吉林奇峰化纖股份有限公司

Jilin Qifeng Chemical Fiber Co., Ltd.

(A Joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 549)

2007 Annual Report

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CORPORATE INFORMATION

DIRECTORS

Executive Directors
Mr. Wang Jinjun *(Chairman)*
Mr. Ma Jun
Mr. Wang Changsheng

Non-executive Directors
Mr. Hao Peijun
Mr. Gong Jianzhong
Mr. Chen Jinkui
Mr. Jiang Junzhou
Mr. Zhang Yuchen

Independent non-executive Directors
Mr. Ye Yongmao
Mr. Mao Fengge
Mr. Lee Ka Chung, J.P.

SUPERVISORS
Mr. Jiang Yanfeng
Ms. Sun Yujing
Mr. Liu Mingzhe
Mr. Meng Xiangui
Ms. Feng Shuhua

AUDIT COMMITTEE
Mr. Lee Ka Chung, J.P. *(Chairman)*
Mr. Jiang Junzhou
Mr. Ye Yongmao

BOARD REMUNERATION COMMITTEE
Mr. Mao Fengge *(Chairman)*
Mr. Lee Ka Chung, J.P.
Mr. Gong Jianzhong

NOMINATION COMMITTEE
Mr. Mao Fengge *(Chairman)*
Mr. Ye Yongmao
Mr. Chen Jinkui

CONNECTED TRANSACTIONS COMMITTEE
Mr. Mao Fengge *(Chairman)*
Mr. Lee Ka Chung, J.P.
Mr. Ye Yongmao

JOINT COMPANY SECRETARIES
Ms. Liu Xiangmei
Mr. Chan Cheung *HKICPA, FACCA*

QUALIFIED ACCOUNTANT
Mr. Chan Cheung *HKICPA, FACCA*

AUTHORIZED REPRESENTATIVES
Mr. Wang Changsheng
Mr. Chan Cheung *HKICPA, FACCA*

PRC REGISTERED OFFICE
Block 4, Zone D,
Hengshan West Road,
Jilin New and High Technology Development Zone,
Jilin City, Jilin Province,
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG
39/F Gloucester Tower,
The Landmark,
15 Queen's Road Central,
Hong Kong

AUDITORS
PricewaterhouseCoopers

COMPLIANCE ADVISOR
SBI E2-Capital (HK) Limited

LEGAL ADVISOR AS TO HONG KONG LAW
Coudert Brothers
in association with
Orrick, Herrington & Sutcliffe LLP

PRINCIPAL BANKERS
China Construction Bank
Jilin City Commercial Bank
Agricultural Bank of China
China Minseng Banking Corp. Ltd.
Bank of Communications

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Computershare Hong Kong Investor Services Limited
Rooms 1712-1716, 17th Floor,
Hopewell Centre, 183 Queen's Road East,
Hong Kong

INVESTOR RELATIONS CONSULTANT
Porda International (Finance) PR Group

FINANCIAL SUMMARY

	Year ended 31 December				
	2007 RMB million	2006 RMB million	2005 RMB million (Note 3)	2004 RMB million (Note 3)	2003 RMB million (Note 3)
Revenue	**1,764.9**	2,290.7	2,189.1	1,142.9	928.3
Gross profit	**82.1**	286.8	351.4	288.0	217.6
Operating expenses	**(119.1)**	(120.3)	(111.2)	(111.8)	(84.2)
Other gains/(losses), net Note 5	**19.3**	14.1	3.6	(0.5)	(2.8)
Operating (loss)/profit	**(17.7)**	180.6	243.9	175.7	130.6
Finance costs, net	**(83.0)**	(64.2)	(64.3)	(39.8)	(33.7)
Share of loss of a jointly controlled entity	**(56.1)**	(1.8)	—	—	—
(Loss)/profit before income tax	**(156.8)**	114.6	179.6	135.9	96.9
Income tax credit/(expense)	**33.0**	(15.5)	(26.7)	(6.5)	(8.8)
(Loss)/profit attributable to the shareholders of the Company	**(123.8)**	99.1	152.9	129.4	88.1
(Losses)/earnings per share (RMB per share) Note 1&2	**(0.14)**	0.13	0.24	0.21	0.14
Dividend per share (RMB per share) Note 1&2	**—**	0.05	0.07	0.11	0.11
Gross profit margin	**4.7%**	12.5%	16.1%	25.2%	23.4%
Net (loss)/profit margin	**(7.0%)**	4.3%	7.0%	11.3%	9.5%

	As at 31 December				
	2007 RMB million	2006 RMB million	2005 RMB million (Note 3)	2004 RMB million (Note 3)	2003 RMB million (Note 3)
Current assets	**896.9**	789.4	733.8	661.5	432.2
Non-current assets	**1,823.4**	1,884.9	1,478.3	1,421.3	1,026.4
Total assets	**2,720.3**	2,674.3	2,212.1	2,082.8	1,458.6
Current liabilities	**747.3**	688.3	666.0	732.0	397.6
Non-current liabilities	**948.7**	794.6	788.4	746.0	447.2
Total liabilities	**1,696.0**	1,482.9	1,454.4	1,478.0	844.8
Total equity	**1,024.3**	1,191.4	757.7	604.8	613.8
Current ratio	**1.20**	1.15	1.10	0.90	1.09
Gearing ratio Note 4	**62.3%**	55.5%	65.7%	71.0%	57.9%

Note:

1. The earnings per share and dividend per share for the three years ended 31 December 2005 are computed by dividing the profit for the year attributable to the shareholders of the Company and dividend proposed for the year by the 630,000,000 shares issued upon the conversion of the Company into a joint stock limited company, and as if these shares have been issued on 1 January 2003, respectively.
2. The earnings per share and dividend per share for the year ended 31 December 2006 is computed by dividing the profit for the year attributable to the shareholders of the Company and the proposed dividend for 2006 by the weighted average number of shares in issue during the year after taken into account the issue of 236,250,000 shares upon the initial public offering of the Company on 21 June 2006, respectively.
3. The results of the Company for the year ended 31 December 2003, 2004 and 2005 and its assets and liabilities as at 31 December 2003, 2004 and 2005 are extracted from the Company's prospectus dated 9 June 2006.
4. The gearing ratios set out on this page is calculated as total liabilities divided by total assets.
5. Other gains/losses, net set out on this page is the aggregated total of other income, other expenses and other losses/gains – net for the year ended 31 December 2007.

BUSINESS SUMMARY

- Sales volume reached approximately 105,096 tons in 2007, representing a decrease of approximately 25.6% as compared to 2006.
- Sales-to-production ratio was approximately 97.9% in 2007, representing a decrease of approximately 0.7% as compared to 2006.
- In terms of revenue and sales volume, acrylic staple fibre was the best selling product of the Company in 2007. The revenue and sales volume of acrylic staple fibre represented approximately 36.9% and approximately 37.2% respectively of the total revenue and sales volume of 2007.
- Production plant operated at a utilization rate of approximately 79% in 2007 (2006: 100%).
- Phase one of the 100,000 tons project ("New Joint Venture project") under Jilin Jimont Acrylic Fiber Co., Ltd., (the "Joint Venture") officially commenced commercial production in early 2007.

On behalf of the Board of Directors (the "Board" or "Directors") of Jilin Qifeng Chemical Fiber Co., Ltd. (the "Company"), I am pleased to present the financial report and audited financial statements of the Company for the financial year ended 31 December 2007 ("2007" or the "Year" or the "Period under Review") for review by shareholders of the Company.

INDUSTRY REVIEW

In 2007, the acrylic fibre industry in the People's Republic of China (the "PRC") experienced unprecedented difficulties. As affected by the persistent increase in international crude oil prices, the price of acrylonitrile, the principal raw material for the production of acrylic fibre, remained at high levels. In 2007, the average purchase price per ton of acrylonitrile surged by 10.5% whereas the selling prices of acrylic products increased by only 3.6%, which severely squeezed the profit margin of the Company's products. Meanwhile, the increase in the production capacity of acrylic fibre over the years had led to a sustained shortage of acrylonitrile, while the rapid development of Acrylonitrile Butadiene Styrene ("ABS") and polyacrylamide had exacerbated the shortage of acrylonitrile.

On the other hand, the emergence and development of substitutes such as Persian fibre and dyeable polyester fibre have posed new challenges for the PRC acrylic industry. As the selling prices of Persian fibre and dyeable polyester fibre are much lower than that of acrylic fibre, such materials have currently been applied in areas such as blanket, fur, plush and woollen thread as substitutes of acrylic fibre and replaced the use of acrylic fibre by 15% to 20%, which narrowed the sales market for acrylic fibre products in PRC.

Besides, the macroeconomic control measures such as the appreciation of Renminbi ("RMB"), tightened monetary policy, and the reduction of tax rebate for textile exports have all aggravated the challenges faced by the acrylic industry.

ANNUAL RESULTS

Under the impact of various unfavourable factors in the market, cost and production quantity control continued to be a major challenge for the Company's results in 2007. For the year ended 31 December 2007, revenue of the Company amounted to approximately RMB1.76 billion, representing a decrease of approximately 23.1% from approximately RMB2.29 billion over the same period in 2006. The decrease in revenue was mainly attributable to the impact brought about by a decline in sales volume of acrylic fibre products of approximately 25.6% which was more than the increase of 3.6% in the average selling price per tonne of the acrylic fibre products. During the period under review, total sales volume of the Company was approximately 105,096 tons; production volume was approximately 107,378 tons; sales-to-production ratio was 97.9% (2006: 98.6%).

In 2007, loss attributable to shareholders of the Company was approximately RMB123.8 million. In the corresponding period of the previous year, the profit attributable to shareholders of the Company was approximately RMB99.1 million. The net loss in 2007 was mainly attributable to a decline in the overall gross profit margin of the Company resulted from rising raw material costs and the Company's share of losses of the Joint Venture, a sino-foreign joint venture in which the Company owns a 50% stake. As the average purchase price of acrylonitrile continued to increase, the overall gross profit margin of the Company dropped from 12.5% in 2006 to 4.7% in the period under review.

BUSINESS REVIEW

To cope with the challenging operating environment of the acrylic fibre market in the PRC, the Company adopted a flexible marketing strategy through its established sales network and the sales centre in Suzhou during the period under review. Besides, the Company was also committed to provide comprehensive customer services such as modifying the number of product series according to the new product quality specifications to better satisfy the needs of customers.

The Company implemented stringent internal control measures focusing on production management. In 2007, the Company continued to improve production technology and completed 11 technological reform items so as to increase production effectiveness and lower production costs. In the meantime, the Company also controlled cost strictly and strengthened staff training with a view to enhancing the operating efficiency and profitability of the Company.

For the year ended 31 December 2007, the Company recorded sales volume of 105,096 tons, representing a decrease of 25.6% as compared to the same period of the previous year. During this year, the plant utilization rate of the Company was approximately 79% and the differential acrylic fibre products produced amounted to 13,637 tons, accounting for 12.7% of the Company’s total production and representing an increase of 10.7% as compared to the same period of the previous year.

The Joint Venture has commenced its operation since early 2007 and currently has an annual production capacity of approximately 100,000 tons. Production volume was approximately 58,430 tons for the year of 2007, representing a plant utilization of about 58.4%. The total annual production capacity can be increased up to approximately 150,000 tons.

OUTLOOK

Looking ahead, the management anticipates that the PRC’s acrylic fibre market will still be full of challenges. Nevertheless, the Company will adopt vigorous measures to maintain and expand its share and leading position in the PRC’s acrylic fibre market.

Differential acrylic fibre products and carbon fibre will become the new driving force for the Company and in the acrylic fibre industry in the PRC. Therefore, the Company will continue to concentrate on the development of differential acrylic fibre and carbon fibre products so as to increase their proportion in the product portfolio of the Company, thereby increasing the Company’s overall competitiveness. In addition, the Company will continue to adopt flexible marketing strategies to satisfy the different needs of customers, strengthen internal controls to increase cost effectiveness, improve and upgrade production technology continuously to develop new products, allocate resources to improve product quality so as to strengthen its relationship with customers and expand the customer base.

The management strongly believes that through the persistent efforts, the Company will definitely be able to enhance its competitive advantages and remain its competitiveness in the challenging environment today.

APPRECIATION

Lastly, I would like to take this opportunity to thank shareholders and business partners of the Company for their support and encouragement over the past year. I would also like to express my gratitude to the directors and the entire staff of the Company for their hard work and contribution.

Wang Jinjun
Chairman

Jilin, the PRC
28 April 2008

MAJOR OPERATIONAL DATA

1. Revenue

	Year ended 31 December			
	2007		2006	
	RMB million	**%**	RMB million	%
Acrylic top	**612.5**	**34.7**	861.0	37.6
Acrylic tow	**494.3**	**28.0**	749.9	32.7
Acrylic staple fibre	**651.2**	**36.9**	668.3	29.2
Others*	**6.9**	**0.4**	11.5	0.5
Total	**1,764.9**	**100.0**	2,290.7	100.0

2. Sales volume

	Year ended 31 December			
	2007		2006	
	Tons	**%**	Tons	%
Acrylic top	**35,461**	**33.7**	51,307	36.3
Acrylic tow	**29,880**	**28.4**	46,855	33.2
Acrylic staple fibre	**39,060**	**37.2**	41,888	29.6
Others*	**695**	**0.7**	1,233	0.9
Total	**105,096**	**100.0**	141,283	100.0

3. Average selling price and gross profit margin

	Year ended 31 December			
	2007		2006	
	Average selling price RMB/ton	**Gross profit margin %**	Average selling price RMB/ton	Gross profit margin %
Acrylic top	**17,242**	**3.7**	16,781	12.4
Acrylic tow	**16,543**	**6.3**	16,005	13.6
Acrylic staple fibre	**16,672**	**4.4**	15,954	11.1
Average gross profit margin		**4.7**		12.5

* Refer to acrylic fibre scrap.

MARKET REVIEW

In 2007, the acrylic fibre industry in the PRC experienced unprecedented difficulties. As affected by the persistent increase in international crude oil prices, the prices of the principal raw material for the production of acrylic fibre, acrylonitrilc, remain at high levels. In 2007, the average purchase price per ton of acrylonitrile surged by 10.5% whereas selling prices of acrylic products increased by only 3.6% which severely squeezed the profit margin of the Company's products. Meanwhile, the increase in the production capacity of acrylic fibre in the PRC over the years has led to a sustained shortage of acrylonitrile, while the rapid development of ABS and polyacrylamide has further exacerbated the shortage of acrylonitrile. In addition, the emergence and development of substitutes have posed new challenges for the acrylic fibre industry. As the selling prices of Persian fibre and dyeable polyester fibre are lower than that of the selling price of acrylic fibre, such materials have currently been applied in areas such as blanket, fur, plush and woollen thread as substitutes of acrylic fibre and replaced the use of acrylic fibre by 15% to 20%, which eroded the market share of acrylic products. Furthermore, the macroeconomic control measures based on the PRC government's policies such as the appreciation of RMB and the reduction of tax rebate for textile exports have all aggravated the pressure to the acrylic fibre industry in the PRC.

SALES REVIEW

In 2007, the Company recorded sales of 105,096 tons, representing a sharp decrease of 25.6% as compared with 141,283 tons in 2006. The average unit selling price of acrylic fibre products slightly increased by 3.6% from RMB16,214 per ton in 2006 to RMB16,793 per ton in 2007. The decrease in sales quantity was a combined result of stagnated market condition and a reduction in production quantity in order to minimize the inventory on hand.

The Company adopted a flexible marketing strategy through its established sales network and the sales centre in Suzhou. Coupled with its persistence in maintaining stable product quality and the provision of timely, convenient and fast after-sales services, the Company was able to maintain favorable pricing levels under a competitive environment. Meanwhile, to cater for the different needs of customers for product quality, the Company redefined the product quality standards with subdivision of quality grades so as to differentiate more explicitly the quality of the Company's products. The Company also changed the batch numbers of products so that users could adjust the processing parameters in accordance with the batch numbers, offering more convenience to the downstream users.

OPERATIONS REVIEW

The rising oil prices, prices of other major raw materials and labour costs has driven up operating costs and products costs, gave rise to a predicament characterized by surging costs during the period under review. In view of the general decline in profit margin for manufacturing industries, only part of the cost increments could be passed through to customers. Facing such pressure, the Company implemented stringent cost control during the period under review in an attempt to streamline and rationalize the production process and flow in order to improving operating efficiency and productivity.

