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 2009

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 subsidiary ("**the Group**") for the year ended 31 December 2009.

## 1. COMPANY PROFILE

| | |
|---|---|
| **(1). Legal name:** | Sinopec Yizheng Chemical Fibre Company Limited<br>中国石化仪征化纤股份有限公司 |
| **Abbreviation:** | YCF<br>仪征化纤 |
| **(2). Legal representative:** | Mr. Qian Heng-ge |
| **(3). Registered and office address:** | Yizheng City, Jiangsu Province, China |
| **Postal code:** | 211900 |
| **Telephone:** | 86-514-83232235 |
| **Fax:** | 86-514-83233880 |
| **Internet website:** | http://www.ycfc.com |
| **E-mail:** | cso@ycfc.com |
| **(4). Secretary to the Board:** | Mr. Tom C.Y. Wu |
| **Assistant Secretary to the Board:** | Ms. Michelle M. Shi |
| **Address:** | The Board Secretary Office<br>Sinopec Yizheng Chemical Fibre Company Limited<br>Yizheng City, Jiangsu Province, China |
| **Telephone:** | 86-514-83231888 |
| **Fax:** | 86-514-83235880 |
| **E-mail:** | cso@ycfc.com |

**(5). Domestic Newspapers to disclose information:** China Securities, Shanghai Securities News, Securities Times

**Internet website designated by HKSE to disclose information:** http://www.hkexnews.hk

**Internet website designated by the China Securities Regulatory Commission ("CSRC") to publish the annual report:** http://www.sse.com.cn

**Place where the annual report available for inspection:**

The Board 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 Fibre | - 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 ("IFRSs")

For the year ended 31 December or as at 31 December

RMB'000

| | **2009** | 2008 | 2007 | 2006 (as restated) | 2005 (as restated) |
|---|---|---|---|---|---|
| Turnover | **13,225,029** | 15,224,524 | 17,175,656 | 17,307,636 | 15,830,063 |
| Profit / (loss) before taxation | **387,257** | (1,549,301) | 11,366 | 64,333 | (1,009,336) |
| Income tax expense / (credit) | **1,310** | 92,016 | (11,890) | 23,450 | (41,343) |
| Minority interests | **-** | - | 944 | 415 | (485) |
| Profit / (loss) attributable to equity shareholders of the Company | **385,947** | (1,641,317) | 22,312 | 40,468 | (967,508) |
| Total assets | **9,012,882** | 8,280,424 | 9,931,984 | 10,046,111 | 9,692,187 |
| Total liabilities | **2,100,403** | 1,753,892 | 1,764,135 | 1,872,907 | 1,568,270 |
| Total equity attributable to equity shareholders of the Company | **6,912,479** | 6,526,532 | 8,167,849 | 8,125,552 | 8,071,813 |
| Minority interests | **-** | - | - | 47,652 | 52,104 |
| Basic and diluted earnings/ (loss) per share | **RMB 0.096** | RMB (0.410) | RMB 0.006 | RMB 0.010 | RMB (0.242) |
| Net assets per share | **RMB 1.728** | RMB 1.632 | RMB 2.042 | RMB 2.031 | RMB 2.018 |
| Ratio of shareholders' equity | **76.70%** | 78.82% | 82.24% | 80.88% | 83.28% |
| Return on net assets | **5.58%** | (25.15%) | 0.27% | 0.50% | (11.99%) |

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

### 2.1 Principal financial data

For the year ended 31 December or as at 31 December

RMB'000

| | **2009** | 2008 | Increase/ (decrease) from 2008 (%) | 2007 |
|---|---|---|---|---|
| Operating income | **13,225,029** | 15,224,524 | (13.1) | 17,175,656 |
| Profit / (loss) before income tax | **382,018** | (1,554,592) | Not applicable | 4,657 |
| Net profit / (loss) attributable to equity shareholders of the Company | **382,018** | (1,645,285) | Not applicable | 17,817 |
| Net profit / (loss) deducted extraordinary gain and loss attributable to equity shareholders of the Company | **363,886** | (1,585,466) | Not applicable | 69,275 * |
| Net cash inflow /(outflow) from operating activities | **1,308,860** | (48,043) | Not applicable | (62,106) |
| Total assets | **9,145,813** | 8,417,284 | 8.7 | 10,072,812 |
| Total equity attributable to equity shareholders of the Company | **7,045,410** | 6,663,392 | 5.7 | 8,308,677 |

## 2.2 Principal financial indicators

For the year ended 31 December or as at 31 December

RMB

| | **2009** | 2008 | Increase/ (decrease) from 2008 (%) | 2007 |
|---|---|---|---|---|
| Basic earnings / (loss) per share | **0.096** | (0.411) | Not applicable | 0.004 |
| Diluted earnings / (loss) per share | **0.096** | (0.411) | Not applicable | 0.004 |
| Basic earnings / (loss) per share net of extraordinary gain and loss | **0.091** | (0.396) | Not applicable | 0.017 * |
| Weighted average return on net assets | **5.57%** | (21.98%) | Increase 27.55 percentage points | 0.22% |
| Weighted average return on net assets net of extraordinary gain and loss | **5.31%** | (21.18%) | Increase 26.49 percentage points | 0.84% * |
| Net cash inflow / (outflow) from operating activities per share | **0.327** | (0.012) | Not applicable | (0.016) |
| Net assets per share attributable to equity shareholders of the Company | **1.761** | 1.666 | 5.7 | 2.077 |

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

## 2.3 Extraordinary gain and loss items and amount

RMB '000

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

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

**(3) Differences between the financial statements of the Group prepared in accordance with the PRC ASBE Enterprises and the IFRSs**

RMB'000

| | **Net profit / (loss)attributable to equity shareholders of the Company** | | **Total equity attributable to equity shareholders of the Company** | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| PRC ASBE | **382,018** | (1,645,285) | **7,045,410** | 6,663,392 |
| IFRSs | **385,947** | (1,641,317) | **6,912,479** | 6,526,532 |

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 2009 Annual Report, and understood by its Directors as well, the number of its shares held by the public met the requirements in the Rules Governing the Listing of Securities on the HKSE (the "**Listing Rule**")

