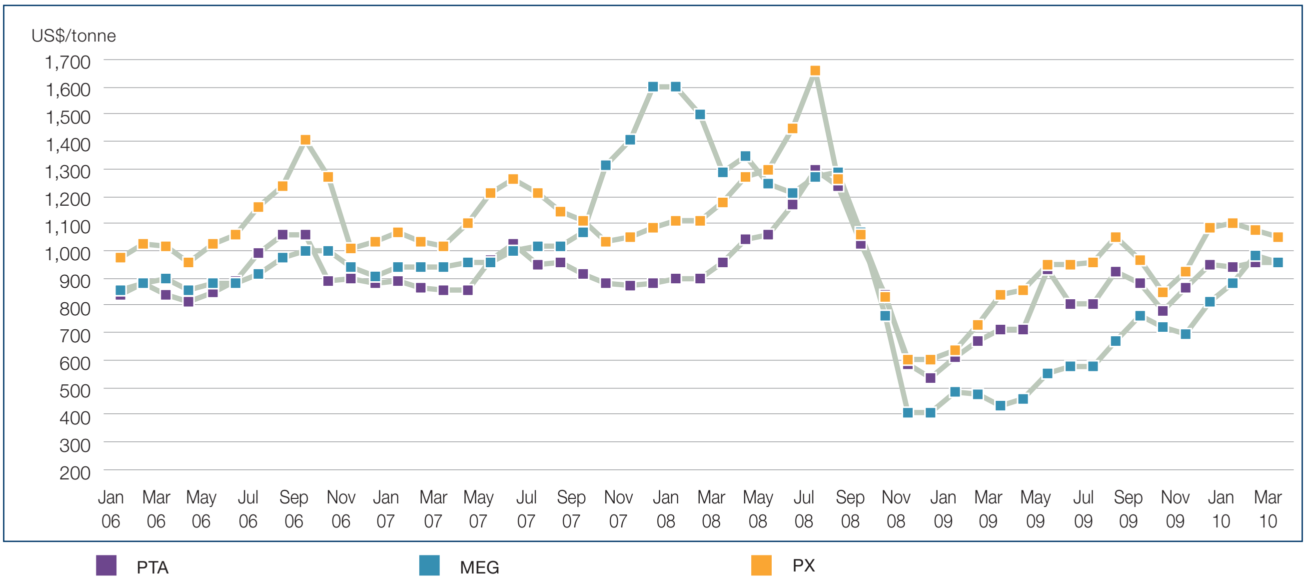
1. MARKET REVIEW

In 2009, despite the steadily picking-up of prices in domestic polyester industry chain and increased profit margin of polyester products, the polyester industry was still in a tough situation. In the beginning of 2009, affected by global financial crisis, the downstream textile industry was faced with dual pressure of decreased domestic and overseas demand. Domestic demand for polyester products and the price plummeted almost to the bottom. Along with the implementation of the economic stimulus package by the Chinese Government, the domestic economic situation was gradually recovering, and the prices of global crude oil and polyester raw materials were also on the track of recovery. As a result, both demand and prices of domestic polyester products were picking up and the profit margin of polyester products increased accordingly as compared with 2008.

PRODUCT PRICES QUOTED BY THE COMPANY (EXCLUDING VAT)



RAW MATERIAL CONTRACT PRICE OFFERED BY INTERNATIONAL SUPPLIERS



In 2009, the newly-added polyester production capacity was almost 2.0 million tonnes in 2009 and the total polyester production capacity amounted to 27.0 million tonnes at the end of 2009. As a result, the oversupply condition of domestic polyester capacity was not improved and the operational environment for polyester industry was still grim. The volume of the total domestic supply of polyester fibre amounted to 23,416,100 tonnes, an increase of 11.5 per cent over that of 2008, of the total volume, the domestic production volume increased by 10.0 per cent as compared with its amounts in 2008. Meanwhile, driven by the PRC's policies of expanding domestic demand, total domestic consumption volume of polyester fibre amounted to 21,601,000 tonnes, an increase of 15.6 per cent over the 2008 amount. The domestic demand for polyester fibre noticeably increased as compared with that of 2008.

Domestic supply and demand of polyester fibre

	Polyester filament			Polyester staple fibre			Polyester fibre		
	2009 '000 tonnes	2008 '000 tonnes	+/(-) (%)	**2009 '000 tonnes**	2008 '000 tonnes	+/(-) (%)	**2009 '000 tonnes**	2008 '000 tonnes	+/(-) (%)
Production volume	**14,152.2**	12,829.2	10.3	**7,891.7**	7,216.4	9.4	**22,043.9**	20,045.6	10.0
Import volume	**173.3**	182.5	(5.0)	**156.4**	144.9	7.9	**329.7**	327.4	0.7
Export volume	**632.8**	803.7	(21.3)	**405.3**	462.8	(12.4)	**1,038.1**	1,266.5	(18.0)
Net import	**(459.5)**	(621.2)	(26.0)	**(248.9)**	(317.9)	(21.7)	**(708.4)**	(939.1)	(24.6)
Inventories at beginning of the year	**733.1**	378.4	93.7	**309.4**	243.0	27.3	**1,042.5**	621.4	67.8
Year-end inventories	**454.0**	733.1	(38.1)	**323.0**	309.4	4.4	**777.0**	1,042.5	(25.5)
Total supply volume	**15,058.6**	13,390.1	12.5	**8,357.5**	7,604.3	9.9	**23,416.1**	20,994.4	11.5
Total consumption volume	**13,971.8**	11,853.3	17.9	**7,629.2**	6,832.2	11.7	**21,601.0**	18,685.5	15.6

Source: The Chemical Fibre Association of China

2. PRODUCTION AND OPERATION REVIEW

(1) Production and Marketing

In 2009, the Group's production facilities maintained safe and stable operations, and main economic and technical indicators steadily increased. The total production volume of polyester products amounted to 2,240,467 tonnes, an increase of 9.3 per cent compared with the 2,050,447 tonnes produced in 2008. The polyester capacity utilisation rate reached 96.7 per cent. The total production volume of PTA amounted to 1,023,347 tonnes, an increase of 3.6 per cent compared with the 987,894 tonnes produced in 2008. In 2009, the Group continued to strengthen the linkage between production and sales, extensively expand market share and improve customer service. The Group's total sales volume of polyester products amounted to 1,724,861 tonnes in 2009, an increase of 3.8 per cent compared with the 1,662,470 tonnes sold in 2008. Excluding self-consumption volume and other factors, the ratio of sales to production reached 99.8 per cent. In 2009, the Group's export volume of polyester products fell to 108,296 tonnes, a decrease of 10.2 per cent over the 120,622 tonnes for 2008.

(2) Cost control

In 2009, the weighted average price of the Group's polyester products (excluding VAT) decreased by 16.2 per cent compared with last year, while the weighted average purchase prices of the Group's principal purchased raw materials, such as PTA, mono-ethylene glycol ("**MEG**") and parxylene ("**PX**"), decreased by 26.3 per cent. The Group tried to decrease the consumption of raw materials and energy by strengthening fine management and implementing technical reform, resulting in the comprehensive energy consumption for main products decreasing by 6.1 per cent compared with 2008. Measures for reducing cost and increasing efficiency were implemented together by strictly implementing overall budget management. By exerting great efforts to improve the proportion of direct selling and to reduce intermediary sales expenses, the Group's selling expenses were 2.1 per cent lower than in 2008. Due to increase in unpaid bonuses and social insurance, the Group's administrative expenses increased by 13.5 per cent compared with 2008. Due to the decrease in interest income from deposits and net exchange gains, net finance income decreased by 63.3 per cent compared with 2008. The total increase in selling expenses, administrative expenses and net finance income was 14.7 per cent from that of 2008.

(3) R&D

In 2009, the Group further improved the combination of production, sales and research, optimised its products structure by market demand and tried to increase the profit contributions from differential and specialized products. Twenty new polyester products were successfully developed and four patent rights were obtained. Upgraded bright sewing thread FR211 was successfully developed, and the quality reached the same level of imported products of the same kind. Product performance and sale volume of specialised polyester chips for film and specialised staple fibre for knitting end use were steadily increased. In 2009, the Company's total production volume of specialised polyester chips amounted to 933,840 tonnes; the specialised rate was 85.9 per cent, 4.9 percentage points higher than that of last year. The total production volume of differential polyester fibre amounted to 526,899 tonnes and the differential rate of polyester fibre was 80.2 per cent, 8.3 percentage points higher than that of last year.

(4) Internal Reform and Management

In 2009, the Group strictly implemented its internal control system to standardise internal management and prevent operational risks, deepened comprehensive budget management and expense control to improve budget accuracy and guidance, continued to strengthen quality management to attain a comprehensive premium grade percentage of 99.1 for main products. The Group further strengthened performance management, formulated regulations and standards for operational posts, implemented work standards for managerial and technical positions on an experimental basis and further improved performance evaluation.

(5) Capital expenditure

In 2009, the Group's total capital expenditure amounted to RMB247,130,000. With a clearer outlook on sustainable development, the Group's new projects were implemented smoothly. The high performance polyethylene project with an annual capacity of 300 tonnes has realized stable production, with technical indices reached advanced domestic standards by continuous quality improvement. The aramid fiber project with an annual capacity of 100 tonnes was also put into trial operation, and the production run was gradually stabilizing. Projects of energy conservation and emission reduction such as air separation have been completed and put into operation.

3. BUSINESS PROSPECTS AND WORK PLAN

(1) Market Analysis

According to the 2010 market analysis, the Group considers: Firstly, although the global economy is showing signs of recovery, the foundation of economic recovery is not firmed based. Therefore, the global economic environment will not turn for better fundamentally. Secondly, affected by downturn in petrochemical industry, the increase in demand for polyester products will be slowed down. Thirdly, domestic polyester industry is going through a new round of adjustment, the trend of over capacity in polyester industry is more obvious and competition in polyester industry has been intensifying. Meanwhile, we see that China's economy looks promising as a whole, domestic consumption will be further expanded, export of downstream textile garments will recover to some extent, so as to provide an opportunity to increase demand for polyester products.

In 2010, along with the recovery of world economy, demand for crude oil will return to growth. It is expected that the global crude oil price will exceed that of 2009 in general. Meanwhile, considering the China authorities' policy of expanding domestic demand, as well as the recovery of downstream textiles exports, domestic demand for polyester products is expected to increase slightly. However, business environment for polyester industry is still very grim due to the excessive surplus and increasing of polyester capacity.

(2) Business strategy

In 2010, the Group will continue to be market-oriented, focus on profit, extensively expand market, strengthen fine management, in-depth explore potential to improve efficiency; promote technological innovation, push forward existing assets optimising and incremental assets restructuring and upgrading. To achieve these targets, the Group will focus on the following priorities in 2010:

I. Extensively expand market, strengthen raw material purchases to expand its profit margin

The Group will (1) adhere to market-oriented, strengthen coordination among production, supply and sales, extensively expand market share and try to increase revenue and efficiency; (2) enhance customer service and improve customer satisfaction to realize win-win between customers and the Group; (3) confirm reasonable inventory and optimize inventory structure in accordance with market and customer demand to ensure balance between production and sales; (4) closely follow up and analyses raw material market both domestic and overseas, analyze market fluctuation and raw material inventory structure in a dynamic way, so as to ensure supply while reducing purchase costs. To meet the target ratio of 100 per cent sales-to-production, the planned sales volume of polyester products is 1,691,000 tonnes.

II. Comprehensively deploy the safety and environmental protection responsibility system to maintain safe and stable operation of facilities

The Group will comprehensively carry out safety and environmental protection responsibility system, continue to strengthen spot management and supervision of key facilities and equipments, implement controls over key facilities so as to reduce unexpected production interruptions and maintain safe and stable operations. Meanwhile, the Group will continue to enhance fine management and improve product quality. In 2010, the planned volume of polyester product production is 2,105,000 tonnes, of which self-consumption volume is 414,000 tonnes. The planned production volume of PTA is 1,020,000 tonnes.

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

The Group will (1) further deepen coordination mechanism of production, sales and research, speed up product upgrading, constantly optimize product structure and raise product added value; (2) push forward technological development and modification to enhance technical levels of facilities. Meantime, technological reserves and prospective studies should be done for adjusting and restructuring of the Group. In 2010, there are 36 product items planned for new development. The Company's projected production volume of differentiated fibre and specialised polyester chips products for 2010 will be 563,000 tonnes and 885,000 tonnes, respectively, while the differential rates for differentiated and specialised products are expected to be 83.5 per cent and 87.1 per cent.

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

The Group will deepen comprehensive budget management and strictly control unplanned expenses to realize its expense control targets. The Group will further optimize operation flow, improve management system and enhance regulation enforcement to improve continuity and effectiveness of management. The Group will also push forward energy conservation and emission reduction, ensure stable operation of air separation facility, second phase of biogas power generation, etc, and put the project of natural gas replacing heavy oil into operation and ensure its stability. Compared with 2009, the comprehensive energy consumption for main products decreased by 2.6 per cent, and total industrial water consumption kept as same and total COD emission decreased by 2.4 per cent.

V. Accelerate efficient development, cultivate new economic growth points

The Group will accelerate efficient development in accordance with the overall development plan of "Optimizing existing assets and restructuring and upgrading incremental assets". The Group will launch the construction of 1,000 tonnes-grade high performance polyethylene project. The project has been examined and approved by national projects financed by treasury bonds and is expected to complete and put into production in 2011. The Group will continue the construction of 1, 4-butanediol with an annual capacity of 100,000 tonnes, and carry out technical modification for the aramid fibre project with an annual 100 tonnes to prepare for the construction of 1,000 tonnes-grade aramid fibre project. In 2010, the Group will conscientiously formulate the "Twelfth Five-Year" development plan in accordance with the overall development plan for sustainable and efficient development of the Group.

Management Discussion and Analysis

*The information set out below does not constitute part of the financial statements audited by KPMG or KPMG Huazhen, as set out on pages 55 to 112 and pages 113 to 194, respectively, of this Annual Report, and is included for information purpose. This discussion and analysis should be read in conjunction with the information contained in the Consolidated Financial Statements and Notes thereto (the "**Financial Statements**") presented in this Annual Report. Financial figures, except for specifically noted, contained herein have been extracted from the financial statements prepared in accordance with the IFRSs.*

1. RESULTS OF OPERATIONS

(1) Turnover

In 2009, the Group maintained a safe and stable operation with a relatively high capacity utilization rate. Due to actively optimized its products structure to meet market demand, the Group's production volume of specialised polyester chips and differentiated fibre products for 2009 increased by 15.0 per cent and 9.1 per cent respectively as compared with last year. The total production volume of polyester products was 2,240,467 tonnes, representing an increase of 9.3 per cent as compared with that of 2,050,447 tonnes for last year. The average capacity utilization rate for polyester facilities reached 96.7 per cent, 2.8 percentage points higher than that of last year. The total production volume of PTA amounted to 1,023,347 tonnes, an increase of 3.6 per cent as compared with that of 987,894 tonnes for last year. The average capacity utilization rate for PTA facilities reached 97.3 per cent, 3.4 percentage points higher than that of last year.

Production volume

	For the year ended 31 December			
	2009		2008	
	Production volume *(tonnes)*	**Per cent of total production volume *(%)***	Production volume *(tonnes)*	Per cent of total production volume *(%)*
Polyester products				
Polyester Chips	**1,086,910**	**48.5**	1,002,798	48.9
Bottle-grade polyester chips	**411,681**	**18.4**	375,662	18.3
Staple fibre	**458,884**	**20.5**	448,751	21.9
Hollow fibre	**52,706**	**2.3**	51,760	2.5
Filament	**230,286**	**10.3**	171,476	8.4
Total	**2,240,467**	**100.0**	2,050,447	100.0

In 2009, the Group's total sales volume of the polyester products was 1,724,861 tonnes, representing an increase of 3.8 per cent from the 1,662,470 tonnes sold in 2008. Excluding the self-consumed volume and other factors, the ratio of sales to production reached 99.8 per cent. The export sales volume of the polyester products was 108,296 tonnes, representing a decrease of 10.2 per cent compared with the 120,622 tonnes sold in 2008. In 2009, the weighted average prices (excluding VAT) of the Group's polyester products decreased from RMB8,922 per tonne for last year to RMB7,476 per tonne, representing a 16.2 per cent decrease. Because the decrease in prices of polyester products was less than that of polyester raw material, the profit margin of polyester products was improved.

Sales volume

	For the year ended 31 December			
	2009		2008	
	Sales volume *(tonnes)*	**Per cent of total sales volume *(%)***	sales volume *(tonnes)*	Per cent of total sales volume *(%)*
Polyester products				
Polyester chips	**634,749**	**36.8**	613,367	36.9
Bottle-grade polyester chips	**410,705**	**23.8**	374,502	22.5
Staple fibre	**457,895**	**26.5**	451,399	27.2
Hollow fibre	**52,709**	**3.1**	51,458	3.1
Filament	**168,803**	**9.8**	171,744	10.3
Total	**1,724,861**	**100.0**	1,662,470	100.0

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

	For the year ended 31 December		
	2009	2008	Change (%)
Polyester products			
Polyester chips	**7,069**	8,419	(16.0)
Bottle-grade polyester chips	**7,059**	9,164	(23.0)
Staple fibre	**7,747**	9,120	(15.1)
Hollow fibre	**9,060**	10,073	(10.1)
Filament	**8,788**	9,332	(5.8)
Weighted average price	**7,476**	8,922	(16.2)

Turnover

	For the year ended 31 December			
	2009		2008	
	Turnover *RMB'000*	**Per cent of turnover *%***	Turnover *RMB'000*	Per cent of turnover *%*
Polyester products				
Polyester chips	**4,487,078**	**34.0**	5,163,777	33.9
Bottle-grade polyester chips	**2,898,998**	**21.9**	3,431,852	22.6
Staple fibre	**3,547,290**	**26.8**	4,116,609	27.0
Hollow fibre	**477,544**	**3.6**	518,316	3.4
Filament	**1,483,491**	**11.2**	1,602,670	10.5
Others	**330,628**	**2.5**	391,300	2.6
Total	**13,225,029**	**100.0**	15,224,524	100.0

In 2009, despite the Group's total sales volume of the polyester products increasing by 3.8 per cent as compared with last year, the Group's turnover was RMB13,225,029,000, representing a decrease of 13.1 per cent as compared with RMB15,224,524,000 for last year due to the decrease in the weighted average prices of polyester products (excluding VAT) by 16.2 per cent as compared with last year,

(2) Cost of sales

In 2009, the Group's cost of sales was RMB12,141,045,000, a decrease of RMB3,512,627,000 compared with RMB15,653,672,000 for 2008, representing 91.8 per cent of turnover. The decrease in cost of sales was mainly due to substantial decrease in the costs of raw materials. Total costs of raw materials decreased by RMB2,957,120,000, from RMB12,885,278,000 in 2008 to RMB9,928,158,000 in 2009, accounting for 81.8 per cent of the cost of sales in 2009. The decrease in the total costs of raw materials was mainly due to the decline in the purchase costs of raw materials. The Group's weighted average purchase prices of polyester raw materials decreased by 26.3 per cent as compared with last year. Of which, the average purchase costs of PTA, PX and MEG decreased by 17.7 per cent, 24.6per cent and 35.7per cent respectively as compared with last year.

In 2009, despite turnover decreasing by 13.1 per cent as compared with last year, the Group's gross profit was RMB1,083,984,000 and gross profit margin was 8.2 per cent due to the decrease in cost of sales by 22.4 per cent as compared with last year, while the Group's gross loss was RMB429,148,000 in 2008.

(3) Selling, administrative and net finance income

	For the year ended 31 December		
	2009	2008	Change
	RMB'000	*RMB'000*	*(%)*
Selling expenses	**183,227**	187,146	(2.1)
Administrative expenses	**409,442**	360,738	13.5
Net finance income	**(16,854)**	(45,946)	(63.3)
Total	**575,815**	501,938	14.7

In 2009, by exerting great efforts to improve the proportion of direct selling and to reduce intermediary sales expenses, the Group's selling expenses decreased by RMB3,919,000 as compared with last year. Due to increase in unpaid bonuses and social insurance, the Group's administrative expenses increased by RMB48,704,000 as compared with last year. Due to the decrease in interest income from deposits and net exchange gains, the net finance income decreased by RMB29,092,000 as compared with last year. The total increase in selling expenses, administrative expenses and net finance income was 14.7 per cent from that of 2008.

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

	For the year ended 31 December		
	2009	2008	Change
	RMB'000	*RMB'000*	*%*
Operating profit/(loss)	**370,403**	(1,464,866)	Not applicable
Profit/(loss) before taxation	**387,257**	(1,549,301)	Not applicable
Income tax expense	**1,310**	92,016	(98.6)
Profit/(loss) attributable to equity shareholders of the Company	**385,947**	(1,641,317)	Not applicable
Earnings/(loss)per share (in RMB)	**0.096**	(0.410)	Not applicable

In 2009, by chasing the favor opportunity of trending toward stability and starting to rise in the prices of polyester products, the Group endeavoured to expand its markets, optimised its products structure to meet market demand, strengthened fine management and made efforts to reduce its costs and expenses. As a result, the Group's profit before taxation and profit attributable to equity shareholders of the Company was RMB387,257,000 and RMB385,947,000 respectively, while the Group's loss before taxation and loss attributable to equity shareholders of the Company for 2008 was RMB1,549,301,000 and RMB1,641,317,000 respectively.

(5) Statement of the operations by products

Polyester products contributed more than 10 per cent of the Group's income from operations and operating profit. The following is the statement of operations by products for the year ended 31 December 2009 in accordance with the PRC Accounting Standards for Business Enterprises.

Products	Operating income *RMB'000*	Cost of sales *RMB'000*	Gross profit margin *(%)*	Decrease in operating income as compared with last year *(%)*	Decrease in cost of sales as compared with last year *(%)*	Gross profit margin as compared with last year
Polyester products	12,894,401	11,495,691	10.8	(13.1)	(22.4)	Increased by 10.7 Percentage points
Including:						
Polyester Chips	4,487,078	3,918,081	12.7	(13.1)	(24.4)	Increased by 13.1 percentage points
Bottle-grade polyester chips	2,898,998	2,683,038	7.4	(15.5)	(20.3)	Increased by 5.5 percentage points
Staple and hollow fibre	4,024,834	3,465,391	13.9	(13.2)	(23.8)	Increased by 12.0 percentage points
Filament	1,483,491	1,429,181	3.7	(7.4)	(17.2)	Increased by 11.5 percentage points

During 2009, the Company did not sell any products or provide any services to its controlling shareholders or their subsidiaries.

(6) Operations of subsidiary in 2009

Yihua Jingwei Fibre Industry Company Limited ("**Yihua Jingwei**"), formerly Yihua UNIFI Fibre Industry Company Limited, is a wholly-owned subsidiary of the Company. Yihua Jingwei's registered capital is RMB483,672,000. Its principal activities are the production and sales of differential polyester filament and relative products, research and development of polyester and textile products, and after sales services for its products. As at 31 December 2009, the total assets of Yihua Jingwei were RMB196,664,000. For the year ended 31 December 2009, Yihua Jingwei made a loss of RMB201,358,000.

(7) Acquisition, divestment and investment

The Group did not make any material divestment and investment in relation to any of its subsidiaries or associates in 2009. Details of acquisition during the year of 2009 are set forth in item 4 of "Significant Events" of the Annual Report.

2. FINANCIAL ANALYSIS

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

(1) Assets, liabilities and shareholders' equity analysis

	At 31 December 2009 *RMB'000*	At 31 December 2008 *RMB'000*	Changes in amount *RMB'000*
Total assets	**9,012,882**	8,280,424	732,458
Current assets	**4,047,905**	3,842,986	204,919
Non-current assets	**4,964,977**	4,437,438	527,539
Total liabilities	**2,100,403**	1,753,892	346,511
Current liabilities	**2,079,147**	1,738,892	340,255
Non-current liabilities	**21,256**	15,000	6,256
Total equity attributable to equity shareholders of the Company	**6,912,479**	6,526,532	385,947

As at 31 December 2009, the Group's total assets were RMB9,012,882,000, total liabilities were RMB2,100,403,000, and total equity attributable to equity shareholders of the Company was RMB6,912,479,000. Compared with the assets and liabilities as at 31 December 2008 (hereinafter referred to as "**as compared with the end of last year**"), the variations and main causes of such changes are described as follows:

Total assets were RMB9,012,882,000, an increase of RMB732,458,000 as compared with the end of last year. Current assets were RMB4,047,905,000, an increase of RMB204,919,000 as compared with the end of last year. The increase was mainly due to the increase in inventories by RMB476,566,000 owing to the rise in prices of products and raw materials in 2009, and the increase in the Group's deposits with banks and other financial institutions by RMB197,139,000. Meanwhile, trade and other receivables decreased by RMB402,259,000 owing to the decrease in export credit sales during the year of 2009. Non-current assets were RMB4,964,977,000, an increase of RMB527,539,000 as compared with the end of last year, which was mainly due to the newly-added financial assets available for sale of RMB700,000,000 at the end of 2009.

Total liabilities were RMB2,100,403,000, an increase of RMB346,511,000 as compared with the end of last year. Current liabilities were RMB2,079,147,000, an increase of RMB340,255,000 as compared with the end of last year, which was mainly due to the increase of RMB340,255,000 in trade and other payables owing to the increase in bills issued for purchasing raw materials as a result of the rise in purchasing prices of raw materials in 2009. Non-current liabilities were RMB21,256,000, an increase of RMB6,256,000 compared with the end of last year, which was mainly due to the increase of RMB7,000,000 in receipts of government grants in 2009.

Total equity attributable to equity shareholders of the Company was RMB6,912,479,000, an increase of RMB385,947,000 as compared with the end of last year, mainly due to RMB385,947,000 for profit attributable to equity shareholders of the Group in 2009.

As at 31 December 2009, the ratio of total liabilities to total assets was 23.3 per cent, and 21.2 per cent as at 31 December 2008.

(2) Cash flow analysis

At the end of 2009, cash and cash equivalents decreased by RMB66,527,000, representing a decrease from RMB841,294,000 as at 31 December 2008 to RMB774,767,000 as at 31 December 2009. The following table lists major items in the consolidated cash flow statement of the Group for the year 2009 and 2008.

Major items in cash flow statement	**2009** ***RMB'000***	2008 *RMB'000*	Change *RMB'000*
Net cash generated from/(used in) operating activities	**1,300,204**	(51,637)	1,351,841
Net cash (used in)/generated from investing activities	**(1,366,397)**	433,184	(1,799,581)
Net cash used in financing activities	**(334)**	–	(334)
Net (decrease)/increase in cash and cash equivalents	**(66,527)**	381,547	(448,074)
Cash and cash equivalents at the beginning of the year	**841,294**	459,747	381,547
Cash and cash equivalents at the end of the year	**774,767**	841,294	(66,527)

In 2009, the Group's net cash inflow from operating activities was RMB1,300,204,000, representing an increase of RMB1,351,841,000 as compared with last year. The increase in gross profit in 2009 led to the increase of the net cash inflow from operating activities by RMB1,513,132,000.

In 2009, the Group's net cash outflow from investing activities was RMB1,366,397,000, an increase of cash outflow by RMB1,799,581,000 as compared with last year. This was mainly due to the following:

(1) Deposits with banks and other financial institutions increased by RMB494,600,000 in 2009, while there had been a decrease of RMB510,000,000 in 2008. As a result, the net cash outflow from investing activities increased by RMB1,004,600,000.

(2) In 2009, the net cash outflow from investing activities increased by RMB700,000,000 due to the newly-added financial assets available for sale.

In 2009, the Group's net cash outflow from financing activities was RMB334,000, an increase of cash outflow by RMB334,000 compared with 2008. It was mainly due to RMB334,000 of cash repayments of borrowings in 2009.

(3) Bank borrowings

As at 31 December 2009, the Group's bank borrowings were nil (as at 31 December 2008: nil).

(4) Assets charges

For the year ended 31 December 2009, there were no any charges on the Group's assets.

(5) Management of foreign exchange risk

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

(6) Debt-equity ratio

The debt-equity ratio of the Group was nil for 2009 (2008: nil). The ratio is computed as long-term borrowings (excluding non-current liability due in one year) divided by the sum of long-term borrowings (excluding non-current liability due in one year) and shareholders' equity.

3. CAPITAL EXPENDITURE

In 2009, the Company's capital expenditure amounted to RMB247,130,000. With a clearer outlook on sustainable development the Company's new projects were implemented smoothly. The main construction of the high performance polyethylene project, with an annual capacity of 300 tonnes, was completed at the end of 2008, and was put into trial operation in early 2009. The aramid fiber project with an annual capacity of 100 tonnes was also put into trial operation in February 2009.

The Company's capital expenditure for 2010 is expected to be approximately RMB776,340,000. It will mainly invest in projects such as the 1,4-butanediol project with an annual capacity of 100,000 tonnes, the 1,000 tonnes-grade high performance polyethylene project, reducing energy consumption, safety and environmental protection, and reducing costs and expenses. To maximise its return on investment, the Group will strengthen its investment management in accordance with the prudence principle. The planned capital expenditures will be funded from cash generated from operations and bank credit facilities.

Report of the Board of Directors

The Board has the pleasure in submitting the Company's Annual Report together with the audited financial statements for the year ended 31 December 2009.

DAILY OPERATION OF THE BOARD

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

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

(1) The second meeting of the sixth term of the Board was held on 18 February 2009. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times and the website of HKSE on 19 February 2009.

(2) The third meeting of the sixth term of the Board was held on 30 March 2009. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times and the website of HKSE on 31 March 2009.

(3) The fourth meeting of the sixth term of the Board was held on 20 April 2009. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times and the website of HKSE on 21 April 2009.

(4) The fifth meeting of the sixth term of the Board was held on 29 April 2009. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times and the website of HKSE on 30 April 2009.

(5) The sixth meeting of the sixth term of the Board was held on 24 August 2009. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times and the website of HKSE on 25 August 2009.

(6) The seventh meeting of the sixth term of the Board was held on 15 October 2009. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times and the website of HKSE on 16 October 2009.

(7) The eighth meeting of the sixth term of the Board was held on 29 October 2009. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times and the website of HKSE on 30 October 2009.

(8) The ninth meeting of the sixth term of the Board was held on 31 December 2009. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times and the website of HKSE on 4 January 2010.

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

During the reporting period, the Board executed the resolutions of the Annual General Meeting for 2008 ("**2008 AGM**") for 2009.

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

PRINCIPAL ACTIVITIES

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

FINANCIAL SUMMARY

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

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

CHANGES IN SHARE CAPITAL AND CAPITAL

Changes in share capital

1. *Share capital structure*

   Details of the share structure are as follows:

Unit of share: 1,000 Shares

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

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

The Company acknowledged that, based on information available to the Company immediately before publishing the 2009 Annual Report, and understood by its Directors as well, the number of its shares held by the public met the requirements in the Rules Governing the Listing of Securities on the HKSE (the "**Listing Rule**").

2. *Share issue and listings*

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

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

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

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

4. *Pre-emptive rights*

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

5. *Internal employee shares*

The Company has not issued any internal employee shares.

