



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 code: 1033)

Annual Results 2007

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

The content of the annual results for this year is extracted from the Annual Report. In order to understand the detailed content, the investors should read the full text of the Annual Report.

The Board of Sinopec Yizheng Chemical Fibre Company Limited has pleasure in presenting to you the audited annual results of the Company and its subsidiaries (**"the Group"**) for the year ended 31 December 2007.

1. COMPANY PROFILE

- (1). **Legal name:** Sinopec Yizheng Chemical Fibre Company Limited
中国石化仪征化纤股份有限公司
- Abbreviation:** YCF
仪征化纤
- (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:** cs@ycfc.com
- (4). **Company Secretary:** Mr. Tom C.Y. Wu
- Assistant Company Secretary:** Ms. Michelle M. Shi
- Address:** Company Secretary Office
Sinopec Yizheng Chemical Fibre Company Limited
Yizheng City, Jiangsu Province, PRC
- Telephone:** 86-514-83231888
- Fax:** 86-514-83235880
- E-mail:** cs@ycfc.com
- (5). **Domestic Newspapers disclosing information:** China Securities, Shanghai Securities News,
Internet website designated by HKSE to disclose information: <http://www.hkex.com.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:
Company Secretary Office
Sinopec Yizheng Chemical Fibre Company Limited
- (6). **Places of listing, names and codes of the stock:**
- | H share | A share |
|---|--|
| - The Stock Exchange of Hong Kong Limited ("HKSE") | - Shanghai Stock Exchange ("SSE") |
| - Stock name: Yizheng Chemical | - Stock name: S Yihua |
| - Stock code: 1033 | - Stock code: 600871 |

2. SUMMARY OF THE PRINCIPAL INFORMATION AND FINANCIAL INDICATORS OF THE GROUP

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

For the year ended 31 December or as at 31 December

	2007 Rmb '000	2006 Rmb '000 (as restated)	2005 Rmb '000 (as restated)	2004 Rmb '000	2003 Rmb '000
Turnover	17,175,656	17,307,636	15,830,063	13,348,471	10,343,641
Profit/(loss) before taxation	11,366	64,333	(1,009,336)	276,792	313,398
Income tax (credit)/expense	(11,890)	23,450	(41,343)	33,860	48,652
Minority interests	944	415	(485)	2,549	5,615
Profit/(loss) attributable to equity shareholders of the Company	22,312	40,468	(967,508)	240,383	259,131
Total assets	9,931,984	10,046,111	9,692,187	11,234,701	11,921,981
Total liabilities	1,764,135	1,872,907	1,568,270	2,061,850	2,899,673
Total equity attributable to equity shareholders of the Company	8,167,849	8,125,552	8,071,813	9,120,322	8,968,853
Minority interests	-	47,652	52,104	52,529	53,455
Basic and diluted earnings / (loss) per share	Rmb0.006	Rmb0.010	Rmb(0.242)	Rmb 0.060	Rmb0.065
Net assets per share	Rmb2.042	Rmb2.031	Rmb2.018	Rmb 2.280	Rmb 2.242
Ratio of shareholders' equity	82.24%	80.88%	83.28%	81.18%	75.23%
Return on net assets	0.27%	0.50%	(11.99%)	2.64%	2.89%

(2) Extracted from the financial statements prepared in accordance with the PRC Accounting Standards for Business Enterprises (2006)

2.1 Principal financial data

	2007 Rmb'000	2006		Increase/ (decrease) from 2006 (%)	2005	
		After adjustments Rmb'000	Before adjustments Rmb'000		After adjustments Rmb'000	Before adjustments Rmb'000
Operating income	17,175,656	17,307,636	17,027,846	(0.8)	15,830,063	15,798,665
Profit/(loss) before income tax	4,657	59,053	60,742	(92.1)	(994,919)	(997,249)
Net profit/(loss) attributable to equity shareholders of the Company	17,817	35,980	37,415	(50.5)	(952,299)	(954,279)
Net profit/(loss) attributable to equity shareholders of the Company before non-recurring items	58,574	19,436	21,772	201.4	(863,267)	(865,167)
Net cash flows from operating activities	(62,106)	803,196	792,608	(107.7)	677,871	646,261
	As at 31 December 2007 Rmb'000	As at 31 December 2006		Increase/ (decrease) from 2006 (%)	As at 31 December 2005	
		After adjustments Rmb'000	Before adjustments Rmb'000		After adjustments Rmb'000	Before adjustments Rmb'000
Total assets	9,877,221	10,025,803	10,115,603	(1.5)	9,861,983	9,984,875
Total equity attributable to equity shareholders of the Company	8,308,677	8,290,860	8,274,261	0.2	8,241,609	8,223,575

2.2 Principal financial indicators

	2007	2006		Increase/ (decrease) from 2006 (%)	2005	
		After adjustments	Before adjustments		After adjustments	Before adjustments
Basic earnings/(loss) per share	Rmb0.004	Rmb0.009	Rmb 0.009	(50.5)	Rmb (0.238)	Rmb (0.239)
Diluted earnings/(loss) per share	Rmb 0.004	Rmb 0.009	Rmb 0.009	(50.5)	Rmb (0.238)	Rmb (0.239)
Basic earnings/(loss) per share before non-recurring items	Rmb 0.015	Rmb 0.005	Rmb 0.005	201.4	Rmb (0.216)	Rmb (0.216)
Fully diluted return on net assets	0.21%	0.43%	0.45%	Decrease 0.22 percentage points	(11.56%)	(11.60%)
Weighted average return on net assets	0.22%	0.44%	0.45%	Decrease 0.22 percentage points	(10.88%)	(10.91%)
Fully diluted return on net assets before non-recurring items	0.71%	0.23%	0.26%	Increase 0.48 percentage points	(10.47%)	(10.52%)
Weighted average return on net assets before non-recurring items	0.71%	0.24%	0.26%	Increase 0.47 percentage points	(9.86%)	(9.89%)
Net cash flows from operating activities per share	Rmb (0.016)	Rmb 0.201	Rmb 0.198	(107.7)	Rmb 0.169	Rmb 0.162
	As at 31 December 2007	As at 31 December 2006		Increase/ (decrease) from 2006 (%)	As at 31 December 2005	
		After adjustments	Before adjustments		After adjustments	Before adjustments
Net assets per share attributable to equity shareholders of the Company	Rmb2.077	Rmb2.073	Rmb2.069	0.2	Rmb2.060	Rmb2.056

* Non-recurring items (Expressed in Rmb '000)

Net losses on disposal of long-term equity investment, fixed assets and intangible assets	(12,558)
Employee reduction expenses	(101,719)
Effect of change in tax rate on deferred tax	40,659
Other non-operating expenses excluding losses on disposal of fixed assets	(15,137)
Other non-operating income excluding gains on disposal of fixed assets and intangible assets	7,932
Subtotal	(80,823)
Effect of income tax	40,089
Total	(40,734)
Including: Non-recurring items affecting net profit attributable to equity shareholders of the Company	(40,757)
Non-recurring items affecting net profit attributable to minority interests	23

(3) Differences between the financial statements of the Group and the Company prepared in accordance with the PRC Accounting Standards for Business Enterprises (2006) and IFRS

	PRC Accounting Standards for Business Enterprises (2006)		IFRS	
	The Group Rmb'000	The Company Rmb'000	The Group Rmb'000	The Company Rmb'000
Net profit attributable to equity shareholders of the Company	17,817	18,625	22,312	10,236
Explanation for the Difference	Please refer to the section 8.4 of the Financial Report in this announcement for explanations for the related differences.			

3. INFORMATION ON CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

(1) Changes in the Company's share capital

During the reporting period, there was no change in the total amount of shares and the share structure of the Company. The Company acknowledged that, based on information available to the Company immediately before publishing the 2007 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) Information on shareholders

As at 31 December 2007, 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			42,320		
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*
China Petroleum & Chemical Corporation ("Sinopec")	Domestic legal person shareholder	1,680,000,000	42.00	1,680,000,000	Nil
Hong Kong Securities Clearing Company ("HKSCC") (Nominees) Limited**	Overseas capital shareholder	1,385,723,305	34.64	Circulating shares	Nil
CITIC Group Corporation ("CITIC") ***	Domestic legal person shareholder	720,000,000	18.00	720,000,000	Nil
Fujian Guoli Technology Investment Company Limited	Domestic Circulating shares	4,177,419	0.10	Circulating shares	Not applicable
China Minsheng Banking Corporation—Orient Well-chosen Mix-type Open-end Securities Investment Fund	Domestic Circulating shares	4,019,847	0.10	Circulating shares	Not applicable
Beijing Buchang Pharm-Biology Technology Company Limited	Domestic Circulating shares	2,405,575	0.06	Circulating shares	Not applicable

Wang Yu	Domestic Circulating shares	2,094,949	0.05	Circulating shares	Not applicable
Fortune Trust Investment Company Limited--Aggregate Capital Trust No.16 2006	Domestic Circulating shares	1,550,000	0.04	Circulating shares	Not applicable
Lu Bao-hong	Domestic Circulating shares	1,338,000	0.03	Circulating shares	Not applicable
Lin Zhu-mei	Domestic Circulating shares	1,087,600	0.027	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**	1,385,723,305	“H” shares
Fujian Guoli Technology Investment Company Limited	4,177,419	Circulating “A” shares
China Minsheng Banking Corporation—Orient Well-chosen Mix-type Open-end Securities Investment Fund	4,019,847	Circulating “A” shares
Beijing Buchang Pharm-Biology Technology Company Limited	2,405,575	Circulating “A” shares
Wang Yu	2,094,949	Circulating “A” shares
Fortune Trust Investment Company Limited--Aggregate Capital Trust No.16 2006	1,550,000	Circulating “A” shares
Lu Bao-hong	1,338,000	Circulating “A” shares
Lin Zhu-mei	1,087,600	Circulating “A” shares
Cai Min	1,000,000	Circulating “A” shares
Cheung Kwong Kwan	1,000,000	“H” 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 interest or short position held by the substantial shareholders and other persons in the Company's shares or underlying shares

As at 31 December 2007, 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 2007, China Petrochemical Corporation ("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 2007, 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.