In 2007, the Company noticed that some competitors had adopted the practice of cutting prices in order to maintain market share. In response to such competition approach, the Company had inplemented a series of measures, including maintaining customers' confidence through the continuous upgrading of product and service quality and providing excellent products and services at reasonable prices, as well as strengthening mutual business relationship; enhancing the position of the Company and its products in the market and paying close attention to market trends, and liaising with customers on a regular basis. All these measures enabled the Company to gain an insight into the needs of customers for products while allowing the updated products to meet the customers' needs on a timely basis, thus attracting customers to continue to use the products and services of the Company.

PRODUCTION MANAGEMENT

For the year ended 31 December 2007, the Company's plant utilization rate was about 79.0%. The Company's total production volume was approximately 107,378 tons, down 25.1% from the same period last year. The production of differential acrylic products was approximately 13,637 tons, representing 12.7% of the total production and up 10.7% from the same period last year. The decrease in utilization rate was the result of tightened production quantity control in order to minimize the inventory on hand in this stagnated market.

The Company stepped up its efforts in the development of new products and enhanced the production and testing of differential fibre during the period under review. Through technological exchange and testing, the Company successfully completed 11 production trials in 2007 based on the market needs, and proceeded with bulk production of 1.5D, 2D, 3D lustrous, semi-lustrous multiple colour system gel dyeing fibre, high shrinkage pashm top and high shrinkage staple.

The Company continued to upgrade its production technology, and successfully and systematically implemented 11 technological reforms and innovations, of which the alternative polymerizer jacket recycling water project (聚合釜夾套水用循環水替代專案) could save approximately RMB6 million each year, which in turn generated considerable economic benefits.

INTERNAL OPERATION CONTROL

In 2002, the Company obtained the ISO 14001 environmental management system and other certifications. These achievements have reinforced the Company's commitment to enhance internal operation control continuously. As at 31 December 2007, the Company had passed its annual ISO review and assessments for other certifications covering product quality, environmental protection and occupational safety and health.

During the period under review, the Company adhered to its strategy of improving operating efficiency by implementing stringent internal management and control measures in which the effectiveness had been evidenced in various aspects. The passing rate for safety education, the certification rate of personnel and the rate of discharge of dust, poisons, noises and sewage were all 100%.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2007, the Company had 1,192 employees, representing a decrease of approximately 2% as compared to 1,216 employees for the same period in 2006. The Company's staff remuneration packages are determined with reference to prevailing market rate and practices (including a performance-based incentive bonus). The Company also provided training to employees at all levels. For the year ended 31 December 2007, the Company provided the employees with training on various aspects such as the "one position, multiple capabilities" production technology, product quality control, English lessons for sales representatives as well as production safety and environmental protection, which had delivered 2,564 class hours in total, and carried out overall on-the-job training and assessment for all staff members with 100% passing rate. During the year, the Staff Position Rank Management Plan was successfully implemented. Through quantified assessment on the staff's work attitudes, work capabilities and performance, the staff were better motivated to take initiatives. The Company currently does not have any long-term incentive schemes apart from statuatory contribution.

The Company has establised a board remuneration committee which is responsible for making recommendations to the Board on the Company's remuneration policy in relation to the directors of the Company (the "Directors"). Please refer to the paragraph headed "Board Remuneration Committee" in the "Corporate Governance Report" in this report.

OUTLOOK

Looking forward, the management expects market conditions will remain challenging in 2008. The Company will shift its operating direction by allocating more resources to the research and development of new products. The Company forsees new opportunities and new growth strategies for its business as set out below:

1. Relatively clearer export conditions: After the U.S. entered into the textile products trade agreements with EU, the PRC has seen a relatively clearer situation for the textile products export in the future. It is generally expected that the export of textile products in the PRC can be sustained a stable growth, which will drive the demand for acrylic fibre in the PRC. The Company will explore the opportunities of exports and expand its overseas markets, thus expanding the room for the sales of acrylic fibre products.

2. Development of differential fibre: According to the statistics of Customs, the PRC imported approximately 280,700 tons of acrylic fibre during the year of 2007 mainly differential fibre. Therefore, the Company will put more emphasis on the development of differential fibres. As a type of high value-added acrylic fibre, differential fibre will improve the Company's profit margin and competitiveness in the domestic acrylic fibre market. The Company plans to continue to increase the production of differential fibre, including pill resistant fibre, gel dyeing fibre, oerlikon fibre, high shrinkage staple and high shrinkage top to meet market needs. Meanwhile, the optimization of formula tests will be made for low pill fibre and pashm top. The management believes that differential fibre products will become a major growth driver for the acrylic fibre industry in the PRC.

3. Commercialization of carbon fibre: Carbon fibre is a carbon material in the form of fibre. Its strength is approximately four times that of steel, while its density is only one fourth that of steel. Integrating various outstanding features, carbon fibre can be used as structural materials and functional materials. Therefore, it can be widely applied in areas such as aviation and aerospace industries.

   The Company has extensive production experience and a high-quality professional technical team, and enjoys advantages in the development and production of carbon fibre. The Company plans to complete the various designs (process description, PFD chart, materials, energy balance, PID chart and equipment floor plan layout chart etc.) in connection with the expansion of the production capacity for PAN precursor in 2008, and to realize the commercial production of carbon fibre precursor in the same year.

   The Company believes that the commercialization of carbon fibre precursor will generate considerable economic benefits for the Company, expand the potential for market development and then enhance overall competitiveness, so that the Company can capture more market opportunities to improve profitability.

FINANCIAL ANALYSIS

Operation results

For the year ended 31 December 2007, the Company's revenue amounted to approximately RMB1.76 billion, representing a significant decrease of approximately 23.1% as compared with approximately RMB2.29 billion for the year of 2006. The decrease was mainly due to the 25.6% decrease in sales volume, slightly offset by the increase of 3.6% in average unit selling price of acrylic fibre products. The decrease in sales volume of acrylic fibre products was mainly due to unfavourable market conditions such as the reduction in tax rebate for the export of textile products and appreciation of the Renminbi. During the year of 2007, the Company's total production volume and sales volume were 107,378 tons and 105,096 tons respectively, with a sales-to-production ratio maintained at approximately 97.9% (2006: 98.6%).

Loss attributable to the shareholders of the Company for the year was approximately RMB123.8 million, as compared with a profit attributable to shareholders of the Company of approximately RMB99.1 million in 2006. The net loss incurred by the Company was mainly attributable to the significant decrease in the overall gross profit margin from 12.5% in 2006 to 4.7% in 2007 due to rising raw material cost. The price of acrylonitrile, the major raw material for production of acrylic fibre, increased significantly by 10.5% in 2007 as a result of the continued increase in price of crude oil and tightened domestic supply of acrylonitrile. Nevertheless, the increase in cost of acrylonitrile was only partly compensated by the slight increase in selling price of acrylic fibre products. The price difference between the average selling price of the Company's acrylic fibre products and the average purchase price of acrylonitrile for the year of 2007 was approximately RMB3,306/ton, representing a decrease of approximately 16.7% against approximately RMB3,967/ton for the year of 2006. In addition, the Company's share of loss of the Joint Venture (a jointly-controlled entity in which the Company holds 50% interest and commenced commercial production in 2007) for the year 2007 amounted to RMB 56.05 million.

Operating expenses

Operating expenses decreased from approximately RMB120.3 million for the year of 2006 to approximately RMB119.1 million for the year of 2007. The Company is committed to control costs to minimise the adverse impact brought by rising raw material cost.

Net other gains

Net other gains (representing the net aggregate amount of other income, other expenses and other losses/gains-net) for the year were RMB19.3 million, as compared to net other gains of approximately RMB14.1 million in the previous year. The increase in net other gains was mainly attributable to lease income of approximately RMB28.7 million derived from the Power Company, a branch of the JCF Groupco, reduced by direct outgoings in repect of lease income of approximately RMB13.1 million, and partially offset by the decrease in the 2006 non-recurring gains such as gain on disposal of other financial assets at fair value through profit or loss and gain attributable to equity interests of the joint venture.

Finance costs

Net finance costs increased from approximately RMB64.2 million for the year of 2006 to approximately RMB83.0 million for 2007, which was mainly due to the increase in interest expenses resulted from the increase in overall bank loan balances and increase in overall interest rates.

Share of loss of a jointly controlled entity

The Joint Venture commenced its trial operation in November 2006 and commenced its commercial production in 2007. The share of its loss of RMB 56.05 million for the year of 2007, represented the Company's 50% share of the Joint Venture's loss for the year under the equity method. The net loss of the Joint Venture was mainly due to rising raw material costs and higher unit fixed cost of production during the initial production period.

Financial resources, liquidity and liability position

For the year ended 31 December 2007, the Company adopted prudent financial policies and maintained a healthy financial position.

As at 31 December 2007, the Company's total assets and total liabilities were approximately RMB2.72 billion and RMB1.70 billion respectively. As at 31 December 2007, the Company's net current assets amounted to approximately RMB149.6 million, and its current ratio, calculated by dividing current assets by current liabilities as at 31 December 2007, was approximately 1.20 (2006: 1.15). In addition, the Company had cash at bank and in hand of approximately RMB158.4 million as at 31 December 2007.

Total bank loans of the Company as at 31 December 2007 amounted to approximately RMB1.39 billion, of which short-term bank loans and current portion of long-term bank loans amounted to approximately RMB523 million in aggregate and long-term bank loans were approximately RMB870 million. Approximately 92.8% of the Company's bank loans bear floating interest rates. The bank loans were mainly used for the expansion of production facilities in previous years and the construction of the thermal power plant which commenced production officially in early 2007. Increase in bank loans of RMB190 million during the year was mainly due to the additional loans obtained for working capital requirements.

All of the Company's bank loans are denominated in Renminbi and financial assets denominated in foreign currencies amounted to RMB22.0 million only. Therefore, the management believes that the Company is exposed to minimal foreign exchange risks and has not made any foreign currency hedging arrangement.

As at 31 December 2007, the Company's gearing ratio, calculated by dividing total liabilities by total assets, was approximately 62.3% (2006: 55.5%). The increased gearing ratio was mainly due to the increase in bank loans which was used to meet the working capital requirements and the loss accumulated during the period under review has reduced the total assets of the Company.

Investment status

Joint Venture

The Joint Venture was established on 21 December 2005. Its total registered share capital is RMB450.0 million and was originally owned as to 50% by each of the Company and Montefibre. On 10 November 2006, Montefibre entered into an equity transfer agreement with SIMEST S.p.A. ("SIMEST"), a development finance institution set up by the Italian government. Pursuant to the equity transfer agreement, Montefibre transferred its 10.64% equity interest in the Joint Venture to SIMEST. Upon completion of the equity transfer, the Company continues to hold 50% equity interests in the Joint Venture, whereas Montefibre and SIMEST hold 39.36% and 10.64% equity interests in the Joint Venture respectively. The equity transfer did not result in any changes in the board composition of the Joint Venture.

The total fixed asset investment in phase one of the acrylic fibre project with annual production capacity reaching 100,000 tons was approximately RMB1.02 billion which was mainly financed by bank loans and capital contribution from the joint venture partners. All the joint venture partners had fully paid their capital contributions according to their respective proportion of equity interest in the Joint Venture in 2006.

The Joint Venture is principally engaged in the manufacture and sale of acrylic fibre products. Currently, the Company does not have any concrete timetable for implementing phase two of the project, which can expect further increase the total annual production capacity of the Joint Venture to 150,000 tons. The timetable for implementing phase two of the project will depend on various factors, including, among others, the future market conditions.

In 2007, the sales volume and production volume of the Joint Venture reached 54,884 tons and 58,430 tons respectively, representing a sales-to-production ratio of 93.9%. The utilization rate of the production plant was 58.4%. The net loss of the Joint Venture amounted to approximately RMB112.1 million in 2007, which was mainly due to the high raw material costs and higher unit fixed cost of production during the initial production period.

Thermal power plant

The total investment in the construction of the thermal power plant which has commenced production at the end of 2006 amounted to approximately RMB492.6 million. It is located next to the production facilities to provide the electricity and steam required for the production activities of the Company and the Joint Venture. For resources integration and to increase cost efficiency, the thermal power plant was leased to Jilin Chemical Fiber Group Co., Ltd. Power Company (the "Power Company"), a branch of Jilin Chemical Fiber Group Co, Ltd (the "JCF Groupco") without separate legal person status. Under the consolidation arrangement of utilities resources, the thermal power plant was leased to the Power Company for management, and operation, and in return, the Power Company supplies utilities to the Company and the Joint Venture for meeting their production requirements. The Company received lease income amounted to approximately RMB28.7 million from the Power Company.

Entrusted deposits and matured time deposits

As at 31 December 2007, the Company did not hold deposits under trusts in any financial institutions in the PRC. All of the Company's cash was held in commercial banks in the PRC in accordance with the applicable laws and regulations. The Company had no bank deposits that cannot be withdrawn upon maturity.

Pledged assets

As at 31 December 2007, certain property, plant and equipment and land use rights of net book value amounted to approximately RMB938.7 million and RMB8.0 million respectively (31 December 2006: RMB768.1 million and RMB23.9 million respectively) were pledged as securities for bank loans of approximately RMB380.0 million (31 December 2006: RMB342.6 million).

Contingent liabilities

The Company had no material contingent liabilities as at 31 December 2007.

Dividend

The Board does not recommend the payment of any dividend for the year ended 31 December 2007 (2006: final dividend of RMB 0.035 per share and special dividend of RMB 0.015 per share).

DIRECTORS

Executive Directors

Wang Jinjun, aged 46, is an executive Director and chairman of the Board. Currently, he is also the chairman of the board of directors, general manager, and secretary of the party committee of JCF Groupco, as well as the chairman of the board of directors of Jilin Chemical Fiber Co., Ltd. ("JCFCL") and the Joint Venture. Since he joined the Company in 1996, he had held various senior management positions in the Company including the equipment and energy department and production department. He has over 20 years experience in the chemical fibre industry. He graduated from Daqing Petroleum Institute of Heilongjiang Province in the PRC (major in petroleum engineering), and is a qualified senior engineer in the PRC.

Ma Jun, aged 42, is an executive Director and chief executive officer. He had held managerial positions at the electric meter factory and polymerisation factory since he joined the Company in March 1997. Mr. Ma graduated from Jilin Vocational Teachers College in the PRC with a bachelor degree in relation to electronics technology. He has over 18 years of experience in the chemical fibre industry and is a qualified senior engineer in the PRC.

Wang Changsheng, aged 48, is an executive Director and chief financial officer who is responsible for the financial management of the Company. He has also served as our chief head of the Finance department since August 2001. He has over 27 years of experience in the chemical fibre industry and has extensive experience in company accounting, administration and management. He graduated from Changchun Taxation Institute in the PRC (major in accounting) and is a qualified senior accountant in the PRC.

Non-executive Directors

Hao Peijun, aged 48, is a non-executive Director. Currently, he is also head of the labour union of JCF Groupco. Mr. Hao had served JCF Groupco since 1994 as deputy office manager, and later, as assistant to general manager until being promoted to the present position in January 2005. Mr. Hao has been involved in the chemical fibre industry for over 25 years. He graduated from Jilin Province Institute of Education in the PRC and is a qualified senior economist in the PRC.

Gong Jianzhong, aged 45, is a non-executive Director and vice-chairman of the Board. He first became a director of the Company on 11 March 2002. Mr. Gong is currently a director and chief executive officer of Bank of China Group Investment Limited and a director of certain of its subsidiaries. Mr. Gong has over 16 years of experience in banking, administration and management. He graduated from Dongbei University of Finance and Economics in the PRC with a master degree in economics.

Chen Jinkui, aged 44, is a non-executive Director. He first became a director on 11 October 2002. Mr. Chen is currently also a director and general manager of China Insurance Group Investment (Holdings) Co. Ltd., a wholly-owned subsidiary of China Insurance H.K. (Holdings) Company Limited. Mr. Chen has over 17 years of experience in banking and corporate finance management. He graduated from Central University of Finance and a non-executive Director and Economics (formerly known as Central Institute of Finance and Economics) with a bachelor degree in finance and postgraduate Finance Research Centre of the PBOC Headquarters with a master degree in economics.