Shareholders

1. *Number of shareholders*

The number of shareholders of the Company as at 31 December 2009 is as follows:

Type	**Number of shareholders**
Legal person share ("A" share)	2
Social public share ("A" share)	42,277
"H" share	670
Total	42,949

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

As at 31 December 2009, the shareholdings of the top ten major shareholders and circulating shareholders of the Company are as follows:

Number of shareholders at the end of the year	42,949

Details of the top ten major shareholders

Names of shareholders	Nature of shareholders	Number of shares held at the end of the year (shares)	Percent to total share capital (%)	Number of non-circulating shares (shares)	Number of pledged or frozen shares*
Sinopec	Domestic legal person shareholder	1,680,000,000	42.00	1,680,000,000	Nil
Hong Kong Securities Clearing Company ("**HKSCC**") (Nominees) Limited**	Overseas capital shareholder	1,382,961,005	34.57	Circulating shares	Nil
CITIC Group Corporation ("**CITIC**") ***	Domestic legal person shareholder	720,000,000	18.00	720,000,000	Nil
Taiping Life Insurance Company Limited-Dividends-Team Dividends	Domestic circulating shareholders	2,006,153	0.05	Circulating shares	Not applicable
Zhang Xin-ming	Domestic circulating shareholders	2,000,000	0.05	Circulating shares	Not applicable
Lin You-ming	Domestic circulating shareholders	1,586,151	0.04	Circulating shares	Not applicable
Shanghai Huitong Hydraulic and Hydro-power Developing Company Limited	Domestic circulating shareholders	1,527,900	0.04	Circulating shares	Not applicable
Shanxi Jinrui Investing Company Limited	Domestic circulating shareholders	1,477,092	0.04	Circulating shares	Not applicable
Lu Bao-hong	Domestic circulating shareholders	1,325,000	0.03	Circulating shares	Not applicable
Guangzhou Yidian Engineering & equipment Install Corporation	Domestic circulating shareholders	1,300,000	0.03	Circulating shares	Not applicable

Details of the top ten circulating shareholders

Names of shareholders	Number of circulating shares held at the end of year (shares)	Classification
HKSCC (Nominees) Limited**	1,382,961,005	"H" shares
Taiping Life Insurance Company Limited-Dividends-Team Dividends	2,006,153	Circulating "A" shares
Zhang Xin-ming	2,000,000	Circulating "A" shares
Lin You-ming	1,586,151	Circulating "A" shares
Shanghai Huitong Hydraulic and Hydro-power Developing Company Limited	1,527,900	Circulating "A" shares
Shanxi Jinrui Investing Company Limited	1,477,092	Circulating "A" shares
Lu Bao-hong	1,325,000	Circulating "A" shares
Guangzhou Yidian Engineering & equipment Install Corporation	1,300,000	Circulating "A" shares
AU TAT HUNG	1,000,000	"H" shares
Industrial and Commercial Bank of China-China Universal Shanghai Composite Index Securities Investment Fund	968,134	Circulating "A" shares
Explanation of connected relationship or activities in concert among the above shareholders	The Company is not aware of that there is any connected relationship or activities in concert among the above shareholders.	

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

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

*** *Shares held on behalf of the State.*

3. *The controlling shareholder*

Name of the controlling shareholder	:	Sinopec, holding 42 per cent of the Company's shares
Legal representative	:	Su Shu-lin
Date of establishment	:	25 February 2000
Registered capital	:	RMB86,702,439,000
Principal activities	:	Engaged in exploring for and developing, producing and trading crude oil and natural gas; processing crude oil into refined oil products, producing refined oil products and trading, transporting, distributing and marketing refined oil products; producing, distributing and trading petrochemical products.

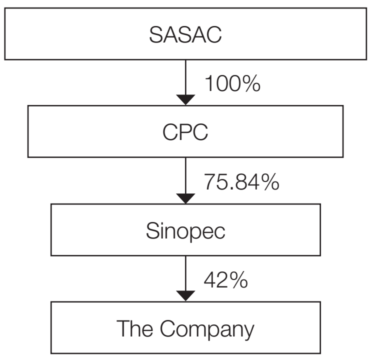
During the reporting period, there has been no change in the controlling shareholder of the Company.

4. *Controlling company of the controlling shareholder*

Name of the controlling company of the controlling shareholder	:	China Petrochemical Corporation ("**CPC**")*
Legal representative	:	Su Shu-lin
Date of establishment	:	24 July 1998
Registered capital	:	RMB130,645,104,000
Principal activities	:	Through reorganization in 2000, CPC injected its principal petroleum and petrochemical operations into Sinopec, and retained operations in certain smaller scale petrochemical facilities and refineries, provision of well drilling services, oil testing services, in–well operation services, manufacture and maintenance of production equipment, engineering construction, utility services and social services.

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

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



5. *Other substantial shareholders*

(1) *CITIC*

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

Legal representative	:	Kong Dan
Registered capital	:	RMB30,000,000,000
Date of establishment	:	4 October 1979
Principal activities	:	Provide services in bank, security, insurance, trust, future, rent, and engage in industries of information, material, engineer, import and export, etc..

(2) The shares held by HKSCC (Nominees) Limited are on behalf of its customers. As at 31 December 2009, the Company was not informed of whether any of its individual "H" shareholder held more than 10 per cent of the total shares of the Company.

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

As at 31 December 2009, so far as the Directors, Supervisors and Senior Management of the Company are aware of, each of the following persons, not being a Director, Supervisor or Senior Management of the Company, had an interest in the Company's shares which is required to be disclosed to the Company and the HKSE under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance ("**SFO**").

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

* *As at 31 December 2009, CPC holds 75.84% of the equity interest in Sinopec.*

Save as disclosed above and so far as the Directors, Supervisors and Senior Management of the Company are aware of, as at 31 December 2009, no other person had an interest or short position in the Company's shares or underlying shares (as the case may be) which are required to be disclosed to the Company and the HKSE under the provisions of Divisions 2 and 3 of Part XV of the SFO, or was otherwise a substantial shareholder (as such term is defined in the Listing Rules) of the Company.

Report of the Board of Directors

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Changes in Directors, Supervisors and Senior Management

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. Qian Heng-ge, aged 59, Chairman of the Company, Secretary of Chinese Communist Party Committee (the "CCPC") of the Company, and Senior Economist (at professor level). Mr. Qian joined Sinopec Asset and Management Corporation (formerly as "Yihua Group Corporation") in 1984. Since then, he had served as Deputy Head of the General Manager Office of Yihua and Head of the General Manager Office of the Company. In June 1995, he was elected as Chairman of the Supervisory Committee, and appointed as Deputy Secretary of the CCPC and Secretary of the Discipline and Inspection Commission of the Company. He was re-elected as Chairman of the Supervisory Committee and appointed as Secretary of the CCPC of the Company in December 1996. In January 1998, he was elected as Executive Director, appointed as Deputy General Manager of the Company and appointed as Director of Yihua. In March 1998, he was appointed as Deputy Secretary of the CCPC of the Company and Yihua. He was elected as Vice Chairman of the Company in December 1999. In April 2002, he was appointed as General Manager of Yihua. In July 2004, he was appointed as Secretary of CCPC of the Company and Yihua, and Chairman of Yihua. In December 2005, he was re-elected as Vice Chairman of the Company. In February 2007, he was elected as Chairman of the Company. In June 2007, he was also appointed as manager of Yihua. In December 2008, he was re-elected as Chairman of the Company. For a long period of time, Mr. Qian has held leading positions in administration and human resources management and has extensive experience in overall management in extra-large-scale enterprise. Mr. Qian graduated from Distance Learning College of the Communist Party Central Academy in 1988, majoring in business administration. He completed the course of MBA in Nanjing University in 2000.

2. Ms. Sun Zhi-hong, aged 60, Vice Chairwoman of the Company, Deputy Director of the Finance Department of CITIC, and Director of CITIC Offshore Helicopter Co. Ltd., Senior Accountant and CPA of the PRC. She held the position of Deputy Director of the Finance Department of CITIC since January 1999. She was elected as Vice Chairwoman of the Company in December 1999, and was re-elected in December 2008. Ms. Sun has extensive experience in financial management in large-scale enterprise. Ms. Sun graduated from China Central Broadcasting and Television University in 1986, majoring in accounting and completed the graduate course of International Business Administration in Beijing Economic College in 1995.

3. Mr. Xiao Wei-zhen, aged 56, Vice Chairman and General Manager of the Company, and Senior Engineer (at professor level). Mr. Xiao receives special subsidies by the State Council of the PRC. Mr. Xiao joined Yihua in 1982. Since then, he had served as Deputy Director and Chief Engineer of Polyester Plant No. 2, and then Director of Polyester Plant No. 4 of the Company. In November 1996, he was appointed as Deputy General Manager of the Company. In December 1997, he was transferred to be Head of Production and Marketing Department in China Eastern United Petrochemical (Group) Company Limited ("**Eastern United**"). In January 1998, he was elected as Executive Director of the Company. In May 1998, he was appointed as Deputy General Manager of the Company. In July 2004, he was appointed as Managing Director of the Company and Director of Yihua. He was re-elected as Managing Director of the Company in December 2005. In February 2007, he was elected as Vice Chairman of the Company. In December 2008, he was re-elected as Vice Chairman of the Company. Mr. Xiao has extensive experience in production, technological improvement and business administration in extra-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 58, Director of the Company and Deputy Director of Overall Planning Department of CITIC, and Senior Engineer. She was elected as Director of the Company in December 1999. She was appointed as Deputy Director of Overall Planning Department of CITIC since April 2002. In December 2008, she was re-elected as Director of the Company. Ms. Long was engaged in the designing of chemical fibre machines and scientific research, and has extensive experience in business administration in large-scale industrial enterprise. Ms. Long graduated from Beijing Chemical Engineering College in 1975, majoring in machinery.

5. Mr. Zhang Hong, aged 51, Director of the Company and Deputy Director of Audit Department of CITIC, Senior Accountant and CPA of the PRC. He held the position of Head of No. 2 Division of Audit Department of CITIC since December 2002. In December 2002, he was elected as Director of the Company. In December 2008, he was re-elected as Director of the Company. He held the position of Deputy Director of Audit Department of CITIC since January 2010. Mr. Zhang was engaged in financial management and internal audit for years, and has extensive experience in internal management systems, financial analysis and auditing in large-scale enterprise. Mr. Zhang graduated from No. 2 Branch, Renmin University of China in 1983, majoring in finance.

6. Mr. Guan Diao-sheng, aged 47, Director of the Company, Deputy Director of Chemicals Segment of Sinopec, Master of Engineering, Senior Engineer. Mr. Guan has joined petrochemical industry since 1985, he served as Deputy Director of Technology Department of Liaoyang Oil & Chemical Fibre Company in 1991, Deputy Director of Technology Section of Production Department of CPC in 1995, Director of Chemical Fibre Section of Refining and Petrochemical Department of CPC in 1998, and Deputy Director of Chemicals Segment of Sinopec in December 2001, in June 2002, he was elected as Director of the Company, and re-elected in December 2008. Mr. Guan has extensive experience in chemical fibre industry management. Mr. Guan graduated from China Textile University in 1985, majoring in chemical fibre.

7. Mr. Qin Wei-zhong, aged 38, Director of the Company, Deputy Director of Development and Plan Department of Sinopec, Master of Engineering, Senior Engineer. Mr. Qin has joined petrochemical industry since 1996. He served as Deputy Director of Strategic Plan Section of Development and Plan Department of CPC in 1998, Director of Chemicals Plan Section of Development and Plan Department of CPC in 2000, Manger Assistant of Sinopec Beijing Yanshan Branch in 2003, Deputy Director of Development and Plan Department of Sinopec in October 2004, and served as Director of New Energy Office in 2007. In December 2008, he was elected as Director of the Company. Mr. Qin has extensive experience in planning and management in chemicals industry. Mr. Qin graduated from Tsinghua University in 1993, majoring in macromolecular chemical, and electronics and computer technology, and obtained two bachelor's degrees. Mr. Qin obtained Master of degree from Tsinghua University in 1996, majoring in macromolecular chemical.

8. Mr. Shen Xi-jun, aged 49, Director and Deputy General Manager of the Company, and Senior Engineer (at professor level). He receives special subsidies awarded by the State Council of the PRC. Mr. Shen joined Yihua in 1982. He had served as Deputy Director of Polyester Plant No.3 and the Assistant to General Manager of Yihua. In January 1996, he was appointed as Deputy General Manager of Yihua. In January 1998, he was appointed as Deputy General Manager of the Company and was re-appointed in December 2002. In August 2004, he was elected as Director of the Company. In December 2008, he was re-elected as Director of the Company. He has extensive experience in production and project management in large-scale enterprises. He has won several titles and awards granted by the Central Committee of the Communist Youth League of the PRC, China National Textile Council, Human Resources Department of Jiangsu Provincial Government and Jiangsu Provincial Communist Party Committee. Mr. Shen graduated from the Department of Chemical Engineering of Dalian Institute of Technology in 1982, specialising in macromolecule chemical engineering. He completed the course of MBA in Nanjing University in 1997. Mr. Shen graduated from Research Institute of Petroleum Processing in 2006, majoring in applied chemistry and became Doctor of engineering in 2006.

9. Mr. Shi Zhen-hua*, aged 63, 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 1991, and the secretary to the Party Committee and the deputy chief to the Jiangsu County Environmental Protection Bureau in 1997. In December 2008, he was elected as Independent Director of the Company. Over the years, he has been engaged in various management aspects such as environmental protection, environmental management and environmental resources, and contributed to different environmental reformation and innovation projects. He was awarded with various honors, including the China's Environment Award. He is the Delegate of the 10th National People's Congress. Mr. Shi graduated from the Department of Geography of Nanjing University in 1969.

10. Mr. Qiao Xu*, aged 48, 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. Mr. Qiao was also appointed as external director of Jiangsu Salt Group Company LTD. Over the years, he was engaged in teaching undergraduates, master and doctoral students in chemistry engineering and technology specialty as well as professional research, and has obtained varies honors and achievements in teaching and research aspects. He was named the outstanding teacher of general high school in Jiangsu, the outstanding technologist of Jiangsu, the academic leader and the Young and Middle-aged Technological Leader. Mr. Qiao graduated from the Department of Abiochemistry of Nanjing Chemical Institute in 1982, he obtained his master degree from the Department of Chemical Engineering of Zhejiang University in 1987, and his doctorate degree from the Department of Chemical and Engineering of Nanjing University of Chemistry in 1999.

11. Mr. Yang Xiong-sheng*, aged 50, Independent Director of the Company and the Accounting Professor of Nanjing University. He possessed a doctorate degree in Accounting, and is also a professor and a tutor for doctoral students. At present, Mr. Yang is a part-time professor for tertiary institutions such as Hohai University, Nanjing University of Science and Technology, Anhui University of Finance and Economics, Anhui University of Technology, Zhejiang University of Finance and Economics. He is also an academic member and Vice-Secretary of the Accounting Society of China, a member of the Committee on Internal Control Standards of Enterprises for the Ministry of Finance, an expert consultant on the accounting standards of the Ministry of Finance, and also the vice president of the Jiangsu Province Accounting Association. In December 2008, he was elected as Independent Director of the Company. He also serves in the Jiangsu Hongtu High Technology Co., Ltd., Jiangsu Ninghu Expressway Co., Ltd. and Wuhan Boiler Co., Ltd. as independent director. Over the years, he has been conducting researches on internal controls, accounting theories, financial management and accounting management.

12. Mr. Chen Fang-zheng, aged 63, Independent Director of the Company and currently the Director of Social Security Institute of Tongji University and the tutor for doctoral students of the Faculty of Economics and Management of Tongji University. He served as a visiting scholar in the University of Waterloo in Canada from 1993 to 1994. He was the Director of Finance and Investment Institute, the Director of Finance Department and the Director of Economy Research Center in Southeast University. He was also the executive vice president of Commercial Institute, the Dean of the Department of Economy and Finance and the Director of Applied Economics Subcommittee in Tongji University. He was appointed as a tutor for doctoral students majoring in Management Science and Engineering by Tongji University in 1997. He was the member of CPPCC Jiangsu Province and the member of appraisal team of the ninth five-year plan and tenth five-year plan for Jiangsu Philosophical and Social Science. He was appointed the Dean of Economics and Management Institute by Zhejiang Ocean University. He was appointed expert by the United Nations in 2001 and was also appointed expert by China Development Bank. He once hosted or participated the projects from United Nations Development Programme, National Natural Science Funds and National Social Science Funds. In December 2008, he was elected as Independent Director of the Company. He also served as an independent director in Baoji Titanium Industry Co., Ltd. Mr. Chen graduated from Hefei University of Technology in 1969, majoring in measurement.

* *Independent Directors*

Supervisors

1. Mr. Cao Yong, aged 51, 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 Engineer. 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 2008. Mr. Cao has extensive experience in planning, production and development in large-scale enterprises. Mr. Cao graduated from Nanjing Chemical Engineering College in 1981, majoring in chemical engineering. He completed the course of MBA in Nanjing University in 2000. In January 2005, he obtained an engineering master degree in Suzhou University, majoring material engineering. Mr. Cao is the Supervisor who represents the staff of the Company.

2. Mr. Tao Chun-sheng, aged 54, Supervisor of the Company, Deputy Secretary of the Discipline and Inspection Commission and Director of Supervisory Department of the Company, and Senior P&I Engineer. Mr. Tao joined Yihua in 1987, he had been engaged in editing and secretarial affairs in CATV Station, General Manager Office and Office for the Party Committee of the Company successively. In March 1997, he served as Deputy Director of Office for the Party Committee of the Company. In March 2000, he held positions of Deputy Director of General Manager Office and Office for the Party Committee. He became to be Deputy Secretary of the Discipline and Inspection Commission and Deputy Director of Supervisory Department of the Company and Yihua in September 2004. In March 2005, he was elected as Supervisor of the Company. In January 2006, he was appointed as Director of Supervisory Department of the Company. In December 2008, he was re-elected as Supervisor of the Company. Mr. Tao has extensive experience in large-scale enterprise. Mr. Tao graduated from Distance Learning College of the Communist Party Central Academy in December 1994, majoring in business administration, and became an undergraduate. Mr. Tao is the Supervisor who represents the staff of the Company.

3. Mr. Chen Jian, aged 47, Supervisor of the Company and Project Manager of Overall Planning Department of CITIC, and Engineer. Mr. Chen had served as technician and engineer in chemical fibre enterprise. He was elected as Supervisor of the Company in December 1999 and re-elected in December 2008. Mr. Chen has extensive experience in the field of chemical fibre production, international trade of related products and investment project management. Mr. Chen graduated from East China Textile Institute of Science and Technology in 1984, majoring in chemical fibre.

4. Mr. Shi Gang**, aged 49, Independent Supervisor of the Company, Director of Guangdong Branch, Industrial and Commercial Bank of China, and Senior Economist. He was elected as Independent Supervisor of the Company in December 2005 and re-elected in December 2008. For a long period of time, Mr. Shi has held the positions of senior management in commercial banks and has extensive experience in banking. Mr. Shi graduated from Distance Learning College of the Communist Party Central Academy in 1995, majoring in economic administration.

5. Mr. Wang Bing**, aged 38, Independent Supervisor of the Company, Assistant Governor of Jiangsu Province Branch, Bank of China, Economist and Master. He was elected as Independent Supervisor of the Company in December 2005 and re-elected in December 2008. For a long period of time, Mr. Wang has held the positions of senior management in commercial banks and has extensive experience in banking. Mr. Wang graduated from Suzhou University in 1996, majoring in English Language.

** *Independent Supervisors*

Senior Management

1. Mr. Li Jian-xin, aged 52, Senior Engineer (at professor level). He is engaged in the work of production, technology, operation and administration of large-scale petrochemical enterprises. He had served as Deputy Director of Intermediate Experiment Factory, Polyester Plant No. 4 and Polyester Plant No. 3 of the former Yizheng Joint Corporation of Chemical Fibre Industry (currently Yihua), Administrative Vice General Manager of Yizheng Chemical Fibre Foshan Polyester Company Limited, Director of Yizheng Chemical Fibre Film Factory, General Manager of Yizheng Chemical Fibre Film Company Limited. In 2003, he was appointed as the Assistant to General Manager of Yihua. In June 2004, he was appointed as Deputy General Manager and Director of Yihua. In June 2007, he was appointed as Deputy Manager of Yihua. In July 2007, he was appointed as Deputy General Manager of the Company. He has ample experience in the production, technology, operation and administration of large-scale petrochemical enterprises. He was awarded the national and provincial Science & Technology Progress Prize several times. Mr. Li graduated from the Department of Fibre Engineering and Equipment of the Beijing Chemical Industry Institute in 1982, and completed the course for an MBA at Nanjing University in 2000.

2. Mr. Zhang Zhong-an, aged 49, Deputy General Manager, and Senior Engineer. He joined Yihua in 1982, and served as Deputy Director of Polyester Plant No. 1, Deputy Director and Director of Production Department. In January 2002, He served as Deputy General Engineer and Director of Technology Development Department. In July 2004, he was appointed as Deputy General Manager of the Company and Director of Yihua. Mr. Zhang has extensive experience in production, R&D and technical management. Mr. Zhang graduated from East China Petrochemical Institute in 1982, majoring in macromolecular chemistry. He completed the course of MBA in Nanjing University in 2000.

3. Mr. Li Jian-ping, aged 47, Chief Financial Officer of the Company, Chief Legal Consultant and Senior Accountant. Mr. Li has been engaged in audit and financial management of large-scale chemical enterprise for a long period of time. He had held the position of Deputy Director of Audit Department, Director of Finance Department of Jinling Petrochemical Company. He was appointed as Deputy Chief Financial Officer of Sinopec Jinling Petrochemical Corporation Limited ("**Jinling Petrochemical**") in 2000. He was also appointed as Chief Financial Officer of China Petroleum & Chemical Corporation Jinling Branch and Director of Jinling Petrochemical in 2000. He was appointed as Chief Financial Officer of the Company in December 2006. Mr. Li has extensive experience in financial management of large-scale chemical enterprise. Mr. Li graduated from Shanghai University Finance & Economics in 1986, majoring in accountant, and obtained Master of Economics degree in Shanghai University Finance & Economics in 1989.

4. Mr. Tom C. Y. Wu, aged 48, 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 Company Secretary and appointed as treasurer of the Company in January 2001. In December 2002, he was re-elected as Company Secretary of the Company. Mr. Wu graduated from the Department of Chemical Engineering of Zhejiang University in 1982, majoring in macromolecular chemistry, and obtained MBA degree in Dalian University of Technology in September 2001.

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

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

Pursuant to the resolution regarding the salaries of the sixth term Directors and Supervisors, approved by the EGM held on 23 December 2008, the resolution regarding revising remuneration of the Company's Independent Directors and Independent Supervisors, and drawing up "Payment of the remuneration of Independent Directors", approved by the 2008 AGM held on 5 June 2009, the resolution regarding the salaries of the Senior Management, approved by the first meeting of the sixth term of the Board held on 23 December 2008, and in accordance with service contract signed between the Company, Directors and Supervisors and with reference to the operating results of the Company in 2009 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 tenth meeting of the sixth term of the Board held on 29 March 2010.

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

(1) Information on Directors, Supervisors and Senior Management

Name	Position	Term of office	Number of "A" shares held for personal interests At the beginning of the year	At the end of the year	Stock option of the Company held	Reason for change
Qian Heng-ge	Chairman	Dec. 2008-Dec.2011	2,000	2,000	Nil	No Change
Sun Zhi-hong	Vice Chairwoman	Dec. 2008-Dec.2011	–	–	Nil	No Change
Xiao Wei-zhen	Vice Chairman and General Manager	Dec. 2008-Dec.2011	–	–	Nil	No Change
Long Xing-ping	Director	Dec. 2008-Dec.2011	–	–	Nil	No Change
Zhang Hong	Director	Dec. 2008-Dec.2011	–	–	Nil	No Change
Guan Diao-sheng	Director	Dec. 2008-Dec.2011	–	–	Nil	No Change
Qin Wei-zhong	Director	Dec. 2008-Dec.2011	–	–	Nil	No Change
Shen Xi-jun	Director, Deputy General Manager	Dec. 2008-Dec.2011	–	–	Nil	No Change
Shi Zhen-hua	Independent Director	Dec. 2008-Dec.2011	–	–	Nil	Not applicable
Qiao Xu	Independent Director	Dec. 2008-Dec.2011	–	–	Nil	Not applicable
Yang Xiong-sheng	Independent Director	Dec. 2008-Dec.2011	–	–	Nil	Not applicable
Chen Fang-zheng	Independent Director	Dec. 2008-Dec.2011	–	–	Nil	Not applicable
Cao Yong	Chairman of Supervisory Committee	Dec. 2008-Dec.2011	–	–	Nil	No Change
Tao Chun-sheng	Supervisor	Dec. 2008-Dec.2011	–	–	Nil	No Change
Chen Jian	Supervisor	Dec. 2008-Dec.2011	–	–	Nil	No Change
Shi Gang	Independent Supervisor	Dec. 2008-Dec.2011	–	–	Nil	No Change
Wang Bing	Independent Supervisor	Dec. 2008-Dec.2011	–	–	Nil	No Change
Li Jian-xin	Deputy General Manager	From Jul. 2007	–	–	Nil	No Change
Zhang Zhong-an	Deputy General Manager	From Jul. 2004	–	–	Nil	No Change
Li Jian-ping	Chief Financial Officer	From Dec. 2006	–	–	Nil	No Change
Tom C. Y. Wu	Board Secretary	From Dec. 2002	–	–	Nil	No Change

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

Name	Name of corporate shareholders	Position held in corporate shareholders	Term of office	Remuneration and allowance received from the corporate shareholders
Sun Zhi-hong	CITIC	Deputy Director of Financial Department	From January 1999	Yes
Long Xing-ping	CITIC	Deputy Director of Overall Planning Department	From April 2002	Yes
Zhang Hong	CITIC	Deputy Director of Audit Department	From January 2010	Yes
Guan Diao-sheng	Sinopec	Deputy Director of Chemical Segment	From December 2001	Yes
Qin Wei-zhong	Sinopec	Deputy Director of Development and Plan Department	From October 2004	Yes
Chen Jian	CITIC	Project Manager of Overall Planning Department	From December 1999	Yes

(3) Information on the remuneration of the Company's Directors and Supervisors of the sixth term of the Board and Supervisory Committee and Senior Management in 2009

Name	**Salaries** *(RMB ten thousand)*
Qian Heng-ge	26.4
Sun Zhi-hong	26.4
Xiao Wei-zhen	26.4
Long Xing-ping	22.1
Zhang Hong	22.1
Qin Weizhong	–
Guan Diao-sheng	–
Shen Xi-jun	22.1
Shi Zhen-hua	5.0
Qiao Xu	5.0
Yang Xiong-sheng	5.0
Chen Fang-zheng	5.0
Cao Yong	22.1
Tao Chun-sheng	15.8
Chen Jian	22.1
Shi Gang	4.0
Wang Bing	4.0
Li Jian-xin	22.1
Zhang Zhong-an	22.1
Li Jian-ping	22.1
Tom C. Y. Wu	15.8
Total remuneration for the year	RMB315.6 in total
Allowances to Independent Directors	RMB20.0 in total
Other benefits to Independent Directors	Nil
Name of directors or supervisors who did not receive any remuneration from the Company	Guan Diao-sheng, Qin Wei-zhong

Other than as stated above, no Directors, Supervisors and Senior Management had any interests, either beneficial or non-beneficial, in the issued share capital of the Company, and other associated corporations (within the meaning of the SDI Ordinance) as at 31 December 2009.

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

As at 31 December, 2009, none of the Directors, Supervisors and Senior Management of the Company had any interest or short position in shares, underlying shares and/or debentures (as the case may be) of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be notified to the Company and the HKSE pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and short position which any such Director, Supervisor or Senior Management is taken or deemed to have under such provisions of the SFO) or which was required to be entered in the register kept by the Company pursuant to section 352 of the SFO or which was required to be notified to the Company and the HKSE pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("**Model Code**") as contained in Appendix 10 to the Listing Rules.

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

Directors' and Supervisors' service contracts

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

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

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

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

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

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

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

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

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

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

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

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

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

Directors' and Supervisors' interests in contracts

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

Special treatment to Directors, Supervisors and Senior Management

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

Staff

As at 31 December 2009, the Group had 8,314 registered employees, an increase of 893 employees year-on-year, mainly because the Company acquired the other 50% equity interest in the jointly controlled entity. After the acquisition, the jointly controlled entity became a subsidiary of the Company. There is no long-term equity investment at the current year end. Total retired staff amounted to 2,950.

The Company had 34 employees with masters degrees or higher, 929 employees with bachelors degrees or higher, 1,995 employees with a tertiary or higher education background, and 6,734 employees with senior high school or higher educational background.

The Company had 5,857 production staff, 96 sales staff, 696 engineers, technicians and research staff at the product technology center, 73 financial personnel and 394 administration staff.

Major litigation or arbitration

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

Major events or discloseable circumstances during the year

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

Related transactions

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

Results

The results of the Group for the year ended 31 December 2009 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements prepared in accordance with the IFRSs and the PRC Accounting Standards for Business Enterprises.

PROPOSED SCHEME OF PROFIT DISTRIBUTION

In accordance with the PRC Accounting Standards for Business Enterprises, the net profit of the Company for 2009 was RMB383,780,000 (the profit attributable to equity shareholders of the Company for 2009 was RMB387,709,000 under IFRSs). Accumulated losses, including the accumulated losses of RMB1,899,776,000 brought forward from the previous year and the Company used the surplus reserve to make good the previous years' losses of RMB1,456,004,000 in 2009, were RMB59,992,000 at the end of 2009.

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. Moreover, according to Item 167 of the Company Law that was effective from 1 January 2006, the Company proposed no transfer to the statutory public welfare fund.

To continually make good the Company's previous years' losses, according to the relevant regulations of the PRC and the Articles of Association of the Company, the Board proposed that no final cash dividend would be paid for the year ended 31 December 2009.

The above proposed profit distribution scheme shall be submitted for approval at the 2009 AGM.

No interim or final dividends were paid for 2006, 2007 and 2008.

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

In accordance with China Accounting Standards Bulletin No.3 ("Bulletin No.3"), and the Notice on preparing 2009 annual reports of listed companies and non-listed enterprises adopting China Accounting Standards (Caikuai [2009]No.16), which was newly issued by the Ministry of Finance in 2009, the Group changed some accounting policies in the current year. Please refer to note 2 (27) of the financial statements prepared in accordance with the ASBE.

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

RESERVES

Changes in reserves of the Group during the reporting period are set forth in note 28 of the financial statements prepared in accordance with the IFRSs of the Annual Report.

FIXED ASSETS

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

BANK LOANS AND OTHER BORROWINGS

The Company and the Group had no bank loans and other borrowings as at 31 December 2009.

SUBSIDIARIES

Particulars of the Company's subsidiary as at 31 December 2009 is set forth in note 17 of the financial statements prepared in accordance with the IFRSs of the Annual Report.

RETIREMENT PLAN

Particulars of the retirement plan operated by the Group are set forth in note 30 of the financial statements prepared in accordance with the IFRSs of the Annual Report.

MAJOR SUPPLIERS AND CUSTOMERS

For the year ended 31 December 2009, 60.7 per cent of the total purchases (not including the purchase of items which are of capital nature) were attributable to the Group's largest supplier. The largest supplier is Sinopec and its subsidiaries.

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

For the year ended 31 December 2009, aggregate purchase amounts from the top five largest suppliers were RMB6,882,313,000, representing 63.8 per cent of total purchases amounts. The top one of the five largest suppliers were 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 2009, aggregate sales amounts to the top five largest customers were RMB1,347,443,000, representing 10.2 per cent of total sales.

AUDITORS

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

A resolution for the re-appointment of KPMG Huazhen and KPMG as domestic and international auditors respectively of the Company for 2010, is to be proposed at 2009 AGM.

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

SHAREHOLDERS' GENERAL MEETING

During the reporting period, at its registered place in Yizheng City, Jiangsu Province on 5 June 2009, the Company held its 2008 AGM. Details are set forth in the section entitled "Summary of Shareholders' Meetings."

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

During the reporting period, the Company has complied with the Code of Corporate Governance Practices as set forth in Appendix 14 to the Listing Rules. The Code of Corporate Governance Practices of the Company is set forth from page 44 to the page 50 in the Annual Report.