**(2) Information on shareholders**

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

| Number of shareholders at the end of the year | 42,949 | | | | |
|---|---|---|---|---|---|
| **Details of the top ten major shareholders** | | | | | |
| **Names of shareholders** | **Nature of shareholders** | **Number of shares held at the end of the year (shares)** | **Percent to total share capital (%)** | **Number of non-circulating shares (shares)** | **Number of pledged or frozen shares*** |
| 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 | 1,382,961,005 | 34.57 | Circulating shares | Nil |
| CITIC Group Corporation ("**CITIC**") *** | Domestic legal person shareholder | 720,000,000 | 18.00 | 720,000,000 | Nil |
| Taiping Life Insurance Company Limited-Dividends-Team Dividends | Domestic circulating shares | 2,006,153 | 0.05 | Circulating shares | Not applicable |
| Zhang Xin-ming | Domestic circulating shares | 2,000,000 | 0.05 | Circulating shares | Not applicable |

| | | | | | |
|---|---|---|---|---|---|
| Lin You-ming | Domestic circulating shares | 1,586,151 | 0.04 | Circulating shares | Not applicable |
| Shanghai Huitong Hydraulic and Hydro-power Developing Company Limited | Domestic circulating shares | 1,527,900 | 0.04 | Circulating shares | Not applicable |
| Shanxi Jinrui Investing Company Limited | Domestic circulating shares | 1,477,092 | 0.04 | Circulating shares | Not applicable |
| Lu Bao-hong | Domestic circulating shares | 1,325,000 | 0.03 | Circulating shares | Not applicable |
| Guangzhou Yidian Engineering & equipment Install Corporation | Domestic circulating shares | 1,300,000 | 0.03 | Circulating shares | Not applicable |

**Details of the top ten circulating shareholders**

| **Names of shareholders** | **Number of circulating shares held at the end of year (shares)** | **Classification** |
|---|---|---|
| HKSCC (Nominees) Limited** | 1,382,961,005 | “H” shares |
| Taiping Life Insurance Company Limited-Dividends-Team Dividends | 2,006,153 | Circulating “A” shares |
| Zhang Xin-ming | 2,000,000 | Circulating “A” shares |
| Lin You-ming | 1,586,151 | Circulating “A” shares |
| Shanghai Huitong Hydraulic and Hydro-power Developing Company Limited | 1,527,900 | Circulating “A” shares |
| Shanxi Jinrui Investing Company Limited | 1,477,092 | Circulating “A” shares |
| Lu Bao-hong | 1,325,000 | Circulating “A” shares |

| | | |
|---|---|---|
| Guangzhou Yidian Equipment Installation Company Limited | 1,300,000 | Circulating "A" shares |
| AU TAT HUNG | 1,000,000 | "H" shares |
| Industrial and Commercial Bank of China-China Universal Shanghai Composite Index Securities Investment Fund | 968,134 | Circulating "A" shares |
| Explanation of connected relationship or activities in concert among the above shareholders | The Company is not aware of that there is any connected relationship or activities in concert among the above shareholders. | |

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

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

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

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

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

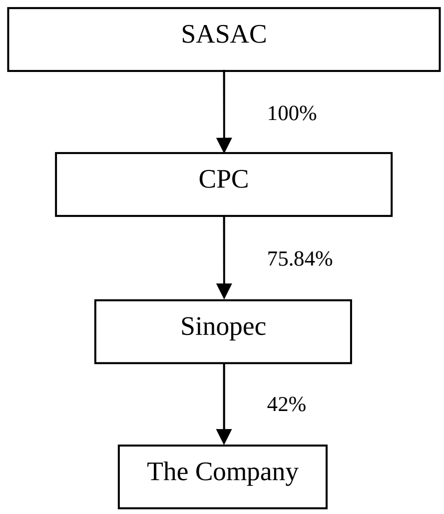
**(4) The holding shareholder**
Name of the holding shareholder: Sinopec, holding 42 per cent of the Company's shares
Legal representative: Su Shu-lin
Date of establishment: 25 February 2000
Registered capital: RMB 86,702,439,000
Principal activities: Engaged in exploring for and developing, producing and trading crude oil and natural gas; processing crude, producing petroleum products and trading, transporting, distributing and marketing petroleum products; producing, distributing and trading petrochemical products.

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

**(5) Holding company of the holding shareholder**
Name of the holding company of the holding 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 holding company of the holding 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 before taxation (RMB ten thousand) | 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 | 59 | Dec.2008 -Dec.2011 | 2,000 | 2,000 | No Change | 26.4 | No |
| Sun Zhi-hong | Vice Chairwoman | F | 60 | Dec.2008 -Dec.2011 | - | - | No Change | 26.4 | Yes |
| Xiao Wei-zhen | Vice Chairman and General Manager | M | 56 | Dec.2008 -Dec.2011 | - | - | No Change | 26.4 | No |
| Long Xing-ping | Director | F | 58 | Dec.2008 -Dec.2011 | - | - | No Change | 22.1 | Yes |
| Zhang Hong | Director | M | 51 | Dec.2008 -Dec.2011 | - | - | No Change | 22.1 | Yes |
| Guan Diao-sheng | Director | M | 47 | Dec.2008 -Dec.2011 | - | - | No Change | - | Yes |
| Qin Wei-zhong | Director | M | 38 | Dec.2008 -Dec.2011 | - | - | No Change | - | Yes |
| Shen Xi-jun | Director, Deputy General Manager | M | 49 | Dec.2008 -Dec.2011 | - | - | No Change | 22.1 | No |
| Shi Zhen-hua | Independent Director | M | 63 | Dec.2008 -Dec.2011 | - | - | No Change | 5.0 | No |
| Qiao Xu | Independent Director | M | 48 | Dec.2008 -Dec.2011 | - | - | No Change | 5.0 | No |
| Yang Xiong-sheng | Independent Director | M | 50 | Dec.2008 -Dec.2011 | - | - | No Change | 5.0 | No |
| Chen Fang-zheng | Independent Director | M | 63 | Dec.2008 -Dec.2011 | - | - | No Change | 5.0 | No |
| Cao Yong | Chairman of Supervisory Committee | M | 51 | Dec.2008 -Dec.2011 | - | - | No Change | 22.1 | No |
| Tao Chun-sheng | Supervisor | M | 54 | Dec.2008 -Dec.2011 | - | - | No Change | 15.8 | No |
| Chen Jian | Supervisor | M | 47 | Dec.2008 -Dec.2011 | - | - | No Change | 22.1 | Yes |
| Shi Gang | Independent Supervisor | M | 49 | Dec.2008 -Dec.2011 | - | - | No Change | 4.0 | No |
| Wang Bing | Independent Supervisor | M | 38 | Dec.2008 -Dec.2011 | - | - | No Change | 4.0 | No |
| Li Jian-xin | Deputy General Manager | M | 52 | From July 2007 | - | - | No Change | 22.1 | No |
| Zhang Zhong-an | Deputy General Manager | M | 49 | From July 2004 | - | - | No Change | 22.1 | No |
| Li Jian-ping | Chief Financial Officer | M | 47 | From Dec. 2006 | - | - | No Change | 22.1 | No |
| Tom C.Y. Wu | Secretary to the Board | M | 48 | From Dec. 2002 | - | - | No Change | 15.8 | 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**

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

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

As at 31 December 2009, none of the Directors, Supervisors and Senior Management of the Company had any interest or short position in 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 IFRSs.*

### A. Business review and prospect

The Group is one of the largest modernized manufacturing bases of chemical fibre and chemical fibre raw materials in the PRC. In terms of polyester capacity in 2009, the Group ranks the Seventh largest polyester manufacturer in the world (Source: PCI Magazine 2009).