(4). 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: Rmb 86,702,439,000

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.

(5). Controlling company of the controlling shareholder

Name of the controlling company of the controlling shareholder: China Petrochemical Corporation ("CPC")*

Legal representative: Su Shu-lin

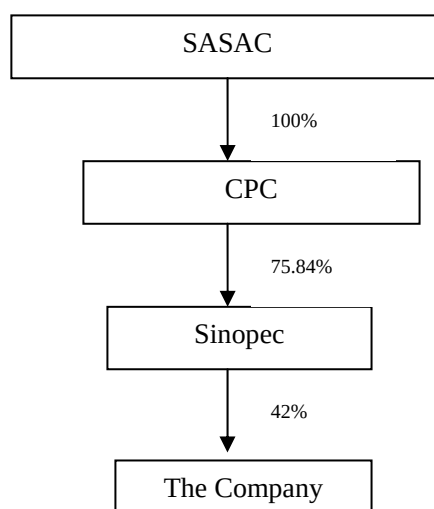
Date of establishment: 24 July 1998

Registered capital: Rmb 130,645,104,000

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”).



4. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(1) Information on interests in share and remuneration of directors, supervisors and senior management

Name	Position	Sex	Age	Term of office	Number of "A" shares held for personal interests		Reason for change	Salaries (Rmb ten thousand) (before taxation)	Remuneration and allowance received from the corporate shareholders
					At the beginning of the year	At the end of the year			
Qian Heng-ge	Chairman	M	57	Dec.2005 -Dec.2008	2,000	2,000	No Change	23.8	No
Sun Zhi-hong	Vice Chairwoman	F	58	Dec.2005 -Dec.2008	0	0	No Change	23.8	Yes
Xiao Wei-zhen	Vice Chairman and General Manager	M	54	Dec.2005 -Dec.2008	0	0	No Change	23.8	No
Long Xing-ping	Director	F	56	Dec.2005 -Dec.2008	0	0	No Change	19.9	Yes
Zhang Hong	Director	M	49	Dec.2005 -Dec.2008	0	0	No Change	19.9	Yes
Guan Diao-sheng	Director	M	45	Dec.2005 -Dec.2008	0	0	No Change	-	Yes
Shen Xi-jun	Director, Deputy General Manager	M	47	Dec.2005 -Dec.2008	0	0	No Change	19.9	No
Li Zhong-he	Independent Director	F	66	Dec.2005 -Dec.2008	0	0	No Change	4.0	No
Wang Hua-cheng	Independent Director	M	45	Dec.2005 -Dec.2008	0	0	No Change	4.0	No
Yi Ren-ping	Independent Director	F	64	Dec.2005 -Dec.2008	0	0	No Change	4.0	No
Qian Zhi-hong	Independent Director	F	66	Dec.2005 -Dec.2008	0	0	No Change	4.0	No
Cao Yong	Chairman of Supervisory	M	49	Feb.2007 -Dec.2008	0	0	No Change	19.9	No

	Committee								
Tao Chun-sheng	Supervisor	M	52	Dec.2005 -Dec.2008	0	0	No Change	12.7	No
Chen Jian	Supervisor	M	45	Dec.2005 -Dec.2008	0	0	No Change	19.9	Yes
Shi Gang	Independent Supervisor	M	47	Dec.2005 -Dec.2008	0	0	No Change	3.0	No
Wang Bing	Independent Supervisor	M	36	Dec.2005 -Dec.2008	0	0	No Change	3.0	No
Zhang Zhong-an	Deputy General Manager	M	47	From June 2004	0	0	No Change	19.9	No
Li Jian-xin	Deputy General Manager	M	50	From July 2007	0	0	No Change	19.9	No
Li Jian-ping	Chief Financial Officer	M	45	From Dec. 2006	0	0	No Change	19.9	No
Tom C.Y. Wu	Company Secretary	M	46	From Dec. 2002	0	0	No Change	13.0	No

Information on share incentive provided to directors, supervisors and senior management during the reporting period

The Company has not implemented any share incentive scheme.

(2) Changes in Directors, Supervisors and Senior Management

The seventeenth meeting of the fifth term of the Board held on 4 July 2007 appointed Mr. Li Jian-xin as the Deputy General Manager of the Company.

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

As at 31 December 2007, none of the Directors, Supervisors and Senior Management of the Company had any interest or short position in the shares, underlying shares and/or debentures (as the case may be) of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) 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.

5. REPORT OF THE BOARD

Financial figures, except where specifically noted, contained herein have been extracted from the financial statements prepared in accordance with the IFRS.

A. Business review and prospect

The Group is the largest modernized manufacturing station of chemical fibre and chemical fibre raw materials in the PRC. In terms of polyester capacity in 2007, the Group ranks the sixth largest polyester manufacturer in the world, and the Company is the largest one-site polyester manufacturer in the world. (Source: PCI Magazine 2007)

The Company is principally engaged in the production and sales of polyester chips and polyester fibre, and production of its raw materials purified terephthalic 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.

1. Market review

In 2007, the domestic polyester industry was still in the acute situation of profound adjustment and the total domestic polyester production capacity remained excessive. As a result, the operational environment for domestic polyester industry was still tough. In the first quarter, the prices of polyester raw materials and polyester products concussively declined owing to the relatively slow start-up of textile demand. In the second quarter, driven by the costs of polyester raw materials and the influence of downstream textile demand growth expedition, prices of domestic polyester products went up and the profit margin of polyester products increased. Since August, because the global market price of crude oil went up and created some new records, and the prices of MEG increased significantly as a result of the malfunction of foreign facilities, the profit margin of polyester products was significantly compressed.

In 2007, the domestic polyester industry continued to expedite structural adjustments and the newly-added polyester production capacity, as shown in the increase of differential and high value-added products. The total polyester production capacity amounted to 23.0 million tonnes at the end of 2007, about two million tonnes higher than in 2006. The volume of the total domestic supply of polyester fibre amounted to 19,914,600 tonnes, an increase of 17.5 per cent over that of 2006, of the total volume, the domestic production volume increased by 19.5 per cent and the import volume decreased by 15.3 per cent as compared with their respective amounts in 2006. Meanwhile, the relatively rapid growth of the PRC's textile and clothes exports drove export volume to 175.62 billion dollars, which was 19.1 per cent higher than in 2006. Total domestic consumption volume of polyester fibre amounted to 18,223,200 tonnes, an increase of 14.1 per cent over the 2006 amount. The domestic demand for polyester fibre continually steady increased.

2. Production Operational Review

In 2007, faced with a difficult operating environment, the Group continued to extend reform adjustments and expand its market. By exerting efforts to strengthen fine management, reduce expenses of management, procurement and sales, optimise product structure, positive progress was achieved in various fields concerning production and operations.

(1) Production and Marketing

In 2007, the Group's production facilities maintained safe, stable and capacity operations at its facilities. The production volume of PTA and the production volume and sales volume of polyester products have both reached historically high levels. The total production volume of polyester products amounted to 2,133,145 tonnes, an increase of 3.7 per cent as compared with 2,057,887 tonnes in 2006. The capacity utilisation rate reached 96.9 per cent. The total production volume of PTA amounted to 1,024,919 tonnes, an increase of 2.1 per cent as compared with 1,003,858 tonnes in 2006. The Group increased its sales promotion in response to the increase in production volume. The Group's total sales volume of polyester products amounted to 1,714,726 tonnes in 2007, an increase of 0.2 per cent as compared with 1,712,006 tonnes in 2006. Excluding self-consumption volume and other factors, the ratio of sales to production reached 99.6 per cent. In 2007, the Group's export volume of polyester products rose dramatically to 144,833 tonnes, an increase of 23.1 per cent over the 117,628 tonnes for 2006.

(2) Cost control

In 2007, the weighted average price of polyester product (excluding VAT) of the Group increased by 1.2 per cent as compared with last year, while the weighted average purchase prices of principal purchased raw materials of the Group, such as PTA, MEG and PX, increased by 1.0 per cent as compared with last year. The Group tired to increase the profit margin of polyester products by reducing expenses of management, procurement and sales, and by strengthening fine management in production and operation. Measures drafted at the beginning of 2007 for reducing costs and expenses were conjointly implemented. Energy saving was effectively advanced and some technologies concerning environmental protection and energy conservation were carried out. Compared with 2006, the comprehensive energy consumption for every Rmb 10,000 of production value decreased by 1.1

per cent, and despite the growth in the Group's production, total industrial water consumption decreased by 9.4 per cent and total COD emission decreased by 5.2 per cent. By exerting great efforts to improve the proportion of direct selling and to reduce intermediate expenses of sales, the Group's selling expenses were 0.5 per cent lower than those of 2006. Due to the payment for employee reduction expenses as a result of the divestiture of the overhaul and maintenance centre, administrative expenses increased by 11.9 per cent from those of 2006. Due to a significant increase in the interest income as a result of abundant cash and decrease in discounted bills, net finance income increased by 399.4 per cent from those of 2006. The total increase in selling expenses, administrative expenses and net finance income was 1.8 per cent from those figures for 2006.

(3) R&D

In 2007, The Group further exerted the integral advantage of product development team, and extended the work of fixing production line, variety and customer so as to organize products development and production. Development of thirty-six new polyester products was successfully completed. Fourteen patent rights were obtained. Products such as FG610 and FG620 film-grade chips, specialised staple fiber for textile and specialised staple fiber for hydrophilic were put into batch production and put into the market. In 2007, the Group's total production volume of specialised polyester chips amounted to 8,516,060,000 tonnes and the specialised rate was 81.8 per cent, 2.8 percentage points higher than that of last year. The total production volume of differential polyester fibre amounted to 4,660,690,000 tonnes and the differential rate of polyester fibre was 69.0 per cent, 5.1 percentage points higher than that of last year.

(4) Internal reform and management

In 2007, all reform adjustments advanced smoothly. Non-core business divestiture of the overhaul and maintenance center was smoothly completed and the reform of other particular items also steadily advanced. The employment and remuneration system reforms were continually advanced. "Compete for Appointment" was carried out for operations and service positions and the position performance evaluation was further extended. In 2007, the number of employees decreased by 1,351 by voluntary resignation contracts or through divestiture of non-core business.