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

By Order of the Board
Qian Heng-ge
Chairman
29 March 2010, Nanjing

Report of the Supervisory Committee

To all Shareholders:

During the reporting period, all the Supervisors of the Company have complied with the Company Law, the Company's Articles of Association and other relevant laws and rules, fulfilled their responsibilities, protected the interests of the Company and the shareholders, abided by the principles of honesty and trustworthiness, and worked diligently. The Supervisory Committee held three meetings during the reporting period, details of which are as follows:

1. The second meeting of the sixth term Supervisory Committee was held on 30 March 2009. The meeting mainly considered the explanation of the operation achievements and financial results for 2008, assets disposal and financial budget for 2009. The meeting earnestly talked about the resolution regarding disposal of partial assets. In addition, the meeting approved the 2008 report of the Supervisory Committee. The annual report of the Group for 2008 was also approved.

2. The third meeting of the sixth term Supervisory Committee was held on 20 April 2009. The meeting considered and approved the resolution regarding the revision of Rules and Procedures for Supervisory Committee of the Company.

3. The fourth meeting of the sixth term Supervisory Committee was held on 24 August 2009. The meeting considered the explanation of interim results for 2009 and assets disposal. The meeting approved the resolution regarding disposal of partial assets and no payment of interim dividend. In addition, the interim report of the Group for 2009 was also approved.

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

During the reporting period, supervisors attended the Board meeting as nonvoting delegates.

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

   In 2009, faced with the effect of global financial crisis and the tough situation of the oversupply of domestic polyester industry, the Company earnestly carried out the deployment and requirement of the Board, chased the favor opportunity of trending toward stability and starting to rise in the prices of polyester products, endeavoured to expand its markets, optimised its products structure to meet market demand, strengthened fine management and made efforts to reduce its costs and expenses. As a result, the Company successfully achieved a better profit in its operational results. Firstly, the Company basically maintained safe and stable operation, and main economic and technical indicators were steadily increased. The production volume of PTA and polyester products amounted to 1,023,347 tonnes and 2,240,467 tonnes respectively. The average capacity utilization rate for polyester facilities and PTA facilities reached 96.7 per cent and 97.3 per cent respectively. The overall energy consumption for main products was decreased by 6.1 per cent as compared with last year. Secondly, the Company endeavoured to expand its markets and strengthened customer service. Sales volume of polyester products amounted to 1,724,862 tonnes, an increase of 3.8 per cent compared with last year. Excluding self-consumption volume and other factors, the ratio of sales to production reached 99.8 per cent. Thirdly, the profit contributions from differential and specialized products were significantly increased because the Company further improved the coordination of production, marketing and research, optimised its products structure to meet market demand. Fourthly, based on the future development of polyester industry and actual condition of the Company, an overall development plan of "optimising existing assets and restructuring and upgrading incremental assets" has been set forth.

   In 2009, the Group's operating income was RMB13,225,029,000 and net profit attributable to equity shareholders of the Company was RMB382,018,000 in accordance with the PRC Accounting Standards for Business Enterprises.

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

2. The Supervisory Committee has earnestly reviewed the pertinent information in the Financial Statements audited by KPMG and KPMG Huazhen, in which an unqualified audit opinion was issued.

   The Supervisory Committee believes that KPMG and KPMG Huazhen scrupulously abide by the basic principle of independence, objectivity and equality when doing business. KPMG and KPMG Huazhen issued an unqualified audit option regarding the validity, fairness and accounting consistency of the balance sheet. The Supervisory Committee believes that the Financial Statements truly reflect the Group's state of affairs and the operating results, that each type of expenditure was reasonable and that the accruals were in accordance with the pertinent regulations.

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

   In 2010, the situation with respect to market competition is still tough. New round adjustment of domestic polyester industry is spreading, and the situation of excessive polyester production capacity will persist. We believe that the Company will earnestly carry out the Board's deployment, further optimize existing assets and upgrade added assets, endeavour to expand its markets, try to reduce costs and increase profit and enhance technological innovation, so as to give a good return to investors.

   In the coming year, the Supervisory Committee, in strict compliance with the Company Law and the Company's Article of Association, will continue to perform its duties earnestly and to protect the interests of the shareholders.

By Order of the Supervisory Committee
Cao Yong
Chairman
29 March 2010, Nanjing

Corporate Governance Report

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

1. IMPROVEMENT OF CORPORATE GOVERNANCE

During the reporting period, the Company actively advanced the work of rectifying corporate governance in accordance of the arrangement by China Securities Regulatory Commission concerning corporate governance. Except the Company's Articles of Association is still not revised in accordance to "Guide to Company Article of Listed Companies (2006)", other rectifications of "A Rectification Report on Corporate Governance of the Company" have been completed on schedule. Because the Company's Articles of Association was made in accordance with "Necessary Terms for Company Article of Overseas Listed Companies" (hereafter called as "**Necessary Terms**") and the "Necessary Terms" has been under revision, the Company did not revise the Company's Articles of Association. During the reporting period, the Company actively communicated with CSRC and completed the revision of the Company's Articles of Association based on referring to other overseas listed companies according to the Company Law and Guide to Company Article of Listed Companies (2006). The revision was approved in the fourth meeting of the sixth term of the Board and 2008 AGM. The relative permission had been completed and the revision of the Company's Articles of Association had been in effect. As at end of the reporting period, the Company had completed all rectifications.

During the reporting period, the Company is reviewing the content of "Information Disclosure System of Sinopec Yizheng Chemical Fibre Company Limited" relating to the accountability mechanisms regarding to significant error of information disclosure in annual report and the management and secrecy maintenance of undisclosed information. The Company is considering making necessary amendments in order to the fulfill all requirements of the Notice of CSRC [2009] No.34 regarding establishing the accountability mechanisms of responsible disclosure in annual report, submitting information to external units and strengthening the management over inside information insiders.

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

2. IMPROVEMENT OF INTERNAL CONTROL SYSTEM

The Company had set up management and functional departments of the internal control system in March 2003 to lead and develop this special work. On 1 January 2005, the Company formally implemented its internal control system, which covers the Company's production and operational chain and key business sectors. The Company carried through annual and semi-annual checkup and evaluation of the deployment and therewith revised it. In light of the new regulatory requirements both domestic and overseas, the system was examined, revised and approved by the third meeting of the sixth term of the Board held on 30 March 2009, and the third meeting of the sixth term of the Board approved the work plan of internal control system for 2009. The Self-evaluation Report on Internal Control System was considered and approved by the tenth meeting of the sixth term held on 29 March 2010, and was disclosed on the website of SSE and HKSE. As at 31 December 2009, the Board of Directors considered that the internal control system of the Company in respect of the preparation of financial statements was sound and effectively implemented.

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

The Independent Directors are responsible and diligent and have played an important role. They protect the interests of the whole Company and legitimate rights and interests of minority shareholders. The Independent Directors have expressed their independent comments on Annual Report work, the Company's related transactions for 2008, and funds occupied by the controlling shareholders and other related parties during the reporting period.

According to the requirement of the announcement of CSRC [2008] No.48, the Company further revised "Performance System of Independent Director", which was approved by the third meeting of the sixth term of the Board on 30 March 2009 and was implemented.

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

In 2009, the Audit Committee and the Remuneration Committee under the sixth term of the Board perform its duties earnestly under the guide of the Board.

(1) During the reporting period, According to the requirement of the announcement of CSRC [2008] No.48, the Company further revised "Performance Rules of Auditing Committee", which was approved by the third meeting of the sixth term of the Board on 30 March 2009 and was implemented. After communicating with auditors, the first auditing meeting of the sixth term of the Board was held on 13 January 2009. On the meeting, the schedule and scope of auditing works were confirmed with the auditor – KPMG Huazhen and KPMG and the financial statement 2008 were reviewed. At the second auditing meeting on 16 March, 2009, the auditing committee reviewed financial statement 2008 which was examined by auditors. At the third auditing meeting on 30 March, 2009, the financial statement 2008 and report on auditing works by auditors were approved. The proposal of re-appointing KPMG Huazhen and KPMG as the Company's domestic and overseas auditors in 2009 was also accepted and would be submitted to Board of directors for approval. In the auditing committee's opinion, the financial statements for the year 2008 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 2008, and the consolidated results of operations and the consolidated cash flows of the Company for the year then ended. At the fourth auditing meeting on 24 August, 2009, the resolution regarding the review of the Company's interim report was considered and approved.

(2) In 2009, the sixth term Remuneration Committee of the Board held the first meeting. In according with the resolution regarding the remuneration of the fifth term directors and supervisors approved by the 2008 AGM, Directors' service contracts, Supervisors' service contracts and the resolution regarding the remuneration of the senior management, and with reference to the operating of the Company in 2008 and the Company's appraisal and assessment system, the Remuneration Committee considered and approved proposals relating to the remuneration of the Directors, Supervisors and Senior Management in the year 2008 and would submitted it to the third meeting of the sixth term of the Board for approval.

5. THE RELATIONSHIP BETWEEN CONTROLLING SHAREHOLDERS AND THE COMPANY

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

6. REGARDING THE PERFORMANCE EVALUATION, STIMULATING AND BINDING MECHANISM

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

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

7. COMPLIANCE WITH CODE OF CORPORATE GOVERNANCE PRACTICES OF HKSE

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

A.1 The Board

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

   The Directors' attendance of the Board Meetings

Name	Times in person	Times by Proxies	absence
Qian Heng-ge	8	–	–
Sun Zhi-hong	8	–	–
Xiao Wei-zhen	8	–	–
Long Xing-ping	8	–	–
Zhang Hong	8	–	–
Guan Diao-sheng	8	–	–
Shen Xi-jun	8	–	–
Shi Zhen-hua*	7	1	–
Qiao Xu*	8	–	–
Yang Xiong-sheng*	8	–	–
Chen Fang-zheng*	8	–	–

* *Independent Director*

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

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

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

A.2 Chairman and Chief Executive Officer

1. Mr. Qian Heng-ge was elected as Chairman of the Company by the Board. Nominated by Chairman of the Company, Mr. Xiao Wei-zhen was appointed as General Manager of the Company by the Board.

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

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

A.3 The Board composition

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

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

3. The names and profiles are set forth on the page 31 to page 33 in this annual report.

A.4 Appointment, re-election and removal

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

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

A.5 Responsibilities of Directors

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

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

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

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

A.6 Supply of and access to information

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

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

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

B. Remuneration of Directors and Senior Management

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

2. Pursuant to the principles approved by the shareholders' general meeting, the Service Contract which was entered into between the Company and each Director or Supervisor, the proposal raised by the Remuneration Committee and with reference to the operating results, the Board considered and approved the remuneration of the Directors, Supervisors and Senior Management. The details of the remuneration of the Directors during the reporting period are set out page 37 of this Annual Report.

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

   Information on the fulfillment of responsibilities by the Remuneration Committee is set forth on the pages 45 in the Annual Report during the reporting period.

C.1 Financial reporting

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

2. The Directors are responsible for preparing the accounts for every fiscal year, which can give a view of the state of affairs of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year. The Directors has selected the appropriate accounting policies to carry out, made prudent and reasonable judges and estimates, and prepared accounts on a going concern basis.

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

C.2 Internal control

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

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

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

C.3 The Audit Committee

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

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

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

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

   Information on the fulfillment of responsibilities by the Audit Committee of the sixth term of the Board of is set forth on the pages 45 in the Annual Report during the reporting period.

D. Delegation by the Board

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

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

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

The Audit Committee

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

The Remuneration Committee

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

E. Communication with shareholders

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

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

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

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

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

An analysis of remuneration in respect of audit services is set forth in item 13 of the "Significant Events" section.

Summary of Shareholders' Meetings

The 2008 AGM was held at the Conference Centre of Yijing Peninsula Hotel of the Company in Yizheng City, Jiangsu Province, PRC on 5 June 2009. The resolution announcement of the 2008 AGM was disclosed in China Securities, Shanghai Securities News, Securities Times and the website of HKSE on 8 June 2009.

Significant Events

1. In accordance with the Articles of Association of the Company, the Board resolved that no interim dividend was paid for the period ended 31 December 2009.

   To continually make good the Company's previous years' losses, no final dividend was paid for the year ended 31 December 2009, in accordance with the Company Law and the Articles of Association of the Company.

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

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

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

4. On 18 February 2009, the Company entered into a conditional Equity Transfer Agreement with UNIFI Asia Holding SRL ("**UNIFI Asia**") to acquire UNIFI Asia's 50% equity interest in Yihua UNIFI Fibre Industry Company Limited ("**Yihua UNIFI**") for a consideration of US$9 million (RMB equivalent: 61,525,000), subject to Chinese regulatory approval and certain customary closing conditions. The regulatory approval and customary closing conditions were completed on 2 March 2009. Following the acquisition, Yihua UNIFI (currently Yihua Jingwei Fibre Industry Company Limited) will become a wholly-owned subsidiary of the Company. Yihua UNIFI is an equity joint venture company incorporated in Yizheng City, Jiangsu Province, the PRC, on 28 July 2005 and is owned as to 50% by each of the Company and UNIFI Asia. Yihua UNIFI is principally engaged in the production and processing of differential polyester filament and related products, research and development of polyester and textile products, and after sales services for its products. The total registered capital of Yihua UNIFI is US$60,000,000.

   The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times and the website of HKSE on 19 February 2009.

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

Counterparty or actual controller	**Assets acquired**	**Date of acquisition**	**Acquisition price**	**Net loss contributed to the Group since the date of the acquisition to the end of the reporting period**	**Whether constitute connected transaction**	**Whether ownership of the relevant assets has been fully transferred**	**Whether contractual rights and obligations have been fully transferred**
UNIFI Asia	Yihua UNIFI's 50% equity interest	2 March 2009	US$9 million	RMB207,590,000	No	Yes	Yes

5. Information on related transactions:

The Group's material related transactions entered into during the year ended 31 December 2009 are as follows:

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

Type of transaction	**Transaction parties**	**Amount of transaction** *RMB'000*	**Proportion of the same type of transaction** *(%)*
Purchase of raw materials	Sinopec and its subsidiaries	6,551,403	60.7

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

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

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

The Board believes that the above transactions were under the ordinary course of business and on normal commercial terms or were in accordance with the terms of agreements governing these transactions. Details of related transactions entered into by the Company during the reporting period, refer to note 6 of the financial statements prepared in accordance with the PRC Accounting Standards for Business Enterprises. Independent directors have reviewed the above-mentioned connected transactions according to the regulations as stipulated in the Listing Rules, and made necessary confirmation in written submitted to the Board on 29 March 2010. Auditors of the Company have reviewed the above-mentioned related transactions and provided a letter to the Board on 29 March 2010.

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

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

8. As at 31 December 2009, the Group did not have any designated deposits with any financial institutions or any difficulties in collecting deposits upon maturity.

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

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

10. The ninth meeting of the sixth term Board of Directors of the Company held on 31 December 2009 reviewed and approved the resolution regarding that the Company carries out the fund operation within RMB700 million. As at 31 December 2009, the Company's available-for-sale financial assets were RMB700 million.

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

12. The seventh meeting of the sixth term Board of Directors of the Company held on 15 October 2009 reviewed and approved the resolution regarding the 1,4-butanediol project with an annual capacity of 100,000 tonnes. The total investment of this project amounted to RMB1,580,630,000 (including foreign currency USD 98.94 million). Forty percent of the total investment will be funded from cash generated from operations and the others will be funded from bank credit facilities. The construction period of this project is planned to be twenty-six months, and this project is expected to be completed and put into operation in 2012. After the operation of this project, 50,000 tonnes of 1,4-butanediol, 35,800 tonnes of tetrahydrofuran and 4,900 tonnes of gamma-butyrolactone will be produced every year.

13. As approved at the 2008 AGM, KPMG Huazhen and KPMG were re-appointed as the Company's domestic and international auditors for 2009, and the Board was authorised to approve their remunerations.

The amounts of remuneration paid to the domestic and international auditors for the two years ended 31 December 2009 were as follows:

	2009	2008
KPMG Huazhen Audit fee	**RMB1,500,000 yuan (paid)**	RMB1,500,000 yuan (paid)
KPMG Audit fee	**RMB3,300,000 yuan (paid)**	RMB3,300,000 yuan (paid)

The amounts of remuneration paid to the domestic auditors by the Company's subsidiary Yihua Jingwei for the current year ended 31 December 2009 was as follows:

	2009	2008
KPMG Huazhen Audit fee	**RMB100,000 yuan (paid)**	Not applicable

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

KPMG Huazhen and KPMG have provided continuously audit services to the Company for 17 years.

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

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

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

Report of the International Auditors

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

We have audited the consolidated financial statements of Sinopec Yizheng Chemical Fibre Company Limited (the "**Company**") set out on pages 56 to 112, which comprise the consolidated and company balance sheets as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

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

29 March 2010

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009
(Prepared under International Financial Reporting Standards)

	Note	2009 RMB'000	2008 RMB'000
Turnover	6	**13,225,029**	15,224,524
Cost of sales		**(12,141,045)**	(15,653,672)
Gross profit/(loss)		**1,083,984**	(429,148)
Other income		**14,541**	5,308
Distribution costs		**(183,227)**	(187,146)
Administrative expenses		**(409,442)**	(360,738)
Other expenses	7	**(135,453)**	(493,142)
Profit/(loss) from operations		**370,403**	(1,464,866)
Finance income	8(a)	**27,772**	51,729
Finance expenses	8(a)	**(10,918)**	(5,783)
Net finance income	8(a)	**16,854**	45,946
Share of loss of jointly controlled entity		**–**	(130,381)
Profit/(loss) before taxation	8	**387,257**	(1,549,301)
Income tax	9(b)	**(1,310)**	(92,016)
Profit/(loss) and total comprehensive income/(expenses) for the year	11	**385,947**	(1,641,317)
Attributable to:			
Shareholders of the Company	29	**385,947**	(1,641,317)
Basic and diluted earnings/(loss) per share (in RMB)	13	**0.096**	(0.410)

The notes on pages 64 to 112 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 12.

Consolidated Balance Sheet

As at 31 December 2009
(Prepared under International Financial Reporting Standards)

	Note	2009 RMB'000	2008 RMB'000
Non-current assets			
Property, plant and equipment	14(a)	**3,774,911**	3,970,816
Construction in progress	15	**325,812**	272,012
Lease prepayments	16	**119,944**	123,187
Interest in jointly controlled entity	18	**–**	25,803
Available-for-sale financial assets	19	**700,000**	–
Deferred tax assets	9(c)	**44,310**	45,620
		4,964,977	4,437,438
Current assets			
Inventories	20	**1,308,019**	831,453
Trade and other receivables	21	**1,405,519**	1,807,778
Deposits with banks and other financial institutions	22	**559,600**	362,461
Cash and cash equivalents	23	**774,767**	841,294
		4,047,905	3,842,986
Current liabilities			
Trade and other payables	24	**2,073,949**	1,733,694
Provisions	25	**5,198**	5,198
		2,079,147	1,738,892
Net current assets		**1,968,758**	2,104,094
Total assets less current liabilities		**6,933,735**	6,541,532
Non-current liabilities			
Deferred income	26	**21,256**	15,000
Net assets		**6,912,479**	6,526,532

The notes on pages 64 to 112 form part of these financial statements.

	Note	2009 *RMB'000*	2008 *RMB'000*
Equity			
Share capital	*27*	**4,000,000**	4,000,000
Share premium		**2,518,833**	2,518,833
Reserves	*28*	**(176,076)**	1,279,928
Retained profits/(accumulated losses)	*29*	**569,722**	(1,272,229)
Total equity		**6,912,479**	6,526,532

Approved and authorised for issue by the Board of Directors on 29 March 2010.

Qian Heng-ge
Director

Xiao Wei-zhen
Director

The notes on pages 64 to 112 form part of these financial statements.

Balance Sheet

As at 31 December 2009
(Prepared under International Financial Reporting Standards)

	Note	2009 RMB'000	2008 RMB'000
Non-current assets			
Property, plant and equipment	*14(b)*	**3,644,878**	3,970,816
Construction in progress	*15*	**325,812**	272,012
Lease prepayments	*16*	**119,944**	123,187
Interest in subsidiary	*17*	**–**	–
Interest in jointly controlled entity	*18*	**–**	25,803
Available-for-sale financial assets	*19*	**700,000**	–
Deferred tax assets	*9(c)*	**44,310**	45,620
		4,834,944	4,437,438
Current assets			
Inventories	*20*	**1,273,345**	831,453
Trade and other receivables	*21*	**1,580,717**	1,807,778
Deposits with banks and other financial institutions	*22*	**559,600**	362,461
Cash and cash equivalents	*23*	**768,385**	841,294
		4,182,047	3,842,986
Current liabilities			
Trade and other payables	*24*	**2,076,296**	1,733,694
Provisions	*25*	**5,198**	5,198
		2,081,494	1,738,892
Net current assets		**2,100,553**	2,104,094
Total assets less current liabilities		**6,935,497**	6,541,532
Non-current liabilities			
Deferred income	*26*	**21,256**	15,000
Net assets		**6,914,241**	6,526,532

The notes on pages 64 to 112 form part of these financial statements.

Balance Sheet (Continued)

As at 31 December 2009
(Prepared under International Financial Reporting Standards)

	Note	**2009** **RMB'000**	2008 RMB'000
Equity			
Share capital	27	**4,000,000**	4,000,000
Share premium		**2,518,833**	2,518,833
Reserves	28	**(176,076)**	1,279,928
Retained profits/(accumulated losses)	29	**571,484**	(1,272,229)
Total equity		**6,914,241**	6,526,532

Approved and authorised for issue by the Board of Directors on 29 March 2010.

Qian Heng-ge
Director

Xiao Wei-zhen
Director

The notes on pages 64 to 112 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009
(Prepared under International Financial Reporting Standards)

	Share capital *RMB'000*	Share premium *RMB'000*	Reserves *RMB'000*	Retained profits/ (accumulated losses) *RMB'000*	Total *RMB'000*
At 1 January 2008	4,000,000	2,518,833	1,279,928	369,088	8,167,849
Changes in equity for 2008:					
Total comprehensive expenses for the year	–	–	–	(1,641,317)	(1,641,317)
At 31 December 2008	4,000,000	2,518,833	1,279,928	(1,272,229)	6,526,532
Changes in equity for 2009:					
Make good of losses by surplus reserve *(note 28)*	–	–	(1,456,004)	1,456,004	–
Total comprehensive income for the year	–	–	–	385,947	385,947
At 31 December 2009	**4,000,000**	**2,518,833**	**(176,076)**	**569,722**	**6,912,479**

The notes on pages 64 to 112 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2009
(Prepared under International Financial Reporting Standards)

	2009 *RMB'000*	2008 *RMB'000*
Operating activities		
Profit/(loss) before taxation	**387,257**	(1,549,301)
Adjustments for:		
Depreciation charge	**535,237**	608,361
Amortisation of lease prepayments	**3,243**	3,243
Amortisation of deferred income	**(744)**	–
Interest income	**(21,896)**	(26,123)
Interest expense	**8,656**	3,594
Share of loss of jointly controlled entity	**–**	130,381
Impairment losses of property, plant and equipment	**140,953**	441,087
Net gain on disposal of property, plant and equipment	**(5,984)**	(1,991)
Gain on disposal of lease prepayments	**–**	(279)
Operating profit/(loss) before changes in working capital	**1,046,722**	(391,028)
(Increase)/decrease in inventories	**(402,978)**	425,734
Decrease in trade and other receivables	**344,761**	286,029
Increase/(decrease) in trade and other payables	**320,355**	(374,263)
Increase in provisions	**–**	5,198
Cash generated from/(used in) operations	**1,308,860**	(48,330)
Interest paid	**(8,656)**	(3,594)
Income tax received	**–**	287
Net cash generated from/(used in) operating activities	**1,300,204**	(51,637)

The notes on pages 64 to 112 form part of these financial statements.

Consolidated Cash Flow Statement (Continued)

For the year ended 31 December 2009
(Prepared under International Financial Reporting Standards)

	Note	**2009** **RMB'000**	2008 RMB'000
Investing activities			
Payment for the purchase of available-for-sale financial assets		**(700,000)**	–
Capital expenditure		**(192,539)**	(129,735)
Proceeds from disposal of property, plant and equipment		**10,260**	11,517
Proceeds from disposal of lease prepayments		**–**	279
Interest received		**21,896**	26,123
Government grants received		**7,000**	15,000
Payment for the acquisition of subsidiary		**(18,414)**	–
(Increase)/decrease in deposits with banks and other financial institutions		**(494,600)**	510,000
Net cash (used in)/generated from investing activities		**(1,366,397)**	433,184
Financing activities			
Proceeds from bank loans		**–**	741,000
Repayment of bank loans		**(334)**	(741,000)
Net cash used in financing activities		**(334)**	–
Net (decrease)/increase in cash and cash equivalents		**(66,527)**	381,547
Cash and cash equivalents at 1 January		**841,294**	459,747
Cash and cash equivalents at 31 December	*23*	**774,767**	841,294

The notes on pages 64 to 112 form part of these financial statements.

1. BACKGROUND OF THE COMPANY

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") promulgated by the International Accounting Standards Board ("**IASB**"). IFRSs include International Accounting Standards ("**IASs**") and related interpretations.

These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Group also prepares a set of financial statements which complies with the PRC Accounting Standards for Business Enterprises ("**ASBE**"). Significant differences between the financial statements prepared in accordance with IFRSs and ASBE are summarised in the supplementary information to the financial statements in the 2009 annual report.

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

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2009 comprise the Company and its subsidiary.

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Basis of consolidation

(i) Subsidiaries

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

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

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

(ii) Jointly controlled entities

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Translation of foreign currencies

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

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Renminbi at the applicable PBOC rates ruling at that date.

Exchange gain and loss on foreign currency translation, except for the exchange gain and loss directly relating to the construction of property, plant and equipment (see accounting policy (h)), are dealt with in profit or loss.

(e) Cash and cash equivalents

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

(f) Trade and other receivables

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

(g) Inventories

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

Cost includes the cost of materials computed using the weighted average method and expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of work in progress and finished goods, cost includes direct labour and an appropriate proportion of production overheads.

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

When inventories are sold, the carrying amount of these 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, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Property, plant and equipment

Property, plant and equipment are stated in the balance sheet at cost (see note 3(b)) less accumulated depreciation and impairment losses (see accounting policy (t)).

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

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits and is not reclassified to profit or loss.

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

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

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

(i) Lease prepayments

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

(j) Construction in progress

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

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

No depreciation is provided in respect of construction in progress.

(k) Available-for-sale financial assets

Available-for-sale financial assets include non-derivative financial assets that are designated upon initial recognition as available-for-sales and other financial assets which do not fall into any of other financial instruments. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see accounting policy (t)) and foreign currency differences on available-for-sale financial assets (see accounting policy (d)), are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Trade and other payables

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

(m) Provisions and contingent liabilities

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

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

(n) Interest-bearing borrowings

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

(o) Revenue recognition

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

(i) Sales of goods

Revenue from the sale of goods is recognised in profit or loss when the significant risks and rewards of ownership have been transferred to the buyer. Revenue excludes value-added tax and is after deduction of any trade discounts and returns. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, the possible return of goods, or when the amount of revenue and the costs incurred or to be incurred in respect of the transaction cannot be measured reliably.

(ii) Rendering of services

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

(iii) Interest income

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

(iv) Government grants

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Net finance income

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

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

(q) Repairs and maintenance expenses

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

(r) Research and development costs

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Because of the nature of the Group's research and development activities, no development costs satisfy the criteria for the recognition of such costs as an asset. The research and development costs are therefore recognised as expenses in the period in which they are incurred.

(s) Employee benefits

The contributions payable under the Group's retirement plans are charged to profit or loss according to the contribution determined by the plans. Further information is set out in note 30.

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

(t) Impairment of assets

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

Investments in equity securities (other than investments in subsidiaries: see accounting policy (t)(ii)) and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Impairment of assets (Continued)

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

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

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

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

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Impairment of assets (Continued)

(ii) Impairment of other assets

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

– property, plant and equipment;

– construction in progress;

– lease prepayments; and

– investments in subsidiaries.

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

– Calculation of recoverable amount

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

– Recognition of impairment losses

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

– Reversals of impairment losses

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Dividends

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

(v) Income tax

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

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

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

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

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

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

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

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

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Deferred tax assets and liabilities are offset if there is a legally enforceable right to set off current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities, but they intend to settle current tax assets and liabilities on a net basis or their tax assets and liabilities will be realised simultaneously.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Related parties

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

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

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

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

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

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

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

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

(x) Operating leases

Operating leases payments made under operating leases are recognised in profit or loss on a straight-line basis over the period of the respective leases.

(y) Segment reporting

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

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

3. CHANGES IN ACCOUNTING POLICIES

(a) Impact of new and revised International Financial Reporting Standards

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

- IFRS 8, *Operating segments*
- IAS 1 (revised 2007), *Presentation of financial statements*
- Amendments to IFRS 7, *Financial instruments: Disclosures – improving disclosures about financial instruments*
- Improvements to IFRSs (2008)

The impact of these developments on the financial report is as follows:

- IFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. This contrasts with the presentation of segment information in prior years which was based on a disaggregation of the Group's financial statements into segments based on related products and services and on geographical areas. The adoption of IFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's most senior executive management, and has resulted in additional reportable segments being identified and presented (see note 4). As this is the first year in which the Group has presented segment information in accordance with IFRS 8, additional explanation has been included in the financial report which explains the basis of preparation of the information. Corresponding amounts have also been provided on a basis consistent with the revised segment information.

- As a result of the adoption of IAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. Corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

- As a result of the adoption of the amendments to IFRS 7, the financial statements include expanded disclosures in note 33(f) about the fair value measurement of the Group's financial instruments, categorising these fair value measurements into a three-level fair value hierarchy according to the extent to which they are based on observable market data. The Group has taken advantage of the transitional provisions set out in the amendments to IFRS 7, under which comparative information for the newly required disclosures about the fair value measurements of financial instruments has not been provided.

- The "Improvements to IFRSs (2008)" comprise a number of minor and non-urgent amendments to a range of IFRSs which the IASB has issued as an omnibus batch of amendments. The amendments had no material impact on the Group's financial report.

3. CHANGES IN ACCOUNTING POLICIES (Continued)

(b) Change of accounting policy for property, plant and equipment

In prior years, property, plant and equipment were carried at revalued amount, being the fair value at the date of the revaluation less any subsequent accumulated depreciation and impairment losses. Revaluation was performed periodically to ensure that the carrying amount did not differ materially from that which would be determined using fair value at the previous balance sheet dates. Based on the revaluations performed in prior years, the carrying amount of property, plant and equipment did not differ materially from their fair value.

In 2009, property, plant and equipment are accounted for using the cost model, being the cost less any accumulated depreciation and impairment losses. This change is to align the Group's accounting policy with industry peers to provide more relevant financial information to the users of the Group's financial statements. This change has been applied retrospectively. This change in accounting policy has no effect on the financial condition as at 31 December 2007, 2008 and 2009, and the results of operation for the years then ended, therefore, no comparative balance sheet as at 1 January 2008 was presented.

4. SEGMENT REPORTING

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

(a) Segment results and assets

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

Segment assets represent property, plant and equipment and inventories.

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

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

In addition to receiving segment information concerning "gross profit", management is provided with segment information concerning revenue (including inter-segment sales), depreciation, amortisation and impairment.