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

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

*2. Production Operational Review*

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

*(1) Production and Marketing*

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

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

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

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

**B. Result of Operation and Financial Position**
*1. Production volume*

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

*2. Sales volume*

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

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

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

*4. Turnover*

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

In 2009, by chasing the favour opportunity of trending toward stability and starting to rise in the prices of polyester products, the Group endeavoured to expand its markets, optimised its products structure to meet market demand, strengthened fine management and made efforts to reduce its costs and expenses. As a result, the Group's profit before taxation and profit attributable to equity shareholders of the Company was RMB 387,257,000 and RMB 385,947,000 respectively, while the Group's loss before taxation and loss attributable to equity shareholders of the Company for 2008 was RMB1,549,301,000 and RMB1,641,317,000 respectively.

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

*(1) Assets, liabilities and shareholders' equity analysis*
As at 31 December 2009, the Group's total assets were RMB 9,012,882,000, total liabilities were RMB 2,100,403,000, and total equity attributable to equity shareholders of the Company was RMB 6,912,479,000. Compared with the assets and liabilities as at 31 December 2008 (hereinafter referred to as "**as compared with the end of last year**"), the variations and main causes of such changes are described as follows:

Total assets were RMB 9,012,882,000, an increase of RMB 732,458,000 as compared with the end of last year. Current assets were RMB4,047,905,000, an increase of RMB 204,919,000 as compared with the end of last year. The increase was mainly due to the increase in inventories by RMB 476,566,000 owing to the rise in prices of products and raw materials in 2009, and the increase in the Group's deposits with banks and other financial institutions by RMB197,139,000. Meanwhile, trade and other receivables decreased by RMB 402,259,000 owing to the decrease in export credit sales during the year of 2009. Non-current assets were RMB 4,964,977,000, an increase of RMB 527,539,000 as compared with the end of last year, which was mainly due to the newly acquired financial assets available for sale of RMB 700,000,000 at the end of 2009.

Total liabilities were RMB 2,100,403,000, an increase of RMB 346,511,000 as compared with the end of last year. Current liabilities were RMB 2,079,147,000, an increase of RMB 340,255,000 as compared with the end of last year, which was mainly due to the increase of RMB 340,255,000 in trade and other payables owing to the increase in bills issued for purchasing raw materials as a result of the rise in purchasing prices of raw materials in 2009. Non-current liabilities were RMB 21,256,000, an increase of RMB 6,256,000 compared with the end of last year, which was mainly due to the increase of RMB 7,000,000 in receipts of government grants in 2009.

Total equity attributable to equity shareholders of the Company was RMB 6,912,479,000, an increase of RMB 385,947,000 as compared with the end of last year, which was due to RMB385,947,000 profit attributable to equity shareholders of the Group gained in 2009.

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

*(2) Cash flow analysis*
At the end of 2009, cash and cash equivalents decreased by RMB 66,527,000, representing a decrease from RMB 841,294,000 as at 31 December 2008 to RMB 774,767,000 as at 31 December 2009.

In 2009, the Group's net cash inflow from operating activities was RMB 1,300,204,000, representing an increase of RMB 1,351,841,000 as compared with last year. The increase in gross profit in 2009 led to the increase of the net cash inflow from operating activities by RMB 1,513,132,000.

In 2009, the Group's net cash outflow from investing activities was RMB 1,366,397,000, an increase of cash outflow by RMB 1,799,581,000 as compared with last year. This was mainly due to the following reasons:
(1) Deposits with banks and other financial institutions increased by RMB 494,600,000 in 2009, while there had been a decrease of RMB 510,000,000 in 2008. As a result, the net cash outflow from investing activities increased by RMB1,004,600,000.
(2) In 2009, the net cash outflow from investing activities increased by RMB 700,000,000 due to the newly acquired financial assets available for sale.

In 2009, the Group's net cash outflow from financing activities was RMB 334,000, an increase of cash outflow by RMB 334,000 compared with 2008. It was mainly due to RMB 334,000 of cash repayments of borrowings in 2009.

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

*(4) Assets pledge*
For the year ended 31 December 2009, there was no ledge on the Group's assets.

*(5) Management of foreign exchange risk*
The Group's operations are mainly dominated in Renminbi and foreign currency needed was mainly dominated in US dollars. Receivable and payable items of the Group are settled immediately under trade accounts. Therefore, fluctuations in foreign exchange rates have no material adverse effect on the Group.

*(6) Debt-long-term capital ratio*
The debt-long-term capital ratio of the Group was nil for 2009 (2008: nil). 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 ASBE)*

| **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 (%)** | **Increase/(decrease) in gross profit margin as compared with last year** |
|---|---|---|---|---|---|---|
| Polyester products | 12,894,401 | 11,495,691 | 10.8 | (13.1) | (22.4) | Increased by 10.7 percentage points |
| Including: | | | | | | |
| Polyester Chips | 4,487,078 | 3,918,081 | 12.7 | (13.1) | (24.4) | Increased by 13.1 percentage points |
| Bottle-grade polyester chips | 2,898,998 | 2,683,038 | 7.4 | (15.5) | (20.3) | Increased by 5.5 percentage points |
| Staple and hollow fibre | 4,024,834 | 3,465,391 | 13.9 | (13.2) | (23.8) | Increased by 12.0 percentage points |
| Filament | 1,483,491 | 1,429,181 | 3.7 | (7.4) | (17.2) | Increased by 11.5 percentage points |

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

*7. Major suppliers and customers*

| | | | |
|---|---|---|---|
| Aggregate purchase amounts from the top five largest suppliers | RMB 6,882,313,000 | Per cent of total purchases | 63.8% |
| Aggregate sales amounts to the top five largest customers | RMB 1,347,443,000 | Per cent of total sales | 10.2% |

*8. Acquisition, divestment and investment*

The Group did not make any material divestment and investment in relation to any of its subsidiaries or associates in 2009. Details of acquisition during the year of 2009 are stated in item 3 of "Significant Events" of this announcement.

*9. Capital expenditure*

In 2009, the Group's total capital expenditure amounted to RMB 247,130,000. With a clearer outlook on sustainable development, the Group's new projects were implemented smoothly. The high performance polyethylene project with an annual capacity of 300 tonnes has realized stable production, with technical indices reached advanced domestic standards by continuous quality improvement. The aramid fiber project with an annual capacity of 100 tonnes was also put into trial operation, and the production run was gradually stabilizing. Projects of energy conservation and emission reduction such as air separation have been completed and put into operation.