B. Result of Operation and Financial Position

1. Production volume

	For the year ended 31 December			
	2007		2006	
	Production volume (tonnes)	Per cent of total production volume (%)	Production volume (tonnes)	Per cent of total production volume (%)
Polyester products				
Chips	1,457,946	68.3	1,397,772	67.9
Of which: bottle-grade polyester chips	416,318	19.5	396,080	19.2
Staple fibre	447,596	21.0	452,928	22.0
Hollow fibre	52,783	2.5	52,458	2.6
Filament	174,820	8.2	154,729	7.5
Total	2,133,145	100.0	2,057,887	100.0

2. Sales volume

	For the year ended 31 December			
	2007		2006	
	Sales volume (tonnes)	Per cent of total sales volume (%)	Sales volume (tonnes)	Per cent of total sales volume (%)
Polyester products				
Polyester chips	1,025,404	59.8	997,991	58.3
Of which: bottle-grade polyester chips	416,166	24.3	397,258	23.2
Staple fibre	456,325	26.6	477,094	27.9
Hollow fibre	53,314	3.1	53,098	3.1
Filament	179,683	10.5	183,823	10.7
Total	1,714,726	100.0	1,712,006	100

3. Average Prices for products (excluding VAT) (Rmb/tonnes)

	For the year ended 31 December		
	2007	2006	Change (%)
Polyester products			
Polyester chips	9,458	9,327	1.4
Staple fibre	10,084	9,924	1.6
Hollow fibre	10,831	10,494	3.2
Filament	10,528	10,547	(0.2)
Weighted average price	9,779	9,661	1.2

4. Turnover

	For the year ended 31 December			
	2007		2006	
	Turnover Rmb'000	Per cent of turnover %	Turnover Rmb'000	Per cent of turnover %
Polyester products				
Polyester chips	9,698,563	56.5	9,308,194	53.8
Staple fibre	4,601,461	26.8	4,734,752	27.4
Hollow fibre	577,443	3.3	557,208	3.2
Filament	1,891,669	11.0	1,938,856	11.2
Others	406,520	2.4	768,626	4.4
Total	17,175,656	100.0	17,307,636	100.0

In 2007, despite the Group exerted efforts to increase PTA production volume, strengthen internal management, exercise better control over costs and expenses, and optimising products mix, the Group's operating profit and profit before taxation amounted to Rmb 7,842,000 and Rmb 11,366,000 respectively, representing a decrease of 91.9 per cent and 82.3 per cent as compared with last year respectively due to the payment of Rmb 89,239,000 for employee reduction expenses in relation to the restructuring of the repairs and maintenance department and the operational circumstances of the domestic polyester industry had not distinctly changed. Profit attributable to equity shareholders of the Group amounted to Rmb 22,312,000, representing a decrease of 44.9 per cent as compared with last year.

5. Financial analysis

The Group's primary sources of funds come from operating activities, short-term and long-term borrowings, and the funds are primarily used for working capital, capital expenditures and repayment of short-term and long-term borrowings

(1) Assets, liabilities and shareholders' equity analysis

As at 31 December 2007, the Group's total assets were Rmb 9,931,984,000, total liabilities were Rmb 1,764,135,000, and total equity attributable to equity shareholders of the Company were Rmb 8,167,849,000. Compared with the assets and liabilities as at 31 December 2006 (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 Rmb 9,931,984,000, a decrease of Rmb 114,127,000 as compared with the end of last year. Current assets were Rmb 4,468,311,000, an increase of Rmb 442,249,000 as compared with the end of last year. The increase was mainly due to the significant increase in bills receivable by Rmb 604,387,000 as more customers used bills to settle their purchases from the Group. Non-current assets were Rmb 5,463,673,000, a decrease of Rmb 556,376,000 as compared with the end of last year, which was mainly due to ordinary depreciation and amortization.

Total liabilities were Rmb 1,764,135,000, a decrease of Rmb 108,772,000 as compared with the end of last year. Current liabilities were Rmb 1,764,135,000, a decrease of Rmb 108,772,000 as compared with the end of last year, which was mainly due to the decrease of Rmb 100,425,000 in trade and other payables.

Total equity attributable to equity shareholders of the Company was Rmb 8,167,849,000, an increase of Rmb 42,297,000 as compared with the end of last year, mainly due to Rmb 22,312,000 for profit attributable to equity shareholders of the Group.

As at 31 December 2007, total liabilities to total assets ratio was 17.8 per cent, and 18.6 per cent as at 31 December 2006.

(2) Cash flow analysis

At the end of 2007, cash and cash equivalents decreased by Rmb 473,406,000, representing a decrease from Rmb 933,153,000 as at 31 December 2006 to Rmb 459,747,000 as at 31 December 2007. The following table lists major items in the consolidated cash flow statement of the Group for the year 2007 and 2006.

In 2007, the Group's net cash outflow from operating activities was Rmb 68,349,000, representing a decrease of Rmb 859,681,000 as compared with last year. The main reasons were: (1) trade and other receivables increased by Rmb 703,169,000, whereas, there was an increase by Rmb 399,353,000 in this regard in 2006. As a result, the net cash flow from operating activities decreased by Rmb 304,266,000. (2) trade and other payables decreased by Rmb 69,872,000, whereas, there was an increase by Rmb 583,193,000 in this regard in 2006. As a result, the net cash flow from operating activities decreased by Rmb 653,065,000.

In 2007, the Group's net cash outflow from investing activities was Rmb 404,818,000, an increase of cash outflow by Rmb 357,113,000 as compared with last year. The main reasons were time deposits with banks and other financial institutions increased by Rmb 457,000,000, while the deposits in 2006 increased by Rmb 92,002,000, which increased cash outflows by Rmb 364,998,000.

In 2007, the Group's net cash outflow from financing activities was Rmb 239,000, a decrease of cash outflow by Rmb 177,115,000 as compared with last year. This was mainly because that the Group repaid all the long-term loans in 2006.

(3) Bank borrowings

As at 31 December 2007, the Group's bank borrowings were zero (as at 31 December 2006: zero).

(4) Assets charges

For the year ended 31 December 2007, there was not any charge on the Group's assets.

(5) Management of foreign exchange risk

Main receivables and payables items of the Group are dominated in Renminbi. Foreign currency used in the Group's operation was dominated in US dollars and were settled immediately under current items. Therefore, there is no material effect on the Group resulting from the fluctuations in foreign exchange rates.

(6) Debt-equity ratio

The debt-equity ratio of the Group was zero for 2007 (2006: zero). The ratio is computed as long-term borrowings divided by the sum of long-term borrowings and shareholders' equity.

6. Statement of the operations by products (prepared in accordance with the PRC Accounting Standards for Business Enterprises (2006))

Products	Operating income Rmb'000	Cost of sales Rmb'000	Gross profit margin (%)	Increase / (decrease) in operating income as compared with last year (%)	Increase / (decrease) in cost of sales as compared with last year (%)	Gross profit margin as compared with last year (%)
Polyester products	16,769,136	15,888,679	5.3	1.4	(0.9)	Increased by 2.3 percentage points
Of which : connected transactions	198,403	187,518	5.5	(7.7)	(8.6)	Increased by 0.9 percentage points

During 2007, the Company hadn't sold any products or provided any services to its controlling shareholders and their subsidiaries.

7. Major suppliers and customers

Aggregate purchase amounts from the top five largest suppliers	Rmb 9,242,754,000	Per cent of total purchases	57.9%
Aggregate sales amounts to the top five largest customers	Rmb 2,282,441,000	Per cent of total sales	13.3%

8. Acquisition, divestment and investment

The Group did not make any material acquisition, divestment and investment in relation to any of its subsidiaries or associates in 2007.

9. Capital expenditure

In 2007, the Group's total capital expenditure amounted to Rmb 110,568,000. In order to maximise investment contribution, the Group strengthened investment management in accordance with the prudence principle. Projects such as saving energy consumption, safety and environmental protection, and reducing costs and expenses, which increase profit generation from existing assets, were completed in succession. Meanwhile, the Group actively advanced effective development and accelerate the upgrade of industry structure. Preparation works for the three key projects such as the PTA project with an annual capacity of 1,000,000 tonnes, the aramid fiber project with an annual capacity of 100 tonnes and the high performance polyethylene project with an annual capacity of 300 tonnes were finished.

C. Prospects

1. Market Analysis

According to the 2008 market analysis, the Group considers: Firstly, PRC's economy will still keep a fast growth and domestic demand for textiles will continue to expand, which will further drive the development of domestic polyester industry. Secondly, Due to the competitive advantage of the PRC's textile industry in the international market, the steady rise of the PRC's textile and costume exports is expected to continue as well, which will promote the steady increase in domestic demand for polyester products. At the same time, owing to the excessive polyester production capacity, polyester industry will still remain at the stage of profound adjustment while the profit margin of polyester products will not be distinctly improved. Furthermore, some factors such as credit control, the adjustment of PRC's VAT rebates policy and Renminbi appreciation are expected to increase the business risks of downstream textiles enterprises, which in turn should intensify the market risk to the domestic polyester industry. Since 1 January 2008, the PRC import tariffs on PTA, MEG and PX have remained at 6.5 per cent, 5.5 per cent and 2 per cent respectively. The new PRC import tariffs on polyester chip have been lowered to 6.5 per cent, while the import tariffs on polyester staple fibre and polyester filament both remain at 5 per cent.

It is expected that global crude oil prices will continue to fluctuate immoderately at a high level. The supply of PX and MEG will still remain limited. With new domestic PTA facilities to be put into operation, the limited supply of PTA will be gradually improved. The prices of domestic polyester products will fluctuate against the cost drive of polyester raw materials. As a result, the Group will still be faced with challenging operational conditions.