4. SEGMENT REPORTING (Continued)

(a) Segment results and assets (Continued)

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

	Polyester chips		Bottle-grade polyester chips		Staple fibre and hollow fibre		Filament		PTA		All others #		Total	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
	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*
Revenue from external customers	**4,490,477**	5,167,868	**2,900,094**	3,433,176	**4,057,953**	4,673,972	**1,499,963**	1,625,125	**-**	33,767	**276,542**	290,616	**13,225,029**	15,224,524
Inter-segment revenue	**124,620**	–	**-**	–	**-**	–	**-**	–	**-**	–	**-**	–	**124,620**	–
Reportable segment revenue	**4,615,097**	5,167,868	**2,900,094**	3,433,176	**4,057,953**	4,673,972	**1,499,963**	1,625,125	**-**	33,767	**276,542**	290,616	**13,349,649**	15,224,524
Gross profit/(loss) from external customers	**460,932**	(149,175)	**144,238**	(5,764)	**472,096**	(45,478)	**(2,301)**	(198,857)	**-**	(589)	**9,019**	(29,285)	**1,083,984**	(429,148)
Inter-segment profit	**15,382**	–	**-**	–	**-**	–	**-**	–	**-**	–	**-**	–	**15,382**	–
Reportable segment profit/(loss) (Group profit/(loss))	**476,314**	(149,175)	**144,238**	(5,764)	**472,096**	(45,478)	**(2,301)**	(198,857)	**-**	(589)	**9,019**	(29,285)	**1,099,366**	(429,148)
Depreciation and amortisation for the year	**65,017**	99,663	**44,054**	41,301	**40,161**	45,623	**40,393**	67,913	**229,049**	235,694	**90,395**	86,810	**509,069**	577,004
Impairment of PP&E	**367**	8,254	**230**	546	**189**	1,501	**130,164**	425,494	**7,224**	2,711	**1,917**	2,199	**140,091**	440,705
Write-down of inventories	**-**	14,908	**-**	–	**-**	11,170	**19,892**	9,324	**-**	–	**-**	–	**19,892**	35,402
Reportable segment assets	**647,577**	546,499	**403,198**	438,850	**401,468**	425,890	**231,800**	295,201	**1,246,283**	1,429,522	**931,449**	780,768	**3,861,775**	3,916,730

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

4. SEGMENT REPORTING (Continued)

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

	2009 RMB'000	2008 RMB'000
Revenue		
Revenue for reportable segments excluding other revenue	**13,073,107**	14,933,908
Other revenue	**276,542**	290,616
Elimination of inter-segment revenue	**(124,620)**	–
Consolidated turnover	**13,225,029**	15,224,524

	2009 RMB'000	2008 RMB'000
Profit/(loss)		
Profit/(loss) for reportable segments excluding other profit/(loss)	**1,090,347**	(399,863)
Other profit/(loss)	**9,019**	(29,285)
Elimination of inter-segment profit	**(15,382)**	–
Consolidated gross profit/(loss)	**1,083,984**	(429,148)
Other income	**14,541**	5,308
Distribution costs	**(183,227)**	(187,146)
Administrative expenses	**(409,442)**	(360,738)
Other expenses	**(135,453)**	(493,142)
Net finance income	**16,854**	45,946
Share of loss of a jointly controlled entity	**–**	(130,381)
Consolidated profit/(loss) before taxation	**387,257**	(1,549,301)

4. SEGMENT REPORTING (Continued)

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

	2009 RMB'000	2008 RMB'000
Assets		
Assets for reportable segments excluding other assets	**2,930,326**	3,135,962
Other assets	**931,449**	780,768
Unallocated assets	**1,222,917**	885,539
Elimination of inter-segment balances	**(1,762)**	–
	5,082,930	4,802,269
Other non-current assets	**1,190,066**	466,622
Trade and other receivables	**1,405,519**	1,807,778
Deposits with banks and other financial institutions	**559,600**	362,461
Cash and cash equivalents	**774,767**	841,294
Consolidated total assets	**9,012,882**	8,280,424

	2009 RMB'000	2008 RMB'000
Depreciation and amortisation		
Depreciation and amortisation for reportable segments excluding other depreciation and amortisation	**418,674**	490,194
Other depreciation and amortisation	**90,395**	86,810
Unallocated depreciation and amortisation	**29,411**	34,060
Consolidated total depreciation and amortisation	**538,480**	611,604

	2009 RMB'000	2008 RMB'000
Impairment of PP&E		
Impairment of PP&E for reportable segments excluding other impairment of PP&E	**138,174**	438,506
Other impairment of PP&E	**1,917**	2,199
Unallocated impairment of PP&E	**862**	382
Consolidated total impairment of PP&E	**140,953**	441,087

4. SEGMENT REPORTING (Continued)

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

	2009 RMB'000	2008 RMB'000
Write-down of inventories		
Write-down of inventories for reportable segments excluding other write-down of inventories	19,892	35,402
Other write-down of inventories	–	–
Unallocated write-down of inventories	–	2,991
Consolidated total write-down of inventories	19,892	38,393

5. BUSINESS COMBINATION

On 18 February 2009, the Company entered into a conditional Equity Interest Transfer Agreement with UNIFI Asia Holding SRL ("**UNIFI Asia**") to acquire UNIFI Asia's 50% equity interest in Yihua UNIFI Fibre Industry Company Limited ("**Yihua UNIFI**") at a consideration of USD 9,000,000 (RMB equivalent 61,525,000), subject to Chinese regulatory approval and certain customary closing conditions. The regulatory approval and customary closing conditions were completed on 2 March 2009. As a result, the Company's equity interest in Yihua UNIFI increased from 50 percent to 100 percent. Yihua UNIFI was changed from a jointly controlled entity of the Company to a wholly owned subsidiary.

Yihua UNIFI was established in Yizheng City, Jiangsu Province, and is principally engaged in manufacturing, processing and sale of differentiated polyester textile filament products. After the acquisition, the board of directors of Yihua UNIFI resolved to change the entity's name to YCFC Jingwei Fibre Company Limited ("**YCFC Jingwei**").

YCFC Jingwei's financial information from the date of acquisition to 31 December 2009 is as follows:

	RMB'000
Sales	662,945
Net loss	207,590

The Group's revenue and profit for the year ended 31 December 2009 would not be materially different had the acquisition occurred on 1 January 2009.

5. BUSINESS COMBINATION (Continued)

Details of identifiable assets and liabilities are as follows:

	As at the date of acquisition	
	Fair value	**Carrying amount**
	RMB'000	*RMB'000*
Property, plant and equipment	329,717	287,116
Construction in progress	1,699	1,699
Inventories	83,623	83,623
Trade and other receivables	14,608	14,608
Cash and cash equivalents	43,111	43,111
Trade and other payables	(349,159)	(349,159)
Bank loans and overdrafts	(549)	(549)
Total net identifiable assets	123,050	80,449
Net identifiable assets acquired for 50% equity interest	61,525	

For the above identifiable assets which have an active market, the quoted prices in the active market are used to establish their fair value; if there is no active market, their fair value is estimated based on the market price of the same or similar types of assets which have an active market; if there is no active market for even the same asset or similar types of assets, valuation techniques are used to determine the fair value.

For the above identifiable liabilities, the payable amount or the present value of the payable amount is its fair value.

Cash outflow to acquire business, net of cash acquired:

	RMB'000
Cash consideration	61,525
Cash held by subsidiary acquired	(43,111)
Net cash outflow on acquisition	18,414

6. TURNOVER

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

7. OTHER EXPENSES

	2009	2008
	RMB'000	*RMB'000*
Net gain on disposal of property, plant and equipment	**(5,984)**	(1,991)
Impairment losses of property, plant and equipment *(note 14(c))*	**140,953**	441,087
Loss on breach of contracts	**–**	34,065
Others	**484**	19,981
Other expenses	**135,453**	493,142

8. PROFIT/(LOSS) BEFORE TAXATION

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

(a) Net finance income:

	2009	2008
	RMB'000	*RMB'000*
Interest income	**(21,896)**	(26,123)
Net foreign exchange gain	**(5,876)**	(25,606)
Finance income	**(27,772)**	(51,729)
Interest expense	**8,656**	3,594
Others	**2,262**	2,189
Finance expenses	**10,918**	5,783
Net finance income	**(16,854)**	(45,946)

8. PROFIT/(LOSS) BEFORE TAXATION (Continued)

(b) Other items:

	2009 RMB'000	2008 RMB'000
Cost of inventories#	**12,141,045**	15,653,672
Staff costs:		
– wages and salaries, welfare and other costs	**557,153**	446,454
– contributions to defined contribution schemes	**171,309**	127,571
– employee reduction expenses	**1,909**	9,082
Total staff costs#	**730,371**	583,107
Depreciation#	**535,237**	608,361
Repairs and maintenance expenses#	**288,212**	326,177
Research and development expenses	**31,291**	30,627
Auditors' remuneration – audit services	**4,900**	4,800
Reversal of impairment losses of trade and other receivables	**(2,149)**	(3,555)
Amortisation of lease prepayments	**3,243**	3,243
Gain on disposal of lease prepayments	**–**	(279)

\# *Cost of inventories includes RMB1,245,437,000 (2008: RMB1,249,208,000) relating to staff costs, depreciation and repairs and maintenance expenses which amount is also included in the respective total amounts disclosed separately in note 8(b) for each of these types of expenses.*

9. INCOME TAX

(a) The State Administration of Taxation issued a tax circular "Enterprise Income Tax Issues relating to Nine Companies Listed Overseas" in June 2007 which requested the relevant local tax authorities to rectify, immediately, the expired concessionary tax policy for the nine listed companies authorised by the State Council to issue shares in Hong Kong in 1993 which, at the time of writing, was still being applied. The notice stated that the difference in enterprise income tax ("**EIT**") arising from the expired preferential rate and the applicable rate should be settled according to the provisions of "Law on the Administration of Tax Collection".

The Company is one of the nine listed companies mentioned above and applied the preferential EIT rate of 15% in prior years. The Company communicated with the relevant tax authorities to assess the situation and was informed that the EIT rate for the Company would be adjusted from the original 15% to 33% in 2007. Up till now, the Company has not been requested to pay additional EIT in respect of any prior year. The directors of the Company consider that the relevant tax authorities are not likely to request additional EIT from the Company. Consequently, no provision has been made in these financial statements in respect of the EIT differences arising from prior years.

Pursuant to the PRC enterprise income tax law passed by the Tenth National People's Congress on 16 March 2007, the new enterprise income tax rates for domestic and foreign enterprises were unified at 25% and were effective from 1 January 2008. The charge for PRC income tax for the year is calculated at the rate of 25% (2008: 25%) on the estimated assessable income of the year determined in accordance with the relevant tax rules and regulations.

The Group did not carry on business in Hong Kong or overseas and therefore does not incur Hong Kong Profits Tax or overseas income taxes.

9. INCOME TAX (Continued)

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

	2009 RMB'000	2008 RMB'000
Current tax		
– Over-provision in respect of prior years	–	(296)
Reversal of deferred tax assets *(note (c))*	1,310	92,312
	1,310	92,016

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

	2009 RMB'000	2008 RMB'000
Profit/(loss) before taxation	387,257	(1,549,301)
Expected income tax using the Group's tax rate of 25%	96,815	(387,325)
Tax effect of deductible temporary differences not recognised	29,744	120,751
Tax effect of unused tax losses not recognized	(126,427)	234,832
Over-provision of income tax in prior years	–	(296)
Tax effect of non-deductible expenses	1,178	33,065
Write-off of deferred tax assets in respect of prior years	–	90,989
Actual income tax	1,310	92,016

9. INCOME TAX (Continued)

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

	The Group and the Company				
	Balance at 1 January 2008	Recognised in statement of comprehensive income	Balance at 31 December 2008	Recognised in statement of comprehensive income	**Balance at 31 December 2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
Current					
Provisions, primarily for receivables and inventories	3,982	(3,982)	–	–	**–**
Non-current					
Land use rights	46,943	(1,323)	45,620	(1,310)	**44,310**
Property, plant and equipment	12,411	(12,411)	–	–	**–**
Tax losses	74,596	(74,596)	–	–	**–**
	137,932	(92,312)	45,620	(1,310)	**44,310**

In accordance with the accounting policy set out in note 2(v), the Group has not recognised deferred tax assets in respect of deductible temporary differences amounting to RMB899,762,000 (2008: RMB626,526,000) and cumulative unutilised tax losses amounting to RMB1,036,905,000 (2008: RMB1,321,531,000), as it is not probable that future taxable profits against which the temporary differences can be deducted and the losses can be utilised will be available in the relevant tax jurisdiction.

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

	RMB'000
2010	22,962
2011	72,947
2012	49,012
2013	831,975
2014	60,009
Total	1,036,905

10. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

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

Name	Fees		Basic salaries, allowance and bonus		Retirement scheme contributions		Total	
	2009 RMB'000	2008 RMB'000	**2009 RMB'000**	2008 RMB'000	**2009 RMB'000**	2008 RMB'000	**2009 RMB'000**	2008 RMB'000
Directors:								
Qian Heng-ge	**–**	–	**264**	264	**15**	15	**279**	279
Sun Zhi-hong	**–**	–	**264**	264	**–**	–	**264**	264
Xiao Wei-zhen	**–**	–	**264**	264	**15**	15	**279**	279
Long Xing-ping	**–**	–	**221**	221	**–**	–	**221**	221
Zhang Hong	**–**	–	**221**	221	**–**	–	**221**	221
Guan Diao-sheng	**–**	–	**–**	–	**–**	–	**–**	–
Qin Wei-zhong	**–**	–	**–**	–	**–**	–	**–**	–
Shen Xi-jun	**–**	–	**221**	221	**15**	15	**236**	236
Independent non-executive directors:								
Shi Zhen-hua	**50**	–	**–**	–	**–**	–	**50**	–
Qiao Xu	**50**	–	**–**	–	**–**	–	**50**	–
Yang Xiong-sheng	**50**	–	**–**	–	**–**	–	**50**	–
Chen Fang-zheng	**50**	–	**–**	–	**–**	–	**50**	–
Li Zhong-he	**–**	40	**–**	–	**–**	–	**–**	40
Wang Hua-cheng	**–**	40	**–**	–	**–**	–	**–**	40
Yi Ren-ping	**–**	40	**–**	–	**–**	–	**–**	40
Qian Zhi-hong	**–**	40	**–**	–	**–**	–	**–**	40
Supervisors:								
Cao Yong	**–**	–	**221**	221	**15**	15	**236**	236
Tao Chun-sheng	**–**	–	**158**	158	**15**	15	**173**	173
Chen Jian	**–**	–	**221**	221	**–**	–	**221**	221
Shi Gang	**40**	30	**–**	–	**–**	–	**40**	30
Wang Bing	**40**	30	**–**	–	**–**	–	**40**	30
Senior management:								
Zhang Zhong-an	**–**	–	**221**	221	**15**	15	**236**	236
Li Jian-xin	**–**	–	**221**	221	**15**	15	**236**	236
Li Jian-ping	**–**	–	**221**	221	**20**	20	**241**	241
Wu Chao-yang	**–**	–	**158**	158	**15**	15	**173**	173
	280	220	**2,876**	2,876	**140**	140	**3,296**	3,236

For the years ended 31 December 2009 and 2008, no emolument was paid to directors or supervisors as an inducement to join or upon joining the Company or as compensation for loss of office.

(b) Five individuals with highest emoluments

The five individuals with highest emoluments of the Company in 2009 and 2008 were all executive directors whose total emoluments have been shown above.

11. PROFIT/(LOSS) AND TOTAL COMPREHENSIVE INCOME/(EXPENSES) ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit/(loss) and total comprehensive income/(expenses) attributable to equity shareholders of the Company includes a profit of RMB387,709,000 (2008: a loss of RMB1,526,800,000) which has been dealt with in the financial statements of the Company.

12. DIVIDENDS

No final dividends were proposed after the balance sheet date in respect of the years ended 31 December 2009 and 2008.

13. EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB385,947,000 (2008: loss of RMB1,641,317,000) and the weighted average number of ordinary shares of 4,000,000,000 (2008: 4,000,000,000) in issue during the year.

(b) Diluted earnings/(loss) per share

There were no dilutive potential ordinary shares in existence during the years ended 31 December 2009 and 2008.

14. PROPERTY, PLANT AND EQUIPMENT

(a) The Group

	Buildings	Plant, machinery and equipment	Motor vehicle and other fixed assets	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost:				
At 1 January 2008	1,951,145	9,990,632	748,025	12,689,802
Additions	–	80	4	84
Transfer from construction in progress *(note 15)*	3,298	62,839	10,008	76,145
Disposals	(11,047)	(24,453)	(17,962)	(53,462)
Reclassification	2,123	4,147	(6,270)	–
At 31 December 2008	1,945,519	10,033,245	733,805	12,712,569
Representing:				
Cost	1,945,519	10,033,245	733,805	12,712,569
At 1 January 2009	1,945,519	10,033,245	733,805	12,712,569
Additions through acquisition of subsidiary	153,789	384,887	13,114	551,790
Additions	–	1,242	4,865	6,107
Transfer from construction in progress *(note 15)*	22,473	159,771	7,846	190,090
Disposals	(11,340)	(173,465)	(28,925)	(213,730)
At 31 December 2009	**2,110,441**	**10,405,680**	**730,705**	**13,246,826**
Representing:				
Cost	2,110,441	10,405,680	730,705	13,246,826

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

(a) The Group (Continued)

	Buildings RMB'000	Plant, machinery and equipment RMB'000	Motor vehicle and other fixed assets RMB'000	Total RMB'000
Accumulated depreciation and impairment losses:				
At 1 January 2008	825,984	6,357,372	552,885	7,736,241
Depreciation charge for the year	67,299	501,707	39,355	608,361
Impairment loss	518	435,951	4,618	441,087
Written back on disposal	(3,962)	(23,436)	(16,538)	(43,936)
Reclassification	2,057	4,116	(6,173)	–
At 31 December 2008	891,896	7,275,710	574,147	8,741,753
At 1 January 2009	891,896	7,275,710	574,147	8,741,753
Depreciation additions through acquisition of subsidiary	17,309	86,314	7,415	111,038
Depreciation charge for the year	70,218	427,729	37,290	535,237
Impairment loss additions through acquisition of subsidiary	6,543	124,237	1,555	132,335
Impairment loss *(note c)*	786	138,104	2,063	140,953
Written back on disposal	(2,250)	(159,559)	(27,592)	(189,401)
At 31 December 2009	**984,502**	**7,892,535**	**594,878**	**9,471,915**
Carrying amounts:				
At 31 December 2008	1,053,623	2,757,535	159,658	3,970,816
At 31 December 2009	**1,125,939**	**2,513,145**	**135,827**	**3,774,911**

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

(b) The Company

	Buildings	Plant, machinery and equipment	Motor vehicle and other fixed assets	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost:				
At 1 January 2008	1,946,814	9,990,360	748,025	12,685,199
Additions	4,334	256	97	4,687
Transfer from construction in progress *(note 15)*	3,298	62,839	10,008	76,145
Disposals	(11,047)	(24,453)	(17,962)	(53,462)
Reclassification	2,120	4,243	(6,363)	–
At 31 December 2008	1,945,519	10,033,245	733,805	12,712,569
Representing:				
Cost	1,945,519	10,033,245	733,805	12,712,569
At 1 January 2009	1,945,519	10,033,245	733,805	12,712,569
Additions	–	1,242	4,865	6,107
Transfer from construction in progress *(note 15)*	21,542	159,741	5,813	187,096
Disposals	(3,001)	(161,353)	(26,634)	(190,988)
At 31 December 2009	**1,964,060**	**10,032,875**	**717,849**	**12,714,784**
Representing:				
Cost	1,964,060	10,032,875	717,849	12,714,784

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

(b) The Company (Continued)

	Buildings RMB'000	Plant, machinery and equipment RMB'000	Motor vehicle and other fixed assets RMB'000	Total RMB'000
Accumulated depreciation and impairment losses:				
At 1 January 2008	823,955	6,357,272	552,885	7,734,112
Depreciation charge for the year	67,281	501,707	39,346	608,334
Additions due to asset transfer	2,047	109	–	2,156
Impairment loss	518	435,951	4,618	441,087
Written back on disposal	(3,962)	(23,445)	(16,529)	(43,936)
Reclassification	2,057	4,116	(6,173)	–
At 31 December 2008	891,896	7,275,710	574,147	8,741,753
At 1 January 2009	891,896	7,275,710	574,147	8,741,753
Depreciation charge for the year	63,633	401,686	34,867	500,186
Impairment loss *(note c)*	786	8,941	1,062	10,789
Written back on disposal	(1,287)	(155,421)	(26,114)	(182,822)
At 31 December 2009	**955,028**	**7,530,916**	**583,962**	**9,069,906**
Carrying amounts:				
At 31 December 2008	1,053,623	2,757,535	159,658	3,970,816
At 31 December 2009	**1,009,032**	**2,501,959**	**133,887**	**3,644,878**

(c) Impairment losses recognised in respect of the filament production facilities of the Group were RMB130,164,000 for the year ended 31 December 2009. In response to the current market environment for filament products, the Group assessed the recoverable amount of its property, plant and equipment in relation to filament production facilities as at 31 December 2009 and as a result the carrying amount of the production facilities was written down by such amount. The estimate of the recoverable amount was based on the value in use of these facilities. In assessing value in use, the pre-tax discount rate used to calculate the present value of estimated future cash flows is 8% (2008: 10%).

Impairment losses recognised in respect of idle property, plant and equipment were RMB10,789,000 for the year ended 31 December 2009. The carrying amount of these assets was written down to their recoverable amount. The estimate of recoverable amounts was based on the fair values less costs to sell of these assets, determined by reference to the information about the sales of similar assets within the same industry.

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

15. CONSTRUCTION IN PROGRESS

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At 1 January	**272,012**	89,566	**272,012**	89,566
Addition through acquisition of subsidiary	**1,699**	–	**–**	–
Additions	**242,191**	335,883	**240,896**	335,883
Transfer to property, plant and equipment *(note 14)*	**(190,090)**	(76,145)	**(187,096)**	(76,145)
Transfer out due to other reasons	**–**	(77,292)	**–**	(77,292)
At 31 December	**325,812**	272,012	**325,812**	272,012

16. LEASE PREPAYMENTS

	The Group and the Company Land use rights	
	2009	2008
	RMB'000	*RMB'000*
Cost:		
At 1 January	**144,190**	144,190
Accumulated amortisation:		
At 1 January	**(21,003)**	(17,760)
Charge for the year	**(3,243)**	(3,243)
At 31 December	**(24,246)**	(21,003)
Carrying amounts:		
At 31 December	**119,944**	123,187

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

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

17. INTEREST IN SUBSIDIARY

	The Company 2009 RMB'000	The Company 2008 RMB'000
Unlisted shares, at cost	**303,361**	–
Less: impairment loss	**(303,361)**	–
	–	–

The following list contains only the particulars of the subsidiary, which is established and operating in the PRC and principally affected the results, assets or liabilities of the Group as at 31 December 2009. The class of shares held is ordinary unless otherwise stated.

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

For detailed information about YCFC Jingwei, please refer to note 5.

18. INTEREST IN JOINTLY CONTROLLED ENTITY

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Unlisted shares, at cost	**–**	–	**–**	241,836
Share of net assets	**–**	25,803	**–**	–
Less: Impairment loss	**–**	–	**–**	(216,033)
	–	25,803	**–**	25,803

As details disclosed in note 5, the Company acquired 50% share of YCFC Jingwei from UNIFI Asia. As a result, the Company's equity interest in YCFC Jingwei increased from 50% to 100%. YCFC Jingwei was changed from a jointly controlled entity of the Company to a wholly owned subsidiary.

The Group and the Company had no unrecognised investment losses for the year and for the prior years.

19. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	The Group and the Company	
	2009	2008
	RMB'000	*RMB'000*
Other investments	**700,000**	–

Other investments are provided by the banks, compromised of money market funds and diversified bonds, all of which are purchased on 31 December 2009 and have no fixed repayment terms.

20. INVENTORIES

(a) Inventories in the balance sheets comprise:

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Raw materials	**418,077**	367,896	**414,057**	367,896
Work in progress	**95,389**	53,048	**92,040**	53,048
Finished goods	**298,695**	179,822	**272,894**	179,822
Goods in transit	**380,968**	119,908	**380,968**	119,908
	1,193,129	720,674	**1,159,959**	720,674
Spare parts and consumables	**114,890**	110,779	**113,386**	110,779
	1,308,019	831,453	**1,273,345**	831,453
Inventories stated at net realisable value	**148,060**	778,405	**113,386**	778,405

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

The cost of inventories recognised as an expense in the consolidated statement of comprehensive income amounted to RMB12,141,045,000 for the year ended 31 December 2009 (2008: RMB15,653,672,000), including a write-down of inventories to net realisable value amounting to RMB19,892,000 (2008: RMB38,393,000).

21. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade receivables	**119,614**	91,766	**118,648**	91,766
Bills receivable	**1,000,787**	1,179,716	**1,000,787**	1,179,716
Amounts due from the parent company and fellow subsidiaries-trade	**4,118**	30,861	**4,118**	30,861
Amounts due from the subsidiary-trade	**–**	–	**290,655**	–
Amounts due from the jointly controlled entity-trade	**–**	199,078	**–**	199,078
	1,124,519	1,501,421	**1,414,208**	1,501,421
Less: Allowance for doubtful debts	**–**	(835)	**(114,030)**	(835)
	1,124,519	1,500,586	**1,300,178**	1,500,586
Amounts due from the parent company and fellow subsidiaries -non-trade	**10,532**	10,612	**10,532**	10,612
Other receivables, deposits and prepayments	**271,820**	299,564	**271,359**	299,564
	282,352	310,176	**281,891**	310,176
Less: Allowance for doubtful debts	**(1,352)**	(2,984)	**(1,352)**	(2,984)
	281,000	307,192	**280,539**	307,192
	1,405,519	1,807,778	**1,580,717**	1,807,778

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

21. TRADE AND OTHER RECEIVABLES (Continued)

(a) Ageing analysis

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

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Current	**1,124,519**	1,499,980	**1,300,178**	1,499,980
Less than 1 year past due	**–**	97	**–**	97
1 to 2 years past due	**–**	509	**–**	509
	1,124,519	1,500,586	**1,300,178**	1,500,586

Trade receivables, amounts due from the parent company and fellow subsidiaries-trade, amounts due from the subsidiary-trade and amounts due from the jointly controlled entity-trade are due within 2 months to 12 months from the date of billing. Bills receivable are due within 6 months from the date of billing.

(b) Impairment of trade and other receivables

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

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

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At 1 January	**3,819**	8,511	**3,819**	7,723
Impairment losses (reversed)/recognised	**(2,149)**	(3,555)	**111,881**	(3,555)
Uncollectible amounts written off	**(318)**	(3,123)	**(318)**	(2,335)
Amounts written off in prior years but received during the year	**–**	1,986	**–**	1,986
At 31 December	**1,352**	3,819	**115,382**	3,819

21. TRADE AND OTHER RECEIVABLES (Continued)

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

At 31 December 2009, the Group's trade and other receivables of RMB1,352,000 was individually determined to be impaired (2008: RMB3,819,000).

At 31 December 2009, the Company's trade and other receivables of RMB115,382,000 was individually determined to be impaired (2008: RMB3,819,000).

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

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

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Neither past due nor impaired	**1,124,519**	1,499,980	**1,300,178**	1,499,980
Less than 1 year past due	**–**	97	**–**	97
1 to 2 years past due	**–**	509	**–**	509
	1,124,519	1,500,586	**1,300,178**	1,500,586

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

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

22. DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Balances with banks and other financial institutions, which are related parties				
– Sinopec Finance Company Limited ("**Sinopec Finance**")	**382,099**	104,603	**382,099**	104,603
– China CITIC Bank	**37,889**	42,030	**37,678**	42,030
– Stated-controlled banks in the PRC (excluding China CITIC Bank)	**914,289**	1,057,101	**908,118**	1,057,101
	1,334,277	1,203,734	**1,327,895**	1,203,734
Less: Balances with banks and other financial institutions with an initial term of less than three months *(note 23)*	**(774,677)**	(841,273)	**(768,295)**	(841,273)
	559,600	362,461	**559,600**	362,461

Maturity analysis of deposits with banks and other financial institutions is as follows:

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Due within three months	**270,600**	248,693	**270,600**	248,693
Due after three months but within six months	**268,000**	113,768	**268,000**	113,768
Due after six months but within one year	**21,000**	–	**21,000**	–
	559,600	362,461	**559,600**	362,461

The above deposits with banks and other financial institutions are with an initial term of more than three months and bear fixed interest rates ranging from 1.71% to 2.25% per annum (2008: 3.24% to 4.14% per annum).

23. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash in hand	**90**	21	**90**	21
Balances with banks and other financial institutions with an initial term of less than three months *(note 22)*	**774,677**	841,273	**768,295**	841,273
Cash and cash equivalents in the consolidated cash flow statement	**774,767**	841,294	**768,385**	841,294

24. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Bills payable	**240,000**	115,000	**240,000**	115,000
Trade payables	**524,906**	793,866	**503,726**	793,866
Amounts due to the parent company and fellow subsidiaries-trade	**926,871**	449,785	**926,871**	449,785
Amounts due to the subsidiary-trade	**–**	–	**22,729**	–
Amounts due to the jointly controlled entity-trade	**–**	11,158	**–**	11,158
	1,691,777	1,369,809	**1,693,326**	1,369,809
Amounts due to the parent company and fellow subsidiaries-non-trade	**15,575**	13,925	**15,575**	13,925
Other payables and accrued expenses	**366,597**	349,960	**367,395**	349,960
	2,073,949	1,733,694	**2,076,296**	1,733,694

24. TRADE AND OTHER PAYABLES (Continued)

The maturity analysis of bills payable and trade payables is as follows:

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Due within 1 month or on demand	**644,906**	780,121	**623,726**	780,121
Due after 1 month but within 3 months	**120,000**	115,000	**120,000**	115,000
Due after 3 months but within 12 months	**–**	13,745	**–**	13,745
	764,906	908,866	**743,726**	908,866

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

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Due within 1 month or on demand	**926,871**	163,482	**949,600**	163,482
Due after 1 month but within 3 months	**–**	233,693	**–**	233,693
Due after 3 months but within 6 months	**–**	63,768	**–**	63,768
	926,871	460,943	**949,600**	460,943

25. PROVISION

	The Group and the Company	
	2009	2008
	RMB'000	*RMB'000*
Compensation payable on breach of contracts	**5,198**	5,198

26. DEFERRED INCOME

During the year ended 31 December 2009, the Group received government grants totalling RMB7,000,000 (2008: RMB15,000,000) related to the projects under construction. The grants were recognised initially as deferred income and were amortised in profit or loss on a straight-line basis over the useful life of the related assets when they were ready for use.

27. SHARE CAPITAL

	The Group and the Company	
	2009	2008
	RMB'000	*RMB'000*
Registered, issued and paid up capital:		
2,400,000,000 "Domestic non-public legal person A" shares of RMB1 each	**2,400,000**	2,400,000
200,000,000 "social public A" shares of RMB1 each	**200,000**	200,000
1,400,000,000 "H" shares of RMB1 each	**1,400,000**	1,400,000
	4,000,000	4,000,000

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

Capital management

In order to maintain or adjust the capital structure, the Group may issue new shares, adjust the capital expenditure plan, sell assets to reduce liabilities or adjust the proportion of short-term and long-term loans. The Group monitors capital on the basis of debt-to-equity ratio, which is calculated by dividing long-term loans (excluding current portion) by the total of equity attributable to equity shareholders of the Company and long-term loans (excluding current portion), and liability-to-asset ratio, which is calculated by dividing total liabilities by total assets. The Group's strategy is to make appropriate adjustments according to the operating and investment needs and the changes of market conditions, and to maintain the debt-to-equity ratio and the liability-to-asset ratio at a range considered as reasonable by management. As at 31 December 2009, the debt-to-equity ratio and the liability-to-asset ratio of the Group were nil (2008: nil) and 23.3% (2008: 21.1%) respectively.

The schedule of the capital commitments is disclosed in note 32.

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

28. RESERVES

	The Group and the Company					
	Capital reserve	Excess over share capital	Statutory surplus reserve	Statutory public welfare fund	Discretionary surplus reserve	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(note (a))	*(note (b),(d),(f))*	*(note (c),(d))*	*(note (e),(f))*	
At 1 January 2008 and 31 December 2008	28,339	(204,415)	861,457	–	594,547	1,279,928
Make good of losses by surplus reserve *(note 29)*	–	–	(861,457)	–	(594,547)	(1,456,004)
At 31 December 2009	**28,339**	**(204,415)**	**–**	**–**	**–**	**(176,076)**

Notes:

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

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

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

(c) According to the Articles of Association of the Company and its subsidiary in the PRC, each of these entities is required to transfer 5% to 10% of its profit after taxation, as determined in accordance with the PRC Accounting Rules and Regulations, to its statutory public welfare fund. The fund can only be utilised on capital items for the collective benefits of its employees such as the construction of dormitories, canteen and other staff welfare facilities. This fund is non-distributable other than in liquidation. The transfer to this fund must be made before distribution of a dividend to its shareholders.