**C. Prospects**

**1. Market Analysis**

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

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

**2. Business strategy**

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

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

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

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

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

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

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

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

The Group's capital expenditure for 2010 is expected to be approximately RMB 776,340,000. It will mainly invest in projects such as the 1,4-butanediol project with an annual capacity of 100,000 tonnes, the 1,000 tonnes-grade high performance polyethylene project, and series of projects for reducing energy consumption, safety and environmental protection, and reducing costs and expenses. To maximise its return on investment, the Group will strengthen its investment management in accordance with the prudence principle. The planned capital expenditures will be funded from cash generated from operations and bank credit facilities.

**D. Proposed scheme of profit distribution**
In accordance with the PRC ASBE, the net profit of the Company for 2009 was RMB 383,780,000 (the profit attributable to equity shareholders of the Company for 2009 was RMB 387,709,000 under IFRSs). Accumulated losses, including the accumulated losses of RMB1,899,776,000 brought forward from the previous year and the Company used the surplus reserve to make good of the previous years' losses of RMB 1,456,004,000 in 2009, were RMB 59,992,000 at the end of 2009.

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

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

The above proposed profit distribution scheme shall be submitted for approval at the 2009 annual general meeting.

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

**6. REPORT OF THE SUPERVISORY COMMITTEE**

The Supervisory Committee believes that during the reporting period the Board operated in strict compliance with 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 Group did not have any material litigation or arbitration.

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

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

(3) During the reporting period, the Group had no other acquire or disposals of assets, nor any merger and acquisitions activities other than mentioned below.

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

(4) Information on connected transactions

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

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

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

The Group is of the opinion that the above-mentioned connected transactions and related connected parties were necessary and continuous, and that the agreements governing these transactions met the requirements of business operation and the market situation. Meanwhile, the Group 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 prices and had no adverse effect on the Group's profit or independence.

(b) During the reporting period, the Group did not have any significant connected transactions related to the transfer of the asset or equity.

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

The Board believes that the above transactions were entered into in the ordinary course of business and in normal commercial terms or in accordance with the terms of agreements governing these transactions. For details of connected transactions entered into by the Group during the reporting period, please refer to note 6 of the financial statements prepared in accordance with the PRC ASBE. 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 29 March 2010. Auditors have reviewed the above-mentioned connected transactions and provided a letter to the Board on 29 March 2010.

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

(6) During the reporting period, the Group did not make any guarantee or did not have any secured assets.

(7) As at 31 December 2009, 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 Group 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) The ninth meeting of the sixth term Board of Directors of the Company held on 31 December 2009 reviewed and passed the resolution regarding that the Company carries out the fund operation within RMB 700 million. As at 31 December 2009, the Company's available-for-sale financial assets were RMB 700 million.

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

(11) During the reporting period, neither the fifth term of the Board of the Company nor its Directors thereof were subject to any investigation by the CSRC, administrative penalty or circular of criticism released by the CSRC and the Securities and Futures Commission of Hong Kong, and reprimand published by SSE and HKSE.

## 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 ASBE have been audited by Gong Wei-li and Ling yun of KPMG Huazhen and an audit report with an unqualified audit opinion was issued on 29 March 2010. Also, the consolidated financial statements of the Group prepared under IFRSs have been audited by KPMG and an audit report with an unqualified audit opinion was issued on 29 March 2010.

### 8.2 Financial statements prepared in accordance with IFRSs

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 2009.

## Consolidated statement of comprehensive income
## For the year ended 31 December 2009

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

## Consolidated balance sheet
## As at 31 December 2009

| | Note | 2009<br>RMB'000 | 2008<br>RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | 3,774,911 | 3,970,816 |
| Construction in progress | | 325,812 | 272,012 |
| Lease prepayments | | 119,944 | 123,187 |
| Interest in jointly controlled entity | *11* | - | 25,803 |
| Available-for-sale financial assets | *12* | 700,000 | - |
| Deferred tax assets | | 44,310 | 45,620 |
| | | 4,964,977 | 4,437,438 |
| **Current assets** | | | |
| Inventories | | 1,308,019 | 831,453 |
| Trade and other receivables | *13* | 1,405,519 | 1,807,778 |
| Deposits with banks and other financial institutions | | 559,600 | 362,461 |
| Cash and cash equivalents | | 774,767 | 841,294 |
| | | 4,047,905 | 3,842,986 |
| **Current liabilities** | | | |
| Trade and other payables | *14* | 2,073,949 | 1,733,694 |
| Provisions | | 5,198 | 5,198 |
| | | 2,079,147 | 1,738,892 |
| **Net current assets** | | 1,968,758 | 2,104,094 |
| **Total assets less current liabilities** | | 6,933,735 | 6,541,532 |
| **Non-current liabilities** | | | |
| Deferred income | | 21,256 | 15,000 |
| **Net assets** | | 6,912,479 | 6,526,532 |
| **Equity** | | | |
| Share capital | | 4,000,000 | 4,000,000 |
| Share premium | | 2,518,833 | 2,518,833 |
| Reserves | *15* | (176,076) | 1,279,928 |
| Retained profits/(accumulated losses) | | 569,722 | (1,272,229) |
| **Total equity** | | 6,912,479 | 6,526,532 |

# Consolidated statement of changes in equity
# For the year ended 31 December 2009

| | Share capital *RMB'000* | Share premium *RMB'000* | Reserves *RMB'000* | Retained profits/ (accumulated losses) *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|---|
| **At 1 January 2008** | 4,000,000 | 2,518,833 | 1,279,928 | 369,088 | 8,167,849 |
| **Changes in equity for 2008:** | | | | | |
| Total comprehensive expenses for the year | - | - | - | (1,641,317) | (1,641,317) |
| **At 31 December 2008** | 4,000,000 | 2,518,833 | 1,279,928 | (1,272,229) | 6,526,532 |
| **Changes in equity for 2009:** | | | | | |
| Make good of losses by surplus reserve (*note 15*) | - | - | (1,456,004) | 1,456,004 | - |
| Total comprehensive income for the year | - | - | - | 385,947 | 385,947 |
| **At 31 December 2009** | 4,000,000 | 2,518,833 | (176,076) | 569,722 | 6,912,479 |

*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 holding 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 the PRC ASBE. Significant differences between the financial statements prepared in accordance with IFRSs and the PRC ASBE are summarised in section 8.4.