2. Business strategy

In 2008, the Group will stick to market orientation, take profit as a center, continue to strengthen safe production and energy saving, vigorously fine management, reduce costs and expenses, advance technology innovation and accelerate effective development so as to refine the core business of polyester chemical manufacturing. The following will be set as priorities in 2008:

(1). Follow closely the market, strengthen product marketing and raw material purchases so as to expand profit margin

The Group will follow closely the market, vigorously raise prices and profit by perfecting the coordination mechanism between production and marketing. The proportion of direct selling will be increased and intermediate expenses of sales will be reduced. Technical service in the process of sale will be strengthened. Customer visit, and new products and brand promotion will be also well organized so as to add value to products. The Group will analyse market changes and the Company's stock structure of raw materials so as to realise the change of raw material purchasing from ensuring supply to anticipating the market and further reduce purchasing costs. To meet the target ratio of 100 per cent sales-to-production, the planned volume of polyester products sales is 1,725,000 tonnes.

(2). Comprehensively deploy the safety and environment protection responsibility system to maintain safe and stable operation of facilities

The Group will continue to strengthen safety and environment management, further put its safety responsibility system into effect, and strengthen spot management and implement controls over key facilities so as to reduce unexpected production interruptions and maintain safe, stable, high-grade, and low energy-consumption operations. Meanwhile, to realise the efficient operation of facilities, the Group will dynamically adjust and optimise the product mix and the capacity utilisation rate of facilities according to market changes, costs, and profits. In 2008, the planned volume of polyester product production is 2,163,000 tonnes, of which self-consumption volume is 438,000 tonnes. The planned production volume of PTA is 1,020,000 tonnes.

(3). Further strengthen fine management and constantly improve management

The Group will strengthen system establishment by centering internal control system so as to control business risk. The Group will extend overall budget control and firmly manage unplanned expenses so as to realise its cost reduction targets. The quality of management will be strengthened, and quality standards will be enhanced to further regulate and improve product quality. A new round of "Compete for Appointment" will be carried out for management and technology positions so as to further optimize position standards and staff allocation. Meanwhile, the Group will extend performance evaluation so as to establish an effective stimulating and binding mechanism.

(4). Conserve energy and raw materials and thoroughly improve potential and efficiency

The Group will take active and effective measures to realise the aim of the cost-and-expense reduction items set at the beginning of 2008. Meanwhile, the Group will improve control indicator system and appraised measure on energy saving and carry out position energy saving responsibility system so as to complete its energy saving targets. Compared with 2007, the comprehensive energy consumption for every Rmb 10,000 of production value will be expected to decrease by 3.8 per cent, and despite the growth in the Group's production, total industrial water consumption will be expected to decrease by 1.8 per cent and total COD emission will be expected to decrease by 1.0 per cent.

(5). Extend product structural adjustments and continually advance technology innovation so as to add value to products

The Group will stick to market orientation, take profit as a center, and strive to develop new products and continually add value by further exerting the integral advantage of product development team. Meanwhile, the Group will expand and optimise the production of specialised and differentiated products which have strong profitability so as to increase profit contribution. There are 38 product items planned for new development. The Group's projected production volume of differentiated fibre and specialised polyester chips products for 2008 will be 493,000 tonnes and 883,000 tonnes, respectively, while the differential rates for differentiated and specialised products are expected to be 72.3 per cent and 84.7 per cent.

(6). Concentrate new projects construction and promote the adjustment of industrial structure

The Group will accelerate effective development and actively advanced the upgrade of industrial structure. The construction of the three key projects such as the PTA project with an annual capacity of 1,000,000 tonnes, the aramid fiber project with an annual capacity of 100 tonnes and the high performance polyethylene project with an annual capacity of 300 tonnes will be initiated as soon as possible. PTA project with an annual capacity of 1,000,000 tonnes will be started construction in the first half of 2008 and is expected to be completed and put into operation in the first half of 2010. Aramid fiber project with an annual capacity of 100 tonnes and high performance polyethylene project with an annual capacity of 300 tonnes are expected to be completed and put into operation in 2008, which will create profits for the Group.

The Company's capital expenditure for the year 2008 is expected to be approximately Rmb 1,206,800,000, including: Rmb 800,000,000 for the PTA project with an annual capacity of 1,000,000 tonnes, Rmb 60,000,000 for the aramid fiber project with an annual capacity of 100 tonnes and Rmb 100,000,000 for the high performance polyethylene project with an annual capacity of 300 tonnes. In order to maximize return on investment, the Company will strengthen investment management in accordance with the prudence principle. The planned capital expenditures will be funded from cash generated from operations and bank credit facilities.

D. Proposed scheme of profit distribution

In accordance with the PRC Accounting Standards for Business Enterprises (2006), the net profit of the Company for 2007 was Rmb 18,625,000 (the profit attributable to equity shareholders of the Company for 2007 was Rmb 10,236,000 under IFRSs). The accumulated losses, including the accumulated losses of Rmb 430,912,000 brought forward from the previous year, was Rmb 412,287,000 at the end of 2007.

According to the relevant regulations of the PRC and the Articles of Association of the Company, no proposed transfers to the statutory surplus reserve. Moreover, According to items 167 of the Company Law that was effective from 1 January 2006, no proposed transfers to the statutory public welfare fund.

It is proposed that no final cash dividend for 2007 be paid.

The above proposed profit distribution scheme shall be submitted for approval in the 2007 AGM.

6. REPORT OF THE SUPERVISORY COMMITTEE

The Supervisory Committee believes that during the reporting period the Board operated in strict compliance with the laws and related regulations. There was no unusual situation in connection with the Company's financial affairs and connected transactions.

7. SIGNIFICANT EVENTS

(1). During the reporting period, the Company did not have any material litigation or arbitration.

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

The non-circulating shareholders has not brought forward new proposal of share reform at present.

(3). During the reporting period, the Group did not have any acquisition and disposal of assets as well as merger and acquisition.

(4). Information on connected transactions

The Group's material connected transactions entered into during the year ended 31 December 2007 were as follows:

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

Type of transaction	Transaction parties	Amount of transaction Rmb'000	Proportion of the same type of transaction (%)
Purchase of raw materials	Sinopec and its subsidiary	8,970,018	62.7
	Of which: Sinopec Yangzi Petrochemical Company Limited	3,829,354	26.8
	China Petroleum & Chemical Corporation, Zhenhai Branch	3,825,511	26.7

The Group is of the opinion that the above-mentioned connected transactions and related connected parties were necessary and continuous, and that the agreement governing these transactions were fitted with the requirements of business operation and market situation. Meanwhile, The Company is of the opinion that purchasing of goods from the above related parties ensures a steady and secured supply of raw materials. Therefore, these connected transactions are beneficial to the Group. These transactions were negotiated at market price. The above transactions have no adverse effect on the profit and independency of the Company.

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

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

The Board believed that the above transactions were entered into the ordinary course of business and in normal commercial terms or in accordance with the terms of agreements governing these transactions. For details of connected transactions entered into by the Company during the reporting period, please refer to note 37 of the financial statements prepared in accordance with the PRC Accounting Standards for Business Enterprises (2006). Independent directors have reviewed the above-mentioned connected transactions according to the regulations as stipulated in the Listing Rules, and made necessary confirmation in a letter submitted to the Board on 7 April 2008. Auditors of the Company have reviewed the above-mentioned connected transactions and provided a letter to the Board on 7 April 2008.

(5). The Company did not have any asset leased or contracted to or held on trust for other companies. Furthermore, the Company did not lease or contract any asset from other companies and did not have assets held by other companies.

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

(7). As at 31 December 2007, the Group did not have any designated deposits with any financial institutions or have any difficulties in collecting deposits upon maturity. The Group had no trusted financial matters during the reporting period.

(8). 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.

(9). Constructions of the aramid fiber project with an annual capacity of 100 tonnes, the high performance polyethylene project with an annual capacity of 300 tonnes and improvements project of stove desulphurization of thermoelectricity center were approved for investment in the 25th meeting of the Board of the fifth term held on 7 April 2008. The estimated investment of the aramid fiber project amounted to Rmb 118,520,000 and is expected to be completed and put into operation in December 2008. The estimated investment of the high performance polyethylene project amounted to Rmb 62,850,000 and is expected to be completed and put into operation in November 2008. The estimated investment of improvements project of stove desulphurization of thermoelectricity center amounted to Rmb 96,040,000 and is expected to be completed and put into operation in August 2009.

Presently, the above projects are implemented on schedule.

(10). As reported in the Group's interim report for the six months ended 30 June 2007 ("the interim report"), the State Administration of Taxation ("SAT") issued a tax circular "Enterprise Income Tax Issues relating to Nine Companies Listed Overseas" (Guoshuihan [2007] No. 664) ("the Notice") in June 2007, stating that the Enterprise Income Tax ("EIT") preferential policy has expired for the first batch of H-share companies. The Company is one of the nine listed companies mentioned above and has applied the preferential EIT rate of 15% till the year 2006. The Notice stated that the expired concessionary tax policy should be rectified immediately and the difference in 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 communicated with the relevant tax authority 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. As a result, the charge for PRC income tax for the year is calculated at the rate of 33% on the estimated assessable income of the year determined in accordance with relevant income tax rules and regulations. However, up until now the Company has not been requested to pay additional EIT in respect of any prior years. 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 are unified at 25% and will be effective from 1 January 2008. Therefore, the applicable income tax rate for the Company since 1 January 2008 is 25%.

(11). In order to refine the core business and further strengthen competitiveness, the Company implemented the divestiture of part of the employees of the overhaul and maintenance centre, approved by the 18th meeting of the fifth term held on 26 July 2007. The Company has terminated the employment agreements of 1,089. According to relevant policy of the PRC, severance payments are to be made and the total amounts were Rmb 89,239,000. The said payments will be accounted for in the income statement for 2007.

(12). In order to refine the core business, during the year ended 31 December 2007, Yihua Kangqi disposed of its thirteen subsidiaries in order to streamline the Group's operational and organisational structure. Yihua Kangqi sold its entire equity interest in six of the subsidiaries to minority interests and liquidated its remaining seven subsidiaries. As at 31 December 2007, the disposal has been completed. A disposal income of RMB 2,771,000 has been recognised and is included in the income statement.