Jiang Junzhou, aged 50, is a non-executive Director and currently the vice general manager of JCF Groupco. He first became a director of the Company on 28 June 2007. Mr. Jiang joined JCF Groupco in 1978 and has over 30 years of experience in education, imports and exports as well as management.

Mr. Zhang Yuchen, aged 40, is a non-executive Director. He first became a director of the Company on 28 June 2007 Mr. Zhang graduated from the Finance and Financial Department of Shanxi Finance and Economics Institute with a bachelor's degree in Economics. Mr. Zhang is now the manager of the finance department of Shanghai Rong Xing Investment Co., Ltd. He is a Certified Public Accountant in the PRC, an international Certified Internal Auditor and a Certified Financial Planner in Hong Kong.

Independent non-executive Directors

Ye Yongmao, aged 65, has been an independent non-executive Director since 24 April 2005. Presently, he also acts as independent director of Shenma Industry Co., Ltd.. He is also a deputy head of general affairs of The China Chemical Fiber Industrial Association and a deputy officer of Chemical Fiber Professional Committee of the National Textile Engineering Society. Mr. Ye has almost 41 years experience in the chemical fibre industry, particularly regarding the technology and production involved in the industry. He graduated from the Beijing Chemical Fiber Industrial Institute (major in fundamental organic chemical engineering) and is a senior engineer in the PRC.

Mao Fengge, aged 39, has been an independent non-executive Director since 9 June 2006. He is currently head and legal representative of Jilin Huatai Accounting Firm. He graduated from Changchun Taxation Institute (major in accounting) and later from Yanbian University (major in law). Apart from his experience of over 16 years in the accounting field as a certified public accountant and a qualified securities accountant, he is also a registered assets valuer in the PRC.

Lee Ka Chung, J.P. , aged 55, has been an independent non-executive Director since 9 June 2006. He is presently a director and chief executive officer of WKCL Group Ltd., owner of William K.C. Lee Accounting Firm, and also a fellow member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants, and Justice of the Peace in Hong Kong. Mr. Lee was also an arbitrator of Shenzhen Arbitration Committee, a legal consultant of Shenzhen Municipal People's Government and a consultant of Hong Kong regional affairs in Xinhua News Agency Hong Kong Branch.

SUPERVISORS

Jiang Yanfeng, aged 55, is the chairman of the supervisory committee of the Company (the "Supervisory Committee"). He has been also director and secretary of the commission for disciplinary inspection of JCF Groupco, and chairman of the supervisory committee of JCFCL since April 2002. Mr. Jiang has over 14 years of experience in corporate administration and management. He graduated from Central Communist Party School in the PRC (major in foreign economics) and is a qualified senior politician in the PRC.

Sun Yujing, aged 42, is a supervisor of the Company ("Supervisor"). Since she joined JCF Groupco in 1990, she had served as auditor and deputy head of the audit department, and deputy head of the audit and supervisory department Ms. Sun has 16 years of experience in audit and supervisory services. She graduated from Changchun Taxation Institute with a major in accounting and is a qualified accountant in the PRC.

Liu Mingzhe, aged 36, is a Supervisor. He has also been head of our production department since 2006 and secretary of the party branch committee in the Company since 2003. Since he joined the Company in 1997, he had served as a technician and deputy officer in our factories. Mr. Liu graduated from Jilin Industrial Institute (major in chemical fibre studies) and is a qualified engineer in the PRC.

Meng Xiangui, aged 51, has been an independent Supervisor since 9 June 2006. He has also been deputy head and attorney of JilinBaomin Law Firm. Mr. Meng graduated from China University of Political Science and Law (major in law). He is a qualified lawyer in the PRC.

Feng Shuhua, aged 59, has been an independent Supervisor since 9 June 2006. She has also been independent director of Yanbian Road Construction Co., Ltd., and independent non-executive director of Jilin Pharmaceutical Co., Ltd.. Ms. Feng graduated from Beijing Social University for Distance Learning in the PRC (major in industrial financial accounting) and from Communist Party School of Jilin Province. She is a qualified senior accountant in the PRC.

OTHER SENIOR OFFICERS

Liu Xiangmei, aged 44, who joined JCF Groupco in 1985, is one of the joint company secretaries and secretary to the Board. She has approximately 21 years of experience in the accounting and finance field. Ms. Liu graduated from Changchun Taxation Institute and is a qualified accountant and statistician in the PRC.

Chan Cheung, aged 34, who joined the Company in January 2008, is the other joint company secretary and qualified accountant of the Company. Prior to joining the Company, he served as the financial controller of a company listed on Nasdaq in the United States. He has 10 years of experience in the field of financial management and auditing. Mr. Chan is also a member of The Hong Kong Institute of Certified Public Accountants and a fellow member of The Association of Certified Chartered Accountants. Mr. Chan graduated from The Hong Kong Polytechnic University with an honorary bachelor degree in accounting.

Zhuang Hailin, aged 37, who joined JCF Groupco in 1993, is the deputy general manager. Mr. Zhuang graduated from Jilin Industrial Institute (major in chemical fibre studies) and is a qualified engineer in the PRC.

The Board is pleased to present their report together with the audited financial statements of the Company for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The Company is principally engaged in the manufacture and sale of acrylic fibre products. The activity of the jointly controlled entity is set out in note 10 to the financial statements.

SEGMENT INFORMATION

The Company is principally engaged in a business segment. All of its operations and assets are located in the PRC and no sales were related to overseas customers.

RESULTS AND APPROPRIATIONS

The results of the Company for the year are set out in the income statement on page 38.

The Directors do not recommend the payment of a dividend.

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Company for the past five financial years is set out on page 3.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Company during the year are set out in note 8 to the financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 14 to the financial statements.

RESERVES

Movements in reserves of the Company during the year are set out in notes 14 and 15 to the financial statements. As at 31 December 2007, the Company has no distributable reserve.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association ("Articles") or the laws of the PRC, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended 31 December 2007, neither the Company nor any of its jointly controlled entity and fellow subsidiaries purchased, sold or redeemed any of the Company's listed securities.

DIRECTORS

The directors of the Company in 2007 and up to the date of this report are:

Executive Directors
Mr. Wang Jinjun *(Chairman)*
Mr. Ma Jun
Mr. Wang Changsheng
Mr. Yang Dexin (resigned on 28 June 2007)

Non-executive Directors
Mr. Hao Peijun
Mr. Gong Jianzhong
Mr. Chen Shuguo (resigned on 28 June 2007)
Mr. Chen Jinkui
Mr. Jiang Junzhou (appointed on 28 June 2007)
Mr. Zhang Yuchen (appointed on 28 June 2007)

Independent non-executive Directors
Mr. Ye Yongmao
Mr. Mao Fengge
Mr. Lee Ka Chung, J.P.

The term of office of each Director is for a period of three years.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the Independent non-executive Directors an annual written confirmation of independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securtites on the Stock Exchange of Hong Kong Ltd. (the "Listing Rules") and considers all the Independent non-executive Directors are independent to the Company.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the Directors and Supervisors has entered into a service contract with the Company respectively. All these contracts (except for the contracts with Mr. Jiang Junzhou and Mr. Zhang Yuchen whose contracts will expire upon completion of the term of the first session of the Board) expired on 23 April 2008 and all Directors and Supervisors will retire and offer themselves for re-election at the forthcoming annual general meeting of the Company.

Save as disclosed above, none of the existing Directors and Supervisors and persons who are proposed for election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than the statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance in relation to the Company's business to which the Company, or any of its subsidiary companies, and a controlling shareholder or any of its subsidaries was a party and in which a director and/or a superivisor of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and senior management are set out on pages 14 to 16 under the Biography of Directors and Senior Management section in this report.

INTERESTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES

As at 31 December 2007, none of the directors, supervisors and chief executive of the Company has any interests and short positions in the shares, the underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) and required to be entered in the register maintained by the Company pursuant to section 352 of the SFO or which were notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (for this purpose, the relevant provisions of the SFO will be interpreted as if they applied to the Supervisors).

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2007, there was a total issued share capital of 866,250,000 shares of the Company (the "Shares") which include:

	Number of Shares	Approximate percentage of share capital of the Company
Domestic Shares	437,016,596	50.45%
Non-H Foreign Shares	169,358,404	19.55%
H-Shares	259,875,000	30.00%
Total	866,250,000	100.00%

As at 31 December 2007, the following persons (not being director, supervisor or chief executive of the Company), so far as are known to the Directors, have an interest or short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of shareholders	Number of shares directly and indirectly held	Class of shares	Approximate percentage in relevant class of shares (%)			Approximate percentage in total issued share capital (%)		
			Direct interests	Indirect interests	Aggregate interests	Direct interests	Indirect interests	Aggregate interests
吉林化纖集團有限責任公司 (Jilin Chemical Fiber Group Co., Ltd.)	433,229,558	Domestic Shares	99.13	—	99.13	50.01	—	50.01
吉林市金泰投資（控股）有限責任公司 (Jilin City Jintai Investment (Holdings) Co., Ltd.)	433,229,558[(1)]	Domestic Shares	—	99.13	99.13	—	50.01	50.01
Ronsace Company Limited	94,841,726	Non-H Foreign Shares	56.00	—	56.00	10.95	—	10.95

Name of shareholders	Number of shares directly and indirectly held	Class of shares	Approximate percentage in relevant class of shares (%) Direct interests	Indirect interests	Aggregate interests	Approximate percentage in total issued share capital (%) Direct interests	Indirect interests	Aggregate interests
Bank of China Group Investment Limited	94,841,726[2]	Non-H Foreign Shares	—	56.00	56.00	—	10.95	10.95
Bank of China Limited	94,841,726[2]	Non-H Foreign Shares	—	56.00	56.00	—	10.95	10.95
Sanlink Investments Limited	44,029,105	Non-H Foreign Shares	26.00	—	26.00	5.08	—	5.08
China Insurance Group Investment Limited	44,029,105[3]	Non-H Foreign Shares	—	26.00	26.00	—	5.08	5.08
China Life Insurance (Overseas) Company Limited	44,029,105[3]	Non-H Foreign Shares	—	26.00	26.00	—	5.08	5.08
Halesfield Investment Limited	30,487,573	Non-H Foreign Shares	18.00	—	18.00	3.52	—	3.52
Huang Jia Lin	30,487,573[4]	Non-H Foreign Shares	—	18.00	18.00	—	3.52	3.52
Huang Jia Yuan	30,487,573[4]	Non-H Foreign Shares	—	18.00	18.00	—	3.52	3.52
全國社會保障基金理事會 (The National Social Security Fund of the PRC)	23,625,000	H Shares	9.09	—	9.09	2.73	—	2.73

Notes:

1. 433,229,558 Shares are deemed corporate interests indirectly held through Jilin Chemical Fiber Group Co., Ltd under the SFO.
2. 94,841,726 Shares are deemed corporate interests indirectly held through Ronsace Company Limited under the SFO.
3. 44,029,105 Shares are deemed corporate interests indirectly held through Sanlink Investments Limited under the SFO.
4. 30,487,573 Shares are deemed corporate interests indirectly held through Halesfield Investment Limited under the SFO.

COMPETING BUSINESS

Save that Mr. Wang Jinjun and Mr. Ma Jun are also directors of the Joint Venture, none of the Directors is interested in any business apart from the Company's business, which competes or is likely to compete, either directly or indirectly, with the Company's business.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

During the year of 2007, sales to the Company's five largest customers accounted for approximately 54.5% of the total sales for the year, in which sales to the largest customer represented approximately 17.2% of the total sales for the year.

Purchases from the Company's five largest suppliers amounted to approximately 89.7% of the total purchases for the year while total purchases from the largest supplier represented approximately 75.2% of the total purchases for the year.

Out of the five largest customers, there are four sales agents where the Company's goods are sold without recourse. One of the sales agents, Shanghai Taiyi Textile Company Limited ("Taiyi"), is one of the Company's promoters and therefore a connected person of the Company. Save as disclosed above, none of the directors, their associates or any shareholder (which to the knowledge of the directors own more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

CONTINUING CONNECTED TRANSACTIONS

Sale and purchase of raw material, auxiliary materials and parts between the Company and the Remaining JCF Group

The Company purchased from the Remaining JCF Group, being the JCF Groupco, the controlling shareholder of the Company, and its subsidiaries but excluding the Company, raw materials and auxiliary materials (including sulphuric acid, sodium hydroxide, lubricants, electrical appliances), while the Remaining JCF Group purchased from the Company auxiliary materials and parts (such as vehicle and equipment parts). Pursuant to the materials supply agreement entered into with JCF Groupco (for and on behalf of the Remaining JCF Group) on 29 May 2006, the Company purchased raw materials and auxiliary materials from the Remaining JCF Group and the Company sold to the Remaining JCF Group auxiliary materials and parts for an initial term ending on 31 December 2008 and, subject to the compliance with Listing Rules' requirements regarding connected transactions, automatically renewable for a term of three years thereafter. The transaction was negotiated on arm's length basis and the prices were determined with reference to the prevailing market prices and in line with normal commercial terms.

JCF Groupco is a connected person of the Company as it is one of the Company's promoters and holds approximately 50.01% of the share capital of the Company. The Remaining JCF Group (other than JCF Groupco), being associates (as defined under the Listing Rules, "Associates") of JCF Groupco, are also the connected persons of the Company.

For the year ended 31 December 2007, purchase from and sale to the Remaining JCF Group amounted to RMB1.081 million and RMB62,000, which was within the approved cap of RMB1.4 million and RMB1 million as disclosed in the Company's prospectus dated 9 June 2006, respectively.

Purchase of chemical materials from Lotus Factory

The Company purchased from Jilin City Lotus Chemical Factory ("Lotus Factory") raw materials (including sodium bisulfate and DTPA) as auxiliary materials for production. Pursuant to the materials supply agreement entered into with Lotus Factory on 1 June 2005 (as supplemented by a supplemental agreement dated 29 May 2006), the Company purchases chemical materials from Lotus Factory, for a term of three years ending on 31 December 2008 and, subject to the compliance with Listing Rules' requirements regarding connected transactions, automatically renewable for a term of three years thereafter. The transaction was negotiated on arm's length basis and the prices were determined with reference to the prevailing market prices and in line with normal commercial terms.

Lotus Factory is wholly and beneficially owned by the controlling shareholder of Jilin Dalin Industry Company Limited ("Dalin"), being a connected person as it is one of the promoters of the Company. Lotus Factory, being an associate of Dalin, is therefore a connected person of the Company.

For the year ended 31 December 2007, purchase of chemical materials from Lotus Factory amounted to RMB2.629 million which was within the approved cap of RMB4 million as disclosed in the Company's prospectus dated 9 June 2006.

Sale of finished goods to Taiyi

The Company sold products to Shanghai Taiyi Textile Company ("Taiyi") with the understanding that Taiyi will sell the same to its customers (mainly small customers which may have higher credit risk) at prices fixed by the Company. The products are sold to Taiyi at prices less a discount. The Company has entered into a sales agreement with Taiyi on 29 May 2006, for an initial term ending on 31 December 2008 and, subject to compliance with the Listing Rules' requirements regarding connected transactions, automatically renewable for a term of three years thereafter. The transaction was negotiated on arm's length basis and the prices were determined in line with normal commercial terms.

Taiyi is a connected person of the Company as Taiyi is one of the promoters of the Company.

For the year ended 31 December 2007, sales to Taiyi amounted to RMB310.616 million which was within the approved cap of RMB520.0 million as disclosed in the Company's prospectus dated 9 June 2006.

Sale of finished goods to Tuopu

The Company sold goods to Tuopu Industrial and Trading Co., Ltd. ("Tuopu") and understood that Tuopu would resell such goods to its customers (mainly those small customers with comparatively high credit risks) at the price determined by the Company. The Company sold products to Tuopu at a discount of the price. On 8 August 2007, the Company entered into the sales agreements with Tuopu for an initial term ending on 31 December 2008 which subject to the compliance with Listing Rules' requirements regarding connected transactions, is automatically renewable for a term of three years thereafter. The transactions were negotiated on arm's length basis and the prices were determined with reference to the prevailing market prices and in line with normal commercial terms.