(d) According to the Company Law of the PRC which was revised on 27 October 2005, the Company and its subsidiary are no longer required to make profit appropriations to the statutory public welfare fund commencing from 1 January 2006. Pursuant to the notice "Cai Qi [2006] No.67" issued by the Ministry of Finance on 15 March 2006, the balance of this fund as at 1 January 2006 was transferred to the statutory surplus reserve.

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

(f) Pursuant to the resolution by the shareholders on 5 June 2009, the Group and the Company used the statutory surplus reserve and discretionary surplus reserve under the PRC ASBE amounting to RMB1,456,004,000 to make good of previous years' losses.

29. RETAINED PROFITS/(ACCUMULATED LOSSES)

	The Group RMB'000	The Company RMB'000
At 1 January 2008	369,088	254,571
Total comprehensive expenses for the year	(1,641,317)	(1,526,800)
At 31 December 2008	(1,272,229)	(1,272,229)
Make good of losses by surplus reserve *(note 28)*	1,456,004	1,456,004
Total comprehensive income for the year	385,947	387,709
At 31 December 2009	**569,722**	**571,484**

According to the Company's Articles of Association, the amount of retained profits available for distribution to shareholders of the Company is the lower of the amount determined in accordance with the PRC ASBE and the amount determined in accordance with IFRSs. As at 31 December 2009, the amount of accumulated losses, which was the amount determined in accordance with the PRC ASBE, was RMB61,754,000 (2008: RMB1,899,776,000). No dividend (2008: RMB nil) in respect of the financial year 2009 was proposed after the balance sheet date.

30. RETIREMENT BENEFITS

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

Administrator	Beneficiary	Contribution rate	
		2009	2008
Yizheng Municipal Government, Jiangsu Province	Employees of the Company	**20%**	20%

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

In addition to the above, pursuant to a document "Lao Bu Fa [1995] No. 464" dated 29 December 1995 issued by the Ministry of Labour of the PRC, the Company has set up a supplementary defined contribution retirement scheme for its employees. Assets of the scheme are held separately from those of the Company in an independent fund administered by representatives from the Company. The scheme is funded by contributions from the Company which are calculated at a rate based on the basic salaries of its employees. The contribution rate for 2009 was 5% (2008: 9%).

The Group has no other material obligation for the payment of retirement benefits associated with this scheme beyond the annual contributions described above.

31. RELATED PARTY TRANSACTIONS

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

Sinopec Asset and Management Corp, Sinopec Finance, China CITIC Bank, China Petrochemical International Company Limited, Sinopec Chemicals Sales Branch and other subsidiaries of CPC, Sinopec Corp or CITIC are considered to be related parties as they are subject to the common significant influence of CPC, Sinopec Corp or CITIC.

YCFC Jingwei was considered to be a related party for the period ended 2 March 2009 as it was a jointly controlled entity of which the Company and the other venture have the ability to exercise jointly control over it (see note 5).

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

	2009 *RMB'000*	2008 *RMB'000*
Sinopec Corp and its subsidiaries		
Purchase of raw materials	**6,551,403**	7,109,806
Service charges for the purchase of raw materials	**24,400**	26,710
Sinopec Asset and Management Corp and its subsidiaries		
Sales	**204,110**	230,626
Miscellaneous service fee charges *(see note below)*	**12,050**	15,000

Note: The above service fee charges were paid in accordance with the terms of the agreements signed between the Company and Sinopec Asset and Management Corp in December 2008.

31. RELATED PARTY TRANSACTIONS (Continued)

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

	2009 RMB'000	2008 RMB'000
Sinopec Finance		
Interest income	**3,107**	868
Interest expense	**–**	1,723
CPC and its subsidiaries (excluding Sinopec Corp and its subsidiaries, Sinopec Asset and Management Corp and its subsidiariesand Sinopec Finance)		
Sales	**–**	11,518
Construction and overhaul fee	**34,000**	7,560
Insurance premium	**7,390**	8,228
China CITIC Bank		
Interest income	**1,672**	1,115
Interest expense	**4**	–
YCFC Jingwei		
Sales of finished goods	**90,348**	708,403

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

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

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

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

– depositing money;

– borrowing loans; and

– discounting bills

31. RELATED PARTY TRANSACTIONS (Continued)

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

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

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

	2009	2008
	RMB'000	*RMB'000*
Interest income	**17,118**	23,148
Interest expense	**8,652**	1,871

(c) Key management personnel compensation

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

	2009	2008
	RMB'000	*RMB'000*
Short-term employee benefits	**3,156**	3,096
Retirement scheme contributions	**140**	140

(d) Contributions to defined contribution retirement scheme

The Group participates in various defined contribution retirement schemes organised by municipal and provincial governments for its staff. Details of the Group's retirement schemes are disclosed in note 30.

32. CAPITAL COMMITMENTS

Capital commitments relate primarily to construction of buildings, plant, machinery and purchase of equipment. The Group and the Company had capital commitments outstanding at 31 December 2009 not provided for in the financial statements as follows:

	The Group and the Company	
	2009	2008
	RMB'000	*RMB'000*
Authorised but not contracted for	**118,103**	137,418

33. FINANCIAL RISK MANAGEMENT AND FAIR VALUES

(a) Overview

Financial assets of the Group include cash and cash equivalents, deposits with banks and other financial institutions, available-for-sale financial assets and trade and other receivables. Financial liabilities of the Group include trade and other payables. The Group has no derivative instruments that are designated and qualified as hedging instruments at 31 December 2009 and 2008.

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

– credit risk;

– liquidity risk;

– interest rate risk; and

– currency risk.

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

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

(b) Credit risk

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

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

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 21.

At 31 December 2009, the Group had a certain concentration of credit risk, as 72.9% (2008: 61.0%) of the total trade receivables was due from the Group's five largest customers.

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

33. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(c) Liquidity risk

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

The maturity analysis of trade and other payables is disclosed in note 24. Trade and other payables are normally expected to be settled within one year after receipt of goods or services.

(d) Interest rate risk

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

The following table details the interest rate profile of the Group's and the Company's interest-bearing financial instruments at the balance sheet date:

	The Group			
	2009		2008	
	Effective interest rate		Effective interest rate	
	%	***RMB'000***	%	*RMB'000*
Fixed rate instruments				
Deposits with banks and other financial institutions *(note 22)*	**1.71%~2.25%**	**559,600**	3.24%~4.14%	362,461
Variable rate instruments				
Cash at banks and other financial institutions with an initial term of less than three months *(note 23)*	**0.36%**	**774,677**	0.36%	841,273

	The Company			
	2009		2008	
	Effective interest rate		Effective interest rate	
	%	***RMB'000***	%	*RMB'000*
Fixed rate instruments				
Deposits with banks and other financial institutions *(note 22)*	**1.71%~2.25%**	**559,600**	3.24%~4.14%	362,461
Variable rate instruments				
Cash at banks and other financial institutions with an initial term of less than three months *(note 23)*	**0.36%**	**768,295**	0.36%	841,273

33. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(d) Interest rate risk (Continued)

At 31 December 2009, it is estimated that a general increase/decrease of 100 basis points in variable interest rates, with all other variables held constant, would increase/decrease the Group's profit for the year and retained profits by approximately RMB7,747,000 (2008: decrease/increase the Group's loss for the year and accumulated losses by approximately RMB8,413,000) (the related income tax impact was not considered). This sensitivity analysis has been determined assuming that the change in interest rates had occurred at the balance sheet date and the change was applied to the Group's variable rate instruments outstanding at that date with exposure to cash flow interest rate risk. The analysis is performed on the same basis for 2008.

(e) Currency risk

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

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

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

The Group

	2009	2008
	US$'000	*US$'000*
Trade and other receivables	**12,428**	7,559
Cash and cash equivalents	**6,244**	251
Trade and other payables	**(116,985)**	(58,285)
	(98,313)	(50,475)

The Company

	2009	2008
	US$'000	*US$'000*
Trade and other receivables	**12,287**	7,559
Cash and cash equivalents	**6,140**	251
Trade and other payables	**(116,985)**	(58,285)
	(98,558)	(50,475)

33. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(e) Currency risk (Continued)

A five percent strengthening of Renminbi against the following currencies at 31 December would have increased profit for the year and retained profits of the Group or would have decreased loss for the year and accumulated losses of the Group by the amounts shown below. This analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to the foreign currency balances to which the Group had significant exposure as stated above, the related income tax impact was not considered, and that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2008.

The Group

	2009	2008
	RMB'000	*RMB'000*
US$	**33,565**	17,248

The Company

	2009	2008
	RMB'000	*RMB'000*
US$	**33,649**	17,248

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

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

33. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(f) Fair values

The fair values of cash and cash equivalents, trade and other receivables, available-for-sale financial assets and trade and other payables are not materially different from their carrying amounts.

The carrying amounts of deposits with banks and other financial institutions are estimated to approximate their fair values based on the nature or short-term maturity.

Fair value estimates are made at a specific point in time and based on relevant market information and information about the relevant financial instrument.

These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

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

Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments

Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data

Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

	The Group and the Company			
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Available-for-sale financial assets	–	700,000	–	700,000

(g) Estimation of fair values

The fair value of available-for-sale financial assets is determined by reference to the price quoted by banks.

34. ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

Impairments

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

Depreciation

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

Impairment for bad and doubtful debts

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

Allowance for diminution in value of inventories

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

35. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 31 DECEMBER 2009

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2009 and which have not been adopted in these financial statements.

	Effective for accounting periods beginning on or after
IFRS 3 (Revised), Business combinations	1 July 2009
Amendments to IAS 27, Consolidated and separate financial statements	1 July 2009
Amendments to IAS 39, Financial instruments: Recognition and measurement – Eligible hedged items	1 July 2009
IFRIC 17, Distributions of non-cash assets to owners	1 July 2009
Improvements to IFRSs 2009	1 July 2009 or 1 January 2010

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

36. IMMEDIATE AND ULTIMATE CONTROLLING PARTY

As at 31 December 2009, the directors consider the immediate parent and the ultimate controlling party of the Group to be Sinopec Corp and CPC respectively, which are established in the PRC. The immediate parent produces financial statements available for public use.

37. COMPARATIVE FIGURES

As a result of the application of IAS 1 (revised 2007), *Presentation of financial statements*, and IFRS 8, *Operating segments*, certain comparative figures have been adjusted to conform to current year's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009. Further details of these developments are disclosed in note 3.

KPMG Huazhen

All Shareholders of Sinopec Yizheng Chemical Fibre Company Limited:

We have audited the accompanying financial statements of Sinopec Yizheng Chemical Fibre Company Limited ("the Company"), which comprise the consolidated balance sheet and balance sheet as at 31 December 2009, the consolidated income statement and income statement, the consolidated statement of changes in equity and statement of changes in equity, the consolidated cash flow statement and cash flow statement for the year then ended, and notes to the financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

OPINION

In our opinion, the financial statements comply with the requirements of China Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China and present fairly, in all material respects, the consolidated financial position and financial position of the Company as at 31 December 2009, and the consolidated results of operations and results of operations and the consolidated cash flows and cash flows of the Company for the year then ended.

KPMG Huazhen

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

Gong Weili

Beijing, the People's Republic of China

Ling Yun

29 March 2010

Consolidated Balance Sheet

As at 31 December 2009
(Prepared in accordance with the PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of renminbi yuan)

Item	Note	2009	2008
Current assets:			
Cash at bank and on hand	5(1)	**1,334,367**	1,203,755
Bills receivable	5(2)	**1,000,787**	1,290,568
Accounts receivable	5(3)	**123,022**	190,378
Prepayments	5(5)	**2,734**	23,648
Other receivables	5(4)	**36,224**	107,939
Inventories	5(6)	**1,308,019**	831,453
Other current assets	5(7)	**242,750**	195,245
Total current assets		**4,047,903**	3,842,986
Non-current assets:			
Available-for-sale financial assets	5(8)	**700,000**	–
Long-term equity investments	5(9)	**–**	25,803
Fixed assets	5(10)	**3,695,828**	3,870,709
Construction in progress	5(11)	**325,812**	272,012
Intangible assets	5(12)	**376,270**	405,774
Total non-current assets		**5,097,910**	4,574,298
Total assets		**9,145,813**	8,417,284

The notes on pages 126 to 194 form part of these financial statements.

Consolidated Balance Sheet (Continued)

As at 31 December 2009
(Prepared in accordance with the PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of renminbi yuan)

Item	*Note*	2009	2008
Current liabilities:			
Bills payable	*5(15)*	**240,000**	115,000
Accounts payable	*5(16)*	**1,181,716**	1,004,018
Advances from customers	*5(17)*	**258,915**	244,437
Employee benefits payable	*5(18)*	**72,122**	61,345
Taxes payable	*5(19)*	**17,673**	17,979
Other payables	*5(20)*	**303,523**	290,915
Provisions	*5(21)*	**5,198**	5,198
Total current liabilities		**2,079,147**	1,738,892
Non-current liabilities:			
Deferred income	*5(22)*	**21,256**	15,000
Total non-current liabilities		**21,256**	15,000
Total liabilities		**2,100,403**	1,753,892
Shareholders' equity:			
Share capital	*5(23)*	**4,000,000**	4,000,000
Capital reserve	*5(24)*	**3,107,164**	3,107,164
Surplus reserve	*5(25)*	**–**	1,456,004
Accumulated losses	*5(26)*	**(61,754)**	(1,899,776)
Total equity		**7,045,410**	6,663,392
Total liabilities and shareholders' equity		**9,145,813**	8,417,284

These financial statements have been approved by the Board of Directors of the Company on 29 March 2010.

Qian Heng-ge
Legal Representative

Xiao Wei-zhen
General Manager

Li Jian-ping
Chief Financial Officer

Xu Xiu-yun
Supervisor of the Asset and Accounting Department

The notes on pages 126 to 194 form part of these financial statements.

Balance Sheet

As at 31 December 2009
(Prepared in accordance with the PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of renminbi yuan)

Item	*Note*	**2009**	2008
Current assets:			
Cash at bank and on hand		**1,327,985**	1,203,755
Bills receivable		**1,000,787**	1,290,568
Accounts receivable	*9(1)*	**298,681**	190,378
Prepayments		**2,698**	23,648
Other receivables	*9(2)*	**36,141**	107,939
Inventories		**1,273,345**	831,453
Other current assets		**242,408**	195,245
Total current assets		**4,182,045**	3,842,986
Non-current assets:			
Available-for-sale financial assets		**700,000**	–
Long-term equity investments	*9(3)*	**–**	25,803
Fixed assets		**3,565,795**	3,870,709
Construction in progress		**325,812**	272,012
Intangible assets		**376,270**	405,774
Total non-current assets		**4,967,877**	4,574,298
Total assets		**9,149,922**	8,417,284

The notes on pages 126 to 194 form part of these financial statements.

Balance Sheet (Continued)

As at 31 December 2009
(Prepared in accordance with the PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of renminbi yuan)

Item	*Note*	**2009**	2008
Current liabilities:			
Bills payable		**240,000**	115,000
Accounts payable		**1,172,554**	1,004,018
Advances from customers		**255,284**	244,437
Employee benefits payable		**71,943**	61,345
Taxes payable		**17,347**	17,979
Other payables		**319,168**	290,915
Provisions		**5,198**	5,198
Total current liabilities		**2,081,494**	1,738,892
Non-current liabilities:			
Deferred income		**21,256**	15,000
Total non-current liabilities		**21,256**	15,000
Total liabilities		**2,102,750**	1,753,892
Shareholders' equity:			
Share capital		**4,000,000**	4,000,000
Capital reserve		**3,107,164**	3,107,164
Surplus reserve		**–**	1,456,004
Accumulated losses		**(59,992)**	(1,899,776)
Total equity		**7,047,172**	6,663,392
Total liabilities and shareholders' equity		**9,149,922**	8,417,284

These financial statements have been approved by the Board of Directors of the Company on 29 March 2010.

Qian Heng-ge
Legal Representative

Xiao Wei-zhen
General Manager

Li Jian-ping
Chief Financial Officer

Xu Xiu-yun
Supervisor of the Asset and Accounting Department

The notes on pages 126 to 194 form part of these financial statements.

Consolidated Income Sheet

For the year ended 31 December 2009
(Prepared in accordance with the PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of renminbi yuan)

Item			Note	2009	2008
1.	Operating income		5(27)	**13,225,029**	15,224,524
2.	Operating costs		5(27)	**11,801,291**	15,294,088
	Business taxes and surcharges		5(28)	**31,650**	29,355
	Selling and distribution expenses			**183,227**	187,146
	General and administrative expenses			**705,042**	661,389
	Net financial income		5(29)	**(16,854)**	(45,946)
	Impairment loss		5(31)	**158,696**	475,925
	Add:	Investment losses	5(30)	**–**	(130,381)
		Including: Losses from investment in jointly controlled entity		**–**	(130,381)
3.	Operating profit/(loss)			**361,977**	(1,507,814)
	Add:	Non-operating income	5(32)	**24,288**	8,165
	Less:	Non-operating expenses	5(33)	**4,247**	54,943
		Including: Losses from disposal of non-current assets		**1,702**	897
4.	Profit/(loss) before income tax			**382,018**	(1,554,592)
	Less:	Income tax expenses	5(34)	**–**	90,693
5.	Net profit/(loss) for the year			**382,018**	(1,645,285)
	Attributable to shareholders of the Company			**382,018**	(1,645,285)
6.	Earnings/(loss) per share:				
	(1)	Basic earnings per share (Expressed in RMB)	5(35)	**0.096**	(0.411)
	(2)	Diluted earnings per share (Expressed in RMB)	5(35)	**0.096**	(0.411)
7.	Other comprehensive income for the year			**–**	–
8.	Total comprehensive income/(expenses) for the year			**382,018**	(1,645,285)
	Attributable to shareholders of the Company			**382,018**	(1,645,285)

These financial statements have been approved by the Board of Directors of the Company on 29 March 2010.

Qian Heng-ge
Legal Representative

Xiao Wei-zhen
General Manager

Li Jian-ping
Chief Financial Officer

Xu Xiu-yun
Supervisor of the Asset and Accounting Department

The notes on pages 126 to 194 form part of these financial statements.

Income Sheet

For the year ended 31 December 2009
(Prepared in accordance with the PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of renminbi yuan)

Item			Note	2009	2008
1.	Operating income		9(4)	**13,068,874**	15,224,524
	Less:	Operating costs	9(4)	**11,629,474**	15,294,088
		Business taxes and surcharges		**30,797**	29,355
		Selling and distribution expenses		**171,741**	187,101
		General and administrative expenses		**683,978**	661,305
		Net financial income		**(20,652)**	(45,693)
		Impairment loss		**209,998**	475,925
	Add:	Investment income	9(5)	**–**	28,287
		Including: Losses from investment in jointly controlled entity		**–**	(130,381)
2.	Operating profit/(loss)			**363,538**	(1,349,270)
	Add:	Non-operating income		**24,123**	7,672
	Less:	Non-operating expenses		**3,881**	54,902
		Including: Losses from disposal of non-current assets		**1,702**	897
3.	Profit/(loss) before income tax			**383,780**	(1,396,500)
	Less:	Income tax expenses		**–**	90,989
4.	Net profit/(loss) for the year			**383,780**	(1,487,489)
5.	Earnings/(loss) per share				
	(1)	Basic earnings per share (Expressed in RMB)		**0.096**	(0.372)
	(2)	Diluted earnings per share (Expressed in RMB)		**0.096**	(0.372)
6.	Other comprehensive income for the year			**–**	–
7.	Total comprehensive income/(expenses) for the year			**383,780**	(1,487,489)

These financial statements have been approved by the Board of Directors of the Company on 29 March 2010.

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

The notes on pages 126 to 194 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2009
(Prepared in accordance with the PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of renminbi yuan)

Item		Note	2009	2008
1.	**Cash flows from operating activities:**			
	Cash received from sale of goods and rendering of services		**14,966,706**	17,163,238
	Refund of taxes		**16,823**	13,560
	Sub-total of cash inflows		**14,983,529**	17,176,798
	Cash paid for goods and services		**(12,086,156)**	(15,722,002)
	Cash paid to and for employees		**(721,919)**	(657,863)
	Cash paid for all types of taxes		**(364,183)**	(399,859)
	Other cash paid relating to operating activities	*5(36)(a)*	**(502,411)**	(445,117)
	Sub-total of cash outflows		**(13,674,669)**	(17,224,841)
Net cash inflow/(outflow) from operating activities		*5(37)(a)*	**1,308,860**	(48,043)
2.	**Cash flows from investing activities:**			
	Net cash received from disposal of fixed assets and intangible assets		**10,260**	11,796
	Other cash received relating to investing activities	*5(36)(b)*	**28,896**	41,123
	Sub-total of cash inflows		**39,156**	52,919
	Cash paid for acquisition of fixed assets and intangible assets		**(192,539)**	(129,735)
	Cash paid for acquisition of available-for-sale financial assets		**(700,000)**	–
	Net cash paid for acquisition of a subsidiary	*5(37)(b)*	**(18,414)**	–
	Sub-total of cash outflows		**(910,953)**	(129,735)
Net cash outflow from investing activities			**(871,797)**	(76,816)

The notes on pages 126 to 194 form part of these financial statements.

Consolidated Cash Flow Statement (Continued)

For the year ended 31 December 2009
(Prepared in accordance with the PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of renminbi yuan)

Item		Note	2009	2008
3.	**Cash flows from financing activities:**			
	Cash received from borrowings		**–**	741,000
	Sub-total of cash inflows		**–**	741,000
	Cash repayments of borrowings		**(334)**	(741,000)
	Cash paid for interest		**(8,656)**	(3,594)
	Sub-total of cash outflows		**(8,990)**	(744,594)
	Net cash outflow from financing activities		**(8,990)**	(3,594)
4.	**Effect of exchange rate change on cash and cash equivalents**		**–**	–
5.	**Net increase in cash and cash equivalents**	*5(37)(a)*	**428,073**	(128,453)
	Add: Cash and cash equivalents at the beginning of the year		**906,294**	1,034,747
6.	**Cash and cash equivalents at the end of the year**		**1,334,367**	906,294

These financial statements have been approved by the Board of Directors of the Company on 29 March 2010.

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

The notes on pages 126 to 194 form part of these financial statements.

Cash Flow Statement

For the year ended 31 December 2009
(Prepared in accordance with the PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of renminbi yuan)

Item		Note	2009	2008
1.	**Cash flows from operating activities:**			
	Cash received from sale of goods and rendering of services		**14,629,701**	17,134,961
	Refund of taxes		**14,180**	13,560
	Sub-total of cash inflows		**14,643,881**	17,148,521
	Cash paid for goods and services		**(11,959,029)**	(15,722,002)
	Cash paid to and for employees		**(650,242)**	(657,863)
	Cash paid for all types of taxes		**(348,567)**	(399,850)
	Other cash paid relating to operating activities		**(350,582)**	(444,931)
	Sub-total of cash outflows		**(13,308,420)**	(17,224,646)
Net cash inflow/(outflow) from operating activities		*9(6)*	**1,335,461**	(76,125)
2.	**Cash flows from investing activities:**			
	Net cash received from disposal of fixed assets and intangible assets		**16,211**	11,796
	Net cash received from disposal of a subsidiary		**–**	116,170
	Other cash received relating to investing activities		**28,432**	40,829
	Sub-total of cash inflows		**44,643**	168,795
	Cash paid for acquisition of fixed assets and intangible assets		**(192,011)**	(129,735)
	Cash paid for acquisition of available-for-sale financial assets		**(700,000)**	–
	Net cash paid for acquisition of a subsidiary		**(61,525)**	–
	Sub-total of cash outflows		**(953,536)**	(129,735)
Net cash (outflow)/inflow from investing activities			**(908,893)**	39,060

The notes on pages 126 to 194 form part of these financial statements.

Cash Flow Statement (Continued)

For the year ended 31 December 2009
(Prepared in accordance with the PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of renminbi yuan)

Item		Note	2009	2008
3.	**Cash flows from financing activities:**			
	Cash received from borrowings		**–**	741,000
	Sub-total of cash inflows		**–**	741,000
	Cash repayments of borrowings		**–**	(741,000)
	Cash paid for interest		**(4,877)**	(3,594)
	Sub-total of cash outflows		**(4,877)**	(744,594)
Net cash outflow from financing activities			**(4,877)**	(3,594)
4.	**Effect of exchange rate change on cash and cash equivalents**		**–**	–
5.	**Net increase in cash and cash equivalents**	*9(6)*	**421,691**	(40,659)
	Add: Cash and cash equivalents at the beginning of the year		**906,294**	946,953
6.	**Cash and cash equivalents at the end of the year**		**1,327,985**	906,294

These financial statements have been approved by the Board of Directors of the Company on 29 March 2010.

Qian Heng-ge
Legal Representative

Xiao Wei-zhen
General Manager

Li Jian-ping
Chief Financial Officer

Xu Xiu-yun
Supervisor of the Asset and Accounting Department

The notes on pages 126 to 194 form part of these financial statements.

Consolidated Statement of Changes in Shareholders' Equity

For the year ended 31 December 2009
(Prepared in accordance with the PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of renminbi yuan)

Item	2009					2008				
	Share Capital	Capital Reserve	Surplus Reserve	Accumulated losses	Subtotal	Share Capital	Capital Reserve	Surplus Reserve	Accumulated losses	Subtotal
1. As at the end of last year and the beginning of the year	4,000,000	3,107,164	1,456,004	(1,899,776)	6,663,392	4,000,000	3,107,164	1,456,004	(254,491)	8,308,677
2. Changes in equity for the year										
(1) Net profit/(loss)	–	–	–	382,018	382,018	–	–	–	(1,645,285)	(1,645,285)
(2) Other comprehensive income	–	–	–	–	–	–	–	–	–	–
(3) Transfer within equity										
– Make good of losses by surplus reserve	–	–	(1,456,004)	1,456,004	–	–	–	–	–	–
3. As at the end of the year	4,000,000	3,107,164	–	(61,754)	7,045,410	4,000,000	3,107,164	1,456,004	(1,899,776)	6,663,392

These financial statements have been approved by the Board of Directors of the Company on 29 March 2010.

The notes on pages 126 to 194 form part of these financial statements.

Statement of Changes in Shareholders' Equity

For the year ended 31 December 2009
(Prepared in accordance with the PRC Accounting Standards for Business Enterprises (ASBE))
(Expressed in thousands of renminbi yuan)

Item	2009					2008				
	Share Capital	**Capital Reserve**	**Surplus Reserve**	**Accumulated losses**	**Subtotal**	Share Capital	Capital Reserve	Surplus Reserve	Accumulated losses	Subtotal
1. As at the end of last year and the beginning of the year	**4,000,000**	**3,107,164**	**1,456,004**	**(1,899,776)**	**6,663,392**	4,000,000	3,107,164	1,456,004	(412,287)	8,150,881
2. Changes in equity for the year										
(1) Net profit/(loss)	**-**	**-**	**-**	**383,780**	**383,780**	–	–	–	(1,487,489)	(1,487,489)
(2) Other comprehensive income	**-**	**-**	**-**	**-**	**-**	–	–	–	–	–
(3) Transfer within equity										
– Make good of losses by surplus reserve	**-**	**-**	**(1,456,004)**	**1,456,004**	**-**	–	–	–	–	–
3. As at the end of the year	**4,000,000**	**3,107,164**	**-**	**(59,992)**	**7,047,172**	4,000,000	3,107,164	1,456,004	(1,899,776)	6,663,392

These financial statements have been approved by the Board of Directors of the Company on 29 March 2010.

Qian Heng-ge
Legal Representative

Xiao Wei-zhen
General Manager

Li Jian-ping
Chief Financial Officer

Xu Xiu-yun
Supervisor of the Asset and Accounting Department

The notes on pages 126 to 194 form part of these financial statements.

1. COMPANY STATUS

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

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

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(1) Basis of preparation of the financial statements

The financial statements are prepared on a going concern basis.

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

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

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

(3) Accounting year

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

(4) Functional currency

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

(5) Business combination involving entities not under common control

A business combination involving entities not under common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties both before and after the business combination. The cost of a business combination paid by the acquirer is the aggregate of the fair value at the acquisition date of assets given, liabilities incurred or assumed, and equity securities issued by the acquirer, in exchange for control of the acquiree plus any cost directly attributable to the business combination. The difference between the fair value and the carrying amount of the assets given is recognised in profit or loss. The acquisition date is the date on which the acquirer effectively obtains control of the acquire.

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

Any excess of the cost of a business combination over the acquirer's interest in the fair value of the acquiree's identifiable net assets is recognised as goodwill.

Any excess of the acquirer's interest in the fair value of the acquiree's identifiable net assets over the cost of a business combination is recognised in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES
(Continued)

(6) Consolidated financial statements

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

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

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

(7) Cash and cash equivalents

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

(8) Translation of foreign currencies

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(9) Financial instruments

Financial instruments comprise cash at bank and on hand, receivables, available-for-sale financial assets, payables, loans and borrowings, and share capital, etc.

(a) Classification, recognition and measurement of financial assets and financial liabilities

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

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

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

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

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

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

– Receivables

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

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

– Held-to-maturity investments

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

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

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(9) Financial instruments (Continued)

(a) ***Classification, recognition and measurement of financial assets and financial liabilities*** (Continued)

– Available-for-sale financial assets

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

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

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

– Other financial liabilities

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(9) Financial instruments (Continued)

(c) Derecognition of financial assets and financial liabilities

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

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

– carrying amount of the financial asset transferred

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

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

(d) Impairment of financial assets

The carrying amounts of financial assets (other than those at fair value through profit or loss) are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is provided. For the impairment testing method of receivables, please see Note 2(10). And the impairment testing method of other financial assets is as following:

– Available-for-sale financial assets

Available-for-sale financial assets are assessed for impairment on an individual basis.

For available-for-sale financial assets, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss, even though the financial assets have not been derecognised.

If, after an impairment loss has been recognised on available-for-sale debt instruments, there is objective evidence of a recovery in value of the financial asset which can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss. Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss.

(e) Equity instrument

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

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

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(10) Impairment of receivables

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

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

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

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

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

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

Recognition criteria of provision for bad and doubtful debts for individually significant receivables	Impairment loss in respect of individually significant receivables is calculated and provided as the excess of its carrying amount over the present value of the estimated future cash flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate.
Accrual method of provision for bad and doubtful debts of individually significant receivables	Where impairment is assessed on an individual basis, receivables with no impairment losses provided on an individual basis are provided with other receivables by ageing.

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

For individually insignificant receivables, impairment of uncollectible receivables due over 1 year and special receivables is assessed first on an individual basis. Receivables with no impairment losses provided on an individual basis are provided with other receivables (inclusive of receivables on collective as described in (a) above) by ageing.

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES
(Continued)

(11) Inventories

(a) Classification of inventories

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

(b) Measurement of cost of inventories

Cost of inventories is calculated using the weighted average method.

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

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

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

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

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

(d) Inventory count

The Group and the Company maintain a perpetual inventory system.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(12) Long-term equity investments

(a) Determination of initial investment cost

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

The initial investment cost of a long-term equity investment obtained through a business combination involving entities not under common control is the cost of acquisition determined at the acquisition date.

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

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

(b) Subsequent measurement

(i) Investments in subsidiaries

In the Company's financial statements, investments in subsidiaries are accounted for using the cost method. Other than declared but not yet distributed cash dividends or profits distribution that have been included in the price or consideration paid in obtaining the investments, the Group recognises its share of the cash dividends or profit distribution declared by the investee as investment income. The investments are stated at cost less impairment losses in the balance sheet.

In the Group's consolidated financial statements, investments in subsidiaries are accounted for in accordance with the principles described in Note 2(6).