## 2 Changes in accounting policies

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

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

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

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

- IFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. This contrasts with the presentation of segment information in prior years which was based on a disaggregation of the Group's financial statements into segments based on related products and services and on geographical areas. The adoption of IFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's most senior executive management, and has resulted in additional reportable segments being identified and presented (see note 3). As this is the first year in which the Group has presented segment information in accordance with IFRS 8, additional explanation has been included in the financial report which explains the basis of preparation of the information. Corresponding amounts have also been provided on a basis consistent with the revised segment information.

- As a result of the adoption of IAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. Corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.
- As a result of the adoption of the amendments to IFRS 7, the financial statements include expanded disclosures in note 12 about the fair value measurement of the Group's financial instruments, categorising these fair value measurements into a three-level fair value hierarchy according to the extent to which they are based on observable market data. The Group has taken advantage of the transitional provisions set out in the amendments to IFRS 7, under which comparative information for the newly required disclosures about the fair value measurements of financial instruments has not been provided.
- The "Improvements to IFRSs (2008)" comprise a number of minor and non-urgent amendments to a range of IFRSs which the IASB has issued as an omnibus batch of amendments. The amendments had no material impact on the Group's financial report.

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

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

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

## 3 Segment reporting

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

### (a) Segment results and assets

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

Segment assets represent property, plant and equipment and inventories.

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

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

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

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

| | Polyester chips | | Bottle-grade polyester chips | | Staple fibre and hollow fibre | | Filament | | PTA | | All others # | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Revenue from external customers | 4,490,477 | 5,167,868 | 2,900,094 | 3,433,176 | 4,057,953 | 4,673,972 | 1,499,963 | 1,625,125 | - | 33,767 | 276,542 | 290,616 | 13,225,029 | 15,224,524 |
| Inter-segment revenue | 124,620 | - | - | - | - | - | - | - | - | - | - | - | 124,620 | - |
| **Reportable segment revenue** | **4,615,097** | **5,167,868** | **2,900,094** | **3,433,176** | **4,057,953** | **4,673,972** | **1,499,963** | **1,625,125** | **-** | **33,767** | **276,542** | **290,616** | **13,349,649** | **15,224,524** |
| Gross profit/(loss) from external customers | 460,932 | (149,175) | 144,238 | (5,764) | 472,096 | (45,478) | (2,301) | (198,857) | - | (589) | 9,019 | (29,285) | 1,083,984 | (429,148) |
| Inter-segment profit | 15,382 | - | - | - | - | - | - | - | - | - | - | - | 15,382 | - |
| **Reportable segment profit/(loss) (Gross profit/(loss))** | **476,314** | **(149,175)** | **144,238** | **(5,764)** | **472,096** | **(45,478)** | **(2,301)** | **(198,857)** | **-** | **(589)** | **9,019** | **(29,285)** | **1,099,366** | **(429,148)** |
| Depreciation and amortisation for the year | 65,017 | 99,663 | 44,054 | 41,301 | 40,161 | 45,623 | 40,393 | 67,913 | 229,049 | 235,694 | 90,395 | 86,810 | 509,069 | 577,004 |
| Impairment of PP&E | 367 | 8,254 | 230 | 546 | 189 | 1,501 | 130,164 | 425,494 | 7,224 | 2,711 | 1,917 | 2,199 | 140,091 | 440,705 |
| Write-down of inventories | - | 14,908 | - | - | - | 11,170 | 19,892 | 9,324 | - | - | - | - | 19,892 | 35,402 |
| **Reportable segment assets** | **647,577** | **546,499** | **403,198** | **438,850** | **401,468** | **425,890** | **231,800** | **295,201** | **1,246,283** | **1,429,522** | **931,449** | **780,768** | **3,861,775** | **3,916,730** |

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

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

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

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

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

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

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

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

## 4 Business combination

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

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

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

| | *RMB'000* |
|---|---|
| Sales | 662,945 |
| Net loss | 207,590 |

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

Details of identifiable assets and liabilities are as follows:

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

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

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

Cash outflow to acquire business, net of cash acquired:

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

## 5 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.

## 6 Other expenses

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

Impairment losses recognised in respect of the filament production facilities of the Group were RMB 130,164,000 for the year ended 31 December 2009. In response to the current market environment for filament products, the Group assessed the recoverable amount of its property, plant and equipment in relation to its filament production facilities as at 31 December 2009 and as a result the carrying amount of the production facilities was written down by such amount. The estimate of the recoverable amount was based on these facilities' value in use. In assessing value in use, the pre-tax discount rate used to calculate the present value of estimated future cash flows is 8% (2008: 10%).

Impairment losses recognised in respect of idle property, plant and equipment were RMB 10,789,000 for the year ended 31 December 2009. The carrying amount of these assets was written down to their recoverable amount. The estimate of recoverable amounts was based on the property, plant and equipment's fair values less costs to sell, determined by reference to the information about the sales of similar assets within the same industry.

## 7 Profit/(loss) before taxation

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

| | 2009<br>*RMB'000* | 2008<br>*RMB'000* |
|---|---|---|
| Interest on borrowings | 3,775 | 399 |
| Interest on discounting bills | 4,881 | 3,195 |
| Interest expense, net | 8,656 | 3,594 |
| Cost of inventories | 12,141,045 | 15,653,672 |
| Depreciation | 535,237 | 608,361 |
| Auditors' remuneration-Audit services | 4,900 | 4,800 |
| Amortization of lease prepayments | 3,243 | 3,243 |
| Interest income | (21,896) | (26,123) |
| Net foreign exchange gain | (5,876) | (25,606) |
| Reversal of provision for impairment losses of trade and other receivables | (2,149) | (3,555) |
| Gain on disposal of lease prepayments | - | (279) |

## 8 Income tax

| | 2008<br>*RMB'000* | 2007<br>*RMB'000* |
|---|---|---|
| Current tax | | |
| - Over-provision in respect of prior years | - | (296) |
| Reversal of deferred tax assets *(note(b))* | 1,310 | 92,312 |
| | 1,310 | 92,016 |

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

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

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

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

**(b)** The Group has not recognised deferred tax assets in respect of deductible temporary differences amounting to RMB 899,762,000 (2008: RMB 626,526,000) and cumulative unutilised tax losses amounting to RMB 1,036,905,000 (2008: RMB 1,321,531,000), as it is not probable that future taxable profits against which the temporary differences can be deducted and the losses can be utilised will be available in the relevant tax jurisdiction.

## 9 Dividends

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

## 10 Earnings/(loss) per share

(a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit/(loss) attributable to ordinary equity shareholders of the Company of RMB 385,947,000 (2008: loss of RMB 1,641,317,000) and the weighted average number of ordinary shares of 4,000,000,000 (2008: 4,000,000,000) in issue during the year.