JCF Groupco is a substantial shareholder of the Company holding approximately 50.01% of its share capital and a connected person of the Company. Tuopu, being a wholly-owned subsidiary of JCF Groupco, is thus an associate of JCF Groupco and is also a connected person of the Company.

For the year ended 31 December 2007, sales to Tuopu by the Company amounted to RMB 14.557 million, which is within the approved cap of RMB 26 million as disclosed in the Company's announcement dated 8 August 2007 and circular dated 29 August 2007.

Mutual provision of composite services between the Company and the Remaining JCF Group

The Remaining JCF Group and the Company mutually provided to each other composite services for their respective operation needs. For instance, the Remaining JCF Group provides telephone rental service, and engineering, maintenance and other services whereas the Company provides installation, repair and maintenance and other support services in relation to electrical instruments to the Remaining JCF Group. Pursuant to the composite services agreement entered into between JCF Groupco (for and on behalf of the Remaining JCF Group) and the Company on 29 May 2006, the Remaining JCF Group and the Company agreed to provide to one another the composite services for an initial term ending on 31 December 2008, and subject to the compliance with the Listing Rules' requirements regarding connected transactions, automatically renewable for a term of three years thereafter. The transaction was negotiated on arm's length basis and the prices were determined in line with normal commercial terms.

The Remaining JCF Group (other than JCF Groupco) are the connected persons of the Company as mentioned above.

For the year ended 31 December 2007, the composite services that the Company received from and provided to the Remaining JCF Group amounted to RMB1.715 million and nil, respectively, which was within the approved cap of RMB11 million and RMB0.4 million as disclosed in the Company's prospectus dated 9 June 2006, respectively.

Mutual provision of utilities between the Company and JCFCL

Jilin Chemical Fiber Co., Ltd ("JCFCL") and the Company have mutually provided utilities to each other. For instance, JCFCL supplies water, electricity and steam to the Company whereas the Company supplies compressed air to JCFCL. Pursuant to the utilities supply agreement entered into between JCFCL and the Company on 29 May 2006, JCFCL and the Company shall provide one another the above-mentioned utilities for an initial term ending on 31 December 2008 and, subject to compliance with the Listing Rules' requirements regarding connected transactions, automatically renewable for a term of three years thereafter. The transaction was negotiated on arm's length basis and the prices were determined in line with normal commercial terms.

JCFCL is a connected person of the Company as JCFCL is approximately 38.94% owned by JCF Groupco which is a substantial shareholder and one of the promoters of the Company. JCFCL is an Associate of JCF Groupco and is therefore a connected person of the Company.

For the year ended 31 December 2007, utilities that the Company received from and supplied to the JCFCL amounted to RMB2.697 million and RMB0.634 million, respectively, which was within the approved cap of RMB3.5 million and RMB0.9 million as disclosed in the Company's prospectus dated 9 June 2006, respectively.

Agreement relating to lease of the Leased Assets between the Company and the Power Company

The Company leased the Leased Assets (includes utilities (such as water, steam and electricity) production facilities including a thermal power plant leased by the Company to the Power Company) to the Power Company. Pursuant to the Lease Agreement entered into with the Power Company on 8 August 2007, the Company leased the Leased Assets to the Power Company for an initial term ended on 31 December 2009 which, subject to compliance with Listing Rules' requirements regarding connected transactions, is automatically renewable for a term of three years thereafter. The transaction was negotiated on arm's length basis and the prices were determined in line with normal commercial terms.

The Power Company is a branch of JCF Groupco, which is a substantial shareholder and one is the promoters of the Company, without separate legal-person status established in the PRC in April 2007 and is therefore a connected person of the Company.

For the year ended 31 December 2007, lease income for Leased Assets received by the Company from the Power Company amounted to RMB 28.674million, which was within the approved cap of RMB 32 million as disclosed in the Company's announcement dated 8 August 2007 and circular dated 29 August 2007.

Purchase of the Company Utilities and Company Water Treatment Services from Power Company by the Company

The Company purchased from the Power Company the Company Utilities and Company Water Treatment Services. Pursuant to the Company Utilities and Services Provision Agreement entered into between the Company and the Power Company on 8 August 2007, the agreement has an initial term ending on 31 December 2009 which, subject to compliance with Listing Rules' requirements regarding connected transactions, is automatically renewable for a term of three years thereafter. The transaction was negotiated on arm's length basis and the prices were determined in line with normal commercial terms.

The Power Company is a branch of JCF Groupco without separate legal-person status established in the PRC in April 2007 and is therefore a connected person of the Company.

For the year ended 31 December 2007, purchase from the Power Company of the Company Utilities and Company Water Treatment Services by the Company amounted to RMB49.385 million, which was within the approved cap of RMB 94 million as disclosed in the Company's announcement dated 8 August 2007 and circular dated 29 August 2007.

Placing of deposits with Bank of China, Jilin City Branch

The Company has placed deposits with Bank of China, Jilin City Branch in the ordinary and usual course of the business of the Company.

The transaction was negotiated on arm's length basis and the interest receivable by the Company from Bank of China, Jilin City Branch for deposits being placed with it was determined on arm's length basis, which was in line with normal commercial terms.

Bank of China, Jilin City Branch is a connected person of the Company as Ronsace Company Limited ("Ronsace"), which holds approximately 10.95% of the share capital of the Company, it is therefore the substantial shareholder of the Company. Ronsace is wholly and beneficially owned by Bank of China Group Investment Limited, a wholly-owned subsidiary of Bank of China Limited. As Bank of China, Jilin City Branch is an associate of Bank of China Limited, it is therefore a connected person of the Company.

As at 31 December 2007, the balance of deposits amounted to RMB25.985 million which was within the approved cap of RMB106 million as disclosed in the Company's announcement dated 8 August 2007 and circular dated 29 August 2007.

Provision of loan by Bank of China, Jilin City Branch

The Company has entered into a loan agreement with Bank of China, Jilin City Branch, pursuant to which Bank of China, Jilin City Branch advanced a loan secured by a property mortgage over the Company's land use rights, building and machinery and equipment for a principal sum of US$17.8 million to the Company on 1 November 2002 and such loan should be repaid by the Company on 30 November 2007. The transaction was negotiated on arm's length basis and the terms of the loan agreement are on normal commercial terms.

Bank of China, Jilin City Branch is a connected person of the Company as mentioned above.

The loan was repaid during the year and therefore, nil balance as at 31 December 2007 which was within the approved cap of RMB 1 million as disclosed in the Company's prospectus dated 9 June 2006.

Provision of utilities by JCFCL to the Joint Venture

JCFCL provides utilities (including water, electricity and steam) to the Joint Venture since its commencement of production in late 2006. The Joint Venture has entered into an utilities supply agreement with JCFCL on 1 June 2006. Pursuant to such agreement, JCFCL will provide the above utilities to the Joint Venture for an initial term ending on 31 December 2008, subject to the compliance with the Listing Rules' requirements regarding connected transactions, automatically renewable for a term of three years thereafter. The transaction was negotiated on arm's length basis and the terms of the loan agreement are on normal commercial terms.

JCFCL is a connected person of the Company as mentioned above.

For the year ended 31 December 2007, no utilities was received by the Joint Venture from the JCFCL and therefore, within the approved cap of RMB2.5 million as disclosed in the Company's prospectus dated 9 June 2006.

Purchase of auxiliary materials from Tuopu by the Joint Venture

The Joint Venture purchased from Tuopu auxiliary materials for manufacturing business. Pursuant to the Auxiliary Materials Supply Agreement entered into with Tuopu in 2007, the Joint Venture will purchase auxiliary materials from Tuopu for the period of three years ending 31 December 2009 which, subject to compliance with Listing Rules' requirements regarding connected transactions, is automatically renewable for a term of three years thereafter. The transaction was negotiated on arm's length basis and the prices were in line with normal commercial terms.

JCF Groupco is a substantial shareholder of the Company holding approximately 50.01% of its share capital and a connected person of the Company. Tuopu, being a wholly-owned subsidiary of JCF Groupco, is thus an associate of JCF Groupco and also a connected person of the Company.

For the year ended 31 December 2007, purchase from Tuopu of the auxiliary materials by the Joint Venture amounted to RMB 3,987, which was within the approved cap of RMB 200,000 as disclosed in the Company's announcement dated 8 August 2007 and circular dated 29 August 2007.

Sale of finished goods to Taiyi by the Joint Venture

The Joint Venture sold products to Taiyi and understood that Taiyi would resell such goods to its customers (mainly those small customers with comparatively high credit risks) at the price determined by the Joint Venture. The Joint Venture sold products to Taiyi at a discount price. On 8 August 2007, the Joint Venture entered into the sales agreements with Taiyi, for initial terms ending on 31 December 2009 which, subject to the compliance with Listing Rules' requirements regarding connected transactions, are automatically renewable for a term of three years thereafter. The transactions were negotiated on arm's length basis and the prices were determined with reference to the prevailing market prices and in line with normal commercial terms.

Taiyi is one of the promoters of the Company and thus a connected person of the Company.

For the year ended 31 December 2007, sales to Taiyi by the Joint Venture amounted to RMB 146.461 million, which is within the approved cap of RMB 180 million as disclosed in the Company's announcement dated 8 August 2007 and circular dated 29 August 2007.

Sale of finished goods to Tuopu by the Joint Venture

The Joint Venture sold goods to Tuopu and understood that Tuopu would resell such goods to its customers (mainly those small customers with comparatively high credit risks) at the price determined by the Joint Venture. The Joint Venture sold products to Tuopu at a discount price. On 8 August 2007, the Joint Venture entered into the sales agreements with Tuopu for initial terms ending on 31 December 2009 which, subject to the compliance with Listing Rules' requirements regarding connected transactions, are automatically renewable for a term of three years thereafter. The transactions were negotiated on arm's length basis and the prices were determined with reference to the prevailing market prices and in line with normal commercial terms.

JCF Groupco is a substantial shareholder of the Company holding approximately 50.01% of interest in its share capital and a connected person of the Company. Tuopu, being a wholly-owned subsidiary of JCF Groupco, is thus an associate of JCF Groupco and also a connected person of the Company.

For the year ended 31 December 2007, sales to Tuopu by the Joint Venture amounted to RMB 10.546 million, which is within the approved cap of RMB 11 million as disclosed in the Company's announcement dated 8 August 2007 and circular dated 29 August 2007.

Purchase of Engineering Construction Services from Jianan by the Joint Venture

The Joint Venture purchased from Jianan Engineering Construction Services. Pursuant to the Engineering Construction Services Agreement entered into with Jianan on 8 August 2007 by the Joint Venture, the Joint Venture purchased from Jianan Engineering Construction Services for an initial term ending on 31 December 2009 which, subject to compliance with Listing Rules' requirements regarding connected transactions, is automatically renewable for a term of three years thereafter. The transaction was negotiated on arm's length basis and the prices were determined with reference to the prevailing market prices and in line with normal commercial terms.

JCF Groupco is a substantial shareholder of the Company holding approximately 50.01% of its share capital and is a connected person of the Company. Jianan, being an associate of JCF Groupco, is therefore also a connected person of the Company.

For the year ended 31 December 2007, purchase from Jianan by the Joint Venture amounted to RMB 2.411 million, which is within the approved cap of RMB 16 million as disclosed in the Company's announcement dated 8 August 2007 and circular dated 29 August 2007.

Purchase of the Company Utilities and Company Water Treatment Services from Power Company by the Joint Venture

The Joint Venture purchased from the Power Company were the Company Utilities and Company Water Treatment Services. Pursuant to the Company Utilities and Services Provision Agreement entered into between the Joint Venture and the Power Company on 8 August 2007, the agreement had an initial term ending on 31 December 2009 and, subject to compliance with Listing Rules' requirements regarding connected transactions, is automatically renewable for a term of three years thereafter. The transaction was negotiated on arm's length basis and the prices were determined in line with normal commercial terms.

The Power Company is a branch of JCF Groupco without separate legal-person status established in the PRC in April 2007 and a connected person of the Company.

For the year ended 31 December 2007, purchase from the Power Company of the Company Utilities and Company Water Treatment Services by the Joint Venture amounted to RMB 36.446 million, which is within the approved cap of RMB 76 million as disclosed in the Company's announcement dated 8 August 2007 and circular dated 29 August 2007.

The independent non-executive Directors have reviewed the above continuing connected transactions and confirmed that these transactions satisfy the following conditions:

(a) the continuing connected transactions disclosed above entered into by the Company in the ordinary and usual course of business;

(b) the continuing connected transactions were entered into on an arm's length basis and conducted on normal commercial terms; and

(c) the continuing connected transactions were entered into in accordance with the agreements governing such transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

In accordance with section 14A.38 of the Listing Rules, the Board of Directors engaged the auditors of the Company to perform certain procedures on the above continuing connected transactions on a sample basis in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have reported their factual findings on the selected samples based on the agreed procedures to the Board of Directors.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE

Details of the compliance by the Company with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules are shown on pages 29 to 33 under the Corporate Governance Report section in this report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained sufficient public float of at least 25% of the Company's issued shares as required under the Listing Rules during the year and as at the latest practicable date prior to the issue of this report.

AUDITORS

The financial statements have been audited by the Company's auditors, PricewaterhouseCoopers, who will retire and, being eligible, will offer themselves for re-appointment at the forthcoming annual general meeting.

On behalf of the Board

Wang Jinjun
Chairman

Jilin, The PRC
28 April 2008

REPORT OF THE SUPERVISORY COMMITTEE

The Supervisory Committee is pleased to present the report of the Supervisory Committee for the year ended 31 December 2007.

In 2007, the Supervisory Committee mainly carried out the following work:

INSPECTION OVER IMPLEMENTATION OF RESOLUTIONS OF THE GENERAL MEETINGS

The Supervisory Committee exercised supervision and inspection of the implementation of the resloutions in general meetings by the Board and the management through observation and attendance at the board meetings and general meetings. The Supervisory Committee is of the opinion that the Directors and management of the Company have diligently performed their duties in compliance with resolutions of the general meetings. No violation of any laws or regulations or Articles or any act which jeopardizes the interests of the Company and shareholders has been found in the performance of the Company's Directors and management.

INSPECTION OVER LEGAL COMPLIANCE OF THE COMPANY'S OPERATIONS

The Supervisory Committee exercised supervision on a regular basis over the legal compliance and rationality of the Company's operation and management. It has also exercised supervision over work performance of the Board and senior management. The Supervisory Committee is of the opinion that the Company's operation is sound and rational, and is in compliance with all applicable laws, regulations and rules and the Articles. The members of the Board and senior management of the Company have conscientiously and diligently performed their duties, and none of their act would prejudize the interests of the Company and the shareholders.

INSPECTION OVER THE COMPANY'S DAILY OPERATING ACTIVITIES

The Supervisory Committee exercised supervision over the Company's operating activities. The Supervisory Committee is of the opinion that the Company has established a sound internal control system, and has made great progress in the formulation and implementation of its internal work procedures, thus effectively controlled its exposure to various operating risks. The Company's operation is in compliance with the PRC laws and regulations, the Articles and its internal work procedures.

INSPECTION OVER THE COMPANY'S FINANCIAL CONDITION

The Supervisory Committee has carefully verified the Company's 2007 financial statements, supervised and inspected the Company's implementation of relevant financial policies and legislations as well as details on the Company's assets, financial income and expenditure and connected transactions. It is of the opinion that the financial report for 2007 reflected its financial position and operating results, all the continuing connected transactions were entered into on a fair basis and the pricing of the transactions is determined at arm's length basis and did not impair the interests of the company and the shareholders.

Looking forward, the Supervisory Committee will continue to carry out its duties in strict compliance with the Articles and the relevant laws and regulations and protect the interests of the shareholders.

Jiang Yanfeng
Chairman of the Supervisory Committee

Jilin, the PRC
28 April 2008

The Company recognizes that by maintaining good corporate governance standards throughout the Company serve as an effective risk management measure for the Company. The Board is committed to lead the Company to grow in an efficient manner followed by corporate missions in terms of business strategies and improved operational planning and procedures which are enforced under high corporate governance standards.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the Code on Corporate Governance Practices issued by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and has complied with the relevant code provisions and most of the recommended best practices.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors (the "Model Code") contained in Appendix 10 of the Listing Rules as the code of conduct for securities transactions by the Company's directors. The directors have confirmed, following specific enquiry by the Company that they have complied with the required standards set out in the Model Code for the reporting period of 2007.