(ii) Investments in jointly controlled entities

A jointly controlled entity is an enterprise which operates under joint control in accordance with a contractual agreement between the Group and the Company and other parties. (See Note 2 (12) (c))

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

The Group and the Company make the following accounting treatments when using the equity method:

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

– After the acquisition of the investment, the Group and the Company recognise its share of the investee's net profits or losses as investment income or losses, and adjust the carrying amount of the investment accordingly. Once the investee declares any cash dividends or profits distributions, the carrying amount of the investment is reduced by that attributable to the Group and the Company.

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(12) Long-term equity investments (Continued)

(b) ***Subsequent measurement*** (Continued)

(ii) Investments in jointly controlled entities (Continued)

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

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

(c) ***Definition of jointly control or significant influence over the investee***

Joint control is the contractual agreed sharing of control over an investee, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing the control. Following matters will be considered when the Group deciding whether jointly control exist over an investee:

– Whether any investor has the power to control operating activities of the investee individually;

– Whether the decisions relating to basic operating activities of the investee require the consent of all investors;

– Whether the right of management needs to be exercised within the framework of financial and operation policy that has been agree by all investors, when all investors authorise one investor to exert management over the daily operation of the investee by contract or agreement.

Significant influence exists when the investor has the power to influence the investee's financial and operating policy decision-making, but not able to control or jointly control, together with other parties, the formulation of these policies. Following matters will be considered when the Group and the Company deciding whether significant influence exist over an investee:

– Whether having representative in the investee's board of directors or similar authority;

– Whether participating in the investee's policy-making process;

– Whether having significant transactions with the investee;

– Whether having representative in the investee's management;

– Whether providing key technique to investee, and etc.

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(12) Long-term equity investments (Continued)

(d) Impairment of long-term equity investments

For impairment method of long-term equity investment in subsidiaries and joint venture, please see Note 2(17).

The carrying amounts of other long-term equity investments are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, other long-term equity investments are assessed for impairment on an individual basis. The amount of the impairment loss is measured as the difference between the carrying amount of the investment and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Once provided, the impairment loss will not be reversed. Other long-term equity investments are stated at cost less impairment loss in the balance sheet.

(13) Fixed assets

(a) Recognition of fixed assets

Fixed assets represent the tangible assets held by the Group and the Company for use in the production of goods, rendering of services or for operation and administrative purposes with useful lives over one accounting year.

The cost of a purchased fixed asset comprises the purchase price, related taxes, and any directly attributable expenditure for bringing the asset to working condition for its intended use. The recognition of initial cost for self-constructed fixed assets is described Note 2(14).

Where parts of an item of fixed asset have different useful lives or provide benefits to the Group and the Company in different patterns thus necessitating use of different depreciation rates, each part is recognised as a separate fixed asset.

The subsequent costs including the cost of replacing part of an item of fixed assets are recognised in the carrying amount of the item if the recognition criteria are satisfied, and the carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of fixed assets are recognised in profit or loss as incurred.

Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses.

(b) Depreciation method of fixed assets

Fixed assets are depreciated using the straight-line method over their estimated useful lives.

The estimated useful lives, residual values and depreciation rates of each class of fixed assets are as follows:

	Estimated useful lives	**Residual values**	**Depreciation rates**
Plants and buildings	25-40 years	3%	2.4%-3.9%
Machinery and equipment	8-22 years	3%	4.4%-12.1%
Motor vehicles and other fixed assets	4-10 years	3%	9.7%-24.3%

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

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(13) Fixed assets (Continued)

(c) Method of impairment assessment and the basis on which the impairment is provided are described in Note 2(17).

(d) ***Disposal of fixed assets***

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

– On disposal; or

– No future economic benefits are expected to be generated from its use or disposal.

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

(14) Construction in progress

The cost of self-constructed fixed assets includes the cost of materials, direct labour, capitalised borrowing costs (see Note 2(15)), and any other costs directly attributable to bringing the asset to working condition for its intended use.

Self-constructed fixed asset is transferred to fixed assets when it is ready for its intended use. Otherwise, it is stated in construction in progress and no depreciation is provided. Construction in progress is stated in the balance sheet at cost less impairment losses (see Note 2(17)).

(15) Borrowing costs

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

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

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

– Where funds are borrowed specifically for the acquisition, construction of a qualifying asset, the amount of interest to be capitalised is the interest expense calculated using effective interest rates during the period less any interest income earned from depositing the borrowed funds or any investment income on the temporary investment of those funds before being used on the asset.

– Where funds are borrowed generally and used for the acquisition, construction of a qualifying asset, the amount of interest to be capitalised on such borrowings is determined by applying a capitalisation rate to the weighted average of the excess amounts of cumulative expenditures on the asset over the above amounts of specific borrowings. The capitalisation rate is the weighted average of the interest rates applicable to the general-purpose borrowings.

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

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(15) Borrowing costs (Continued)

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

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

(16) Intangible assets

Intangible assets are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note 2(17)). For an intangible asset with finite useful life, its cost less residual value and impairment loss is amortised on a straight-line method over its estimated useful life.

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

Item	Amortisation periods
Land use right	44-50 years
Technology right	10 years
Patent right	10 years

An intangible asset is regarded as having an indefinite useful life and is not amortised when there is no foreseeable limit to the period over which the asset is expected to generate economic benefits for the Group and the Company. At the balance sheet date, the Group and the Company don't have any intangible assets with indefinite useful lives.

Expenditures on an internal research and development project are classified into expenditures on the research phase and expenditures on the development phase. Research is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding. Development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products or processes before the start of commercial production or use.

Expenditures on research phase are recognised in profit or loss when incurred. Expenditures on development phase are capitalised if development costs can be measured reliably, the product or process is technically and commercially feasible, and the Group and the Company intend to and have sufficient resources to complete development. Capitalised development costs are stated at cost less impairment losses (see Note 2(17)). Other development expenditures are recognised as expenses in the period in which they are incurred.

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES
(Continued)

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

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

– fixed assets

– construction in progress

– intangible assets

– long-term equity investments in subsidiaries and jointly controlled entities.

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

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

An asset group is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or asset groups. An asset group is composed of assets directly relating to cash-generation. Identification of an asset group is based on whether major cash inflows generated by the asset group are largely independent of the cash inflows from other assets or asset groups In identifying an asset group, the Group and the Company also consider how management monitors the Group's and the Company's operations and how management makes decisions about continuing or disposing of the Group's and the Company's assets.

An asset's fair value less costs to sell is the amount determined by the price of a sale agreement in an arm's length transaction, less the costs that are directly attributable to the disposal of the asset. The present value of expected future cash flows of an asset is determined by discounting the future cash flows, estimated to be derived from continuing use of the asset and from its ultimate disposal, to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the result of the recoverable amount calculating indicates the recoverable amount of an asset is less than its carrying amount, the carrying amount of the assets is reduced to its recoverable amount. That reduction is recognised as an impairment loss and charged to profit and loss for the current period. A provision for impairment loss of the asset is recognised accordingly. For impairment losses related to an asset group or a set of asset groups, first reduce the carrying amount of any goodwill allocated to the asset group or set of asset groups, and then reduce the carrying amount of the other assets in the asset group or set of asset groups on a pro rata basis. However, that the carrying amount of an impaired asset will not be reduced below the highest of its individual fair value less costs to sell (if determinable), the present value of expected future cash flows (if determinable) and zero.

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

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES
(Continued)

(18) Provision

A provision is recognised for an obligation related to a contingency if the Group and the Company have a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Where the effect of time value of money is material, provisions are determined by discounting the expected future cash flows.

(19) Revenue

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

(a) Sale of goods

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

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

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

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

(b) Rendering of services

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

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

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

(c) Interest income

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

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES
(Continued)

(20) Employee benefits

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

(a) Pension benefits

Pursuant to the relevant laws and regulations of the PRC, the Group and the Company have joined a basic pension insurance for the employees arranged by local Labour and Social Security Bureaus. The Group and the Company make contributions to the pension insurance at the applicable rates based on the amounts stipulated by the government organisation. The contributions are recognised as cost of assets or charged to profit or loss on an accrual basis. When employees retire, the local Labour and Social Security Bureaus are responsible for the payment of the basic pension benefits to the retired employees. The Group and the Company do not have any other obligations in this respect.

(b) Housing fund and other social insurance

Besides the pension benefits, pursuant to the relevant laws and regulations of the PRC, the Group and the Company have joined defined social security contributions for employees, such as a housing fund, basic medical insurance, unemployment insurance, injury insurance and maternity insurance. The Group and the Company make contributions to the housing fund and other social insurances mentioned above at the applicable rates based on the employees' salaries. The contributions are recognised as cost of assets or charged to profit or loss on an accrual basis.

(c) Termination benefits

When the Group and the Company terminate the employment relationship with employees before the employment contracts have expired, or provide compensation as an offer to encourage employees to accept voluntary redundancy, a provision for the termination benefits provided, is recognised in profit or loss when both of the following conditions have been satisfied:

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

– The Group and the Company are not allowed to withdraw from termination plan or redundancy offer unilaterally.

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES
(Continued)

(21) Government grants

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

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

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

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

(22) Deferred tax assets and liabilities

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

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

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

The carrying amount of a deferred tax asset is reviewed at each balance sheet date 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.

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

– The taxable entity has a legally enforceable right to set off current tax assets against current tax liabilities, and

– They relate to income taxes levied by the same tax authority on either:

  – The same taxable entity; or

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

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES
(Continued)

(23) Dividends appropriated to investors

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

(24) Related parties

If the Group and the Company have 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, jointly control, or significant influence from another party, they are considered to be related parties. Related parties may be individuals or enterprises. Enterprises with which the Company is under common control only from the State and that have no other related party relationships are not regarded as related parties of the Group and the Company. Related parties of the Group and the Company include, but are not limited to:

(a) The Company's parent;

(b) The Company's subsidiaries;

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

(d) Investors that have joint control or exercise significant influence over the Group;

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

(f) Jointly controlled entities of the Group;

(g) Principal individual investors of the Group and close family members of such individuals;

(h) Key management personnel of the Group and close family members of such individuals;

(i) Key management personnel of the Company's parent;

(j) Close family members of key management personnel of the Company's parent; and

(k) Other enterprises that are controlled, jointly controlled or significantly influenced by principal individual investors, key management personnel of the Group, and close family members of such individuals.

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(24) Related parties (Continued)

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

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

(m) Individuals and close family members of such individuals who directly or indirectly hold 5% or more of the Company's shares and supervisors of the Company and close family members of such individuals;

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

(o) Individuals who satisfy any of the aforesaid conditions in (h), (i) and (m) during the past 12 months or will satisfy them within the next 12 months pursuant to a relevant agreement; and

(p) Enterprises, other than the Company and subsidiaries controlled by the Company, which are controlled directly or indirectly by an individual defined in (h), (i), (m) or (o), or in which such an individual assumes the position of a director or senior executive.

(25) Segment reporting

Reportable segments are identified based on operating segments which are determined based on the structure of the Group's internal organisation, management requirements and internal reporting system. An operating segment is a distinguishable component of the Group and the Company that satisfies all of the following conditions:

– Engaging in business activities from which it may earn revenues and incur expenses;

– Operating results are regularly reviewed by the Group's management to make decisions about resource to be allocated to the segment and assess its performance;

– Financial information regarding financial position, results of operations and cash flows is available.

Two or more operating segments may be aggregated into a single operating segment if the segments have similar economic characteristics:

– The nature of products and services;

– The nature of production processes;

– The type or class of customers for the products and services;

– The methods used to distribute the products or provide the services;

– The nature of the regulatory environment.

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(26) Significant accounting estimates and judgments

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

Notes 5(18) and 8(2) contain information about the assumptions and their risk factors relating to termination benefits and fair value of financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Impairment of receivables

As described in Note 2(10), receivables that are measured at amortisation cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is provided. Objective evidence of impairment includes observable data that comes to the attention of the Group and the Company about loss events such as a significant decline in the estimated future cash flow of an individual debtor or the portfolio of debtors, and significant changes in the financial condition that have an adverse effect on the debtor. If there is an indication that there has been a change in the factors used to determine the provision for impairment, the impairment loss recognised in prior years is reversed.

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

As described in Note 2(17), other assets other than inventories, financial assets and other long-term equity investments are reviewed at each balance sheet date to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, impairment loss is provided.

The recoverable amount of an asset (asset group) is the greater of its net selling price and its present value of expected future cash flows. Since a market price of the asset (the asset group) cannot be obtained reliably, the fair value of the asset cannot be estimated reliably. In assessing present value of expected future cash flows, significant judgements are exercised over the asset (asset group)'s production, selling price, related operating expenses and discounting rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the production, selling price and related operating expenses based on reasonable and supportable assumption.

(c) Depreciation and amortisation

As described in Note 2(13) and (16) fixed assets and intangible assets are depreciated and amortised using the straight-line method over their estimated useful lives after taking into account residual value. The estimated useful lives are regularly reviewed to determine the depreciation and amortisation costs charged in each reporting period. The useful lives are determined based on historical experiences of similar assets and the estimated technical changes. If there is an indication that there has been a change in the factors used to determine the depreciation or amortisation, the amount of depreciation or amortisation is revised.

(d) Provision for diminution in value of inventories

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

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES
(Continued)

(27) Changes in significant accounting policies

In accordance with China Accounting Standards Bulletin No.3 ("Bulletin No.3"), and the Notice on preparing 2009 annual reports of listed companies and non-listed enterprises adopting China Accounting Standards (Caikuai [2009] No.16), which was newly issued by the MOF in 2009, the Group and the Company changed the following accounting policies in the current accounting year:

Description of and reasons for changes in accounting policies	*Note*	**Procedures for approval**	**Items affected in financial report**	**Amount affected**
Changes in presentation of the income statement and statement of changes in shareholders' equity	*(i)*	In accordance with Bulletin No.3, no need to obtain internal approval	Other comprehensive income and total comprehensive income	Not applicable
Changes in segment reporting	*(ii)*	In accordance with Bulletin No.3, no need to obtain internal approval	Not applicable	Not applicable

(i) Changes in presentation of the income statement and statement of changes in shareholders' equity

The Group and the Company added "Other comprehensive income for the year" and "Total comprehensive income for the year" to "Earnings per share" in the income statement. The net effect after income tax of other income and expense items is presented as "Other comprehensive income for the year", if these items are not recognised as part of profit or loss according to China Accounting Standards. "Total comprehensive income for the year" presents the total of "Net profit" and "Other comprehensive income for the year". The Group's consolidated income statement is presented in the same way, and "Total comprehensive income attributable to shareholders of the Company" is presented separately under "Total comprehensive income for the year".

The Group and the Company deleted "Gain/Loss included directly in shareholders' equity" of "Increase/ Decrease during the year"; added "Other comprehensive income for the year" under "Changes in equity for the year" in statement of changes in shareholder's equity to reflect the changes in other comprehensive income during the year.

Following changes of items presented in income statement and statement of changes in shareholders' equity, the Group and the Company also adjusted the presentation of comparative figures for relevant items in the aforesaid statements, described in relevant statements.

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(27) Changes in significant accounting policies (Continued)

(ii) Changes in segment reporting

The Group and the Company's principal activities are production and sale of chemical fiber and chemical fiber raw materials, and the main operation was held in China. Thus, before 1 January 2009, there was no need to disclose reportable segments information by business segments and geographical segments. Since 1 January 2009, in comply with Bulletin No.3, the Group and the Company identifies operating segments based on their judgement of the internal organisational structure, management requirements and internal reporting policy. Reportable segments are then determined based on the operating segments identified. For the aforesaid changes of segment reporting disclosure, the Group and the Company disclosed operating segments information for the first time this year based on reportable segments, and prepared comparative figures on the previous year, for details see note 8(1).

The changes of accounting policies have no effect on items in consolidated income statement and income statement of the current year, and the consolidated balance sheet and balance sheet as at 31 December 2009, compared with items in these financial statements assumed that no change of accounting policy has been made, except for the presentation of comprehensive income items.

3. TAXATION

(1) Major taxes and tax rates

Tax	Tax basis	Tax Rate
Value added tax ("VAT")	VAT payable is calculated at the applicable tax rate on taxable income deducted by input VAT	13% or 17%
Business tax rate	Calculated by taxable income	3% or 5%
Enterprise income tax	Calculated by taxable income	25%
Urban maintenance and construction tax rate	Calculated by actual payment of business tax and VAT payable	7%
Education fee surcharge rate	Calculated by actual payment of business tax and VAT payable	4%
Land use tax	Calculate by the actual area of land occupied	RMB4 per square meter

(2) Enterprise income tax

The State Administration of Taxation issued a tax circular "Enterprise Income Tax Issues relating to Nine Companies Listed Overseas" in June 2007 which requested the relevant local tax authorities to rectify, immediately, the expired concessionary tax policy for the nine listed companies authorised by the State Council to issue shares in Hong Kong in 1993 which, at the time of writing was still being applied. The notice stated that the difference in enterprise income tax ("EIT") arising from the expired preferential rate and the applicable rate should be settled according to the provisions of "Law on the Administration of Tax Collection".

The Company is one of the nine listed companies mentioned above and applied the preferential EIT rate of 15% in prior years. The Company communicated with the relevant tax authorities to assess the situation and was informed that the EIT rate for the Company would be adjusted from the original 15% to 33% from 2007. Up till now, the Company has not been requested to pay additional EIT in respect of any prior year. The directors of the Company consider that the relevant tax authorities are not likely to request additional EIT from the Company. Consequently, no provision has been made in these financial statements in respect of the EIT differences arising from prior years.

The EIT rate applicable to the Company and its subsidiary for the year is 25% (2008: 25%).

The Group and the Company did not carry on business overseas and therefore does not incur overseas income taxes.

4. BUSINESS COMBINATIONS AND THE CONSOLIDATED FINANCIAL STATEMENTS

(1) Status of subsidiary

Subsidiary acquired through combination not under common control

Name	Type of subsidiary	Registration place	Nature	Registered Capital RMB'000	Business scope	Percentage of equity held directly by the Company (%)	Percentage of voting rights held by the company (%)	Within the scope of consolidation	Minority interests at year end	Losses attributable to minority shareholders during the year	The excess amount of the losses attributable to the minority shareholders of a subsidiary compared with the minority shareholders' interest in the equity of the subsidiary
YCFC Jingwei Chemical Fibre Company Limited	Wholly-owned subsidiary	Yizheng, Jiangsu Province	Company Limited	483,672	Manufacturing, processing and sale of differentiated polyester textile filament products	100	100	Yes	None	Not applicable	Not applicable

Yihua UNIFI Fibre Industry Company Limited ("Yihua UNIFI") was established in Yizheng City, Jiangsu Province on 28 July 2005, and is principally engaged in manufacturing, processing and sale of differentiated polyester textile filament products. Before the combination, Yihua UNIFI was the Company's jointly controlled entity, the Company and the other party UNIFI Asia each held 50% of Yihua UNIFI's equity shares. After the acquisition, the Board of Directors of Yihua UNIFI resolved to change the entity's name to YCFC Jingwei Chemical Fibre Company Limited ("YCFC Jingwei"). YCFC Jingwei is then included in the consolidation scope.

(2) Changes in the scope of consolidation

On 18 February 2009, the Company entered into a conditional Equity Interest Transfer Agreement with UNIFI Asia Holding SRL ("UNIFI Asia") to acquire UNIFI Asia's 50% equity interest in Yihua UNIFI at a consideration of USD 9,000,000 (RMB equivalent 61,525,000), subject to Chinese regulatory approval and certain customary closing conditions. The regulatory approval and customary closing conditions were completed on 2 March 2009. The Company acquired the power of control over Yihua UNIFI.

(3) The entity newly included in the consolidation scope during this year

The subsidiary newly included in the consolidation scope during this year

Name	*Note*	Net Assets on 31 December 2009	Net Profits during 2009
		RMB'000	*RMB'000*
YCFC Jingwei	*4(d)*	(127,143)	(201,358)

4. BUSINESS COMBINATIONS AND THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(4) Business combination involving entities not under common control during this year

Name	*Note*	Goodwill	Measurement of Goodwill
YCFC Jingwei (formerly "Yihua UNIFI")	*4(b)*	–	The company acquired UNIFI Asia's 50% equity interest in Yihua UNIF. No significant difference incurred between fair values of net identifiable assets and acquisition cost.

On 18 February 2009 (Acquisition date), the Company acquired UNIFI Asia's 50% equity interest in Yihua UNIFI at a consideration of USD 9,000,000 (RMB equivalent 61,525,000).

YCFC Jingwei's financial information from the date of acquisition to 31 December 2009 is as follows:

Name	Income from acquisition date to 31 December 2009	Net loss from acquisition date to 31 December 2009	Net cash flow from acquisition date to 31 December 2009
	RMB'000	*RMB'000*	*RMB'000*
YCFC Jingwei	662,945	(207,590)	(36,729)

Details of identifiable assets and liabilities of acquired company are as follows:

	Acquisition date		31 December 2008	
	Carrying amount	Fair value	Carrying amount	Fair value
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash at bank and on hand	43,111	43,111	26,603	26,603
Bills receivable	7,387	7,387	–	–
Accounts receivable and other receivables	7,201	7,201	5,139	5,139
Prepayment	20	20	259	259
Inventory	83,623	83,623	53,696	53,696
Fixed assets and construction in progress	288,815	331,416	294,931	337,532
Total identifiable assets	430,157	472,758	380,628	423,229
Short-term loan	549	549	334	334
Bills payable	175,852	175,852	170,852	170,852
Accounts payable and other payables	163,321	163,321	122,036	122,036
Advances from customers	5,525	5,525	7,778	7,778
Employee benefits payable	2,325	2,325	477	477
Tax payable	(565)	(565)	2,234	2,234
Non-current liabilities due in 1 year	2,701	2,701	2,701	2,701
Total identifiable liabilities	349,708	349,708	306,412	306,412
Total net identifiable assets	80,449	123,050	74,216	116,817

4. BUSINESS COMBINATIONS AND THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(4) Business combination involving entities not under common control during this year (Continued)

If there is an active market for the aforesaid identifiable assets, the quoted price in the active market is used to establish the fair value of the identifiable assets. If no active market exists for the identifiable assets mentioned above but there is an active market for similar assets, the quoted price in the active market is used to establish the fair value of the identifiable assets. If no active market exists for neither, a valuation technique is used to establish the fair value.

The amount payable or its present value is used to establish the fair value of the aforesaid identifiable liabilities.

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Cash at bank and on hand

Item	2009 Foreign Currency RMB'000	2009 Exchange Rate	2009 RMB equivalents RMB'000	2008 Foreign Currency RMB'000	2008 Exchange Rate	2008 RMB equivalents RMB'000
Cash on hand:						
Renminbi			**90**			21
Cash at bank:						
Renminbi			**871,655**			1,055,385
US Dollars	**6,244**	**6.828**	**42,634**	251	6.835	1,716
Deposits with related companies:						
Renminbi			**419,988**			146,633
Total			**1,334,367**			1,203,755

As at 31 December 2009, no deposits of the Group were pledged (31 December 2008: RMB297,461,000).

The deposits with related companies represent deposits with China CITIC Bank and Sinopec Finance Company Limited ("Sinopec Finance"). Deposit interest is calculated at market rate.

(2) Bills receivable

(a) Bills receivable by category

Category	2009 RMB'000	2008 RMB'000
Bank acceptance bills	**1,000,787**	1,179,716
Commercial acceptance bills	**–**	110,852
Total	**1,000,787**	1,290,568

All of the above bills are due within six months.

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(2) Bills receivable (Continued)

(a) *Bills receivable by category* (Continued)

At 31 December 2009, the Group's outstanding discounted bank acceptance bills (with recourse) amounted to RMB144,579,000 (31 December 2008: RMB18,738,000). The Group's outstanding endorsed bank acceptance bills (with recourse) amounted to RMB329,656,000 (31 December 2008: RMB283,280,000). These discounted or endorsed bills are due by 30 June 2010 (31 December 2008: due by 30 June 2009).

As at 31 December 2009 and 31 December 2008, the above bills were not pledged.

Included in the above balances, there were no bills receivable due from shareholders who hold 5% or more of the voting shares of the Company.

(b) ***As at 31 December 2009, the top five items of bills receivable with largest amounts that have been endorsed but still undue are as follows:***

	Issuer	Date of issuance	Due date	Amount	Note
				RMB'000	
1.	Tianjin Dingjin Co., Ltd.	13/11/2009	13/02/2010	11,309	Bank acceptance bills
2.	Yihua Nanfang Trading Co. Ltd.	16/10/2009	16/01/2010	10,000	Bank acceptance bills
3.	Tingyi (Hangzhou) Beverages Co., Ltd.	16/11/2009	16/02/2010	9,023	Bank acceptance bills
4.	Shanghai Zijiang Group Co., Ltd.	26/11/2009	26/02/2010	8,887	Bank acceptance bills
5.	Tianjin Shifa Zijiang Packing Co., Ltd.	13/11/2009	13/02/2010	8,256	Bank acceptance bills
	Total			47,475	

(3) Accounts receivable

(a) *Accounts receivable by category*

	2009				2008			
	Carrying amount		Provision		Carrying amount		Provision	
Category	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
	RMB'000	*(%)*	*RMB'000*	*(%)*	*RMB'000*	*(%)*	*RMB'000*	*(%)*
Individually and collectively insignificant accounts receivable	123,022	100	–	–	191,213	100	835	100

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) Accounts receivable (Continued)

(b) Accounts receivable by currency

	2009 Foreign currency RMB'000	2009 Exchange rate	2009 RMB equivalent RMB'000	2008 Foreign currency RMB'000	2008 Exchange rate	2008 RMB equivalent RMB'000
RMB			**38,164**			139,547
USD	**12,428**	**6.828**	**84,858**	7,559	6.835	51,666
Total			**123,022**			191,213

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

(c) Ageing analysis of accounts receivable

	2009 Carrying amount Amount RMB'000	2009 Carrying amount Percentage (%)	2009 Provision	2008 Carrying amount Amount RMB'000	2008 Carrying amount Percentage (%)	2008 Provision
Within 1 year (inclusive)	**123,022**	**100**	**–**	189,772	99.25	–
1 and 2 years (inclusive)	**–**	**–**	**–**	97	0.05	–
2 and 3 years (inclusive)	**–**	**–**	**–**	1,344	0.70	835
Total	**123,022**		**–**	191,213		835

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

During the year ended 31 December 2009, the Group had no individually significant accounts receivable fully or substantially provided for.

The Group had no individually significant recovery of bad debts which were fully or substantially provided for in prior years.

As at 31 December 2009, the Group had no individually significant accounts receivable due over 3 years.

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) Accounts receivable (Continued)

(d) ***The actual write-off of accounts receivable during the year***

Name	Nature	Amount	Reason	Generated by related parties' transactions
		RMB'000		
Xingguang lighting Co., Ltd.	Generated by sales of goods	288	Ageing is over three years and not expected to recover	No

(e) As at 31 December 2009, accounts receivable due from five biggest debtors of the Group are as follows:

	Name	Relationship	Amount	Ageing	Percentage of total accounts receivable
			RMB'000		*(%)*
1.	Daewoo International Corp.	Third Party	28,390	within 6 months	23.08
2.	LG International Corp.	Third Party	27,087	within 6 months	22.02
3.	Yangzhou Thermal Power Co., Ltd.	Third Party	15,182	within 6 months	12.34
4.	Tianjin Dingjin Co., Ltd.	Third Party	10,923	within 6 months	8.88
5.	Vinmar International Ltd.	Third Party	8,153	within 6 months	6.62
	Total		89,735		72.94

(f) ***Accounts receivable to related parties***

Name	Relationship	Amount	Percentage
		RMB'000	*(%)*
Yihua Group	With a common ultimate holding company	3,408	2.77

(4) Other receivables

(a) ***Other receivables by category***

Category	2009 Carrying amount Amount	2009 Carrying amount Percentage	2009 Provision Amount	2009 Provision Percentage	2008 Carrying amount Amount	2008 Carrying amount Percentage	2008 Provision Amount	2008 Provision Percentage
	RMB'000	*(%)*	*RMB'000*	*(%)*	*RMB'000*	*(%)*	*RMB'000*	*(%)*
Individually and collectively insignificant other receivables	**37,576**	**100**	**1,352**	**100**	110,761	100	2,822	100

No amount due from shareholders who hold 5% or more of the voting rights of the Company is included in the above balance of other receivables.

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(4) Other receivables (Continued)

(b) Ageing analysis of other receivables

Ageing	2009 Carrying amount Amount RMB'000	2009 Carrying amount Percentage (%)	2009 Provision	2008 Carrying amount Amount RMB'000	2008 Carrying amount Percentage (%)	2008 Provision
Within 1 year (inclusive)	**35,588**	**94.71**	**–**	103,139	93.12	–
1 and 2 years (inclusive)	**54**	**0.14**	**22**	3,159	2.85	603
2 and 3 years (inclusive)	**1,496**	**3.98**	**898**	2,447	2.21	935
over 3 years	**438**	**1.17**	**432**	2,016	1.82	1,284
Total	**37,576**		**1,352**	110,761		2,822

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

During the year ended 31 December 2009, the Group had no individually significant other receivables fully or substantially provided for.

The Group had no individually significant recovery of bad debts which were fully or substantially provided for in prior years.

As at 31 December 2009, the Group had no individually significant other receivables due over 3 years.

(c) As at 31 December 2009, other receivables due from five biggest debtors of the Group are as follows:

	Name	Relationship	Amount RMB'000	Ageing	Percentage (%)
1.	Sinopec Nanhua Chemical Machinery Factory	With a common ultimate holding company	10,215	6 months to 1 year	27.19
2.	Tianhua Chemical Machinery and Automation Research and Design Institute	Third party	7,196	6 months to 1 year	19.15
3.	Hangzhou Boiler Group Co., Ltd.	Third party	2,659	6 months to 1 year	7.08
4.	Beijing Yijing Business Hotel Management Co., Ltd.	Third party	932	within 1 year	2.48
5.	Sinopec Foreign Affairs Division	With a common ultimate holding company	317	Within 6 months	0.84
	Total		21,319		56.74

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(4) Other receivables (Continued)

(d) ***Other receivables due from related parties***

Name	Relationship	Amount *RMB'000*	Percentage *(%)*
Sinopec Nanhua Chemical Machinery Factory	With a common ultimate holding company	10,215	27.19
Sinopec Foreign Affairs Division	With a common ultimate holding company	317	0.84
Total		10,532	28.03

(5) Prepayment

(a) Prepayments by category:

Item	2009 *RMB'000*	2008 *RMB'000*
Prepayments to related parties	**710**	19,640
Prepayments to third parties	**2,024**	4,170
Subtotal	**2,734**	23,810
Less: Provision for bad and doubtful debts	**–**	162
Total	**2,734**	23,648

No amount prepaid to shareholders who hold 5% or more of the voting rights of the Company is included in the above balance of prepayments.

(b) Prepayments by ageing:

Ageing	2009 Amount *RMB'000*	 Percentage *(%)*	2008 Amount *RMB'000*	 Percentage *(%)*
Within 1 year (inclusive)	**2,734**	**100**	23,480	98.61
1 and 2 years (inclusive)	**–**	**–**	300	1.26
2 and 3 years (inclusive)	**–**	**–**	–	–
Within 1 year (inclusive)	**–**	**–**	30	0.13
Total	**2,734**		23,810	

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

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Prepayment (Continued)

(c) As at 31 December 2009, prepayments due from five biggest debtors of the Group are as follows:

	Name	Relationship	Amount RMB'000	Percentage (%)	Ageing	Note
1.	Shanghai Juyou Chemical Co., Ltd.	Third party	860	31.45	Within 3 months	Prepayment of spare parts
2.	Handan Hongda Chemical Fiber Machinery Co., Ltd.	Third party	810	29.63	Within 3 months	Prepayment of spare parts
3.	Sinopec Chemical Products Sales Company North China Branch	With a common holding company	710	25.97	Within 3 months	Prepayment of raw materials
4.	Nanjing China Railway Express Company	Third party	318	11.63	Within 1 year	Prepayment of freight
5.	Others	Third party	36	1.32	Within 3 months	Miscellaneous prepayment
	Total		2,734	100		

(6) Inventories

(a) Inventories by category

Item	2009 Cost RMB'000	2009 Provision RMB'000	2009 Carrying amount RMB'000	2008 Cost RMB'000	2008 Provision RMB'000	2008 Carrying amount RMB'000
Raw materials	**800,940**	**1,895**	**799,045**	490,795	2,991	487,804
Work in progress	**95,970**	**581**	**95,389**	53,048	–	53,048
Finished goods	**307,190**	**8,495**	**298,695**	215,224	35,402	179,822
Spare parts and consumables	**141,661**	**26,771**	**114,890**	128,629	17,850	110,779
Total	**1,345,761**	**37,742**	**1,308,019**	887,696	56,243	831,453

All the above inventories are purchased or self-manufactured.