(b) Diluted earnings/(loss) per share

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

## 11 Interest in jointly controlled entity

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

## 12 Available-for-sale financial assets

| | **2009** | **2008** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Other investments | 700,000 | - |

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

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

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

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

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

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

**13 Trade and other receivables**

| | **2009** | **2008** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Trade receivables | 119,614 | 91,766 |
| Bills receivable | 1,000,787 | 1,179,716 |
| Amounts due from parent company and fellow subsidiaries - trade | 4,118 | 30,861 |
| Amounts due from jointly controlled entity - trade | - | 199,078 |
| | 1,124,519 | 1,501,421 |
| Less: Allowance for doubtful debts | - | (835) |
| | 1,124,519 | 1,500,586 |
| Amounts due from jointly controlled entity - non-trade | 10,532 | 10,612 |
| Other receivables, deposits and prepayments | 271,820 | 299,564 |
| | 282,352 | 310,176 |
| Less: Allowance for doubtful debts | (1,352) | (2,984) |
| | 281,000 | 307,192 |
| | 1,405,519 | 1,807,778 |

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

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:

| | **2009** | **2008** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Current | 1,214,519 | 1,499,980 |
| Less than 1 year past due | - | 97 |
| 1 to 2 years past due | - | 509 |
| | 1,214,519 | 1,500,586 |

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.

## 14 Trade and other payables

| | **2009** | **2008** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Bills payable | 240,000 | 115,000 |
| Trade payables | 524,906 | 793,866 |
| Amounts due to parent company and fellow subsidiaries - trade | 926,871 | 449,785 |
| Amounts due to jointly controlled entity - trade | - | 11,158 |
| | 1,691,777 | 1,369,809 |
| Amounts due to parent company and fellow subsidiaries - non-trade | 15,575 | 13,925 |
| Other payables and accrued expenses | 366,597 | 349,960 |
| | 2,073,949 | 1,733,694 |

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

| | **2009** | **2008** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Due within one month or on demand | 644,906 | 780,121 |
| Due after 1 month but within 3 months | 120,000 | 115,000 |
| Due after 3 months but within 12 months | - | 13,745 |
| | 764,906 | 908,866 |

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

| | **2009** | **2008** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Due within one month or on demand | 926,871 | 163,482 |
| Due within one month or on demand | - | 233,693 |
| Due after 3 months but within 6 months | - | 63,768 |
| | 926,871 | 460,943 |

**14 Reserves**

For the year ended 31 December 2009, no transfers were made to the statutory surplus reserve, or the discretionary surplus reserve (2008: RMB nil). Pursuant to the resolution by the shareholders on 5 June 2009, the Group and the Company used the statutory surplus reserve and discretionary surplus reserve amounting to RMB 1,456,004,000 to make good of previous years' losses.

## 8.3 Financial statements prepared in accordance with the PRC ASBE

The following financial information has been extracted from the Group's audited financial statements, prepared in accordance with ASBE for the year ended 31 December 2009.

### Balance sheets

(Expressed in thousands of renminbi yuan)

| | *The Group* | | *The Company* | |
|---|---|---|---|---|
| | *As at 31 December 2009* | *As at 31 December 2008* | *As at 31December 2009* | *As at 31 December 2008* |
| Assets | | | | |
| Current assets | | | | |
| Cash at bank and on hand | 1,334,367 | 1,203,755 | 1,327,985 | 1,203,755 |
| Bills receivable | 1,000,787 | 1,290,568 | 1,000,787 | 1,290,568 |
| Accounts receivable | 123,022 | 190,378 | 298,681 | 190,378 |
| Prepayments | 2,734 | 23,648 | 2,698 | 23,648 |
| Other receivables | 36,224 | 107,939 | 36,141 | 107,939 |
| Inventories | 1,308,019 | 831,453 | 1,273,345 | 831,453 |
| Other current assets | 242,750 | 195,245 | 242,408 | 195,245 |
| Total current assets | 4,047,903 | 3,842,986 | 4,182,045 | 3,842,986 |
| Non-current assets | | | | |
| Available-for-sale financial assets | 700,000 | - | 700,000 | - |
| Long-term equity investments | - | 25,803 | - | 25,803 |
| Fixed assets | 3,695,828 | 3,870,709 | 3,565,795 | 3,870,709 |
| Construction in progress | 325,812 | 272,012 | 325,812 | 272,012 |
| Intangible assets | 376,270 | 405,774 | 376,270 | 405,774 |
| Total non-current assets | 5,097,910 | 4,574,298 | 4,967,877 | 4,574,298 |
| Total assets | 9,145,813 | 8,417,284 | 9,149,922 | 8,417,284 |

## **Balance sheets *(continued)***
(Expressed in thousands of renminbi yuan)

| | *The Group* | | *The Company* | |
|---|---|---|---|---|
| | *As at 31 December 2009* | *As at 31 December 2008* | *As at 31December 2009* | *As at 31 December 2008* |
| Liabilities and shareholders' equity | | | | |
| Current liabilities | | | | |
| Bills payable | 240,000 | 115,000 | 240,000 | 115,000 |
| Accounts payable | 1,181,716 | 1,004,018 | 1,172,554 | 1,004,018 |
| Advances from customers | 258,915 | 244,437 | 255,284 | 244,437 |
| Employee benefits payable | 72,122 | 61,345 | 71,943 | 61,345 |
| Taxes payable | 17,673 | 17,979 | 17,347 | 17,979 |
| Other payables | 303,523 | 290,915 | 319,168 | 290,915 |
| Provisions | 5,198 | 5,198 | 5,198 | 5,198 |
| Total current liabilities | 2,079,147 | 1,738,892 | 2,081,494 | 1,738,892 |
| Non-current liabilities | | | | |
| Deferred income | 21,256 | 15,000 | 21,256 | 15,000 |
| Total non-current liabilities | 21,256 | 15,000 | 21,256 | 15,000 |
| Total liabilities | 2,100,403 | 1,753,892 | 2,102,750 | 1,753,892 |
| 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 |
| Accumulated losses | (61,754) | (1,899,776) | (59,992) | (1,899,776) |
| Total equity | 7,045,410 | 6,663,392 | 7,047,172 | 6,663,392 |
| Total liabilities and shareholders' equity | 9,145,813 | 8,417,284 | 9,149,922 | 8,417,284 |