CORPORATE MANAGEMENT

Board of Directors

The Board reviews and approves corporate matters such as business strategies and investments, mergers and acquisitions, as well as the general administrative and management of the Company. The Board is directly accountable to the shareholders and is responsible for preparing the financial statements.

The Board currently consists of 3 executive Directors, 5 non-executive Directors, and 3 independent non-executive Directors. There is no related connection in respect of finance, business or family or other major relationships between the members of the Board. Please refer to the Report of the Directors for the composition of the Board and the Biography of Directors and Senior Management section in this report for the biographical details of the Directors.

The Directors acknowledge that it is their responsibility to prepare the Company's financial statements and warrant the financial statements are prepared in accordance with the requirements of laws and regulations and applicable accounting standards. The Directors also warrant the timely publication of the Company's financial statements.

The posts of chairman and the chief executive officer are held separately by Mr. Wang Jinjun and Mr. Ma Jun respectively and their roles and responsibilities are separate. The chairman is responsible for formulating and setting Company strategies and policies in conjunction with the Board and for ensuring that he and his delegates shall, in the capacity of chairman, perform according to their responsibilities. The chief executive officer is responsible for managing Company strategic initiatives and major business activities.

The Board has a balance of skills and experience and the Board membership is covered by professionally qualified and widely experienced personnel so as to bring in valuable contribution and different professional advices and consultancy for the development of the Company.

All Directors were provided with various briefing sessions as well as comprehensive materials on the responsibilities and duties of being a director of the Company, in particular highlighting the respective applicable rules and regulations, including the Listing Rules, which a director should aware and be informed of his appointment.

The term of office of each Director is for a period of three years.

The details of the attendance of directors at meetings are set out below:

Directors	Attendance
Executive Directors	
Mr. Wang Jinjun	4/4
Mr. Ma Jun	4/4
Mr. Wang Changsheng	4/4
Mr. Yang Dexin (resigned on 28 June 2007)	1/4[1]*
Non-executive-Directors	
Mr. Hao Peijun	4/4
Mr. Gong Jianzhong	2/4*
Mr. Chen Jinku	2/4
Mr. Jiang Junzhou (appointed on 28 June 2007)	3/4[2]
Mr. Zhang Yuchen (appointed on 28 June 2007)	2/4[2]
Mr. Chen Shuguo (resigned on 28 June 2007)	2/4[1]
Independent non-executive Directors	
Mr. Ye Yongmao	4/4
Mr. Mao Fengge	4/4*
Mr. Lee Ka Chung, J.P.	4/4

* one meeting was attended by proxy.

Notes:

1. The directors resigned on 28 June 2007 and had not attended any Board meeting thereafter.

2. The directors were appointed on 28 June 2007 and had not attended any Board meeting held prior to such date.

Board Committees

There are four committees established under the Board, namely the Audit Committee, the Board Remuneration Committee, the Nomination Committee and the Connected Transactions Committee.

(a) Audit Committee

The Audit Committee comprises of two independent non-executive Directors, namely Mr. Lee Ka Chung, J.P.. Mr. Ye Yongmao and and one non-executive Director Mr. Jinag Junzhou (appointed on 28 June 2007). Mr. Lee Ka Chung, J.P. possesses recognized professional qualification in finance and accounting. The terms of reference of the Audit Committee are in compliance with the relevant code provisions (CPs). The chairman of the Audit Committee is Mr. Lee Ka Chung, J.P..

The functions of the Audit Committee includes but not limited to the following:

- Considering and reviewing the appointment, resignation and removal of external auditors and their fees
- Reviewing the interim and annual results of the Company
- Discussing with the external auditors for problems or issues of significance identified during the course of audit
- The terms of reference of the Audit Committee follow the guidelines set out by The Hong Kong Institute of Certified Public Accountants, and have been updated on terms no less exacting those set out in the CP

The work of the Audit Committee in 2007 included:

- Reviewing the 2007 interim results and annual results of the Company
- Discussing with the management of the Company over the completeness, fairness and appropriateness of the accounting standards and policies adopted by the Company in the preparation of the 2007 interim and annual financial statements
- Reviewing and discussing with the external auditors over the financial report of the Company
- Recommending to the Board, for the approval by shareholders, of the re-appointment of the auditors

The Company held 2 meetings of Audit Committee in 2007 and the details of the attendance are set out below:

Directors	Attendance
Mr. Lee Ka Chung, J.P. (Chairman)	2/2
Mr. Ye Yongmao	2/2
Mr. Jiang Junzhou (appointed on 28 June 2007)	1/2
Mr. Chen Shuguo (resigned on 28 June 2007)	1/2

(b) *Board Remuneration Committee*

The Board Remuneration Committee consists of two independent non-executive Directors and one non-executive Director, namely Mr. Mao Fengge, Mr. Lee Ka Chung J.P. and Mr. Gong Jianzhong. The terms of reference of the Board Remuneration Committee are in compliance with the relevant CPs. The chairman of the Board Remuneration Committee is Mr. Mao Fengge. The committee meets at least once a year.

The functions of the Board Remuneration Committee is, among other things, to consider and approve the remuneration plans and policies for all directors of the Company by reference to the remuneration paid by comparable companies, as well as the time commitment and responsibilities of the directors. The Board Remuneration Committee met once on 19 April 2007 with all committee members other than Mr. Gong Jianzhong attending the meeting.

The Board Remuneration Committee met once in 2007 on 19 April 2007. The details of the attendance are set out below:

Directors	Attendance
Mr. Mao Fengge (Chairman)	1/1
Mr. Lee Ka Chung, J.P.	1/1
Mr. Gong Jianzhong	0/1

(c) *Nomination Committee*

The Nomination Committee consists of two independent non-executive Directors, and one non-executive Director, namely Mr. Mao Fengge, Mr. Ye Yongmao and Mr. Chen Jinkui. The terms of reference of the Nomination Committee are in compliance with the relevant CPs. The chairman of the Nomination Committee is Mr. Mao Fengge. The Committee meets at least once a year.

The Nomination Committee reviews the structure, size and composition of the Board on a regular basis and recommends to the Board regarding any proposed changes, including the appointment and succession of Directors and other related matters. It ensures that all nominations of director are fair and transparent and that the Board benefits from the right balance of skills, experience and knowledge to govern the Company effectively. It also assesses the independence of the independent non-executive Directors.

The Nomination Committee is responsible for identifying suitable candidates for the members of the Board when there is a vacancy or an additional Director is considered necessary. Normally, the Nomination Committee recommends the suitable candidates to members of the the Board. The members of the Board will then review the qualifications of the relevant candidates for determining the suitability to the Company on the basis of his or her qualifications, experiences and background. Suitable candidates will be recommended by the Board to the shareholders of the Company for approval at the general meeting.

The Nomination Committee met once in 2007 on 19 April 2007. The details of the attendance are set out below:

Directors	Attendance
Mr. Mao Fengge (Chairman)	1/1
Mr. Ye Yongmao	1/1
Mr. Chen Jinkui	1/1

(d) *Connected Transactions Committee*

The Connected Transactions Committee consists of three independent non-executive Directors, namely Mr. Mao Fengge, Mr. Lee Ka Chung J.P. and Mr. Ye Yongmao. The chairman of the Connected Transactions Committee is Mr. Mao Fengge. The committee meets at least once a year.

The primary duties of the Connected Transactions Committee are to review the Company's proposed connected transactions (including connected transactions exempted under the Listing Rules) to be entered into with any connected person of our Company. It also reviews the approval procedures of relevant Board meetings. The connected transactions committee has also reviewed the continuing connected transaction proposed in August 2007.

The Connected Transactions Committee met once in 2007 on 19 April 2007. The details of the attendance are set out below:

Directors	Attendance
Mr. Mao Fengge (Chairman)	1/1
Mr. Lee Ka Chung, J.P.	1/1
Mr. Ye Yongmao	1/1

Supervisory Committee

The Company's Supervisory Committee consists of five Supervisors. Two of the Supervisors are elected by our shareholders as their representatives, one is elected by our employees and the other two are independent Supervisors. Supervisors serve for a term of three years, after which they are subject to re-election.

The Supervisory Committee is responsible for exercising supervision over the Board and the Company's senior management.

The Supervisor Committee meets at least twice a year. The details of the attendance are set out below:

Supervisors	Attendance
Mr. Jiang Yanfeng	2/2
Ms. Sun Yujing	2/2
Mr. Liu Mingzhe	2/2
Mr. Meng Xiangui	2/2
Ms. Feng Shuhua	2/2

INTERNAL CONTROL

Framework

The Board has overall responsibility in monitoring the process of corporate reporting and control system throughout the Company. The corporate reporting function is delegated to the finance and accounting department to conduct proper and regular reviews on the deployment of resources and financial reporting systems. The corporate governance practices and compliance with the Listing Rules, SFO and other applicable regulations are delegated to the joint company secretaries of the Company. The management of the Company reviews and discuss the reporting and control systems with the executive directors regularly and the Audit Committee, Board Remuneration Committee, Nomination Committee and Connected Transactions Committee annually.

Assessment on effectiveness of internal control system

The system of internal controls is designed to provide reasonable assurance against human errors, material misstatement, losses, damages or fraud. It is also designed for the identification and management of risks that are significant to the fulfillment of company's business objectives.

Activities, procedures and controls are well documented and the existence and effectiveness of the existing control procedures are tested by reference to the ranking of each individual risk area. The criteria for assessing the effectiveness of internal controls are based on the assessment of whether the documented control processes have operated throughout the period being reviewed, and to identify whether there are any control weaknesses.

The internal audit department carries out various audits on control procedures in respect of those significant risk areas of the Company with findings reported to the Audit Committee. The Audit Committee reviews the findings and reports to the Board annually.

In respect of the year ended 31 December 2007, the Board reviewed and was satisfied with the internal control systems of the Company and no significant areas of concern was identified.

AUDITORS' REMUNERATION

Remuneration paid to the Company's external auditors for audit services provided for the year ended 31 December 2007 was RMB1.6 million.

INVESTOR RELATIONS

The Board and the senior management have confirmed that it is their responsibility to represent all shareholders' interests and have made to the Company the following commitments:

1. Strive to maintain the long-term sustainable and healthy growth of shareholders' values and investment returns ;
2. Be responsible for the planning, construction and operation of the Company's core business;
3. Be responsible for the Company's investment and business risks management;
4. Make disclosure which gives a true, fair and full view of the Company's financial condition and operating performance.

The Company considers that the shareholders' rights should be respected and guaranteed. The Company is committed to maintain good communication with shareholders regarding its performance through means such as interim report, annual report and shareholders' general meeting to enable the shareholders to justify their investment and exercise their rights. The Company encourages shareholders participation through shareholders' general meetings and other means.

In order to promote the communication with shareholders, the Company has maintained a third party website as a channel to provide the latest information and to strengthen communication with the shareholders and the public. The Company will commence operation of its own website in June 2008 in accordance with the requirement of the Listing Rules. The Company's corporate correspondence and information will also be published on the website timely.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central, Hong Kong

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF JILIN QIFENG CHEMICAL FIBER CO., LTD.

(a joint stock limited company incorporated in the People's Republic of China)

We have audited the financial statements of Jilin Qifeng Chemical Fiber Co., Ltd. (the "Company") set out on pages 36 to 86, which comprise the balance sheet as at 31 December 2007, and the income statement, the statement of changes in equity and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 2007 and of its loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 April 2008

BALANCE SHEET

AS AT 31 DECEMBER 2007

	Note	**2007**	2006
		RMB'000	RMB'000
ASSETS			
Non-current assets			
Land use rights	7	**30,462**	32,344
Property, plant and equipment	8	**1,535,288**	1,563,730
Intangible assets	9	**49,237**	57,443
Interest in a jointly controlled entity	10	**162,222**	218,003
Deferred income tax assets	19	**46,218**	13,383
		1,823,427	1,884,903
Current assets			
Inventories	11	**345,766**	248,335
Trade and other receivables	12	**390,845**	323,334
Current income tax prepayment		**1,893**	1,222
Cash and cash equivalents	13	**158,406**	216,469
		896,910	789,360
Total assets		**2,720,337**	2,674,263
EQUITY			
Capital and reserves attributable to equity holders			
Share capital	14	**866,250**	866,250
Share premium	14	**142,477**	142,477
Other reserves	15	**31,919**	34,173
(Accumulated loss)/retained earnings			
– Proposed dividend		**—**	43,313
– Others		**(16,314)**	105,232
Total equity		**1,024,332**	1,191,445

	Note	2007 RMB'000	2006 RMB'000
LIABILITIES			
Non-current liabilities			
Long-term bank borrowings	16	**870,000**	710,000
Deferred income on government grants	17	**78,732**	84,556
		948,732	794,556
Current liabilities			
Trade and other payables	18	**224,273**	195,617
Short-term bank borrowings	16	**363,000**	240,000
Current portion of long-term bank borrowings	16	**160,000**	252,645
		747,273	688,262
Total liabilities		**1,696,005**	1,482,818
Total equity and liabilities		**2,720,337**	2,674,263
Net current assets		**149,637**	101,098
Total assets less current liabilities		**1,973,064**	1,986,001

On behalf of the Board

Wang Jinjun
Chairman

Wang Changsheng
Director

The notes on pages 41 to 86 are an integral part of these financial statements.

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2007

	Note	2007 RMB'000	2006 RMB'000
Revenue	6	**1,764,867**	2,290,748
Cost of sales		**(1,682,775)**	(2,003,984)
Gross profit		**82,092**	286,764
Distribution costs		**(49,489)**	(60,132)
Administrative expenses		**(69,631)**	(60,197)
Other income	20	**41,955**	10,590
Other expenses	20	**(15,451)**	(3,234)
Other (losses)/gains – net	21	**(7,219)**	6,828
Operating (loss)/profit		**(17,743)**	180,619
Finance income	24	**1,182**	1,882
Finance costs	24	**(84,186)**	(66,111)
Operating (loss)/profit after finance income and costs		**(100,747)**	116,390
Share of losses of a jointly controlled entity	10	**(56,054)**	(1,810)
(Loss)/profit before income tax		**(156,801)**	114,580
Income tax credit/(expense)	25	**33,001**	(15,464)
(Loss)/profit for the year attributable to the shareholders of the Company		**(123,800)**	99,116
(Loss)/earnings per share for (loss)/profit attributable to the shareholders of the Company during the year (expressed in RMB per share)			
– basic and diluted	26	**(0.14)**	0.13
Dividends	27	**—**	43,313

The notes on pages 41 to 86 are an integral part of these financial statements.

	Share capital RMB'000	Share premium RMB'000	(Accumulated loss)/ retained earnings RMB'000	Other reserves RMB'000	Total RMB'000
At 1 January 2006	630,000	—	102,835	24,867	757,702
Profit for the year	—	—	99,116	—	99,116
Dividends relating to 2005	—	—	(44,100)	—	(44,100)
Issue of shares, net (Note 14)	236,250	142,477	—	—	378,727
Profit appropriations	—	—	(9,306)	9,306	—
At 31 December 2006	866,250	142,477	148,545	34,173	1,191,445
At 1 January 2007	866,250	142,477	148,545	34,173	1,191,445
Loss for the year	—	—	(123,800)	—	(123,800)
Dividends relating to 2006	—	—	(43,313)	—	(43,313)
Transfer	—	—	2,254	(2,254)	—
At 31 December 2007	866,250	142,477	(16,314)	31,919	1,024,332

The notes on pages 41 to 86 are an integral part of these financial statements.