(13). According to "Protocol on the Accession of the PRC" and the related legal documents, the PRC government must reduce the import tariff rates on the polyester products and major polyester raw materials from 1 January 2008 in accordance with the progressive table below:

Type	2001	2002	2003	2004	2005	2006	2007	2008
Polyester chips	16%	12.8%	11.8%	10.7%	9.7%	8.6%	7.6%	6.5%
Polyester staple fibre	17%	10.6%	7.8%	5%	5%	5%	5%	5%
Polyester filament	21%	14%	11%	8%	5%	5%	5%	5%
PX	8%	5%	4%	3%	2%	2%	2%	2%
MEG	12%	8.8%	7%	5.5%	5.5%	5.5%	5.5%	5.5%
PTA	14%	12.8%	8%*	7%*	6.5%*	6.5%*	6.5%*	6.5%*

* Temporary most-favored-nation tariff rate, effective in the relevant year

Upon formal entry into WTO, import quotas for polyester and polyester fibre products were completely removed.

8. FINANCIAL REPORT

8.1 Audit Opinion

The financial statements of Sinopec Yizheng Chemical Fibre Company Limited ("the **Company**") and its subsidiary ("the **Group**") prepared under the PRC Accounting Standards for Business Enterprises (2006) ("**ASBE (2006)**") have been audited by Hu Qiong and Yu Xiao-jun of KPMG Huazhen and an audit report with an unqualified audit opinion was issued on 7 April 2008. Also, the consolidated financial statements of the Group prepared under International Financial Reporting Standards ("**IFRSs**") have been audited by KPMG and an audit report with an unqualified audit opinion was issued on 7 April 2008.

8.2 Financial statements prepared in accordance with International Financial Reporting Standards

The following financial information has been extracted from the Group's audited financial statements, prepared in accordance with IFRSs, for the year ended 31 December 2007.

Consolidated income statement
For the year ended 31 December 2007

		2007	2006
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(restated)</i>
Turnover	4	17,175,656	17,307,636
Cost of sales		<u>(16,555,142)</u>	<u>(16,755,008)</u>
Gross profit		620,514	552,628
Other income		19,189	63,981
Selling expenses		(193,918)	(194,861)
Administrative expenses		(295,838)	(264,411)
Other expenses		(40,386)	(49,878)
Employee reduction expenses	5	<u>(101,719)</u>	<u>(10,404)</u>
Operating profit before net finance income		7,842	97,055
		-----	-----
Financial income		36,340	19,475
Financial expenses		<u>(8,289)</u>	<u>(13,858)</u>
Net finance income		28,051	5,617
		-----	-----
Share of loss of jointly controlled entity		(24,527)	(38,339)
		=====	=====
Profit before taxation	6	11,366	64,333
Income tax credit/(expense)	7	<u>11,890</u>	<u>(23,450)</u>
Profit for the year		<u>23,256</u>	<u>40,883</u>
Attributable to:			
Equity shareholders of the Company		22,312	40,468
Minority interests		<u>944</u>	<u>415</u>
Profit for the year		<u>23,256</u>	<u>40,883</u>
Basic and diluted earnings per share (in RMB)	9	<u>0.006</u>	<u>0.010</u>

**Consolidated balance sheet
As at 31 December 2007**

	<i>Note</i>	2007 <i>RMB'000</i>	2006 <i>RMB'000</i> <i>(restated)</i>
Non-current assets			
Property, plant and equipment		4,953,561	5,508,765
Construction in progress		89,566	114,037
Lease prepayments		126,430	116,647
Interest in jointly controlled entity		156,184	180,711
Deferred tax assets		<u>137,932</u>	<u>99,889</u>
		5,463,673	6,020,049
		-----	-----
Current assets			
Inventories		1,257,187	1,355,900
Trade and other receivables	10	2,176,377	1,619,009
Deposits with banks and other financial institutions		575,000	118,000
Cash and cash equivalents		<u>459,747</u>	<u>933,153</u>
		4,468,311	4,026,062
		-----	-----
Current liabilities			
Trade and other payables	11	1,764,126	1,864,551
Income tax payable		<u>9</u>	<u>8,356</u>
		1,764,135	1,872,907
		=====	=====
Net current assets		<u>2,704,176</u>	<u>2,153,155</u>
		-----	-----
Total assets less current liabilities		<u>8,167,849</u>	<u>8,173,204</u>
Net assets		<u>8,167,849</u>	<u>8,173,204</u>
Equity			
Share capital		4,000,000	4,000,000
Share premium		2,518,833	2,518,833
Reserves	12	1,279,928	1,259,943
Retained profits		<u>369,088</u>	<u>346,776</u>
Total equity attributable to equity shareholders of the Company		8,167,849	8,125,552
Minority interests		<u>-</u>	<u>47,652</u>
Total equity		<u>8,167,849</u>	<u>8,173,204</u>

Consolidated Statement of Changes in Equity
For the year ended 31 December 2007

	Note	Attributable to equity shareholders of the Company				Minority interests RMB'000	Total equity RMB'000
		Share capital RMB'000	Share premium RMB'000	Reserves RMB'000	Retained profits RMB'000	Total RMB'000	
As at 1 January 2006		4,000,000	2,518,833	1,246,672	306,308	8,071,813	8,123,917
Income recognised directly in equity - others		-	-	13,271	-	13,271	13,271
Profit for the year		-	-	-	40,468	415	40,883
Total recognised income for the year		-	-	13,271	40,468	415	54,154
Acquisitions of minority interests in subsidiaries		-	-	-	-	(2,604)	(2,604)
Dividends paid to minority shareholders		-	-	-	-	(2,263)	(2,263)
As at 31 December 2006		4,000,000	2,518,833	1,259,943	346,776	47,652	8,173,204
Income recognised directly in equity - adjustment of deferred tax on land use rights due to change in income tax rate	7	-	-	19,985	-	-	19,985
Profit for the year		-	-	-	22,312	944	23,256
Total recognised income for the year		-	-	19,985	22,312	944	43,241
Dividends paid to minority shareholders		-	-	-	-	(239)	(239)
Disposal of subsidiaries	6	-	-	-	-	(48,357)	(48,357)
As at 31 December 2007		<u>4,000,000</u>	<u>2,518,833</u>	<u>1,279,928</u>	<u>369,088</u>	<u>-</u>	<u>8,167,849</u>

Notes:

1 Principal activities and basis of preparation

The Group is principally engaged in the production and sale of chemical fibre and chemical fibre raw materials in the People's Republic of China (**"the PRC"**). China Petroleum & Chemical Corporation is the Company's immediate parent company and China Petrochemical Corporation is the Company's ultimate controlling company.

The consolidated financial statements have been prepared in accordance with 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 ASBE (2006). Significant differences between the financial statements prepared in accordance with IFRSs and ASBE (2006) are summarised in section 8.4.

The IASB has issued certain new and revised IFRSs and IASs (**"new IFRSs"**) that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2(b) 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.

2 Changes in accounting policies

(a) Change in basis of consolidation

In prior years, interest in jointly controlled entity was accounted for in the consolidated financial statements on a proportionate consolidation basis. With effect from 1 January 2007, interest in jointly controlled entity is accounted for in the consolidated financial statements by using the equity method. This change is to achieve a consistency between the accounting policies adopted in the financial statements of the Group prepared under IFRSs and ASBE (2006). The effect of this change did not have an impact on the profit and the equity attributable to equity shareholders of the Company in the periods prior to the change.

2 Changes in accounting policies (continued)

The financial condition as at 31 December 2006 and the results of operation for the year 2006 previously reported by the Group have been restated to apply the equity method for interest in jointly controlled entity, as set out below:

	The Group, as previously reported RMB'000	Effect of accounting for interest in jointly controlled entity under equity method RMB'000	The Group, as restated RMB'000
Consolidated income statement items for the year 2006:			
Turnover	17,027,846	279,790	17,307,636
Gross profit	549,425	3,203	552,628
Operating profit before net finance income	61,610	35,445	97,055
Share of loss of jointly controlled entity	-	(38,339)	(38,339)
Profit before taxation	64,333	-	64,333
Profit for the year	40,883	-	40,883
Profit attributable to equity shareholders of the Company	40,468	-	40,468
Consolidated balance sheet items as at 31 December 2006:			
Non-current assets	6,090,850	(70,801)	6,020,049
Interest in jointly controlled entity	-	180,711	180,711
Current assets	4,064,589	(38,527)	4,026,062
Current liabilities	1,982,235	(109,328)	1,872,907
Net current assets	2,082,354	70,801	2,153,155
Net assets	8,173,204	-	8,173,204
Total equity attributable to equity shareholders of the Company	8,125,552	-	8,125,552
Total equity	8,173,204	-	8,173,204

2 Changes in accounting policies (continued)

(b) Initial application of new IFRSs:

The IASB has issued a number of new and revised IFRSs and Interpretations that are effective for accounting periods beginning on or after 1 January 2007.

The accounting policies of the Group and the Company after the adoption of these new IFRSs have been summarised in note 2 to the financial statements, prepared under IFRSs, for the year ended 31 December 2007. As a result of the adoption of IFRS 7, *Financial instruments: Disclosures* and the amendment to IAS 1, *Presentation of financial statements: Capital disclosures*, there have been some additional disclosures provided as follows:

As a result of the adoption of IFRS 7, the financial statements include expanded disclosure about the significance of the Group's financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by IAS 32, *Financial instruments: Disclosure and presentation*.

The amendment to IAS 1 introduces additional disclosure requirements to provide information about the level of capital and the Group's and the Company's objectives, policies and processes for managing capital.

Additional disclosures are provided in the financial statements prepared under IFRSs, for the year ended 31 December 2007.

Both IFRS 7 and the amendment to IAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial instruments.

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

3 Segment reporting

The Group's profits are almost entirely attributable to the production and sales of chemical fibre and chemical fibre raw materials in the PRC. Accordingly, no segmental analysis is provided by the Group.

4 Turnover

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

5 Employee reduction expenses

During the year ended 31 December 2007, the Group recognised employee reduction expenses of RMB 101,719,000 (2006: RMB 10,404,000) in respect of the reduction of 1,351 (2006: 170) employees, including lump sum severance payments of RMB 89,239,000 made to 1,089 employees of the repairs and maintenance department in May 2007.