**Income statement**
(Expressed in thousands of renminbi yuan)

| | The Group For the year ended 31 December 2009 | The Group For the year ended 31 December 2008 | The Company For the year ended 31 December 2009 | The Company For the year ended 31 December 2008 |
|---|---|---|---|---|
| Operating income | 13,225,029 | 15,224,524 | 13,068,874 | 15,224,524 |
| Less: Operating costs | 11,801,291 | 15,294,088 | 11,629,474 | 15,294,088 |
| Business taxes and surcharges | 31,650 | 29,355 | 30,797 | 29,355 |
| Selling and distribution expenses | 183,227 | 187,146 | 171,741 | 187,101 |
| General and administrative expenses | 705,042 | 661,389 | 683,978 | 661,305 |
| Net financial income | (16,854) | (45,946) | (20,652) | (45,693) |
| Impairment loss | 158,696 | 475,925 | 209,998 | 475,925 |
| Add: Investment (losses)/income | - | (130,381) | - | 28,287 |
| (Including: Losses from investment in jointly controlled entity) | - | (130,381) | - | (130,381) |
| Operating profit/(loss) | 361,977 | (1,507,814) | 363,538 | (1,349,270) |
| Add: Non-operating income | 24,288 | 8,165 | 24,123 | 7,672 |
| Less: Non-operating expenses | 4,247 | 54,943 | 3,881 | 54,902 |
| (Including: Losses from disposal of non-current assets) | 1,702 | 897 | 1,702 | 897 |
| Profit/(loss) before income tax | 382,018 | (1,554,592) | 383,780 | (1,396,500) |
| Less: Income tax expenses | - | 90,693 | - | 90,989 |
| Net profit /(loss) for the year | 382,018 | (1,645,285) | 383,780 | (1,487,489) |
| Attributable to: | | | | |
| Shareholders of the Company | 382,018 | (1,645,285) | | |
| Earnings/(loss) per share | | | | |
| Basic and diluted earnings/(loss) per share (in RMB) | 0.096 | (0.411) | | |

## Cash flow statement

(Expressed in thousands of renminbi yuan)

| | Note | The Group For the year ended 31 December 2009 | The Group 2008 | The Company For the year ended 31 December 2009 | The Company 2008 |
|---|---|---|---|---|---|
| Cash flows from operating activities: | | | | | |
| Cash received from sale of goods and rendering of services | | 14,966,706 | 17,163,238 | 14,629,701 | 17,134,961 |
| Refund of taxes | | 16,823 | 13,560 | 14,180 | 13,560 |
| Sub-total of cash inflows | | 14,983,529 | 17,176,798 | 14,643,881 | 17,148,521 |
| Cash paid for goods and services | | (12,086,156) | (15,722,002) | (11,959,029) | (15,722,002) |
| Cash paid to and for employees | | (721,919) | (657,863) | (650,242) | (657,863) |
| Cash paid for all types of taxes | | (364,183) | (399,859) | (348,567) | (399,850) |
| Other cash paid relating to operating activities | | (502,411) | (445,117) | (350,582) | (444,931) |
| Sub-total of cash outflows | | (13,674,669) | (17,224,841) | (13,308,420) | (17,224,646) |
| Net cash inflow/(outflow) from operating activities | (1) | 1,308,860 | (48,043) | 1,335,461 | (76,125) |
| Cash flows from investing activities: | | | | | |
| Net cash received from disposal of fixed assets and intangible assets | | 10,260 | 11,796 | 16,211 | 11,796 |
| Net cash received from disposal of subsidiaries | | - | - | - | 116,170 |
| Other cash received relating to investing activities | | 28,896 | 41,123 | 28,432 | 40,829 |
| Sub-total of cash inflows | | 39,156 | 52,919 | 44,643 | 168,795 |
| Cash paid for acquisition of fixed assets and intangible assets | | (192,539) | (129,735) | (192,011) | (129,735) |
| Cash paid for acquisition of available-for-sale financial assets | | (700,000) | - | (700,000) | - |
| Net cash paid for acquisition of a subsidiary | 8.3.(4) | (18,414) | - | (61,525) | - |
| Sub-total of cash outflows | | (910,953) | (129,735) | (953,536) | (129,735) |
| Net cash (outflow)/inflow from investing activities | | (871,797) | (76,816) | 908,893 | 39,060 |

**Cash flow statements *(continued)***
(Expressed in thousands of renminbi yuan)

| | Note | *The Group* For the year ended 31 December *2009* | *The Group* *2008* | *The Company* For the year ended 31 December *2009* | *The Company* *2008* |
|---|---|---|---|---|---|
| Cash flows from financing activities: | | | | | |
| Cash received from borrowings | | - | 741,000 | - | 741,000 |
| Sub-total of cash inflows | | - | 741,000 | - | 741,000 |
| Cash repayments of borrowings | | (334) | (741,000) | - | (741,000) |
| Cash paid for dividends, profits distribution or interest | | (8,656) | (3,594) | (4,877) | (3,594) |
| Sub-total of cash outflows | | (8,990) | (744,594) | (4,877) | (744,594) |
| Net cash outflow from financing activities | | (8,990) | (3,594) | (4,877) | (3,594) |
| Net increase/ (decrease) in cash and cash equivalents | (1) | 428,073 | (128,453) | 421,691 | (40,659) |
| Add: Cash and cash equivalents at the beginning of the year | | 906,294 | 1,034,747 | 906,294 | 946,953 |
| Cash and cash equivalents at the end of the year | | 1,334,367 | 906,294 | 1,327,985 | 906,294 |

## Notes to cash flow statement

### (1) Supplement to the Group's and the Company's cash flow statements

#### (a) Reconciliation of net profit/(loss) to net cash inflow/(outflow) from operating activities:

| | *The Group* | | *The Company* | |
|---|---|---|---|---|
| | *For the year ended 31 December* | | *For the year ended 31 December* | |
| | *2009* | *2008* | *2009* | *2008* |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Net profit/(loss) | 382,018 | (1,645,285) | 383,780 | (1,487,489) |
| Add: Provision for impairments | 119,985 | 475,925 | 171,287 | 475,925 |
| Depreciation of fixed assets | 514,213 | 586,567 | 479,162 | 586,540 |
| Amortisation of intangible assets | 29,504 | 30,297 | 29,504 | 30,297 |
| Amortisation of deferred revenue | (744) | - | (744) | − |
| Net gains on disposal of fixed assets and intangible assets | (5,984) | (2,239) | (6,047) | (2,239) |
| Financial income | (13,241) | (22,529) | (16,555) | (22,235) |
| Losses/(income) arising from investments | - | 130,381 | - | (28,287) |
| Decrease in deferred tax assets | - | 90,989 | - | 90,989 |
| (Increase)/Decrease in gross inventories | (384,477) | 387,341 | (403,499) | 387,341 |
| Decrease in gross operating receivables | 347,229 | 289,584 | 46,440 | 260,754 |
| Increase/(decrease) in operating payables | 320,357 | (374,272) | 652,133 | (372,919) |
| Increase in provisions | - | 5,198 | - | 5,198 |
| Net cash inflow/(outflow) from operating activities | 1,308,860 | (48,043) | 1,335,461 | (76,125) |