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2007

	Note	2007 RMB'000	2006 RMB'000
Cash flows from operating activities			
Cash (used in)/generated from operations	28	**(30,728)**	74,691
Interest paid		**(89,910)**	(71,690)
Income tax paid		**(505)**	(9,794)
Net cash used in operating activities		**(121,143)**	(6,793)
Cash flows from investing activities			
Purchases of property, plant and equipment		**(85,169)**	(306,193)
Proceeds from disposals of property, plant and equipment	28	**25**	215
Investment in a jointly controlled entity		**—**	(199,781)
Advance to a jointly controlled entity		**—**	156,534
Interest received		**1,182**	1,882
Net cash used in investing activities		**(83,962)**	(347,343)
Cash flows from financing activities			
Net proceeds from issuance of new shares		**—**	378,727
Proceeds from borrowings		**683,000**	770,000
Repayments of borrowings		**(492,645)**	(725,312)
Dividends paid		**(43,313)**	(79,857)
Net cash from financing activities		**147,042**	343,558
Net decrease in cash and cash equivalents		**(58,063)**	(10,578)
Cash and cash equivalents at beginning of year	13	**216,469**	227,047
Cash and cash equivalents at end of year	13	**158,406**	216,469

The notes on pages 41 to 86 are an integral part of these financial statements.

1 GENERAL INFORMATION

Jilin Qifeng Chemical Fiber Co., Ltd. is principally engaged in the production and sales of different types of acrylic fiber products, namely acrylic top, acrylic tow and acrylic staple fiber.

The Company is a limited liability company incorporated in the People's Republic of China ("PRC") and is listed on The Stock Exchange of Hong Kong Limited. The address of its registered office is Block 4, Zone D, Hengshan West Road, Jilin New and High Technology Development Zone, Jilin City, Jilin Province, the PRC.

These financial statements have been approved for issue by the Board of Directors on 28 April 2008.

2 BASIS OF PREPARATION

The financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of other financial assets at fair value through profit or loss.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

(a) Standards, interpretations and amendments which are effective in 2007 and adopted by the Company

In 2007, the Company adopted HKAS 1 (Amendment) "Capital Disclosures" and HKFRS 7 "Financial Instruments: Disclosures" which are relevant to its operations. HKAS 1 (Amendment) and HKFRS 7 introduce new disclosures relating to capital management and financial instruments respectively. These standards do not have any impact on the classification and valuation of the financial instruments.

The HKICPA has also issued certain other new or revised HKFRSs or interpretations which are mandatory for the Company's accounting periods on or after 1 January 2007. The adoption of these new or revised HKFRSs or interpretations in the current year did not result in any substantial changes to the Company's significant accounting policies and presentation of the financial statements.

2 BASIS OF PREPARATION – *continued*

(b) Standards, interpretations and amendments to existing standards that are not yet effective for the year ended 31 December 2007 and have not been early adopted by the Company

The HKICPA has issued the following new or revised standards or interpretations which are not yet effective for the year ended 31 December 2007 and have not been early adopted by the Company:

		Effective for accounting periods beginning on or after
HKFRS 2 (Amendment)	Share-based Payment Vesting Conditions and Cancellations	1 January 2009
HKFRS 3 (Revised)	Business Combination	1 July 2009
HKFRS 8	Operating Segments	1 January 2009
HKAS 1 (Revised)	Presentation of Financial Statements	1 January 2009
HKAS 27 (Revised)	Consolidated and Separate Financial Statements	1 July 2009
HKAS 23 (Revised)	Borrowing Costs	1 January 2009
HK(IFRIC)-Int 11	HKFRS 2 - Group and Treasury Share Transactions	1 March 2007
HK(IFRIC)-Int 12	Service Concession Arrangements	1 January 2008
HK(IFRIC)-Int 13	Customer Loyalty Programmes	1 July 2008
HK(IFRIC)-Int 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2008

The Company will apply the above standards and interpretations from 1 January 2008 or later periods. The Company has already commenced an assessment of the related impact to the Company. The Company is not yet in a position to state whether any substantial changes to the Company's significant accounting policies or presentation of the financial statements will be resulted.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Interest in a jointly controlled entity

A jointly controlled entity is a joint venture established as a corporation, partnership or other entity in which the venturers have their respective interests and establish a contractual arrangement among them to define joint control over the economic activity of the entity.

The Company's interest in the jointly controlled entity is accounted for using the equity method.

The income statement includes the Company's share of the results of the jointly controlled entity for the year, and the balance sheet includes the Company's share of the net assets of the jointly controlled entity.

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.2 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

3.3 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates (the "functional currency"). The financial statements are presented in Renminbi ("RMB") which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in income statement as part of the fair value gain or loss.

3.4 Property, plant and equipment

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.4 Property, plant and equipment – *continued*

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

Buildings	22 years
Machinery and equipment	16 years
Electronic and office equipment	5 years
Motor vehicles	5 years

No depreciation is provided for construction in progress. Construction in progress is transferred to relevant categories of property, plant and equipment upon the completion of the related construction works and depreciation will then be commenced accordingly.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other losses/gains – net in the income statement.

3.5 Land use rights

All land in the PRC is state-owned and no individual land ownership right exists. The Company leased certain land and the related prepaid operating lease payments are recognised as land use rights.

Land use rights are stated at the prepaid operating lease payments less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the prepaid operating lease payments for land over the remaining lease term.

3.6 Intangible assets – Technical know-how and licenses

Expenditures on acquired technical know-how and licenses are capitalised on the basis of costs incurred to acquire and amortised using the straight-line method over their estimated useful lives of 8 to 15 years. Technical know-how and licenses are stated at cost less accumulated amortisation and impairment losses.

3.7 Impairment of assets

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.8 Financial assets

The Company classifies its financial assets in the following categories: loans and receivables and at fair value through profit or loss. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets as trade and other receivables and cash and cash equirvalents, except for maturities greater than 12 months after the balance sheet date which will then be classified as non-current assets.

(b) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

Regular purchases and sales of financial assets are recognised on the trade-date (the date on which the Company commits to purchase or sell the asset). Investments are initially recognised at fair value and transaction costs are expensed in the income statement. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are presented in the income statement within other losses/gains – net in the period in which they arise.

Loans and receivables are carried at amortised cost using the effective interest method.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

3.9 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.10 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within other expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against other income in the income statement.

3.11 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

3.12 Assets under leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessors are accounted for as operating leases.

(a) Leases – where the Company is the lessee

Payments made under operating leases (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the lease periods.

(b) Leases – where the Company is the lessor

When the Company leases out assets under operating leases, the assets are included in the balance sheet according to their nature and where applicable, are depreciated in accordance with the Company's depreciation policies, as set out in Note 3.4 above. Rental income arising from assets leased out under operating leases is recognised in accordance with the Company's income recognition policy as set out in Note 3.20 below.

3.13 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.14 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

3.15 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurred because a specified debtor failed to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee contracts are initially recognised at their fair value, and subsequently measured at the higher of (i) the amount initially recognised less accumulated amortisation; and (ii) the amount required to be settled by the guarantor in respect of the financial guarantee contracts at the balance sheet date.

3.16 Share capital

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

3.17 Borrowings

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

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

Borrowing costs incurred for the construction of any qualifying assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed as incurred.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.18 Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its jointly controlled entity operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorites.

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

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

Deferred income tax is provided on temporary differences arising on investment in jointly controlled entity, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

3.19 Employee benefits

(a) Retirement benefits costs

The Company contributes on a monthly basis to various defined contribution retirement benefit plans organised by relevant municipal and provincial governments in the PRC. The municipal and provincial governments undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans and the Company has no further obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

(b) Profit-sharing and bonus plans

The Company recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Company recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.20 Recognition of revenue and income

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for the Company's activities. The amount of revenue is not considered to be reliably measureable until all contingences relating to the sale have been resolved.

The Company recognises revenue and income on the following bases:

(a) Sales of goods

Sale of goods is recognised when the Company has delivered products to the customer; the customer has accepted the products and collectability of the related receivables is reasonably assured.

(b) Operating lease rental income

Rental income from operating lease is recognised over the term of the lease on a straight-line basis.

(c) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

3.21 Government grants

Grants from government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with the attached conditions.

Government grants relating to costs are deferred and recognsied in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to the income statement on a straight-line basis over the estimated useful lives of the related assets.

3.22 Dividend distribution

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.23 Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

Contingent liabilities other than those acquired from business combination are not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Company.

Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

4 FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

(a) Market risk

(i) Foreign exchange risk

The Company mainly operates in the PRC with most of the transactions being settled in Renminbi, only with approximately 3.2% of the Company's revenue was denominated in United States dollars ("US dollar"). The exchange loss for the year of RMB2,069,000 was primarily arisen from such US dollar denominated revenue.

As at 31 December 2007, the only financial assets/liabilities which are denominated in a currency other than Renminbi were trade and other receivables of RMB22,030,000 (2006: RMB24,117,000) (Note 12). With all other variables held constant, the Company's loss will be increased/decreased by approximately RMB1,542,000 if Renminbi had strengthened/weakened by 7% against US dollar. The 7% change represents management's assessment of a reasonable possible change in the exchange rate over the period until the next annual balance sheet date.

4 FINANCIAL RISK MANAGEMENT – *continued*

4.1 Financial risk factors – *continued*

(a) Market risk– continued

(i) Foreign exchange risk – *continued*

The conversion of Renminbi into foreign currencies is subject to the rules and regulation of the foreign exchange control promulgated by the PRC government.

Although the Company does not have any other significant assets (other than the US dollar denominated trade and other receivables as mentioned above) or liabilities which are denominated in currencies other than Renminbi as at the balance sheet date, management considers that the continuous appreciation of Renminbi may have an unfavorable implication on the Company's sales and costs of production in future periods but the impacts of which cannot be quantified.

(ii) Interest rate risk

As the Company has no significant interest bearing assets (other than cash and cash equivalents), the Company's income and operating cash flows are substantially independent of changes in market interest rates.

The Company's interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. Borrowings issued at fixed rates exposed the Company to fair value interest rate risk. Generally, the Company raises borrowings at floating rates as well as fixed rates, based upon the capital market conditions and the Company's internal requirements.

As at 31 December 2007, the Company's fixed interest rate and floating interest rate borrowings amounted to RMB100,000,000 and RMB1,293,000,000 respectively.

With all other variables held constant, the Company's finance costs will increase/decrease by approximately RMB5,773,000 (2006: RMB4,640,000) if the interest rate was 50 basis-points higher/lower. The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had applied to the exposure to interest rate risk for all borrowings in existence at that date. The 50 basis point increase or decrease represents management's assessment of a reasonable possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2006.

4 FINANCIAL RISK MANAGEMENT – *continued*

4.1 Financial risk factors – *continued*

(b) Credit risk

The Company's credit risks are primarily attributable to trade and other receivables and cash and cash equivalents. The Company's maximum exposure to credit risk is the unimpaired carrying amounts of the these financial assets at the balance sheet date. Management has credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade receivables, the Company limits its exposure to credit risk through performing credit reviews and monitoring the financial strength of its major customers and generally does not require collateral on trade receivables. Customers are assessed and rated based on their credit quality, taking into account its financial position, past experience and other factors. Individual risk limits are set by management and utilisation of these credit limits is regularly monitored.

Generally, trade receivables are due within 30 days from the date of billing.

As at 31 December 2007, the Company has certain concentration of credit risk because approximately 69% (2006: 72%) of the total trade receivables was due from five of the Company's customers (the "Five Customers"). In addition, 43% (2006: 23%) of the total other receivables was due from the Company's jointly controlled entity. The aging analysis of the balances due from the Five Customers and the jointly controlled entity are as below:

	2007 **RMB'000**	2006 RMB'000
Five Customers		
Within 30 days	**13,862**	39,838
31 – 90 days	**14,660**	19,460
91 – 365 days	**54,013**	1,179
	82,535	60,477
The jointly controlled entity		
Within 30 days	**13,131**	55,797
31 – 90 days	**79,871**	—
91 – 365 days	**24,978**	—
	117,980	55,797

Trade receivables and amount due from the jointly controlled entity are all unsecured and interest free, and management does not expect any significant losses from non-performance by these parties.

4 FINANCIAL RISK MANAGEMENT – *continued*

4.1 Financial risk factors – *continued*

(b) Credit risk – continued

For bank balances and cash, the Company has limited its credit exposure by restricting their selection of financial institutions on those reputable local banks or state-owned banks.

Except for the financial guarantees given by the Company as set out in Note 30, the Company did not provide any other guarantees which would expose the Company to credit risk.

No other financial assets carry a significant exposure to credit risk.

(c) Liquidity risk

The Company's cash management policy is to regularly monitor its current and expected liquidity positions to ensure adequate funds are available for its short term and long term requirements (including but not limited to maintaining sufficient cash, available funding from the ultimate holding company and adequate amount of banking facilities).

The table below analyses the Company's financial liabilities which will be settled into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2007				
Long-term bank borrowings	224,835	779,242	85,895	171,273
Short-term bank borrowings	372,146	—	—	—
Trade and other payables	224,273	—	—	—
	821,254	779,242	85,895	171,273
At 31 December 2006				
Long-term bank borrowings	311,516	130,234	636,614	—
Short-term bank borrowings	243,410	—	—	—
Trade and other payables	195,617	—	—	—
	750,543	130,234	636,614	—

The Company has incurred a loss of RMB123,800,000 for the year ended 31 December 2007 and has a net debt of RMB1,234,594,000 (Note 4.2) as of that date. A majority portion of the bank borrowings of RMB523,000,000 and RMB740,000,000 are repayable in 2008 and 2009 respectively.

4 FINANCIAL RISK MANAGEMENT – *continued*

4.1 Financial risk factors – *continued*

(c) Liquidity risk – continued

The financial statements have been prepared by the directors on a going concern basis, assuming that the Company will continue to operate as a going concern. The validity of the Company's ability to continue as a going concern depends on the success of the Company's future operations and their ability to obtain necessary funding from banks or Jilin Chemical Fiber Group Co., Ltd., the ultimate holding company, whenever the Company has any funding or refinancing requirements. The directors believe that the Company could obtain adequate additional bank loans or the Company's ultimate holding company will provide sufficient working capital to the Company so that the Company is capable to meet its present obligations as and when they fall due and to continue as a going concern. In addition, the ultimate holding company has confirmed its intention to provide continuing financial support to the Company so as to enable it to meet its liabilities as and when they fall due and to enable it to carry on its business for the foreseeable future. Consequently, the directors have prepared the financial statements on a going concern basis.

4.2 Capital risk management

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

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

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

4 FINANCIAL RISK MANAGEMENT – *continued*

4.2 Capital risk management – *continued*

Same as 2006, the Company aims to maintain a manageable debt-to-total capital ratio of not exceeding 60%. The debt-to-total capital ratios at 31 December 2007 and 2006 were as follows:

	2007	2006
	RMB'000	RMB'000
Total borrowings (Note 16)	**1,393,000**	1,202,645
Less: Cash and cash equivalents (Note 13)	**(158,406)**	(216,469)
Net debt	**1,234,594**	986,176
Total equity	**1,024,332**	1,191,445
Total capital	**2,258,926**	2,177,621
Debt-to-total capital ratio (%)	**55%**	45%

The increase in the debt-to-total capital ratio in 2007 is resulted from the loss for the year, combined with the increase in bank borrowings for the settlements of purchases of property, plant and equipments and the financing of interest payments.

4.3 Fair value estimation

The carrying value less impairment provision of receivable and payable balances are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

The fair value of financial guarantee contracts is determined by reference to the fees charged in an arm's length transaction for similar services or the interest rate differentials charged by lenders on the related borrowings with and without the guarantees granted by the Company.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

(a) Income taxes

The Company is subject to various income taxes in the PRC. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

In prior years, the Company was qualified as an advanced technology company and hence eligible to a preferential tax rate of 15%. The New Corporate Income Tax Law (the "New CIT Law") (Note 25(ii)) with effect from 1 January 2008 does not have clear guidelines or interpretations for management to determine whether the Company could be eligible for the preferential tax rate in future periods. On that basis, management has recognised the deferred income tax assets based on the new applicable tax rate of 25%.

If the Company could be qualified as an advanced technology company under the New CIT Law in future periods, the Company need to decrease the deferred income tax credit and the deferred income tax assets by approximately RMB18,487,000.

(b) Impairment of non-current key operating assets

Land use rights, property, plant and equipment and intangible assets are the key operating assets for the Company's production (collectively the "Key Operating Assets"). The operating loss for the year is a triggering event which indicates that the carrying amounts of these Key Operating Assets may not be recoverable. Management tested whether the Key Operating Assets have suffered any impairment in accordance with the accounting policy stated in Note 3.7. Based on the impairment assessment performed by management, no provision for impairment is required to be recognised for the year ended 31 December 2007.