6 Profit before taxation

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

	<i>Note</i>	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Interest on borrowings		624	6,441
Interest on discounting bills		<u>5,619</u>	<u>5,423</u>
Interest expense		6,243	11,864
Cost of inventories		16,555,142	16,755,008
Depreciation		643,525	659,851
Net loss on disposal of property, plant and equipment		22,337	19,396
Impairment losses of trade and other receivables		10,146	2,954
Auditors' remuneration - audit services		4,800	5,161
Amortisation of lease prepayments		3,009	3,495
Interest income		(33,152)	(17,479)
Gain on disposal of lease prepayments		(8,486)	-
Gain on disposal of subsidiaries	(a)	(2,771)	-
Gain on disposal of investments		-	(655)
Gain on disposal of available-for-sale equity securities		<u>-</u>	<u>(19,500)</u>

- (a) During the year ended 31 December 2007, the subsidiary of the Group, Yihua Kangqi Chemical Fibre Company Limited, disposed of its thirteen subsidiaries in order to streamline the Group's operational and organisational structure. Six of these subsidiaries' equity interests were sold to their minority shareholders and the other seven subsidiaries were liquidated. As of 31 December 2007, all the disposals were completed. Gain on disposal of RMB 2,771,000 has been recognised and is included in "Other income" of the consolidated income statement.

7 Income tax

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Current tax		
- Provision for the year	3,231	10,970
- Under-provision in respect of prior years	<u>2,937</u>	<u>2,178</u>
	6,168	13,148
(Origination)/reversal of deferred tax assets	<u>(18,058)</u>	<u>10,302</u>
	<u>(11,890)</u>	<u>23,450</u>

7 Income tax (continued)

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. As a result, the charge for PRC income tax for the year is calculated at the rate of 33% (2006: 15%) on the estimated assessable income of the period determined in accordance with relevant income tax rules and regulations.

Up until 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 enterprise income tax rates applicable to the Company’s principal subsidiaries in the PRC are 33% (2006: 15% to 33%). The Group did not carry on business overseas and therefore does not incur overseas income taxes.

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 are unified at 25% and will be effective from 1 January 2008.

As the EIT rate applicable to the Company will be changed from 33% in 2007 to 25% in 2008, deferred tax recognised as at 31 December 2007 is based on the corresponding tax rate that are expected to apply to the period when the asset is realised or the liability is settled. As a result, RMB 40,659,000 and RMB 19,985,000 have been adjusted in the income statement and equity respectively due to the change in tax rate on deferred tax.

8 Dividends

No final dividend was proposed after the balance sheet date in respect of the years ended 31 December 2007 and 2006.

9 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB 22,312,000 (2006: RMB 40,468,000) and the weighted average number of ordinary shares of 4,000,000,000 (2006: 4,000,000,000) in issue during the year.

(b) Diluted earnings per share

There were no dilutive potential ordinary shares in existence during the years ended 31 December 2007 and 2006.

10 Trade and other receivables

	2007 RMB'000	2006 RMB'000
Trade receivables	196,038	301,152
Bills receivable	1,583,804	979,417
Amounts due from parent company and fellow subsidiaries (trade)	73,255	86,103
Amounts due from jointly controlled entity (trade)	<u>30,561</u>	<u>3,379</u>
	1,883,658	1,370,051
Less: Allowance for doubtful debts	<u>(1,258)</u>	<u>(21,756)</u>
	1,882,400	1,348,295
Amounts due from parent company and fellow subsidiaries (non-trade)	273	451
Amounts due from jointly controlled entity (non-trade)	480	2,929
Other receivables, deposits and prepayments	<u>300,477</u>	<u>288,555</u>
	301,230	291,935
Less: Allowance for doubtful debts	<u>(7,253)</u>	<u>(21,221)</u>
	293,977	270,714
	<u>2,176,377</u>	<u>1,619,009</u>

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

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

	2007 RMB'000	2006 RMB'000
Current	1,880,420	1,337,974
Less than 12 months past due	<u>1,980</u>	<u>10,321</u>
	<u>1,882,400</u>	<u>1,348,295</u>

Trade receivables, amounts due from the parent company and fellow subsidiaries (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.

11 Trade and other payables

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Trade payables	1,255,775	1,374,545
Amounts due to parent company and fellow subsidiaries (trade)	133,478	83,851
Amounts due to jointly controlled entity (trade)	<u>11,067</u>	<u>6,307</u>
	1,400,320	1,464,703
Amounts due to parent company and fellow subsidiaries (non-trade)	4,908	6,657
Other payables and accrued expenses	<u>358,898</u>	<u>393,191</u>
	<u><u>1,764,126</u></u>	<u><u>1,864,551</u></u>

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

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Due within one month or on demand	1,387,693	1,454,005
Due after one month but within twelve months	<u>12,627</u>	<u>10,698</u>
	<u><u>1,400,320</u></u>	<u><u>1,464,703</u></u>

The amounts due to the parent company and fellow subsidiaries (non-trade) and amounts due to the subsidiary (non-trade) are unsecured, interest free and have no fixed repayment terms.

12 Reserves

For the year ended 31 December 2007, no transfers were made to the statutory surplus reserve, or the discretionary surplus reserve (2006: RMB nil).

13 Comparative figures

Certain comparative figures have been adjusted or reclassified as a result of the change in accounting policy, details of which are set out in note 2(a).

8.3 Financial statements prepared in accordance with the PRC Accounting Standards for Business Enterprises (2006)

The following financial information has been extracted from the Group's audited financial statements, prepared in accordance with ASBE (2006) for the year ended 31 December 2007.

Balance sheets

(Expressed in thousands of renminbi yuan)

	<i>The Group</i>		<i>The Company</i>	
	<i>At</i>	<i>At</i>	<i>At</i>	<i>At</i>
	<i>31 December</i>	<i>31 December</i>	<i>31 December</i>	<i>31 December</i>
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
Assets				
Current assets				
Cash at bank and on hand	1,034,747	1,051,153	946,953	910,845
Bills receivable	1,612,417	979,417	1,584,092	904,599
Accounts receivable	199,910	301,849	199,910	296,588
Prepayments	72,674	67,243	72,674	62,233
Other receivables	91,325	81,955	90,835	69,988
Inventories	<u>1,257,187</u>	<u>1,355,900</u>	<u>1,257,187</u>	<u>1,321,150</u>
Total current assets	<u>4,268,260</u>	<u>3,837,517</u>	<u>4,151,651</u>	<u>3,565,403</u>
Non-current assets				
Long-term equity investments	156,184	180,711	216,640	246,129
Fixed assets	4,831,660	5,361,789	4,829,186	5,344,652
Construction in progress	89,566	114,037	89,566	114,037
Intangible assets	436,102	458,103	436,102	458,103
Deferred tax assets	<u>95,449</u>	<u>73,646</u>	<u>95,449</u>	<u>73,646</u>
Total non-current assets	<u>5,608,961</u>	<u>6,188,286</u>	<u>5,666,943</u>	<u>6,236,567</u>
Total assets	<u><u>9,877,221</u></u>	<u><u>10,025,803</u></u>	<u><u>9,818,594</u></u>	<u><u>9,801,970</u></u>

Balance sheets (continued)

(Expressed in thousands of renminbi yuan)

	<i>The Group</i>		<i>The Company</i>	
	<i>At</i>	<i>At</i>	<i>At</i>	<i>At</i>
	<i>31 December</i>	<i>31 December</i>	<i>31 December</i>	<i>31 December</i>
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
Liabilities and shareholders' equity				
Current liabilities				
Accounts payable	1,279,510	1,141,420	1,279,510	1,141,057
Advances from customers	109,743	316,976	109,695	328,650
Employee benefits payable	136,101	222,315	136,101	206,969
Taxes payable	(187,840)	(159,543)	(187,849)	(172,659)
Other payables	226,570	163,194	325,796	162,768
Total current liabilities	1,564,084	1,684,362	1,663,253	1,666,785
Non-current liabilities				
Deferred tax liabilities	4,460	2,929	4,460	2,929
Total non-current liabilities	4,460	2,929	4,460	2,929
Total liabilities	1,568,544	1,687,291	1,667,713	1,669,714
Shareholders' equity				
Share capital	4,000,000	4,000,000	4,000,000	4,000,000
Capital reserve	3,107,164	3,107,164	3,107,164	3,107,164
Surplus reserve	1,456,004	1,456,004	1,456,004	1,456,004
Accumulated losses	(254,491)	(272,308)	(412,287)	(430,912)
Total equity attributable to equity shareholders of the Company	8,308,677	8,290,860	8,150,881	8,132,256
Minority interests	-	47,652	-	-
Total equity	8,308,677	8,338,512	8,150,881	8,132,256
Total liabilities and shareholders' equity	9,877,221	10,025,803	9,818,594	9,801,970

Income statement

(Expressed in thousands of renminbi yuan)

	<i>The Group</i>		<i>The Company</i>	
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
Operating income	17,175,656	17,307,636	16,951,183	16,539,146
Less: Operating costs	16,275,270	16,579,178	16,086,397	15,876,497
Business taxes and surcharges	44,141	31,170	43,492	29,859
Selling and distribution expenses	198,558	194,881	178,751	156,212
General and administrative expenses	632,856	431,925	624,067	415,426
Net financial income	(28,051)	(5,617)	(30,470)	(7,463)
Impairment loss	3,935	4,753	3,213	14,607
Add: Investment loss	(21,756)	(23,300)	(24,527)	(25,875)
(Including: Loss from investment in jointly controlled entity)	<u>(24,527)</u>	<u>(38,339)</u>	<u>(24,527)</u>	<u>(38,339)</u>
Operating profit	27,191	48,046	21,206	28,133
Add: Non-operating income	20,371	53,093	17,980	35,666
Less: Non-operating expenses	42,905	42,086	40,833	34,240
(Including: Loss from disposal of non-current assets)	<u>27,768</u>	<u>25,467</u>	<u>26,442</u>	<u>18,439</u>
Profit/(loss) before income tax	4,657	59,053	(1,647)	29,559
Less: Income tax expenses	<u>(14,104)</u>	<u>22,658</u>	<u>(20,272)</u>	<u>9,510</u>
Net profit for the year	<u>18,761</u>	<u>36,395</u>	<u>18,625</u>	<u>20,049</u>
Attributable to:				
Equity shareholders of the Company	17,817	35,980		
Minority shareholders	944	415		
Earnings per share				
Basic and diluted earnings per share (in RMB)	<u>0.004</u>	<u>0.009</u>		