#### (b) Change in cash and cash equivalents:

| | *The Group* | | *The Company* | |
|---|---|---|---|---|
| | *For the year ended 31 December* | | *For the year ended 31 December* | |
| | *2009* | *2008* | *2009* | *2008* |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Cash at bank and on hand at the end of the year | 1,334,367 | 1,203,755 | 1,327,985 | 1,203,755 |
| Less: Pledged deposit (note(c)) | - | 297,461 | - | 297,461 |
| Cash and cash equivalents at the end of the year | 1,334,367 | 906,294 | 1,327,985 | 906,294 |
| Less: Cash and cash equivalents at the beginning of the year | 906,294 | 1,034,747 | 906,294 | 946,953 |
| Net increase/(decrease) in cash and cash equivalents | 428,073 | (128,453) | 421,691 | (40,659) |

**(c)** As at 31 December 2009, deposits of RMB nil (31 December 2008: RMB 297,461,000) was pledged.

**(2) Cash and cash equivalents held by the Group and the Company is as follows:**

| | *The Group* | | *The Company* | |
|---|---|---|---|---|
| | *For the year ended 31 December* | | *For the year ended 31 December* | |
| | *2009* | *2008* | *2009* | *2008* |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Cash | | | | |
| - Cash on hand | 90 | 21 | 90 | 21 |
| - Bank deposits available on demand | 1,334,277 | 906,273 | 1,327,895 | 906,273 |
| Closing balance of cash and cash equivalents available on demand | 1,334,367 | 906,294 | 1,327,985 | 906,294 |

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

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

**Statement of changes in equity**
(Expressed in thousands of renminbi yuan)

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

## Notes to the financial report

1. Changes in accounting policies

In accordance with China Accounting Standards Bulletin No.3 ("Bulletin No.3") and the Notice on preparing 2009 annual reports of listed companies and non-listed enterprises adopting China Accounting Standards (Caikuai [2009]No.16), which was newly issued by the MOF in 2009, the Group and the Company changed the following accounting policies in the current accounting year:

| Description of and reasons for changes in accounting policies | Note | Approval process | Items affected in financial report | Amount affected |
|---|---|---|---|---|
| Presentation of income statement and statement of changes in shareholder's equity | (a) | In accordance with Bulletin No.3, no need to obtain internal approval | Other comprehensive income and total comprehensive income | n/a |
| Segment reporting | (b) | In accordance with Bulletin No.3, no need to obtain internal approval | n/a | n/a |

(a) Presentation of the income statement and statement of changes in shareholder's equity

The Group and the Company added "Other comprehensive income for the year" and "Total comprehensive income for the year" under "Earnings per share" in the income statement. The net effect after income tax of other income and expense items is presented as "Other comprehensive income for the year", if these items are not recognised as part of profit or loss according to China Accounting Standards. "Total comprehensive income for the year" presents the subtotal of "Net profit" and "Other comprehensive income for the year". The Group's consolidated income statement is presented in the same way, and "Total comprehensive income attributable to shareholders of the Company" is presented separately under "Total comprehensive income for the year".

The Group and the Company added "Other comprehensive income for the year" under "Changes in equity for the year" in statement of changes in shareholder's equity to reflect the changes in other comprehensive income for the year.

For changes of items presented in income statement and statement of changes in shareholder's equity, the Group and the Company also adjusted the presentation of comparative figures for relevant items in income statement and statement of changes in shareholder's equity. For details please refer to relevant statements.

(b) Segment reporting

The Group and the Company's main business is production and sale of chemical fiber and chemical fiber raw materials, and the main operation was hold in China. Thus, before 1 January 2009, there was no need to disclose reportable segments information by business segments and geographical segments. Since 1 January 2009, in comply with Bulletin No.3, the Group and the Company identifies operating segments based on their judgement of the internal organisational structure, management requirements and internal reporting policy. Reportable segments are then determined based on the operating segments identified. For the above-mentioned changes of segment reporting information disclosure, the Group and the company disclosed reportable segments information for the first time this year, and prepared the relevant information of comparative figures on the previous year.

The changes of accounting policies have no effect on items in consolidated income statement and income statement of the current year, and the consolidated balance sheet and balance sheet as at 31 December 2009, compared with items in these financial statements assumed that no change of accounting policy has been made, except for the presentation of comprehensive income items.

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

(1) The effect of the significant difference between the PRC ASBE and IFRSs on net profit/(loss) attributable to shareholders of the Company is analysed as follows:

| | Note | The Group 2009 RMB'000 | 2008 RMB'000 |
|---|---|---|---|
| Net profit/(loss) attributable to shareholders of the Company under the PRC ASBE | | 382,018 | (1,645,285) |
| Adjustments: | | | |
| Reversal of amortisation of revaluation surplus of land use rights | (a) | 5,239 | 5,291 |
| Effects of the above adjustments on taxation | | (1,310) | (1,323) |
| Total | | 3,929 | 3,968 |
| Net profit/(loss) attributable to equity shareholders of the Company under IFRSs | | 385,947 | (1,641,317) |

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

| | Note | The Group As at 31 December 2009 RMB'000 | As at 31 December 2008 RMB'000 |
|---|---|---|---|
| Total equity attributable to shareholders of the Company under the PRC ASBE | | 7,045,410 | 6,663,392 |
| Adjustments: | | | |
| Revaluation surplus of land use rights | (a) | (177,241) | (182,480) |
| Effects of the above adjustments on taxation | | 44,310 | 45,620 |
| Total | | (132,931) | (136,860) |
| Total equity attributable to equity shareholders of the Company under IFRSs | | 6,912,479 | 6,526,532 |

Note:

(a) Under the PRC ASBE, 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 2009 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 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 sixth term of the Board held four meetings and reviewed the Company's 2008 Financial Statements, Interim Report for 2009, procedures of internal control system and formed its independent opinion during the reporting period.

The Audit Committee under the sixth term of the Board held the fifth meeting on 29 March 2010 and reviewed the resolution regarding the 2009 Financial Statements, re-appointing of the auditors of the Company and performance report of the Audit Committee of the Company for 2009.

(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) 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
29 March, 2010

*As of the date of this announcement, the directors of the Company include Mr. Qian Heng-ge, Ms. Sun Zhi-hong, Mr. Xiao Wei-zhen, Ms. Long Xing-ping, Mr. Zhang-hong, Mr. Guan Diao-sheng, Mr. Qin Wei-zhong, Mr. Shen Xi-jun, Mr. Shi Zhen-hua*, Mr. Qiao Xu*, Mr. Yang Xiong-sheng*, Mr. Chen Fang-zheng*.*

** Independent Directors*