The recoverable amounts of the Key Operating Assets were determined based on value-in-use calculations and these calculations require the use of estimates on the projections of cash flows from the continual use of the Key Operating Assets and discount rate.

If the estimated future income stream from the use of the Key Operating Assets had been 5% lower than the management's estimates as adopted in the value-in-use calculations, the Company would have to recognise an impairment loss and a reduction of carrying amount of the Key Operating Assets of approximately RMB41,147,000.

If the estimated discount rate applied to the value-in-use calculations was higher than management's existing estimates by 1 percentage point, the Company would have to recognise an impairment loss and a reduction of carrying amount of the Key Operating Assets of approximately RMB32,491,000.

6 REVENUE AND SEGMENTAL INFORMATION

Revenue recognised during the year represents the turnover from sales of acrylic fiber products.

The Company is principally engaged in a single business segment, the production and sales of acrylic fiber products, and all of its operations and assets are located in the PRC. No sales were related to overseas customers. Therefore, no business segment or geographical segment is presented.

7 LAND USE RIGHTS

The Company's interests in land use rights represent prepaid operating lease payments for land in the PRC which is held on leases of between 10 to 50 years.

Movements in the land use rights are analysed as below:

	2007	2006
	RMB'000	RMB'000
At 1 January	**32,344**	42,446
Capital contribution to the jointly controlled entity	**—**	(8,300)
Amortisation *(Note 22)*	**(1,882)**	(1,802)
At 31 December	**30,462**	32,344

At 31 December 2007, the net book values of land use rights which were pledged as securities for the Company's bank borrowings amounted to RMB8,003,000 (2006: RMB23,940,000) (Note 16).

8 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machinery and equipment	Electronic and office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2006						
Cost	268,289	1,361,756	2,521	11,383	112,361	1,756,310
Accumulated depreciation	(60,835)	(327,725)	(1,490)	(7,456)	—	(397,506)
Net book amount	207,454	1,034,031	1,031	3,927	112,361	1,358,804
Year ended 31 December 2006						
Opening net book amount	207,454	1,034,031	1,031	3,927	112,361	1,358,804
Additions	2,925	2,768	21	1,038	310,421	317,173
Disposals/write-off *(Note 28)*	—	(2,704)	(6)	(311)	—	(3,021)
Depreciation *(Note 22)*	(12,829)	(95,098)	(364)	(935)	—	(109,226)
Closing net book amount	197,550	938,997	682	3,719	422,782	1,563,730
At 31 December 2006						
Cost	271,214	1,360,006	2,288	10,737	422,782	2,067,027
Accumulated depreciation	(73,664)	(421,009)	(1,606)	(7,018)	—	(503,297)
Net book amount	197,550	938,997	682	3,719	422,782	1,563,730
Year ended 31 December 2007						
Opening net book amount	197,550	938,997	682	3,719	422,782	1,563,730
Additions	—	12,837	133	340	82,991	96,301
Transfer upon completion	199,765	304,863	—	—	(504,628)	—
Disposals/write-off *(Note 28)*	—	(2,251)	—	—	—	(2,251)
Depreciation *(Note 22)*	(16,800)	(104,442)	(268)	(982)	—	(122,492)
Closing net book amount	380,515	1,150,004	547	3,077	1,145	1,535,288
At 31 December 2007						
Cost	470,979	1,673,393	2,421	11,077	1,145	2,159,015
Accumulated depreciation	(90,464)	(523,389)	(1,874)	(8,000)	—	(623,727)
Net book amount	380,515	1,150,004	547	3,077	1,145	1,535,288

At 31 December 2007, the net book values of property, plant and equipment pledged as securities for the Company's bank borrowings amounted to RMB938,707,000 (2006: RMB768,052,000) (Note 16).

Depreciation of RMB106,115,000 (2006: RMB104,734,000), RMB4,811,000 (2006: RMB4,492,000) and RMB11,566,000 (2006: Nil) have been charged in cost of sales, administrative expenses and other expenses respectively.

9 INTANGIBLE ASSETS - TECHNICAL KNOW-HOW AND LICENSES

	RMB'000
At 31 December 2005	
Cost	102,624
Accumulated amortisation	(36,895)
Net book amount	65,729
Year ended 31 December 2006	
Opening net book amount	65,729
Amortisation *(Note 22)*	(8,286)
Closing net book amount	57,443
At 31 December 2006	
Cost	102,624
Accumulated amortisation	(45,181)
Net book amount	57,443
Year ended 31 December 2007	
Opening net book amount	57,443
Amortisation *(Note 22)*	(8,206)
Closing net book amount	49,237
At 31 December 2007	
Cost	102,624
Accumulated amortisation	(53,387)
Net book amount	49,237

10 INTEREST IN A JOINTLY CONTROLLED ENTITY

	2007 **RMB'000**	2006 RMB'000
At 1 January	**218,003**	—
Investment in the jointly controlled entity	**—**	219,813
Share of losses	**(56,054)**	(1,810)
Others	**273**	—
At 31 December	**162,222**	218,003

The Company has a 50% interest in a jointly controlled entity, Jilin Jimont Acrylic Fiber Co., Ltd. (the "Joint Venture"), established in the PRC on 21 December 2005 and its principal activity is manufacturing and selling of acrylic fiber.

Pursuant to the terms of the joint venture agreement entered into between the Company and Montefibre S.p.A ("Montefibre") dated 16 October 2005 (the "Joint Venture Agreement"), the Joint Venture was equally owned by the Company and Montefibre with a registered and paid-in capital of RMB450,000,000.

In April 2007, Montefibre has transferred 10.64% equity interests in the Joint Venture to SIMEST S.p.A (the "Transfer"). The Transfer did not result in any changes in the board composition of the Joint Venture and the terms as stipulated in the Joint Venture Agreement.

10 INTEREST IN A JOINTLY CONTROLLED ENTITY – *continued*

The following is the extract of the financial information of the Joint Venture and the respective 50% interest shared by the Company:

Balance sheet	As at 31 December 2007 The Joint Venture RMB'000	As at 31 December 2007 50% shared by the Company RMB'000	As at 31 December 2006 The Joint Venture RMB'000	As at 31 December 2006 50% shared by the Company RMB'000
ASSETS				
Non-current assets				
Land use rights	**25,597**	**12,799**	26,127	13,064
Property, plant and equipment	**1,021,269**	**510,635**	990,973	495,486
Intangible assets	**33,567**	**16,783**	34,964	17,482
Deferred income tax assets	**6,936**	**3,468**	—	—
	1,087,369	**543,685**	1,052,064	526,032
Current assets				
Inventories	**232,003**	**116,001**	202,360	101,180
Trade and other receivables	**121,218**	**60,609**	77,098	38,549
Cash and cash equivalents	**31,020**	**15,510**	87,131	43,565
	384,241	**192,120**	366,589	183,294
Total assets	**1,471,610**	**735,805**	1,418,653	709,326
EQUITY				
Capital and reserves attributable to equity holders				
Paid-in capital	**450,000**	**225,000**	450,000	225,000
Accumulated losses	**(115,727)**	**(57,864)**	(3,619)	(1,810)
Total equity	**334,273**	**167,136**	446,381	223,190
LIABILITIES				
Non-current liabilities				
Long-term bank borrowings	**660,000**	**330,000**	650,000	325,000
Current liabilities				
Trade and other payables *(note a)*	**237,337**	**118,669**	232,272	116,136
Current portion of long-term bank borrowings	**240,000**	**120,000**	90,000	45,000
	477,337	**238,669**	322,272	161,136
Total liabilities	**1,137,337**	**568,669**	972,272	486,136
Total equity and liabilities	**1,471,610**	**735,805**	1,418,653	709,326
Jointly controlled entity's capital commitments	**—**	**—**	76,446	38,223

10 INTEREST IN A JOINTLY CONTROLLED ENTITY – *continued*

	Year ended 31 December 2007		Year ended 31 December 2006	
	The Joint Venture RMB'000	50% shared by the Company RMB'000	The Joint Venture RMB'000	50% shared by the Company RMB'000
Income statement				
Revenue	904,312	452,156	—	—
Cost of sales	(922,236)	(461,118)	—	—
Gross loss	(17,924)	(8,962)	—	—
Distribution costs	(24,182)	(12,091)	(300)	(150)
Administrative expenses	(16,794)	(8,397)	(7,757)	(3,879)
Other income	936	468	—	—
Other losses - net	(1,935)	(968)	—	—
Operating loss	(59,899)	(29,950)	(8,057)	(4,029)
Finance (costs)/income - net	(59,145)	(29,572)	4,438	2,219
Loss before income tax	(119,044)	(59,522)	(3,619)	(1,810)
Income tax credit	6,936	3,468	—	—
Loss for the year	(112,108)	(56,054)	(3,619)	(1,810)

Notes:

(a) Trade and other payables included amounts due to the Company of RMB117,980,000 (2006: RMB55,797,000) which are unsecured, interest free, have no fixed terms of repayment and are primarily arise from the Company's purchases of raw materials and payment of utilities charges on behalf of the jointly controlled entity.

(b) The jointly controlled entity had no contingent liability as at 31 December 2007 and 2006.

11 INVENTORIES

	2007 RMB'000	2006 RMB'000
Raw materials	**22,314**	27,535
Work in progress	**91,288**	80,978
Finished goods	**268,694**	144,409
	382,296	252,922
Less: provision for impairment	**(36,530)**	(4,587)
	345,766	248,335

The cost of inventories recognised as expense and included in cost of sales amounted to RMB1,523,660,000 (2006: RMB1,873,256,000).

12 TRADE AND OTHER RECEIVABLES

	2007 RMB'000	2006 RMB'000
Trade receivables	**124,944**	86,736
Less: provision for impairment	**(5,670)**	(3,283)
Trade receivables – net	**119,274**	83,453
Prepayments	**17,218**	28,224
Other receivables	**14,424**	23,259
Less: provision for impairment	**(5,231)**	(5,231)
Other receivables – net	**9,193**	18,028
Notes receivables	**117,269**	133,879
Due from the ultimate holding company *(Notes a and 31(b))*	**9,773**	—
Due from fellow subsidiaries *(Notes a and 31(b))*	**138**	3,953
Due from a jointly controlled entity *(Notes 10(a) and 31(b))*	**117,980**	55,797
	390,845	323,334

Notes:

(a) The amounts primarily represent prepayments for purchases of raw materials from and receivables in connection with sales of raw materials to the ultimate holding company and fellow subsidiaries. The amounts are unsecured, interest free and have no fixed terms of repayment.

(b) The carrying amounts of trade and other receivables approximate their fair values.

12 TRADE AND OTHER RECEIVABLES – *continued*

(c) The Company's sales are normally conducted on the cash on delivery terms or a credit term of 30 days. Aging analysis of trade receivables at the respective balance sheet dates are as follows:

	2007 RMB'000	2006 RMB'000
0 - 30 days	**40,387**	56,283
31 - 90 days	**23,489**	23,642
91 - 365 days	**59,157**	2,297
Over 365 days	**1,911**	4,514
	124,944	86,736

Trade receivables with aging less than 30 days are not considered impaired. As of 31 December 2007, trade receivables of RMB78,887,000 (2006: RMB27,170,000) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default. The aging analysis of these trade receivables is as follows:

	2007 RMB'000	2006 RMB'000
31 - 90 days	**23,489**	23,642
91 - 365 days	**55,398**	2,297
Over 365 days	**—**	1,231
	78,887	27,170

As of 31 December 2007, trade receivables of RMB5,670,000 (2006: RMB3,283,000) were impaired with full provision for impairment being made. The individually impaired receivables mainly relate to customers which are in unexpected difficult economic situations. The aging of these impaired receivables is as follows:

	2007 RMB'000	2006 RMB'000
91 - 365 days	**3,759**	—
Over 365 days	**1,911**	3,283
	5,670	3,283

(d) The carrying amounts of trade and other receivables are denominated in the following currencies:

	2007 RMB'000	2006 RMB'000
Renminbi	**368,815**	299,217
US dollar	**22,030**	24,117
	390,845	323,334

12 TRADE AND OTHER RECEIVABLES – *continued*

(e) Movements on the provision for impairment of trade receivables are as follows:

	2007	2006
	RMB'000	RMB'000
At 1 January	**3,283**	1,490
Provision for impairment	**2,387**	1,793
At 31 December	**5,670**	3,283

The provision for impaired receivables has been included in other expenses in the income statement (Note 20). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

(f) The other classes within trade and other receivables do not contain impaired assets.

(g) The maximum exposure to credit risk at the reporting date is the carrying amounts of each class of receivables mentioned above. The Company does not hold any collateral as security.

13 CASH AND CASH EQUIVALENTS

The Company's cash and cash equivalents which are all denominated in Renminbi are analysed as follows:

	2007	2006
	RMB'000	RMB'000
Cash at bank and in hand	**158,406**	216,469

The maximum exposure to credit risk at the reporting date is the carrying amounts of the cash and cash equivalents, net of cash in hand of RMB3,000 (2006: RMB3,000).

14 SHARE CAPITAL AND PREMIUM

	Number of shares				Share capital and premium					
	Domestic shares (in thousands)	Non-H foreign shares (in thousands)	H-shares (in thousands)	Total (in thousands)	Domestic shares of RMB1 each RMB'000	Non-H Foreign shares RMB1 each RMB'000	H-shares of RMB1 each RMB'000	Total share capital RMB'000	Share premium RMB'000	Total RMB'000
At 1 January 2006	460,642	169,358	–	630,000	460,642	169,358	–	630,000	–	630,000
Insurance of new shares upon initial public offering *(note b)*	–	–	236,250	236,250	–	–	236,250	236,250	142,477	378,727
Conversion of domestic shares to 23,625,000 H shares *(note b)*	(23,625)	–	23,625	–	(23,625)	–	23,625	–	–	–
At 31 December 2006 and 2007	**437,017**	**169,358**	**259,875**	**866,250**	**437,017**	**169,358**	**259,875**	**866,250**	**142,477**	**1,008,727**

Notes:

(a) There was no movement in share capital and premium during the year ended 31 December 2007.

(b) The Company was converted into a joint stock company on 23 May 2005, with an authorised, issued and fully paid capital of RMB630,000,000 divided into 630,000,000 shares at par value of RMB1 each.

On 21 June 2006, the Company successfully offered 236,250,000 H-shares and listed on The Stock Exchange of Hong Kong Limited. Share premium represents the amount of funds contributed by shareholders in excess of the shareholders' shares of the registered capital in the initial public offering of the H-shares.

On 21 June 2006, the Company has transferred 23,625,000 domestic shares to National Council for Social Security Fund (the "NCSSF") and NCSSF entrusted the Company to convert these shares into H-shares.

15 OTHER RESERVES

	Reserve fund RMB'000 *(note a)*	Enterprise expansion fund RMB'000 *(note a)*	Statutory reserve fund RMB'000 *(note b)*	Statutory public welfare fund RMB'000 *(note b)*	Total RMB'000
At 1 January 2006	—	—	16,578	8,289	24,867
Reclassification	—	—	8,289	(8,289)	—
Profit appropriations	—	—	9,306	—	9,306
At 31 December 2006	—	—	34,173	—	34,173
Transferred to accumulated loss	—	—	(2,254)	—	(2,254)
At 31 December 2007	**—**	**—**	**31,919**	**—**	**31,919**

Notes:

(a) Reserve fund and enterprise expansion fund

Prior to the transformation to a joint stock company, the Company was a sino-foreign equity joint venture. In accordance with the "Law of the PRC on Joint Ventures Using Chinese and Foreign Investment" and the requirement of the Company's Articles of Association, appropriations from net profit should be made to the reserve fund and the enterprise expansion fund, after offsetting accumulated losses from prior years, and before profit distributions to the investors. The percentages to be appropriated to the reserve fund and the enterprise expansion fund are determined by the Board of Directors. Upon approval, the reserve fund can be used to offset accumulated losses or be converted into capital and the enterprise expansion fund can be converted into capital.

The Board of Directors has determined not to make any appropriations to the reserve fund and enterprise expansion fund for the years ended 31 December 2007 and 2006.