Cash flow statement

(Expressed in thousands of renminbi yuan)

		The Group		The Company	
	Note	2007	2006	2007	2006
Cash flows from operating activities:					
Cash received from sale of goods and rendering of services		19,371,103	20,598,430	18,845,432	18,911,968
Refund of taxes		2,177	1,697	2,177	1,697
Other cash received relating to operating activities		7,932	32,946	7,119	29,595
Sub-total of cash inflows		19,381,212	20,633,073	18,854,728	18,943,260
Cash paid for goods and services		(17,745,678)	(18,112,804)	(17,224,610)	(16,764,738)
Cash paid to and for employees		(610,580)	(631,192)	(581,801)	(611,982)
Cash paid for all types of taxes		(786,445)	(719,665)	(751,676)	(689,328)
Other cash paid relating to operating activities		(300,615)	(366,216)	(209,117)	(145,447)
Sub-total of cash outflows		(19,443,318)	(19,829,877)	(18,767,204)	(18,211,495)
Net cash (outflow)/inflow from operating activities	(1)	(62,106)	803,196	87,524	731,765
Cash flows from investing activities:					
Net cash received from disposal of fixed assets and intangible assets		24,810	20,898	21,543	8,583
Net cash received from disposal of subsidiaries	(3)	96,952	9,626	-	23,050
Cash received from disposal of long-term investments		-	83,505	-	82,000
Other cash received relating to investing activities		33,152	17,479	30,877	14,935
Sub-total of cash inflows		154,914	131,508	52,420	128,568
Cash paid for acquisition of fixed assets and intangible assets		(102,732)	(87,211)	(102,189)	(83,269)
Sub-total of cash outflows		(102,732)	(87,211)	(102,189)	(83,269)
Net cash inflow/(outflow) from investing activities		52,182	44,297	(49,769)	45,299

Cash flow statement (continued)

(Expressed in thousands of renminbi yuan)

	Note	<i>The Group</i>		<i>The Company</i>	
		<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Cash flows from financing activities:					
Cash received from borrowings		<u>329,000</u>	<u>119,609</u>	<u>329,000</u>	<u>117,000</u>
Sub-total of cash inflows		<u>329,000</u>	<u>119,609</u>	<u>329,000</u>	<u>117,000</u>
Cash repayments of borrowings		(329,000)	(294,700)	(329,000)	(257,000)
Cash paid for dividends, profit distribution or interest		(6,482)	(14,127)	(1,647)	(8,166)
(Including: Profits paid to minority shareholders by subsidiaries)		<u>(239)</u>	<u>(2,263)</u>	<u>-</u>	<u>-</u>
Sub-total of cash outflows		<u>(335,482)</u>	<u>(308,827)</u>	<u>(330,647)</u>	<u>(265,166)</u>
Net cash outflow from financing activities		<u>(6,482)</u>	<u>(189,218)</u>	<u>(1,647)</u>	<u>(148,166)</u>
Net (decrease)/increase in cash and cash equivalents	(2)	(16,406)	658,275	36,108	628,898
Add: Cash and cash equivalents at the beginning of the year		<u>1,051,153</u>	<u>392,878</u>	<u>910,845</u>	<u>281,947</u>
Cash and cash equivalents at the end of the year		<u>1,034,747</u>	<u>1,051,153</u>	<u>946,953</u>	<u>910,845</u>

Notes to cash flow statement

(1) Reconciliation of net profit to net cash flow from operating activities:

	<i>The Group</i>		<i>The Company</i>	
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
	RMB'000	RMB'000	RMB'000	RMB'000
Net profit	18,761	36,395	18,625	20,049
Add: Provisions for impairment	3,935	4,753	3,213	14,607
Depreciation of fixed assets	618,450	665,526	617,610	651,559
Amortisation of intangible assets	33,315	15,043	33,315	15,043
Net losses on disposal of fixed assets and intangible assets	15,329	19,396	15,581	12,368
Financial income	(26,909)	(5,615)	(29,230)	(7,048)
Losses arising from investments	21,756	23,300	24,527	25,875
(Increase)/decrease in deferred tax assets	(21,803)	9,764	(21,803)	9,764
Increase/(decrease) in deferred tax liabilities	1,531	(254)	1,531	(254)
Decrease/(increase) in gross inventories	65,513	(144,569)	73,086	(163,252)
Increase in operating receivables	(702,259)	(213,762)	(619,458)	(227,252)
(Decrease)/increase in operating payables	<u>(89,725)</u>	<u>393,219</u>	<u>(29,473)</u>	<u>380,306</u>
Net cash (outflow)/inflow from operating activities	<u>(62,106)</u>	<u>803,196</u>	<u>87,524</u>	<u>731,765</u>

(2) Change in cash and cash equivalents:

	<i>The Group</i>		<i>The Company</i>	
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
	RMB'000	RMB'000	RMB'000	RMB'000
Cash and cash equivalents at the end of the year	1,034,747	1,051,153	946,953	910,845
Less: Cash and cash equivalents at the beginning of the year	<u>1,051,153</u>	<u>392,878</u>	<u>910,845</u>	<u>281,947</u>
Net (decrease)/increase in cash and cash equivalents	<u>(16,406)</u>	<u>658,275</u>	<u>36,108</u>	<u>628,898</u>

Notes to cash flow statement (continued)

(3) Information on disposal of subsidiaries during the current year:

	<i>The Group</i> RMB'000
Consideration of disposal	146,812
Cash and cash equivalents received for disposing subsidiaries	146,812
Less: cash and cash equivalents held by subsidiaries	<u>49,860</u>
Net cash received for disposing subsidiaries	<u>96,952</u>
Non-cash assets and liabilities held by disposed subsidiaries:	
Current assets	188,574
Non-current assets	10,458
Current liabilities	(56,494)

Consolidated statement of changes in equity
(Expressed in thousands of renminbi yuan)

	2007							2006						
	Attributable to equity shareholders of the Company					Minority interests	Total	Attributable to equity shareholders of the Company					Minority interests	Total
	Share capital	Capital reserve	Surplus reserve	Accumulated losses	Subtotal			Share capital	Capital reserve	Surplus reserve	Accumulated losses	Subtotal		
As at the end of last year	4,000,000	3,116,808	1,456,004	(298,551)	8,274,261	-	8,274,261	4,000,000	3,103,537	1,456,004	(335,966)	8,223,575	-	8,223,575
Changes in accounting policies	-	(9,644)	-	26,243	16,599	47,652	64,251	-	(9,644)	-	27,678	18,034	52,104	70,138
As at the beginning of the year	4,000,000	3,107,164	1,456,004	(272,308)	8,290,860	47,652	8,338,512	4,000,000	3,093,893	1,456,004	(308,288)	8,241,609	52,104	8,293,713
Changes in equity for the year														
1. Net profit for the year	-	-	-	17,817	17,817	944	18,761	-	-	-	35,980	35,980	415	36,395
2. Gain and loss recognised directly in equity														
- Others	-	-	-	-	-	-	-	-	13,271	-	-	13,271	-	13,271
3. Shareholders' contributions and decrease of capital														
- Acquisitions of minority interests in subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(2,604)	(2,604)
- Disposal of its subsidiaries by the Company's subsidiary	-	-	-	-	-	(48,357)	(48,357)	-	-	-	-	-	-	-
4. Appropriation of profits														
- Distributions to minority shareholders	-	-	-	-	-	(239)	(239)	-	-	-	-	-	(2,263)	(2,263)
As at the end of the year	<u>4,000,000</u>	<u>3,107,164</u>	<u>1,456,004</u>	<u>(254,491)</u>	<u>8,308,677</u>	<u>-</u>	<u>8,308,677</u>	<u>4,000,000</u>	<u>3,107,164</u>	<u>1,456,004</u>	<u>(272,308)</u>	<u>8,290,860</u>	<u>47,652</u>	<u>8,338,512</u>

Statement of changes in equity

(Expressed in thousands of renminbi yuan)

	2007					2006				
	Share capital	Capital reserve	Surplus reserve	Accumulated losses	Total	Share capital	Capital reserve	Surplus reserve	Accumulated losses	Total
As at the end of last year	4,000,000	3,126,453	1,456,004	(300,226)	8,282,231	4,000,000	3,113,182	1,456,004	(331,931)	8,237,255
Changes in accounting policies	-	(19,289)	-	(130,686)	(149,975)	-	(19,289)	-	(119,030)	(138,319)
As at the beginning of the year	4,000,000	3,107,164	1,456,004	(430,912)	8,132,256	4,000,000	3,093,893	1,456,004	(450,961)	8,098,936
Changes in equity for the year										
1. Net profit for the year	-	-	-	18,625	18,625	-	-	-	20,049	20,049
2. Gain and loss recognised directly in equity										
- Others	-	-	-	-	-	-	13,271	-	-	13,271
As at the end of the year	<u>4,000,000</u>	<u>3,107,164</u>	<u>1,456,004</u>	<u>(412,287)</u>	<u>8,150,881</u>	<u>4,000,000</u>	<u>3,107,164</u>	<u>1,456,004</u>	<u>(430,912)</u>	<u>8,132,256</u>

Notes to the financial statements

1. Explanation on changes in accounting policies

(1) Changes in significant accounting policies and their effects

The Company and the Group adopt ASBE (2006) on 1 January 2007.

The Company has issued H-shares. The financial statements in prior years were reported by using the applicable PRC accounting regulations and the International Financial Reporting Standards (“IFRSs”). Pursuant to the requirements of the “Q&A No.1 in China Accounting Standards Bulletin No. 1” (“CAS Bulletin 1”) issued by the Ministry of Finance of the PRC (“MOF”) in November 2007, the Company and the Group, at the date of first-time adoption, made retrospective adjustments based on the following principles.