As at 31 December 2009 and 31 December 2008, no borrowing costs of the Group were capitalised in the closing balance of inventories.

As at 31 December 2009 and 31 December 2008, the above inventories were not pledged or guaranteed.

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(6) Inventories (Continued)

(b) An analysis of provision for diminution in value of inventories is as follows:

Inventory category	Balance at the beginning of the year	Increase during the year	Decrease during the year		Balance at the end of the year
			Reversal	Sold	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	2,991	1,895	–	2,991	1,895
Work in progress	–	581	–	–	581
Finished goods	35,402	8,495	–	35,402	8,495
Spare parts and consumables	17,850	8,921	–	–	26,771
Total	56,243	19,892	–	38,393	37,742

(7) Other current assets

Item	2009	2008
	RMB'000	*RMB'000*
Prepaid VAT	**239,203**	191,698
Prepaid urban maintenance and construction tax	**3,547**	3,547
Total	**242,750**	195,245

(8) Available-for-sale financial assets

Item	2009	2008
	RMB'000	*RMB'000*
Other investments	**700,000**	–

Available-for-sale financial assets held by the Group on 31 December, 2009 are other investments with investment targets of treasury bonds, central bank bills, and financial bonds and so on, and sponsored by banks without fixed rates. The market price provided by banks at balance sheet date is used to establish the fair value.

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(9) Long-term equity investments

Long-term equity investments by category:

Item	**2009** ***RMB'000***	2008 *RMB'000*
Investment in jointly controlled entity	**–**	25,803
Less: Provision	**–**	–
Total	**–**	25,803

As details disclosed in Note 4(2), the Company acquired 50% share of YCFC Jingwei from UNIFI Asia during this year. As a result, the Company's equity interest in YCFC Jingwei increased from 50% to 100%. YCFC Jingwei was changed from a jointly controlled entity of the Company to a wholly owned subsidiary.

For detailed information about YCFC Jingwei, please refer Note 4.

The Group had no unrecognised investment losses for the year and for the prior years.

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(10) Fixed Assets

(a) Fixed assets movement

	Balance at the beginning of the year	Additions through acquisition of subsidiary	Increase during the year	Decrease during the year	Balance at the end of the year
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Original cost	12,361,241	551,790	196,197	213,730	12,895,498
Plant and buildings	1,945,519	153,789	22,473	11,340	2,110,441
Machinery and equipment	9,681,917	384,887	161,013	173,465	10,054,352
Motor vehicle, and other fixed assets	733,805	13,114	12,711	28,925	730,705
Accumulated depreciation	8,041,102	111,038	514,213	121,465	8,544,888
Plant and buildings	891,156	17,309	70,218	2,172	976,511
Machinery and equipment	6,580,905	86,314	406,705	91,869	6,982,055
Motor vehicle, and other fixed assets	569,041	7,415	37,290	27,424	586,322
Net carrying amount	4,320,139				4,350,610
Plant and buildings	1,054,363				1,133,930
Machinery and equipment	3,101,012				3,072,297
Motor vehicle, and other fixed assets	164,764				144,383
Provision for impairment	449,430	132,335	140,953	67,936	654,782
Plant and buildings	740	6,543	786	78	7,991
Machinery and equipment	443,584	124,237	138,104	67,690	638,235
Motor vehicle, and other fixed assets	5,106	1,555	2,063	168	8,556
Carrying amount	3,870,709				3,695,828
Plant and buildings	1,053,623				1,125,939
Machinery and equipment	2,657,428				2,434,062
Motor vehicle, and other fixed assets	159,658				135,827

The depreciation charge of the Group is RMB514,213,000 during the year.

The amount of fixed assets transferred from construction in progress during the year was RMB190,090,000.

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(10) Fixed Assets (Continued)

(a) ***Fixed assets movement*** (Continued)

In response to the current market environment for filament products, the Group assessed the recoverable amount of its fixed assets in relation to its filament production facilities as at 31 December 2009 and recognised impairment losses in respect of the filament production facilities amounting to RMB130,164,000. The estimate of the recoverable amount was based on these facilities' value in use. In assessing value in use, the discount rate used to calculate the present value of estimated future cash flows is 8% (2008: 10%).

As at 31 December 2009 and 31 December 2008, the above fixed assets were not pledged or guaranteed.

As at 31 December 2009 and 31 December 2008, there were no significant fixed assets to be disposed of.

(b) ***Temporarily idle fixed assets***

Item	Original cost	Accumulated depreciation	Provision for impairment	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Plant and buildings	382	(239)	–	143
Machinery and equipment	87,378	(54,505)	(14,947)	17,926
Motor vehicle, and other fixed assets	9,208	(7,630)	–	1,578
Total	96,968	(62,374)	(14,947)	19,647

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(11) Construction in progress

(a) Construction in progress

Item	2009 Original cost RMB'000	2009 Provision for impairment RMB'000	2009 Carrying amount RMB'000	2008 Original cost RMB'000	2008 Provision for impairment RMB'000	2008 Carrying amount RMB'000
100 tonne/year aramid fiber project	**62,506**	**–**	**62,506**	54,000	–	54,000
300 tonne/year high performance polyethylene project	**–**	**–**	**–**	80,000	–	80,000
Thermoelectricity manufacturing center desulfurize project-II	**80,000**	**–**	**80,000**	30,000	–	30,000
Natural gas improvement project	**38,000**	**–**	**38,000**	30,000	–	30,000
Improvements of existing plants and equipment	**145,306**	**–**	**145,306**	78,012	–	78,012
Total	**325,812**	**–**	**325,812**	272,012	–	272,012

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(11) Construction in progress (Continued)

(b) Movement of significant construction in progress

	Budget	Balance at the beginning of the year	Addition	Transfer to fixed assets	Percentage of input to budget	Progress	Sources of funds	Balance at the end of the year
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*(%)*	*(%)*	*RMB'000*	*RMB'000*
100 tonne/year aramid fiber project	62,506	54,000	8,506	–	100	100	Own fund	62,506
300 tonne/year high performance polyethylene project	101,650	80,000	5,357	(85,357)	84	100	Own fund	–
Thermoelectricity manufacturing center desulfurize project-II	115,285	30,000	50,000	–	69	100	Own fund	80,000
Natural gas improvement project	45,366	30,000	8,000	–	84	100	Own fund	38,000
Improvements of existing plants and equipment	295,742	78,012	172,027	(104,733)	49	–	Own fund	145,306
Total	620,549	272,012	243,890	(190,090)				325,812

As at 31 December 2009 and 31 December 2008, no borrowing costs of the Group were capitalised in the closing balance of construction in progress.

(c) Project progress of significant construction in progress

Item	Project progress	Note
100 tonne/year aramid fiber project	100%	Equipment testing phase, not ready for intended use
300 tonne/year high performance polyethylene project	100%	Has been transferred to fixed assets
Thermoelectricity manufacturing center desulfurize project-II	100%	Equipment testing phase, not ready for intended use
Natural gas improvement project	100%	Equipment testing phase, not ready for intended use

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(12) Intangible assets

Item	Balance at the beginning of the year *RMB'000*	Increase during the year *RMB'000*	Decrease during the year *RMB'000*	Balance at the end of the year *RMB'000*
Original cost	757,451	–	–	757,451
Land use right	406,123	–	–	406,123
Technology right	208,893	–	–	208,893
Patent right	142,435	–	–	142,435
Accumulated amortisation	351,677	29,504	–	381,181
Land use right	100,456	8,481	–	108,937
Technology right	112,713	20,889	–	133,602
Patent right	138,508	134	–	138,642
Net carrying amount	405,774			376,270
Land use right	305,667			297,186
Technology right	96,180			75,291
Patent right	3,927			3,793
Provision for impairment	–	–	–	–
Land use right	–	–	–	–
Technology right	–	–	–	–
Patent right	–	–	–	–
Carrying Amount	405,774			376,270
Land use right	305,667			297,186
Technology right	96,180			75,291
Patent right	3,927			3,793

The amortisation charge of the Group is RMB29,504,000 during the year.

As at 31 December 2009 and 31 December 2008, no borrowing costs of the Group were capitalised in the carrying amounts of intangible assets at the end of the year.

As at 31 December 2009 and 31 December 2008, the above intangible assets were not pledged or guaranteed.

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(13) Deferred tax assets and liabilities

(a) Unrecognised deferred assets

	2009 ***RMB'000***	2008 *RMB'000*
Deductible temporary differences	**899,762**	626,526
Cumulative unutilised tax losses	**1,036,905**	1,321,531
Total	**1,936,667**	1,948,057

(b) Under current tax legislation, the aforesaid unutilised tax losses will be expired in the following years:

Years	**2009** ***RMB'000***	2008 *RMB'000*
2009		–
2010	**22,962**	435,121
2011	**72,947**	–
2012	**49,012**	–
2013	**831,975**	886,410
2014	**60,009**	
Total	**1,036,905**	1,321,531

(14) Provisions for impairment

Item	*Note*	**Balance at the beginning of the year** *RMB'000*	**Increase during the year** *RMB'000*	**Decrease during the year** **Reversal** *RMB'000*	**Sold** *RMB'000*	**Write-off** *RMB'000*	**Balance at the end of the year** *RMB'000*
Provisions for bad and doubtful debts	*5 (3), (4), (5)*	3,819	3,370	5,519	–	318	1,352
Provisions for diminution in value of inventories	*5 (6)*	56,243	19,892	–	38,393	–	37,742
Provisions for impairment of fixed assets	*5 (10)*	449,430	273,288	–	65,847	2,089	654,782
Total		509,492	296,550	5,519	104,240	2,407	693,876

For the details of impairment losses of different assets, please refer to corresponding notes.

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(15) Bills payable

Category	2009 RMB'000	2008 RMB'000
Bank acceptance bills	240,000	115,000

The above bills are due within one year.

No amount due to shareholders who hold 5% or more of the voting rights of the Company is included in the above balance of bills payable.

(16) Accounts payable

Accounts payable by category:

Item	2009 RMB'000	2008 RMB'000
Amounts due to related parties	895,742	443,106
Amounts due to third parties	285,974	560,912
Total	1,181,716	1,004,018

Accounts payable by currency

	2009			2008		
	Foreign currency RMB'000	Exchange rate	RMB equivalent RMB'000	Foreign currency RMB'000	Exchange rate	RMB equivalent RMB'000
RMB			382,943			605,640
USD	116,985	6.828	798,773	58,285	6.835	398,378
Total			1,181,716			1,004,018

As at 31 December 2009, there were no individually significant balances aged over one year included in the Group's accounts payable.

No amount due to shareholders who hold 5% or more of the voting rights of the Company is included in the balances of accounts payable.

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(17) Advances from customers

Advances from customers by category

Item	2009 RMB'000	2008 RMB'000
Amounts due to related parties	**19,983**	6,679
Amounts due to third parties	**238,932**	237,758
Total	**258,915**	244,437

As at 31 December 2009, there were no individually significant balances aged over one year included in the Group's advances from customers.

No amount due to shareholders who hold 5% or more of the voting rights of the Company is included in the balances of advances from customers.

(18) Employee benefits payable

Item	Balance at the beginning of the year RMB'000	Additions through acquisition of subsidiary RMB'000	Accrued during the year RMB'000	Paid during the year RMB'000	Balance at the end of the year RMB'000
Salaries, bonuses and allowances	57,733	1,826	442,407	444,054	57,912
Staff welfare fees	114	–	19,536	19,650	–
Social insurances					
– Basic pension insurance premium	–	–	30,505	30,505	–
– Basic medical insurance premium	–	1	72,589	72,590	–
– Unemployment insurance premium	–	–	7,154	7,154	–
– Work injury insurance premium	440	–	2,037	2,477	–
– Supplementary pension insurance premium	–	–	21,418	7,988	13,430
– Supplementary medical insurance premium	–	–	10,188	10,188	–
Housing fund	1,715	–	45,929	47,644	–
Termination benefits (including internal retirement fees)	–	–	1,909	1,909	–
Others	1,343	498	76,699	77,760	780
Total	61,345	2,325	730,371	721,919	72,122

At 31 December 2009, "others" mentioned above includes labour union fees, and staff and workers' education fee, with an amount of RMB780,000.

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(18) Employee benefits payable (Continued)

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

Administrator	Beneficiary	Contribution rate 2009	2008
Yizheng Municipal Government, Jiangsu Province	Employees of the Company	**20%**	20%

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

In addition to the above, pursuant to a document "Lao Bu Fa [1995] No. 464" dated 29 December 1995 issued by the Ministry of Labour of the PRC, the Group and the Company have set up a supplementary defined contribution retirement scheme for its employees. Assets of the scheme are held separately from those of the Group and the Company in an independent fund administered by representatives from the Group and the Company. The scheme is funded by contributions from the Group and the Company which are calculated at a rate based on the basic salaries of its employees. The contribution rate for 2009 was 5% (2008: 9%).

The Group and the Company contribute at the above rate based on the basic salaries, bonuses and allowances. The Group and the Company have no other material obligation for the payment of retirement benefits associated with this scheme beyond the annual contributions described above.

During the year ended 31 December 2009, in accordance with the Group's employee reduction plans, the Group incurred RMB1,909,000 (2008: RMB9,082,000) on the reduction of 33 (2008: 108) employees, which were mainly included in "General and administrative expenses".

During the year ended 31 December 2009, in accordance with the Company's employee reduction plans, the Company incurred RMB1,824,000 (2008: RMB9,082,000) on the reduction of 28 (2008: 108) employees, which were mainly included in "General and administrative expenses".

(19) Tax payable

Item	2009 *RMB'000*	2008 *RMB'000*
Business tax	**65**	91
Individual income tax	**6,464**	6,224
Property tax	**2,721**	2,689
Education fee surcharge	**3,982**	4,192
Land use tax	**4,299**	4,618
Others	**142**	165
Total	**17,673**	17,979

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(20) Other payables

Other payables by category:

Item	2009 RMB'000	2008 RMB'000
Amount due to related parties	26,722	13,925
Amount due to third parties	276,801	276,990
Total	303,523	290,915

As at 31 December 2009, there were no individually significant balances aged over one year included in the Group's other payables.

No amount due to shareholders who hold 5% or more of the voting rights of the Company is included in the balances of other payables.

(21) Provisions

Item	Balance at the beginning of the year RMB'000	Increase during the year RMB'000	Decrease during the year RMB'000	Balance at the end of the year RMB'000
Compensation payable on breach of contracts	5,198	–	–	5,198

(22) Deferred income

Item	Balance at the beginning of the year RMB'000	Increase during the year RMB'000	Decrease during the year RMB'000	Balance at the end of the year RMB'000
Government grants	15,000	7,000	744	21,256

Deferred income mentioned above is government grants received mainly for the 300 tonne/year high performance polyethylene project and improvements project-II of stove desulphurization of thermoelectricity centre. The grant was recognised initially as deferred income and will be amortised to profit or loss on a straight-line basis over the useful life of the related assets when they are ready for intended use. As the 300 tonne/year high performance polyethylene project and improvements project-I of stove desulphurization of thermoelectricity centre are ready for its intended use in this year, the related government grant was amortised to profit or loss on a straight-line basis over its useful life.

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(23) Share capital

	Balance at the beginning of the year	Increase/Decrease for the year					Balance at the end of the year
		New issue	Stock dividend	Equity Fund	Others	Subtotal	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2,400,000,000 "Domestic non-public legal person A" shares	2,400,000	–	–	–	–	–	2,400,000
200,000,000 "Social public A" shares	200,000	–	–	–	–	–	200,000
1,400,000,000 "H" shares	1,400,000	–	–	–	–	–	1,400,000
Total	4,000,000	–	–	–	–	–	4,000,000

KPMG Huazhen has verified the above paid-in capital. The capital verification reports were issued on 20 July 1994, 28 March 1995 and 15 May 1995 respectively.

(24) Capital reserve

Item	Balance at the beginning of the year	Increase during the year	Decrease during the year	Balance at the end of the year
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Share premium	3,078,825	–	–	3,078,825
Other capital reserve	28,339	–	–	28,339
Including: Other comprehensive income	–	–	–	–
Total	3,107,164	–	–	3,107,164

(25) Surplus reserve

Item	Balance at the beginning of the year	Increase during the year	Decrease during the year	Balance at the end of the year
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Statutory surplus reserve	861,457	–	861,457	–
Discretionary surplus reserve	594,547	–	594,547	–
Total	1,456,004	–	1,456,004	–

Pursuant to the resolution by the shareholders on 5 June 2009, the Group used the statutory surplus reserve and discretionary surplus reserve amounting to RMB1,456,004,000 to make good of previous years' losses.

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(26) Accumulated losses

Item	Amount
	RMB'000
Accumulated losses at the beginning of the year	(1,899,776)
Add: Profit attribute to parent company's shareholders	382,018
Make good of losses by surplus reserve	1,456,004
Accumulated losses at the end of the year	(61,754)

(27) Operating income and operating cost

(a) Operating income and operating cost

Item	2009	2008
	RMB'000	RMB'000
Operating income from principal activities	13,100,819	15,104,015
Other operating income	124,210	120,509
Operating cost	11,801,291	15,294,088

(b) Operating income and operating cost by industries

Industry	2009		2008	
	Operating income	Operating cost	Operating income	Operating cost
	RMB'000	(%)	RMB'000	(%)
Chemical fibre	13,225,029	11,801,291	15,224,524	15,294,088

(c) Operating income and operating cost by products

Product	2009		2008	
	Operating income	Operating cost	Operating income	Operating cost
	RMB'000	(%)	RMB'000	(%)
Polyester chips	4,490,477	3,921,293	5,167,868	5,193,277
Bottle-grade polyester chips	2,900,094	2,684,008	3,433,176	3,368,263
Staple fibre and hollow fibre	4,057,953	3,493,058	4,673,972	4,612,804
Filament	1,499,963	1,444,609	1,625,125	1,778,391
Purified terephthalic acid ("PTA")	–	–	33,767	33,649
Others	276,542	258,323	290,616	307,704
Total	13,225,029	11,801,291	15,224,524	15,294,088

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(27) Operating income and operating cost (Continued)

(d) Operating income and operating cost by regions

Region's name	2009 Operating income RMB'000	2009 Operating cost (%)	2008 Operating income RMB'000	2008 Operating cost (%)
Mainland	**12,479,555**	**11,100,363**	14,102,622	14,201,171
Hong Kong, Macau, Taiwan, and overseas	**745,474**	**700,928**	1,121,902	1,092,917
Total	**13,225,029**	**11,801,291**	15,224,524	15,294,088

(e) Revenue from the top five customers for 2009 is set out as follows:

	Name	Operating income RMB'000	Percentage of total operating income (%)
1.	Zhangjiagang Long Jie Special Chemical Fiber Co., Ltd.	422,769	3.2
2.	Suqian Painted Packing Co., Ltd.	288,450	2.2
3.	Jiangsu Yong Yin Chemical Fiber Co., Ltd.	219,883	1.7
4.	Wuhan Chengfang Technology & Trade Co., Ltd.	209,744	1.6
5.	Qingdao Kang Qi Chemical Fiber Co., Ltd.	206,597	1.5
	Total	1,347,443	10.2

(28) Business taxes and surcharges

Item	2009 RMB'000	2008 RMB'000	Taxation basis and rates
Business tax	**346**	227	3% or 5% of taxable income
Urban maintenance and construction tax	**19,878**	23,380	7% of VAT and business tax paid
Education fee surcharge	**11,426**	5,748	4% of VAT and business tax paid
Total	**31,650**	29,355	

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(29) Net financial income

Item	2009 RMB'000	2008 RMB'000
Interest expenses from loans and bills discounting	**8,656**	3,594
Interest income from deposits and receivables	**(21,896)**	(26,123)
Net exchange gains	**(5,876)**	(25,606)
Other financial expenses	**2,262**	2,189
Total	**(16,854)**	(45,946)

(30) Investment income

(a) *Investment losses by category*

Item	Note	2009 RMB'000	2008 RMB'000
Long-term equity investments accounted under the equity method	(b)	**–**	(130,381)

(b) Among long-term equity investments income using the equity method, the investments accounted for more than 5% of total investment income, or less than 5% but the amount of investment income of top five are as follows:

Name	2009 RMB'000	2008 RMB'000	Reasons for increase/decrease
YCFC Jingwei	**–**	(130,381)	The Group acquired the other 50% equity of the jointly-controlled company during the year, which made it to be a subsidiary and within the scope of consolidation.

There is no severe restriction on the subsidiary's ability to transfer investment income to the Group.

(31) Impairment loss

Item	2009 RMB'000	2008 RMB'000
Reversal of bad and doubtful debts of accounts receivable, prepayments and other receivables	**(2,149)**	(3,555)
Provisions for diminution in value of inventories	**19,892**	38,393
Provisions for fixed assets impairment	**140,953**	441,087
Total	**158,696**	475,925

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(32) Non-operating income

(a) Non-operating income by category:

Item	*Note*	**2009**	2008
		RMB'000	*RMB'000*
Gains on disposal of non-current assets		**9,747**	3,136
Including: Gains on disposal of fixed assets		**9,747**	2,888
Gains on disposal of intangible assets		**–**	248
Government grants	*(b)*	**10,866**	1,850
Others		**3,675**	3,179
Total		**24,288**	8,165

(b) Details of government grants

Item	**2009**	2008	**Description**
	RMB'000	*RMB'000*	
Return of urban maintenance and construction tax	**9,622**	–	Return of urban maintenance and construction tax by Yizheng local taxation bureau
Allowance for high performance polyethylene project	**661**	–	Amortisation of Hi-tech achievement transformation project of Jiangsu Science and Technology Department
Allowance for project of stove desulphurization	**83**	–	Amortisation of specific project of Yizheng Finance Bureau
Allowance for aramid fiber project	**–**	1,000	Financial allowance received for aramid fiber project
Prize for Energy-saving emission reduction	**500**	300	Special funds received on energy-saving
Others	**–**	550	Allowance received for closing up small terminals
Total	**10,866**	1,850	

(33) Non-operating expenses

Item	**2009**	2008
	RMB'000	*RMB'000*
Losses on disposal of non-current assets	**1,702**	897
Including: Losses on disposal of fixed assets	**1,702**	897
Loss on breach of contracts	**–**	34,065
Government administrative fees and charges	**–**	17,598
Others	**2,545**	2,383
Total	**4,247**	54,943

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(34) Income tax expenses

Item	Note	2009 RMB'000	2008 RMB'000
Current tax expenses for the year		–	–
Deferred tax	(a)	–	90,989
Over-provision of income tax in respect of prior years		–	(296)
Total		–	90,693

(a) Deferred tax

	2009 RMB'000	2008 RMB'000
Write-off of deferred tax assets in respect of prior years	–	90,989

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

	2009 RMB'000	2008 RMB'000
Profit/(loss) before income tax	382,018	(1,554,592)
Expected income tax calculated by 25%	95,505	(388,648)
Add: Write-off of deferred tax assets in respect of prior years	–	90,989
Tax effect of deductible temporary differences not recognised	29,744	120,751
Tax effect of unused tax losses not recognised	(126,427)	234,832
Tax effect of non-deductible expenses	1,178	33,065
Less: Over-provision of income tax in prior years	–	296
Income tax expenses	–	90,693

(35) Calculation procedures of basic and diluted earnings per share

(a) Basic earnings/(loss) per share

Basic earnings per share equals to consolidated profit attributable to ordinary shareholders of the Company divided by weighted average of outstanding ordinary shares:

	2009 RMB'000	2008 RMB'000
Consolidated profit/(loss) attributable to the Company's ordinary equity shareholders	382,018	(1,645,285)
Weighted average number of the Company's ordinary shares	4,000,000,000	4,000,000,000
Basic earnings per share (yuan per share)	0.096	(0.411)

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(35) Calculation procedures of basic and diluted earnings per share (Continued)

(b) Diluted earnings/(loss) per share

Diluted earnings per share equals to adjusted consolidated profit attributable to ordinary shareholders of the Company divided by weighted average of adjusted outstanding ordinary shares:

	2009	2008
	RMB'000	*RMB'000*
Consolidated profit/(loss) attributable to the Company's ordinary equity shareholders (diluted)	**382,018**	(1,645,285)
Weighted average number of the Company's ordinary shares (diluted)	**4,000,000,000**	4,000,000,000
Diluted earnings per share (yuan per share)	**0.096**	(0.411)

Calculation procedure for weighted average ordinary shares	**2009**	2008
Number of the Company's ordinary shares at the beginning of the year	**4,000,000,000**	4,000,000,000
Weighted average number of the Company's ordinary shares at the end of the year	**4,000,000,000**	4,000,000,000

Calculation procedure for weighted average (diluted) ordinary shares	**2009**	2008
Number of the Company's ordinary shares at the beginning of the year	**4,000,000,000**	4,000,000,000
Weighted average number of the Company's ordinary shares at the end of the year (diluted)	**4,000,000,000**	4,000,000,000

(36) Notes to cash flow statement

(a) Other cash paid relating to operating activities

Item	**2009**	2008
	RMB'000	*RMB'000*
Repair and maintenance expenses	**288,212**	291,836
Freight expenses	**153,133**	171,753
Technology development expenses	**31,291**	30,627
Environmental protection fee	**14,079**	4,657
Commission fee	**13,946**	6,325
Net exchange gains	**(5,876)**	(25,606)
Decrease in other operating receivables and increase in other operating payables	**(36,853)**	(48,171)
Others	**44,479**	13,696
Total	**502,411**	445,117

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(36) Notes to cash flow statement (Continued)

(b) Other cash received relating to investing activities

Item	2009 *RMB'000*	2008 *RMB'000*
Interests received	**21,896**	26,123
Government grants received	**7,000**	15,000
Total	**28,896**	41,123

(37) Supplement to cash flow statement

(a) Supplement to cash flow statement

Item	2009 *RMB'000*	2008 *RMB'000*
1. Reconciliation of net profit/(loss) to cash inflow/(outflow) from operating activities:		
Net profit/(loss)	**382,018**	(1,645,285)
Add: Provision for impairments	**119,985**	475,925
Depreciation of fixed assets	**514,213**	586,567
Amortisation of intangible assets	**29,504**	30,297
Amortisation of deferred income	**(744)**	–
Net gain on disposal of fixed assets and intangible assets	**(5,984)**	(2,239)
Net financial income	**(13,241)**	(22,529)
Losses arising from investments	**–**	130,381
Decrease in deferred tax assets	**–**	90,989
Increase in provisions	**–**	5,198
(Increase)/decrease in gross inventories	**(384,477)**	387,341
Decrease in operating receivables	**347,229**	289,584
Increase/(decrease) in operating payables	**320,357**	(374,272)
Net cash inflow/(outflow) from operating activities	**1,308,860**	(48,043)
2. Change in cash and cash equivalents:		
Cash at the end of the year	**1,334,367**	906,294
Less: Cash at the beginning of the year	**906,294**	1,034,747
Add: Cash equivalents at the end of the year	**–**	–
Less: Cash equivalents at the beginning of the year	**–**	–
Net increase/(decrease) in cash and cash equivalents	**428,073**	(128,453)

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(37) Supplement to cash flow statement (Continued)

(b) Information on acquisition of subsidiary during the current year:

Item	2009 RMB'000
Information on acquisition of subsidiary:	
1. Consideration of acquisition	61,525
2. Cash and cash equivalents paid for acquiring subsidiary	61,525
Less: cash and cash equivalents held by the subsidiary	43,111
3. Net cash paid for the acquisition	18,414
4. Non-cash assets and liabilities held by the acquired subsidiary	
Current assets	98,231
Non-current assets	310,116
Current liabilities	(349,708)

(c) Cash and cash equivalents held by the Group are as follows:

Item	2009 RMB'000	2008 RMB'000
Cash	1,334,367	906,294
Including: Cash on hand	90	21
Bank deposits available on demand	1,334,277	906,273
Cash equivalents	–	–
Cash and cash equivalents at the end of the year	1,334,367	906,294

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

6. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(1) Information of the parent company is as follows:

Name	Relationship with the Company	Types of legal entity	Registered address	Legal representative	Principal activities	Registered capital	Percentage of equity interest	Percentage of voting interest	Ultimate holding company	Organisation Code
Sinopec Corp.	The immediate holding company	Joint stock limited company	No. 6 Hui Xin Dong Jie Jia, Chao Yang Qu, Beijing	Su Shu-lin	Exploring for, extracting and selling crude oil and natural gas; oil refining; production, sale and transport of petro-chemical, chemical fibres and other chemical products; pipe transport of crude oil and natural gas; research, development and application of new technologies and information	RMB86.7 billion	42%	42%	CPC	71092609-4

(2) Information of the subsidiary of the Company is as follows:

Name of the subsidiary	Type of subsidiary	Types of legal entity	Registered place	Legal representative	Principal activities	Registered Capital	Percentage of equity interest	Percentage of voting interest	Organisation Code
YCFC Jingwei	Wholly-owned subsidiary	Limited liability company	Yizheng, Jiangsu Province	Shen Xi-jun	Manufacturing, processing and sale of differentiated polyester textile filament products	RMB483,672 thousand	100%	100%	77644167-1

(3) Other related parties

Name	Relationship with the Company	Organization Code
CPC	Ultimate holding company	10169286-X
CITIC	Shareholder	10168558-X
Sinopec Asset and Management Corp.	With a common ultimate holding company	71093386-8
Sinopec Finance	With a common ultimate holding company	10169290-7
China CITIC Bank	Subsidiary of CITIC	10169072-5

6. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(4) Transactions with related parties:

The following transactions with related parties are based on normal commercial terms or by the relevant agreements.