Where the principles stipulated in ASBE (2006) differ from those of the applicable PRC accounting regulations, and these principles in ASBE (2006) are the same as those adopted by the Company and the Group in preparing the financial statements in accordance with the IFRSs in prior years, the Company and the Group made retrospective adjustments to those items affected by the changes in accounting policies due to the first-time adoption of ASBE (2006), based on the information used in preparing the financial statements in accordance with IFRSs. In addition, the Company and the Group made retrospective adjustments to other items in accordance with the related requirements of “ASBE No. 38 – First-time Adoption of ASBE” (“ASBE 38”) and CAS Bulletin 1.

Except for the retrospective adjustments described in item (a), (b), (c), (d) and (e) which were made in accordance with the requirements of CAS Bulletin 1 and ASBE 38, no other retrospective adjustments resulted from the changes in accounting policies.

Upon the adoption of ASBE (2006), the Company’s and the Group’s significant accounting policies changed as follows:

(a) Borrowing costs

Before 1 January 2007, borrowing costs on funds borrowed for general purposes and used for the acquisition or construction of fixed assets, and borrowing costs on parts of the funds borrowed specifically for the acquisition or construction of fixed assets which have not been put into use (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), were recognised in profit or loss when incurred. As of 1 January 2007, such borrowing costs are now capitalised as part of the cost of assets, when certain conditions are satisfied.

The Company and the Group made retrospective adjustments to borrowing costs in accordance with the current accounting policies, based on the information used in preparing the financial statements in accordance with IFRSs in prior years.

(b) Income tax

Due to the retrospective adjustments made to item (a) above, the Company and the Group adjusted the relevant deferred tax in prior years.

Notes to the financial statements (continued)

(c) Minority interests

Before 1 January 2007, minority interests are presented separately from liabilities and shareholders' equity in the consolidated balance sheet. Minority interests in the results of the Group are presented separately as an allocation of the net profit in the consolidated income statement. As of 1 January 2007, minority interests are presented in the total shareholders' equity, separately from the shareholders' equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented separately on the face of the consolidated income statement.

(d) Investments in subsidiaries

In the Company's separate financial statements, investments in subsidiaries were accounted for using the equity method before 1 January 2007. Such investments are now accounted for using the cost method.

On 1 January 2007, the Company made retrospective adjustments to such investments obtained before 1 January 2007 in accordance with the current accounting policies in its separate financial statements. The Company has no investments in subsidiaries obtained through a business combination and therefore such retrospective adjustments have no effect on the consolidated financial statements.

(e) Investments in jointly controlled entities

When the equity method is used to account for investments in jointly controlled entities, the major policies are changed as follows:

- Before 1 January 2007, the shortfall of acquisition cost over the Company's and the Group's interest in the shareholder's equity of the acquiree was recognised in capital reserve if the investments in jointly controlled entities were recognised after the issuance of "Questions and answers on implementing Accounting Regulations for Business Enterprises and related accounting standards (II)" issued by the MOF. As of 1 January 2007, where the initial investment cost is less than the Company's and the Group's interest in the fair value of the investee's identifiable net assets at the time 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.

Notes to the financial statements (continued)

(e) Investments in jointly controlled entities (continued)

- Before 1 January 2007, subsequent to the initial recognition, the Company adjusted the carrying amount of such investment according to its attributable share of the investee's net profit or loss stated in the investee's financial statements and recognised it as investment income for the current period accordingly. As of 1 January 2007, after the acquisition of the investment, the Company and the Group recognise their share of the investee's net profit or loss as investment income or loss, 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 Company and the Group. The Company and the Group recognise their share of the investee's net profit or loss after making appropriate adjustments to align the accounting policies or accounting periods with those of the Company and the Group based on the fair values of the investee's individual separately identifiable assets at the time of acquisition. Unrealised profit and loss resulting from transactions between the Company and the Group and the jointly controlled entities are eliminated for the part attributable to the Company and the Group calculated based on their share of the jointly controlled entity. Unrealised loss resulting from transactions between the Company and the Group and the jointly controlled entities are eliminated in the same way as unrealised profit but only to the extent that there is no evidence of impairment.

The Company and the Group made retrospective adjustments to investments in jointly controlled entities in accordance with the current accounting policies, based on the information used in preparing the financial statements in accordance with IFRSs in prior years. As the above changes in accounting policies relate to the transactions incurred before 2006, such retrospective adjustments have no effect on the net profit of 2006.

Investments in jointly controlled entities were accounted for on a proportionate consolidation basis in the consolidated financial statements. Such investments are now accounted for using the equity method before 1 January 2007.

Notes to the financial statements (continued)

- (2) Effects of the above changes in accounting policies on the Group's and the Company's net profit and shareholders' equity for 2006 and prior years are summarised as follows:

	Note	The Group		
		<u>2006</u>	<u>2006</u>	<u>2006</u>
		Net profit RMB'000	Closing balance of shareholders' equity RMB'000	Opening balance of shareholders' equity RMB'000
Net profit and shareholders' equity before adjustments		37,415	8,274,261	8,223,575
Capitalisation of general borrowing costs	(1)(a)	(1,689)	19,528	21,217
Income tax	(1)(b)	254	(2,929)	(3,183)
Minority interests	(1)(c)	415	47,652	52,104
Total		(1,020)	64,251	70,138
Net profit and shareholders' equity after adjustments		<u>36,395</u>	<u>8,338,512</u>	<u>8,293,713</u>

	Note	The Company		
		<u>2006</u>	<u>2006</u>	<u>2006</u>
		Net profit RMB'000	Closing balance of shareholders' equity RMB'000	Opening balance of shareholders' equity RMB'000
Net profit and shareholders' equity before adjustments		31,705	8,282,231	8,237,255
Capitalisation of general borrowing costs	(1)(a)	(1,689)	19,528	21,217
Income tax	(1)(b)	254	(2,929)	(3,183)
Investments in jointly controlled entity	(1)(e)	-	(11,305)	(11,305)
Investments in subsidiaries	(1)(d)	(10,221)	(155,269)	(145,048)
Total		(11,656)	(149,975)	(138,319)
Net profit and shareholders' equity after adjustments		<u>20,049</u>	<u>8,132,256</u>	<u>8,098,936</u>

Apart from the retrospective adjustments made on relevant items in the balance sheet at 31 December 2006 and the income statement for the year then ended 31 December 2006 described in note 1(1), certain items in the comparative figures of 2006 have been reclassified to conform to the requirements of ASBE 38.

8.4 Reconciliation statement of differences in financial statements prepared under different GAAPs:

- (1) The effect of the difference between ASBE (2006) and IFRSs on net profit attributable to equity shareholders of the Company is analysed as follows:

	Note	The Group	
		<u>2007</u> RMB'000	<u>2006</u> RMB'000
Net profit attributable to equity shareholders of the Company under ASBE (2006)		17,817	35,980
Adjustments:			
Reversal of amortisation of revaluation surplus of land use rights	(a)	6,709	5,280
Effects of the above adjustments on taxation		<u>(2,214)</u>	<u>(792)</u>
Total		<u>4,495</u>	<u>4,488</u>
Net profit attributable to equity shareholders of the Company under IFRSs		<u>22,312</u>	<u>40,468</u>

- (2) The effect of the difference between ASBE (2006) and IFRSs on total equity attributable to equity shareholders of the Company is analysed as follows:

	Note	The Group	
		<u>As at 31</u> <u>December 2007</u> RMB'000	<u>As at 31</u> <u>December 2006</u> RMB'000
Total equity attributable to equity shareholders of the Company under ASBE (2006)		8,308,677	8,338,512
Adjustments:			
Revaluation surplus of land use rights	(a)	(187,771)	(194,480)
Effects of the above adjustments on taxation		<u>46,943</u>	<u>29,172</u>
Total		<u>(140,828)</u>	<u>(165,308)</u>
Total equity attributable to equity shareholders of the Company under IFRSs		<u>8,167,849</u>	<u>8,173,204</u>

Note:

- (a) Under ASBE (2006), land use rights contributed by investors are stated at revalued amount, based on which amortisation and net book value are calculated. Under IFRSs, land use rights are carried at historical cost less accumulated amortisation and impairment losses.

9. OTHER ITEMS

(1). Annual Report

The Company will dispatch the 2007 Annual Report to all “H” shareholders as soon as possible.

(2). Compliance with the Code of Corporate Governance Practices and the Model Code

The Company has complied with the Code of Corporate Governance Practices as set out by the Appendix 14 to the Listing Rules during the reporting period.

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

The Audit Committee under the fifth term of the Board held two meetings and reviewed the Company’s 2006 Financial Statements, Interim Report for 2007, procedures of internal control system and formed its independent opinion during the reporting period.

The Audit Committee under the fifth term of the Board held the third meeting on 7 April 2008 and reviewed the resolution regarding the 2007 Financial Statements, re-appointing of the auditors of the Company and performance report of the Audit Committee of the Company for 2007.

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

During the year under review, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

(4). According to the requirements of SSE, trading of the Company’s shares is suspended for an hour at the time of the result announcement of its annual report. As a result, trading of the “A” shares of the Company will be suspended for an hour on SSE in the morning trading session of 8 April 2007.

(5). A detailed results announcement of the Company containing all the information required by Paragraphs 45(1) to (3) inclusive of Appendix 16 to the HKSE Listing Rules will be published on the website of the HKSE at appropriate time.

By Order of the Board

Qian Heng-ge

Chairman

7 April, 2008

As at the date of this announcement, the Company’s directors include Mr. Qian Heng-ge, Ms. Sun Zhi-hong, Mr. Xiao Wei-zhen, Ms. Long Xing-ping, Mr. Zhang-hong, Mr. Guan Tiao-sheng, Mr. Shen Xi-jun, Ms. Li Zhong-he*, Mr. Wang Hua-cheng*, Ms. Yi Ren-ping* and Ms. Qian Zhi-hong*.

* independent directors