Transactions with related parties on purchasing or sales of goods and rendering or receiving of services

The Group

Related parties	Type of transactions	Contents of transactions	Pricing and decision-making process of transactions	2009 Amount RMB'000	2009 Percentage (%)	2008 Amount RMB'000	2008 Percentage (%)
Sinopec Corp. and its subsidiaries	Trade	Purchase of raw materials	Based on normal commercial terms or by the relevant agreements	**6,551,403**	**60.69**	7,109,806	49.83
Ibid	Trade	Service charges for the purchase of raw materials	Based on normal commercial terms or by the relevant agreements	**24,400**	**100**	26,710	100
CPC and its subsidiaries (excluding Sinopec Corp. and its subsidiaries and Sinopec Finance)	Trade	Sales of finished goods	Based on normal commercial terms or by the relevant agreements	**204,110**	**1.54**	242,144	1.59
Ibid	Non-trade	Miscellaneous service fee charges	Based on normal commercial terms or by the relevant agreements	**12,050**	**100**	15,000	100
Ibid	Non-trade	Purchase of equipments	Based on normal commercial terms or by the relevant agreements	**34,000**	**13.69**	7,560	2.25
Ibid	Non-trade	Insurance premium	Based on normal commercial terms or by the relevant agreements	**7,390**	**100**	8,228	100
Sinopec Finance	Non-trade	Interest income	Based on normal commercial terms or by the relevant agreements	**3,107**	**14.19**	868	3.33
Sinopec Finance	Non-trade	Interest expenses	Based on normal commercial terms or by the relevant agreements	**–**	**–**	1,723	47.95
China CITIC Bank	Non-trade	Interest income	Based on normal commercial terms or by the relevant agreements	**1,672**	**7.64**	1,115	4.27
China CITIC Bank	Non-trade	Interest expenses	Based on normal commercial terms or by the relevant agreements	**4**	**0.05**	–	–
YCFC Jingwei	Trade	Sales of finished goods	Based on normal commercial terms or by the relevant agreements	**90,348**	**0.68**	708,403	4.65
Key management personnel	Payment of remuneration	Remuneration	Based on normal commercial terms or by the relevant agreements	**3,156**	**100**	3,096	100
Key management personnel	Payment of remuneration	Retirement scheme contributions	Based on normal commercial terms or by the relevant agreements	**140**	**100**	140	100

6. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(4) Transactions with related parties: (Continued)

Transactions with related parties on purchasing or sales of goods and rendering or receiving of services (Continued)

The Company

Related parties	Type of transactions	Contents of transactions	Pricing and decision-making process of transactions	2009 Amount RMB'000	2009 Percentage (%)	2008 Amount RMB'000	2008 Percentage (%)
Sinopec Corp. and its subsidiaries	Trade	Purchase of raw materials	Based on normal commercial terms or by the relevant agreements	**6,551,403**	**61.14**	7,109,806	49.83
Ibid	Trade	Service charges for the purchase of raw materials	Based on normal commercial terms or by the relevant agreements	**24,400**	**100**	26,710	100
CPC and its subsidiaries (excluding Sinopec Corp. and its subsidiaries and Sinopec Finance)	Trade	Sales of finished goods	Based on normal commercial terms or by the relevant agreements	**204,110**	**1.56**	242,144	1.59
Ibid	Non-trade	Miscellaneous service fee charges	Based on normal commercial terms or by the relevant agreements	**12,050**	**100**	15,000	100
Ibid	Non-trade	Purchase of equipments	Based on normal commercial terms or by the relevant agreements	**34,000**	**13.77**	7,560	2.25
Ibid	Non-trade	Insurance premium	Based on normal commercial terms or by the relevant agreements	**7,390**	**100**	8,228	100
Sinopec Finance	Non-trade	Interest income	Based on normal commercial terms or by the relevant agreements	**3,107**	**14.50**	868	3.33
Sinopec Finance	Non-trade	Interest expenses	Based on normal commercial terms or by the relevant agreements	**-**	**-**	1,723	47.95
China CITIC Bank	Non-trade	Interest income	Based on normal commercial terms or by the relevant agreements	**1,670**	**7.79**	1,029	3.95
YCFC Jingwei	Trade	Sales of finished goods	Based on normal commercial terms or by the relevant agreements	**597,843**	**4.57**	708,403	4.65
Key management personnel	Payment of remuneration	Remuneration	Based on normal commercial terms or by the relevant agreements	**3,156**	**100**	3,096	100
Key management personnel	Payment of remuneration	Retirement scheme contributions	Based on normal commercial terms or by the relevant agreements	**140**	**100**	140	100

6. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) The balances of receivables and payables with related parties

The Group

Item	Related parties	2009 RMB'000	2008 RMB'000
Accounts receivable	Sinopec Corp. and its subsidiaries	–	8,024
Prepayments	Sinopec Corp. and its subsidiaries	710	19,640
Accounts payable	Sinopec Corp. and its subsidiaries	895,699	442,713
Advances from customers	Sinopec Corp. and its subsidiaries	16,905	2,456
Other payables	Sinopec Corp. and its subsidiaries	16,575	8,480
Accounts receivable	CPC and its subsidiaries	3,408	3,197
Other receivables	CPC and its subsidiaries	10,532	10,612
Accounts payable	CPC and its subsidiaries	43	393
Advances from customers	CPC and its subsidiaries	3,078	4,223
Other payables	CPC and its subsidiaries	10,147	5,445
Accounts receivable	YCFC Jingwei	–	88,226
Bills receivable	YCFC Jingwei	–	110,852
Advances from customers	YCFC Jingwei	–	4,804
Other payables	YCFC Jingwei	–	6,354

The Company

Item	Related parties	2009 RMB'000	2008 RMB'000
Accounts receivable	Sinopec Corp. and its subsidiaries	–	8,024
Prepayments	Sinopec Corp. and its subsidiaries	710	19,640
Accounts payable	Sinopec Corp. and its subsidiaries	895,699	442,713
Advances from customers	Sinopec Corp. and its subsidiaries	16,905	2,456
Other payables	Sinopec Corp. and its subsidiaries	16,575	8,480
Accounts receivable	CPC and its subsidiaries	3,408	3,197
Other receivables	CPC and its subsidiaries	10,532	10,612
Accounts payable	CPC and its subsidiaries	43	393
Advances from customers	CPC and its subsidiaries	3,078	4,223
Other payables	CPC and its subsidiaries	10,147	5,445
Accounts receivable	YCFC Jingwei	176,625	88,226
Bills receivable	YCFC Jingwei	–	110,852
Advances from customers	YCFC Jingwei	8,387	4,804
Other payables	YCFC Jingwei	14,342	6,354

7. COMMITMENTS

Capital commitments

	2009 RMB'000	2008 RMB'000
Authorised but not contracted for	118,103	137,418

8 OTHER SIGNIFICANT MATTERS

(1) Segment reporting

The Group has identified five reportable segments for financial statements based on the internal structure, management requirements and internal reporting policy. The five reportable segments are: polyester chips, bottle-grade polyester chips, staple fibre and hollow fibre, filament and PTA. All segments manufacture and sell chemical fibre products and raw materials, and are primarily engaged in the PRC. The Group's most senior executive management review reportable segments' financial information periodically for the purposes of allocating resources and assessing the performance.

(a) Operating results and assets informations of reportable segments

The Group's most senior executive management review segments' assets and operating results periodically, for the purposes of allocating resources to, and assessing the performance of segments. The information is prepared on the basis as follows:

Segment assets comprise of property, plant and equipment and inventories.

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

"Gross profit" is used to measure reportable segments' operating results.

8. OTHER SIGNIFICANT MATTERS (Continued)

(1) Segment reporting (Continued)

(a) Operating results and assets informations of reportable segments (Continued)

Information regarding reportable segments as provided to the Group's top management for resource allocation and performance assessment for 2009 is set out below:

	Polyester chips *RMB'000*	Bottle-grade polyester chips *RMB'000*	Staple fibre and hollow fibre *RMB'000*	Filament *RMB'000*	PTA *RMB'000*	Others *RMB'000*	Offset *RMB'000*	Unallocated items *RMB'000*	Total *RMB'000*
Revenue from external customers	4,490,477	2,900,094	4,057,953	1,499,963	-	276,542	-		13,225,029
Inter-segment revenue	124,620	-	-	-	-	-	(124,620)		-
Revenue for reportable segments	4,615,097	2,900,094	4,057,953	1,499,963	-	276,542	(124,620)		13,225,029
Cost for reportable segments	4,030,531	2,684,008	3,493,058	1,444,609	-	258,323	(109,238)		11,801,291
Gross profit/(loss) for reportable segments	584,566	216,086	564,895	55,354	-	18,219	(15,382)		1,423,738
Other important items:									
– Depreciation and amortisation	65,017	44,054	40,161	40,393	229,049	90,395		34,648	543,717
– Impairment of fixed assets	367	230	189	130,164	7,224	1,917		862	140,953
– Provisions of inventories	-	-	-	19,892	-	-			19,892
– Assets of reportable segments	647,577	403,198	401,468	231,800	1,167,200	931,449	(1,762)	1,222,917	5,003,847

Information regarding reportable segments as provided to the Group's top management for resource allocation and performance assessment for 2008 is set out below:

	Polyester chips *RMB'000*	Bottle-grade polyester chips *RMB'000*	Staple fibre and hollow fibre *RMB'000*	Filament *RMB'000*	PTA *RMB'000*	All others *RMB'000*	Unallocated items *RMB'000*	Total *RMB'000*
Revenue from external customers	5,167,868	3,433,176	4,673,972	1,625,125	33,767	290,616		15,224,524
Inter-segment revenue	–	–	–	–	–	–		–
Revenue for reportable segments	5,167,868	3,433,176	4,673,972	1,625,125	33,767	290,616		15,224,524
Cost for reportable segments	5,193,277	3,368,263	4,612,804	1,778,391	33,649	307,704		15,294,088
Gross profit/(loss) for reportable segments	(25,409)	64,913	61,168	(153,266)	118	(17,088)		(69,564)
Other important items:								
– Depreciation and Amortisation	99,663	41,301	45,623	67,913	235,694	86,810	39,860	616,864
– Impairment of fixed assets	8,254	546	1,501	425,494	2,711	2,199	382	441,087
– Write-down of inventories	14,908	–	11,170	9,324	–	–	2,991	38,393
– Assets of reportable segments	546,499	438,850	425,890	295,201	1,329,415	780,768	885,539	4,702,162

The Group's principal activities are production and sale of chemical fiber and chemical fibre raw materials, mainly in China. Thus, before 1 January 2009, there was no need to disclose reportable segments information by business segments or geographical segments.

The relatively insignificant portions of revenue are mostly generated by five other segments: logistics center, power center, water supply center, thermal center and high-fiber center. These segments did not reach any of the materiality requirements to be reportable segments of the Group.

8. OTHER SIGNIFICANT MATTERS (Continued)

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

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

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

The aforesaid risk exposures and their causes, risk management objectives, policies and processes, as well as risk measurement method, and so on, are discussed bellow.

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

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

(a) Credit Risk

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

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

The carrying amounts of cash and cash equivalents, time deposits with banks and other financial institutions, accounts receivable and other receivables represent the Group's maximum exposure to credit risk in relation to financial assets.

The ageing analysis of debtors that are past due but not impaired on individual and collective assessment is as follows:

Ageing	**2009**	2008
	RMB'000	*RMB'000*
Past due within 1 year (inclusive)	**–**	97
Past due 1 to 2 years	**–**	509
Total	**–**	606

8. OTHER SIGNIFICANT MATTERS (Continued)

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

(a) ***Credit Risk*** (Continued)

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry, country or area in which the customers operate and therefore significant concentrations of credit risk arise primarily when the Group has significant exposure to individual customers. At the balance sheet date, 72.94% (2008: 61.03%) of the total accounts receivable were due from the five largest customers of the Group respectively.

No other financial assets of the Group carry a significant exposure to credit risk.

(b) ***Liquidity Risk***

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

(c) ***Interest rate risk***

Interest-bearing financial instruments with fixed rate and variable rate make the Group exposure to the interest rate risk of fair value and cash flow. Except for time deposits with banks with fixed interest rates, the Group has no other significant interest-bearing assets and liabilities.

(i) The Group's interest-bearing financial instruments at the balance sheet date are as follows:

Item	2009		2008	
	Annual rate (%)	**Amount RMB'000**	Annual rate (%)	Amount RMB'000
Fixed rate financial assets				
Financial assets				
– Cash at bank and on hand	**1.71-2.25**	**559,600**	3.24-4.14	362,461

Item	2009		2008	
	Annual rate (%)	**Amount RMB'000**	Annual rate (%)	Amount RMB'000
Variable rate financial assets				
Financial assets				
– Cash at bank	**0.36**	**774,677**	0.36	841,273

8. OTHER SIGNIFICANT MATTERS (Continued)

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

(c) Interest rate risk (Continued)

(ii) Sensitivity analysis

At 31 December 2009, it is estimated that a general increase/decrease of 100 basis points in variable interest rates, with all other variables held constant, would increase/decrease the Group's shareholders' equity by approximately RMB7,747,000 respectively (2008: RMB8,413,000), and net profit by approximately RMB7,747,000 (2008: RMB8,413,000) (the related income tax impact was not considered). This sensitivity analysis has been determined assuming that the change in interest rates had occurred at the balance sheet date and that the change was applied to the Group's variable rate instruments outstanding at that date with exposure to cash flow interest rate risk. The analysis is performed on the same basis for 2008.

(d) Currency risk

For accounts receivable and payable not denominated in functional currency, the Group will purchase or sale foreign currency to keep net currency risk exposure under acceptable level when short-term imbalance occurred.

(i) Risk exposure of balance sheet items in foreign currency at 31 December is set out below. The amounts of risk exposure present in RMB are calculated by spot exchange rate at balance sheet date.

	2009	2008
	USD items	USD items
	RMB'000	*RMB'000*
Cash at bank and on hand	**42,634**	1,716
Accounts receivable	**84,858**	51,666
Accounts payable	**(798,773)**	(398,378)
Total of balance sheet exposure	**(671,281)**	(344,996)
Forward foreign exchange contracts for hedging	**–**	–
Net value of balance sheet exposure	**(671,281)**	(344,996)

(ii) The applicable major foreign currency exchange rate of the Group is analysed as follows:

Item	**Average exchange rate**		**Middle exchange rate at balance date**	
	2009	2008	**2009**	2008
USD	**6.831**	6.948	**6.828**	6.835

(iii) Sensitivity analysis

Assuming all other risk variables remained constant and the related income tax impact was not considered, a 5% strengthening of renminbi against the US$ at 31 December would have increased shareholders' equity and net profit (or decrease net loss) for the year of the Group by the amount shown below, whose effect is in renminbi and translated using the spot rate at the balance sheet date.

8. OTHER SIGNIFICANT MATTERS (Continued)

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

(d) *Currency risk* (Continued)

(iii) Sensitivity analysis (Continued)

Item	Shareholders' equity RMB'000	Net profit RMB'000
At 31 December, 2009		
USD	**33,565**	33,565
At 31 December, 2008		
USD	**17,248**	17,248

A 5% weakening of the renminbi against the US$ at 31 December would have had the equal but opposite effect on them to the amounts shown above, on the basis that all other variables remained constant and the related income tax impact was not considered.

(e) *Fair value*

As at 31 December 2008 and 2009, the fair values of the Group's financial assets and liabilities are not materially different from their carrying amounts.

(f) *Determination of Fair value*

The main methods and assumptions applied by the Group to estimate fair value are as follows:

(i) Financial assets:
If no active market exists for available-for-sale financial assets, a valuation technique is used to establish the fair value. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties; reference to the current fair value of another instrument that is substantially the same and discounted cash flow analysis.

(ii) Accounts receivable:
The fair value is based on present value of future cash flow forecast, and the discount rate is market rate at balance sheet date.

(3) Assets and liabilities measured with fair value

Item	Balance at the beginning of the year RMB'000	Fair value gains and losses during the year RMB'000	Accumulated change of fair value recognised in shareholders' equity RMB'000	Provision for the year RMB'000	Balance at the end of the year RMB'000
Available-for-sale financial assets	–	–	–	–	700,000

Available-for-sale financial assets held by the Group on 31 December, 2009 are other investments provided by banks without fixed rates. The market price provided by banks at balance sheet date is used to establish the fair value.

9. MAJOR NOTES TO FINANCIAL STATEMENTS OF THE COMPANY

(1) Accounts receivable

(a) Accounts receivable by category

Category	Note	2009 Carrying amounts Amount RMB'000	2009 Carrying amounts Percentage (%)	2009 Bad debts provision Amount RMB'000	2009 Bad debts provision Percentage (%)	2008 Carrying amounts Amount RMB'000	2008 Carrying amounts Percentage (%)	2008 Bad debts provision Amount RMB'000	2008 Bad debts provision Percentage (%)
Individually significant accounts receivable	(b)	**290,655**	**70.43**	**114,030**	**100**	–	–	–	–
Individually and collectively insignificant accounts receivable		**122,056**	**29.57**	**-**	**-**	191,213	100	835	100
Total		**412,711**		**114,030**		191,213		835	

(b) Bad debts provision for individually significant accounts receivable at the end of the year:

Content	Carrying amount RMB'000	Provision RMB'000	Percentage (%)	Note
Individually significant accounts receivable	290,655	114,030	39.23%	Since full impairment provision to YCFC Jingwei's long-term equity investment can't offset the effect of Jingwei's accumulated loss, the Company provided impairment of the accounts receivable from YCFC Jingwei.

(c) Ageing analysis of accounts receivable

Ageing	2009 Carrying amount Amount RMB'000	2009 Carrying amount Percentage (%)	2009 Provision RMB'000	2008 Carrying amount Amount RMB'000	2008 Carrying amount Percentage (%)	2008 Provision RMB'000
Within 1 year (inclusive)	**412,711**	**100**	**114,030**	189,772	99.25	–
1 and 2 years (inclusive)	**–**	**–**	**–**	97	0.05	–
2 and 3 years (inclusive)	**–**	**–**	**–**	1,344	0.70	835
Total	**412,711**		**114,030**	191,213		835

9. MAJOR NOTES TO FINANCIAL STATEMENTS OF THE COMPANY (Continued)

(1) Accounts receivable (Continued)

(c) ***Ageing analysis of accounts receivable*** (Continued)

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

Since full impairment provision to YCFC Jingwei's long-term equity investment can't offset the effect of Jingwei's accumulated loss, the Company provided impairment of the accounts receivable from YCFC Jingwei.

During the year ended 31 December 2009, the Company had no individually significant accounts receivable fully or substantially provided for.

As at 31 December 2009, Company had no individually significant accounts receivable due over 3 years.

(d) ***The actual write-off of accounts receivable during the year***

Name	Nature	Amount	Reason	Generated by related parties' transactions
		RMB'000		
Xingguang lighting Co., Ltd.	Generated by sales of goods	288	Ageing is longer than three years and not expected to recover	No

(e) ***As at 31 December 2009, accounts receivable due from five biggest debtors of the Company are as follows:***

Name		Relationship	Amount	Ageing	Percentage of total accounts receivable
			RMB'000		*(%)*
1.	YCFC Jingwei	Wholly-owned subsidiary	290,655	within 6 months	70.42
2.	Daewoo International Corp.	Third Party	28,390	within 6 months	6.88
3.	LG International Corp.	Third Party	27,087	within 6 months	6.56
4.	Yangzhou Thermal Power Co., Ltd.	Third Party	15,182	within 6 months	3.68
5.	Tianjin Dingjin Co., Ltd.	Third Party	10,923	within 6 months	2.65
Total			372,237		90.19

9. MAJOR NOTES TO FINANCIAL STATEMENTS OF THE COMPANY (Continued)

(1) Accounts receivable (Continued)

(f) Accounts receivable due from related parties

Name	Relationship	Amount *RMB'000*	Percentage *(%)*
YCFC Jingwei	Wholly-owned subsidiary	290,655	70.42
Yihua Group	With a common ultimate holding company	3,408	0.83
Total		294,063	71.25

(2) Other receivables

(a) Other receivables by category

Category	2009				2008			
	Carrying amount		Provision		Carrying amount		Provision	
	Amount *RMB'000*	Percentage *(%)*	Amount *RMB'000*	Percentage *(%)*	Amount *RMB'000*	Percentage *(%)*	Amount *RMB'000*	Percentage *(%)*
Individually and collectively insignificant other receivables	37,493	100	1,352	100	110,761	100	2,822	100

(b) Ageing analysis of other receivables

Ageing	2009			2008		
	Carrying amount		Provision	Carrying amount		Provision
	Amount *RMB'000*	Percentage *(%)*	*RMB'000*	Amount *RMB'000*	Percentage *(%)*	*RMB'000*
Within 1 year (inclusive)	35,505	94.70	–	103,139	93.12	–
1 and 2 years (inclusive)	54	0.14	22	3,159	2.85	603
2 and 3 years (inclusive)	1,496	3.99	898	2,447	2.21	935
Over 3 years	438	1.17	432	2,016	1.82	1,284
Total	37,493		1,352	110,761		2,822

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

During the year ended 31 December 2009, the Company had no individually significant other receivables fully or substantially provided for.

The Company had no individually significant recovery of bad debts which were fully or substantially provided for in prior years.

As at 31 December 2009, the Company had no individually significant other receivables due over 3 years.

9. MAJOR NOTES TO FINANCIAL STATEMENTS OF THE COMPANY (Continued)

(2) Other receivables (Continued)

(c) As at 31 December 2009, other receivables due from five biggest debtors of the Company are as follows:

	Name	Relationship	Amount RMB'000	Ageing	Percentage (%)
1.	Sinopec Nanhua Chemical Machinery Factory	With a common ultimate holding company	10,215	6 months to 1 year	27.24
2.	Tianhua Chemical Machinery and Automation Research and Design Institute	Third party	7,196	6 months to 1 year	19.19
3.	Hangzhou Boiler Group Co., Ltd.	Third party	2,659	6 months to 1 year	7.09
4.	Beijing Yijing Business Hotel Management Co., Ltd.	Third party	932	Within 1 year	2.49
5.	Sinopec Foreign Affairs Division	With a common ultimate holding company	317	Within 6 months	0.85
	Total		21,319		56.86

(d) Other receivables due from related parties

Name	Relationship	Amount RMB'000	Percentage (%)
Sinopec Nanhua Chemical Machinery Factory	With a common ultimate holding company	10,215	27.24
Sinopec Foreign Affairs Division	With a common ultimate holding company	317	0.85
Total		10,532	28.09

(3) Long-term equity investment

Investee	Accounting method	Initial investment cost RMB'000	Balance at the beginning of the year RMB'000	Increase RMB'000	Balance at the end of the year RMB'000	Interest in investee (%)	Voting right in investee (%)	Provision RMB'000	Provision for impairment during the year RMB'000	At the end of the year RMB'000
YCFC Jingwei	Cost method	87,328	25,803	61,525	87,328	100	100	87,328	87,328	–

9. MAJOR NOTES TO FINANCIAL STATEMENTS OF THE COMPANY (Continued)

(4) Operating income and operating cost

(a) Operating income and operating cost

Item	2009 RMB'000	2008 RMB'000
Operating income from principal activities	**12,944,622**	15,104,015
Other operating income	**124,252**	120,509
Operating cost	**11,629,474**	15,294,088

(b) Operating income and operating cost by industries

Industry	2009		2008	
	Operating income RMB'000	Operating cost RMB'000	Operating income RMB'000	Operating cost RMB'000
Chemical fibre	**13,068,874**	**11,629,474**	15,224,524	15,294,088

(c) Operating income and operating cost by products

Product	2009		2008	
	Operating income RMB'000	Operating cost RMB'000	Operating income RMB'000	Operating cost RMB'000
Polyester chips	**4,615,097**	**4,045,699**	5,167,868	5,193,277
Bottle-grade polyester chips	**2,900,094**	**2,684,008**	3,433,176	3,368,263
Staple fibre and hollow fibre	**4,057,952**	**3,493,058**	4,673,972	4,612,804
Filament	**1,181,674**	**1,110,442**	1,625,125	1,778,391
PTA	**–**	**–**	33,767	33,649
Others	**314,057**	**296,267**	290,616	307,704
Total	**13,068,874**	**11,629,474**	15,224,524	15,294,088

9. MAJOR NOTES TO FINANCIAL STATEMENTS OF THE COMPANY (Continued)

(4) Operating income and operating cost (Continued)

(d) Operating income and operating cost by regions

Region's name	2009 Operating income RMB'000	2009 Operating cost RMB'000	2008 Operating income RMB'000	2008 Operating cost RMB'000
Mainland	**12,323,400**	**10,928,546**	14,102,622	14,201,171
Hong Kong, Macau, Taiwan and overseas	**745,474**	**700,928**	1,121,902	1,092,917
Total	**13,068,874**	**11,629,474**	15,224,524	15,294,088

(e) Revenue from the top five customers for 2009 are as follows:

Name		Operating income RMB'000	Percentage of total operating income (%)
1.	Zhangjiagang Long Jie Special Chemical Fiber Co. Ltd.	422,769	3.2
2.	Suqian Painted Packing Co., Ltd.	288,450	2.2
3.	Jiangsu Yong Yin Chemical Fiber Co., Ltd.	219,883	1.7
4.	Wuhan Chengfang Technology & Trade Co., Ltd.	209,744	1.6
5.	Qingdao Kong Qi Chemical Fiber Co., Ltd.	206,597	1.6
Total		1,347,443	10.3

(5) Investment income

(a) Investment income by category

Item	Note	2009 RMB'000	2008 RMB'000
Long-term equity investment loss on equity method	(b)	**–**	(130,381)
Investment income of disposal of long-term equity investment		**–**	158,668
Total		**–**	28,287

9. MAJOR NOTES TO FINANCIAL STATEMENTS OF THE COMPANY (Continued)

(5) Investment income (Continued)

(b) Among long-term equity investments income using the equity method, the investments accounted for more than 5% of total investment income, or less than 5% but the amount of investment income of top five are as follows:

Name	2009 RMB'000	2008 RMB'000	Reasons for changes
YCFC Jingwei	–	(130,381)	The Company acquired 50% equity of jointly-controlled company during the year. The jointly-controlled company became the subsidiary of the company and measured with cost method.

There is no severe restriction on the subsidiary's ability to transfer investment income to the Company.

(6) Supplement to cash flow statement

Item		2009 RMB'000	2008 RMB'000
1.	Reconciliation of net profit/(loss) to cash inflow/(outflow) from operating activities:		
	Net profit/(loss)	383,780	(1,487,489)
	Add: Provision for impairments	171,287	475,925
	Depreciation of fixed assets	479,162	586,540
	Amortisation of intangible assets	29,504	30,297
	Amortisation of deferred income	(744)	–
	Net gains on disposal of fixed assets and intangible assets	(6,047)	(2,239)
	Net financial income	(16,555)	(22,235)
	Losses arising from investments	–	(28,287)
	Increase in provisions	–	5,198
	Decrease in deferred tax assets	–	90,989
	(Increase)/decrease in gross inventories	(403,499)	387,341
	Decrease in operating receivables	46,440	260,754
	Increase/(decrease) in operating payables	652,133	(372,919)
	Net cash inflow/(outflow) from operating activities	1,335,461	(76,125)
2.	Change in cash and cash equivalents:		
	Cash at the end of the year	1,327,985	906,294
	Less: Cash at the beginning of the year	906,294	946,953
	Add: Cash equivalents at the end of the year	–	–
	Less: Cash equivalents at the beginning of the year	–	–
	Net increase/(decrease) in cash and cash equivalents	421,691	(40,659)

Supplementary Information to the Financial Statements

1. EXTRAORDINARY GAINS AND LOSSES DURING 2009

Item	Amount *RMB'000*	Note
Disposal of non-current assets	5,984	Net income from disposal of fixed assets
Employee reduction expenses	(1,909)	Expense paid for dismissing the labor contract
Government grants recognised in profit or loss during the year (other than the amount closely related to principal activities and generated according to national standards)	10,866	Government grants received, such as return of urban maintenance and construction tax
Other non-operating income and expenses excluding the aforesaid items	3,191	Forfeiture income and accounts payable which cannot be paid
Effect on income tax	–	The Group has no taxable income after making good of previous years' loss, and previous years' loss hasn't been recognised as deferred tax assets, so the extraordinary gains and losses have no effect on income tax.
Total	18,132	

The extraordinary gains and losses are listed as pre-tax amount.

2. DIFFERENCES IN THE FINANCIAL STATEMENTS PREPARED UNDER DIFFERENT GAAPS

The difference between ASBE and International Financial Reporting Standards ("IFRSs") on net profit and net assets of consolidated financial statements is analysed as follows:

	Net profit		Net assets	
	2009 ***RMB'000***	2008 *RMB'000*	**2009** ***RMB'000***	2008 *RMB'000*
Under ASBE	**382,018**	(1,645,285)	**7,045,410**	6,663,392
Adjustments under IFRSs:				
Reversal of amortisation of revaluation surplus of land use rights	**5,239**	5,291	**(177,241)**	(182,480)
Effects of the above adjustments on taxation	**(1,310)**	(1,323)	**44,310**	45,620
Under IFRSs	**385,947**	(1,641,317)	**6,912,479**	6,526,532

Under ASBE, land use rights contributed by investors are stated at revalued amount, based on which amortisation and net book value are calculated. Under IFRS, land use rights are carried at historical cost less accumulated amortisation and impairment losses.

3. EARNINGS PER SHARE AND RETURN ON NET ASSETS

In accordance with "Regulation on the Preparation of Information Disclosures by Companies Issuing Public Shares, No.9 – Calculation and Disclosure of the Return on Net Assets and Earnings Per Share" (2010 revised) issued by the CSRC, the Group's return on net assets and earnings per share are summarised as follows:

	Return on	Earnings per share	
Profit/(loss) for the current year	**weighted average net assets** *(%)*	**Basic earnings per share**	**Diluted earnings per share**
Net profit/(loss) attributable to the Company's ordinary equity shareholders	5.573	RMB0.096	RMB0.096
Net profit/(loss) deducted extraordinary gain and loss attributable to the Company's ordinary equity shareholders	5.309	RMB0.091	RMB0.091

Other Corporate Information

FIRST REGISTRATION DATE AND PLACE OF THE COMPANY

The Company was registered on 31 December 1993. Its legal address is: Yizheng City, Jiangsu Province, PRC.

CHANGES TO THE REGISTRATION DATE, PLACE AND OTHER ITEMS DURING THE PERIOD UNDER REVIEW

There was no change in the items above during the reporting period.

Business registration number	Taxation registration number
320000400000997	321081625908297

ORGANISATION TRUSTED WITH NON-CIRCULATING SHARES OF THE COMPANY

China Securities Registration and Clearing Corporation Limited Shanghai Branch

PRINCIPAL UNDERWRITERS OF SHARE OFFERS

"H" Share

– UBS Warburg (Asia) Limited
  Address: 52/F, Two International Finance Centre
  8 Finance Street
  Central, Hong Kong

"A" Share

– Shenyin & Wanguo Securities Corporation Ltd.
  Address: 99 East Nanjing Road, Shanghai

AUDITORS

Domestic

– KPMG Huazhen
  Certified Public Accountants, Registered in the PRC
  8th Floor, Office Tower E2
  Oriental Plaza
  No. 7, East Chang An Avenue
  Beijing, the PRC

International

– KPMG
  Certified Public Accountants, Hong Kong
  8/F, Prince's Building, 10 Chater Road
  Central, Hong Kong

LEGAL ADVISOR

As to Hong Kong law

– Woo, Kwan, Lee & Lo
  Address: 26/F, Jardine House, 1 Connaught Place Central, Hong Kong

As to the PRC law

– Haiwen & Partners
  Address: Silver Tower, No. 2 North Road, East San Huan, Chaoyang District, Beijing

Other Corporate Information

SHARE REGISTRARS AND TRANSFER OFFICE

"H" Share

– Hong Kong Registrars Limited
  Address: Rooms 1712-1716, 17th Floor, Hopewell Centre
  183 Queen's Roads East,
  Hong Kong

"A" Share

– China Securities Registration and Clearing Corporation Limited Shanghai Branch
  Address: 36th Floor, China Insurance Building,
  166 Lujiazui Eastern Road,
  Pudong New District, Shanghai

PRINCIPAL BANKERS

Industrial and Commercial Bank of China, Jiangsu Branch

Industrial and Commercial Bank of China, Jiangsu Branch, Xupu Sub-Branch

Bank of China, Jiangsu Branch

Bank of China, Jiangsu Branch, Yizheng Sub-branch

China Construction Bank, Jiangsu Branch, Yizheng Sub-Branch

China CITIC Bank

Documents for Inspection

The following documents are available for inspection at the legal address of the Company from 30 March 2010 (Tuesday) upon requests by related supervisory institute and shareholders in accordance with the Articles of Association of the Company and relevant regulations:

1. The original copy of the annual report signed by the Chairman and the General Manager of the Company;

2. The financial statements signed by the Chairman, General Manager, Chief Financial Officer and the Head of the Accounting Department;

3. The original reports of the auditors and the accounts prepared in accordance with the PRC Accounting Standards for Business Enterprises signed by the Certified Public Accountants, registered the PRC under the seal of KPMG Huazhen;

The original reports of the auditors and the financial statements prepared in accordance with IFRSs signed by KPMG;

4. Documents and Announcements disclosed in the report period;

5. The Article of Associations of the Company;

6. Copies of the Annual Reports and Interim Reports from 1993 to 2009 and the First Quarter Report and the Third Quarter Report from 2002 to 2009 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.