(b) Statutory reserve fund

In accordance with the relevant laws and regulations in the PRC and the Company's Articles of Association, the Company is required to appropriate 10% of its annual statutory net profit, after offsetting any prior years' losses as determined under the Accounting Standards for Business Enterprises (2006) of the People's Republic of China (the "PRC GAAP"), to the statutory reserve fund before distributing the net profit. When the balance of the statutory reserve fund reaches 50% of the Company's share capital, any further appropriation is at the discretion of shareholders. The statutory reserve fund can be used to offset prior years' losses, if any, and may be converted into share capital by issuing new shares to shareholders in proportion to their existing shareholding or by increasing the par value of the shares currently held by them, provided that the remaining balance of the statutory reserve fund after such issue is not less than 25% of registered capital.

The Board of Directors has determined that it is not applicable for the Company to make any appropriation to the statutory reserve fund for the year ended 31 December 2007 as the Company has incurred loss for the year.

Pursuant to a resolution of the Board of Directors dated 19 April 2007, approximately RMB9,306,000 was appropriated to statutory reserve fund from the net profit for the year ended 31 December 2006.

In accordance with the amendment of the Company Law of PRC which was with effect from 1 January 2006, the Company decided not to accrue for statutory public welfare fund from year 2006 onwards. Statutory reserve fund included a balance of RMB8,289,000 which was converted from statutory public welfare fund in accordance with the "Circular on Accounting Treatment Following the Implementation of Company Law" issued by Ministry of Finance on 15 March 2006.

16 BORROWINGS

	2007 RMB'000	2006 RMB'000
Non-current		
Long-term bank borrowings	**1,030,000**	962,645
Less: Current portion of long-term bank borrowings	**(160,000)**	(252,645)
	870,000	710,000
Current		
Short-term bank borrowings	**363,000**	240,000
Current portion of long-term bank borrowings	**160,000**	252,645
	523,000	492,645
Total bank borrowings	**1,393,000**	1,202,645
Representing:		
– secured	**380,000**	342,645
– unsecured	**1,013,000**	860,000
	1,393,000	1,202,645

At 31 December 2007, the Company's borrowings were repayable as follows:

	2007 RMB'000	2006 RMB'000
Within 1 year	**523,000**	492,645
Between 1 and 2 years	**740,000**	90,000
Between 2 and 5 years	**35,000**	620,000
Over 5 years	**95,000**	—
	1,393,000	1,202,645

The effective interest rate of the bank borrowings as at the balance sheet date was 6.80% (2006: 5.98%) per annum.

Total bank borrowings included secured borrowings of RMB380,000,000 (2006: RMB342,645,000) which were secured by the Company's property, plant and equipment and land use rights with the net book value of approximately RMB938,707,000 (2006: RMB768,052,000) (Note 8) and RMB8,003,000 (2006: RMB23,940,000) (Note 7) respectively.

16 BORROWINGS – *continued*

The exposure of the Company's bank borrowings to interest-rate changes and the contractual repricing dates are as follows:

	2007	2006
	RMB'000	RMB'000
Within 6 months	**263,000**	251,322
6 -12 months	**1,130,000**	951,323
	1,393,000	1,202,645

As at 31 December 2007, the Company has fixed interest rates bank borrowings of approximately RMB100,000,000 (2006: Nil) and the fair values of these fixed interest rate bank borrowings are not significantly different from their carrying amounts.

The carrying amounts of short-term bank borrowings and other long-term bank borroiwngs which bear floating interest rates approximate their fair values.

The carrying amounts of the bank borrowings are denominated in the following currencies:

	2007	2006
	RMB'000	RMB'000
RMB	**1,393,000**	1,180,000
US dollar	**—**	22,645
	1,393,000	1,202,645

17 DEFERRED INCOME ON GOVERNMENT GRANTS

	Construction of new facilities (note a)	Purchases of domestic manufactured equipment (note b)	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2006	69,600	17,522	87,122
Additions	—	3,458	3,458
Amortisation	(4,640)	(1,384)	(6,024)
At 31 December 2006	64,960	19,596	84,556
Amortisation	(4,640)	(1,184)	(5,824)
At 31 December 2007	**60,320**	**18,412**	**78,732**

Notes:

(a) In 2004, the Company received government grants for the construction of new facilities, which was approved as National Key Technological Reform Project Proposal by the former State Economic and Trade Commission and the former State Development Planning Commission.

(b) In 2007 and 2006, the Company has claimed enterprise income tax credit on 40% of the cost of certain qualified equipment manufactured in the PRC, which has been approved by the local tax bureau.

18 TRADE AND OTHER PAYABLES

	2007	2006
	RMB'000	RMB'000
Trade payables	**58,428**	51,151
Advance from customers	**11,386**	16,284
Payables for purchases of property, plant and equipment	**42,891**	37,483
Other payables and accruals	**49,768**	47,400
Due to ultimate holding company (Notes b and 31(b))	**13,559**	3,529
Due to fellow subsidiaries (Notes b and 31(b))	**13,091**	4,332
Provision for staff welfare	**35,150**	35,438
	224,273	195,617

Notes:

(a) The aging analysis of the trade payables which are all denominated in Renminbi is as follows:

	2007	2006
	RMB'000	RMB'000
0 - 30 days	**33,205**	39,955
31 - 90 days	**7,109**	5,037
91 - 365 days	**12,007**	3,696
Over 365 days	**6,107**	2,463
	58,428	51,151

(b) The amounts due to the ultimate holding company and fellow subsidiaries are unsecured, interest free and have no fixed terms of repayment.

(c) The carrying amounts of trade and other payables approximate their fair values.

19 DEFERRED INCOME TAX

Movements in the deferred income tax assets are analysed as follows:

	Pre-operating expenses RMB'000	Unrecognised gain due from investment RMB'000	Inventories write-down RMB'000	Provisions for bad debts RMB'000	Accelerated accounting depreciation RMB'000	Tax losses RMB'000	Others RMB'000	Total RMB'000
At 1 January 2006	7,660	—	688	690	1,758	—	572	11,368
Credited/(charged) to the income statement	(511)	1,220	—	486	816	—	4	2,015
At 31 December 2006	7,149	1,220	688	1,176	2,574	—	576	13,383
Effect of change in applicable tax rate due to the New CIT Law (Note 25(ii))	4,426	(170)	459	783	1,716	—	384	7,598
Credited/(charged) to the income statement	(511)	(61)	7,986	954	1,568	13,831	1,470	25,237
At 31 December 2007	**11,064**	**989**	**9,133**	**2,913**	**5,858**	**13,831**	**2,430**	**46,218**

The deferred income tax assets are to be recovered as follows:

	2007 RMB'000	2006 RMB'000
Within 12 months	**10,045**	231
More than 12 months	**36,173**	13,152
	46,218	13,383

20 OTHER INCOME AND EXPENSES

	2007 RMB'000	2006 RMB'000
Other income		
Rental income (Note)	**29,029**	119
Amortisation of deferred income on government grants (Note 17)	**5,824**	6,024
Others	**7,102**	4,447
	41,955	10,590
Other expenses		
Provision for impairment of trade and other receivables	**(2,387)**	(3,234)
Direct outgoings in respect of rental income (Note)	**(13,064)**	—
	(15,451)	(3,234)
	26,504	7,356

Note:

Pursuant to a leasing agreement dated 8 August 2007 (the "Lease Agreement"), the Company agreed to lease certain utilities (such as water, steam and electricity) production facilities including a thermal power plant (collectively the "Leased Assets") to a branch of the ultimate holding company (the "Branch") at rates as predetermined in the Lease Agreement. The initial term of the Lease Agreement will expire on 31 December 2009 and the term is renewable for another three years. For the year ended 31 December 2007, the rental income from the Branch in respect of the leases of the Leased Assets amounted to RMB28,674,000 (2006: Not applicable).

Direct outgoings in respect of the rental income comprise of deprecation on the Leased Assets and business tax on the related rental income of RMB11,566,000 (2006: Not applicable) and RMB1,498,000 (2006: Not applicable) respectively.

21 OTHER (LOSSES)/GAINS - NET

	2007 RMB'000	2006 RMB'000
Gain on disposal of other financial assets at fair value through profit or loss	**—**	4,017
Gain attributable to equity interests of the joint venture	**—**	5,733
Loss on disposals/write-off of property, plant and equipment	**(2,226)**	(2,806)
Foreign exchange losses, net	**(2,069)**	(277)
Others	**(2,924)**	161
	(7,219)	6,828

22 EXPENSES BY NATURE

	2007 RMB'000	2006 RMB'000
Changes in inventories of finished goods and work in progress	**(134,595)**	(24,690)
Raw materials and consumables used	**1,658,255**	1,897,946
Depreciation (Note 8)	**122,492**	109,226
Amortisation of		
- land use rights (Note 7)	**1,882**	1,802
- intangible assets (included in administrative expenses) (Note 9)	**8,206**	8,286
Employee benefit expenses (Note 23)	**39,671**	40,803
Auditors' remuneration	**1,600**	1,600
Provision for impairment of		
- inventories	**31,943**	—
- trade and other receivables	**2,387**	3,234
Legal and professional fees	**3,777**	4,045
Stamp duty and business tax	**6,213**	2,969
Urban real estate tax	**3,160**	—
Transportation expenses	**48,886**	57,991
Other expenses	**23,469**	24,335
Total cost of sales, distribution costs, administrative expenses and other expenses	**1,817,346**	2,127,547

23 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2007 RMB'000	2006 RMB'000
Wages and salaries	**28,001**	28,805
Pension costs - defined contribution plans	**5,659**	5,653
Social security costs	**6,011**	6,345
	39,671	40,803

23 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS) – *continued*

Emoluments of directors and senior management

Details of emoluments paid and payable to the directors and supervisors of the Company are summarised as follows:

Year ended 31 December 2007

Name of director and supervisor	Fees	Salary	Employer's contribution to pension scheme	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Director				
Mr. WANG Jinjun	450	—	—	450
Mr. MA Jun	400	—	—	400
Mr. WANG Changsheng	350	—	—	350
	1,200	—	—	1,200
Non-executive director				
Mr. HAO Peijun	20	—	—	20
Mr. GONG Jianzhong	20	—	—	20
Mr. CHEN Jinkui	20	—	—	20
Mr. CHEN Shuguo (note a)	10	—	—	10
Mr. JIANG Junzhou (note b)	20	—	—	20
Mr. ZHANG Yuchen (note b)	20	—	—	20
	110	—	—	110

23 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS) – *continued*

Emoluments of directors and senior management – *continued*

Year ended 31 December 2007– *continued*

Name of director and supervisor	Fees	Salary	Employer's contribution to pension scheme	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Independent non-executive director				
Mr. YE Yongmao	50	—	—	50
Mr. MAO Fengge	50	—	—	50
Mr. LEE Ka Chung	300	—	—	300
	400	—	—	400
	1,710	—	—	1,710
Supervisor				
Mr JIANG Yanfeng	50	—	—	50
Ms. SUN Yujing	20	—	—	20
Mr. LIU Mingzhe	20	35	17	72
Mr. MENG Xiangui	30	—	—	30
Mr. FENG Shuhua	30	—	—	30
	150	35	17	202

23 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS) – *continued*

Emoluments of directors and senior management – *continued*

Year ended 31 December 2006

Name of director and supervisor	Fees	Salary	Employer's contribution to pension scheme	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Director				
Mr. WANG Jinjun	450	—	—	450
Mr. MA Jun	400	53	26	479
Mr. YANG Dexin	350	39	20	409
Mr. WANG Changsheng	350	47	23	420
	1,550	139	69	1,758
Non-executive director				
Mr. HAO Peijun	20	—	—	20
Mr. GONG Jianzhong	20	—	—	20
Mr. CHEN Jinkui	20	—	—	20
Mr. CHEN Shuguo	20	—	—	20
	80	—	—	80
Independent non-executive director				
Mr. YE Yongmao	50	—	—	50
Mr. MAO Fengge	25	—	—	25
Mr. LEE Ka Chung	149	—	—	149
	224	—	—	224
	1,854	139	69	2,062
Supervisor				
Mr. JIANG Yanfeng	50	—	—	50
Ms. SUN Yujing	20	—	—	20
Mr. LIU Mingzhe	20	37	18	75
Mr. MENG Xiangui	15	—	—	15
Mr. FENG Shuhua	15	—	—	15
	120	37	18	175

23 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS) – *continued*

Emoluments of directors and senior management – *continued*

Notes:

(a) Mr YANG Dexin and Mr CHEN Shuguo resigned on 28 June 2007.

(b) Mr JIANG Junzhou and Mr ZHANG Yuchen were appointed as the Company's non-executive directors on 28 June 2007.

(c) In addition to the directors' emoluments as disclosed above, certain directors of the Company received emoluments from Jilin Chemical Fiber Group Co., Ltd. ("JCF Groupco"), the ultimate holding company, and its fellow subsidiaries during the year ended 31 December 2007 with an aggregate amount of RMB180,000 (2006: RMB263,000), part of which is in respect of their services rendered to the Company. No apportionment has been made as the directors consider that it is impracticable to apportion this amount between their services rendered to the Company and their services rendered to the Company's ultimate holding company and the fellow subsidiaries.

Five highest paid individuals

The five individuals whose emoluments were the highest in the Company included four (2006: four) directors and their emoluments are reflected in the analysis presented above. The emoluments paid and payable to the remaining one (2006: one) individual whose emoluments was the highest in the Company during the year are as follows:

	2007 RMB'000	2006 RMB'000
Basic salaries and allowances	**992**	1,190

The emoluments fell within the following bands:

	Number of individual	
	2007 RMB'000	2006 RMB'000
Emolument bands (in RMB)		
Nil - HK$1,000,000 (equivalent to RMB936,400)	**1**	—
HK$1,000,001 - HK$1,500,000 (equivalent to RMB936,401 - RMB1,404,600)	**—**	1

During the years ended 31 December 2007 and 2006, no emoluments had been paid by the Company to the directors or the five highest paid individual as an inducement to join or upon joining the Company or as compensation for loss of office and no director has waived or agreed to waive any of their emoluments.

24 FINANCE INCOME AND COSTS

	2007 RMB'000	2006 RMB'000
Interest expense on bank borrowings		
- wholly repayable within five years	**85,936**	71,690
- repayable over five years	**3,974**	—
	89,910	71,690
Less: amounts capitalised in construction in progress *(Note)*	**(5,724)**	(5,579)
Finance costs	**84,186**	66,111
Finance income – interest income on bank balances	**(1,182)**	(1,882)
Finance costs – net	**83,004**	64,229

Note:

The borrowing costs have been capitalised at the weighted average interest rate of 6.80% (2006: 6.00%) per annum.

25 INCOME TAX

(i) No provision for Hong Kong profits tax has been made as the Company did not carry out any business or generate any assessable profits in Hong Kong for the year ended 31 December 2007 (2006: Nil).

(ii) On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the PRC (the "New CIT Law") which is with effect from 1 January 2008. Prior to the effective date of the New CIT Law, the enterprise income tax ("EIT") rate and local tax rate applicable to the Company were 30% and 3% respectively, resulting in an aggregate tax rate of 33%. The Company was not subject to local income tax prior to 2010. In addition, the Company was requalified as an advanced technology company on 1 February 2005 and hence entitled to an additional 50% tax reduction for a three years period from 2005 to 2007. Therefore, the effective tax rate applicable to the Company for the three years ended 31 December 2007 was 15%.

No provision for EIT has been made as the Company has no estimated tax assessable profit for the year ended 31 December 2007.

By reference to the New CIT Law, the EIT rate applicable to the Company starting from 1 January 2008 will be 25%. Resulting from the change in applicable tax rate under the New CIT Law, the carrying amounts of deferred income tax assets have been increased by RMB7,598,000 as at 31 December 2007, with a same amount being credited to the income statement (Note 19).

25 INCOME TAX CREDIT/EXPENSE – *continued*

(iii) The amount of income tax (credited)/charged to the income statement represents:

	2007	2006
	RMB'000	RMB'000
Current income tax		
- PRC enterprise income tax	**—**	18,684
- over provision in the prior year	**(166)**	(1,205)
	(166)	17,479
Deferred income tax *(Note 19)*		
- credit for the year	**(25,237)**	(2,015)
- effect of change in applicable tax rate due to the New CIT Law	**(7,598)**	—
	(32,835)	(2,015)
Income tax (credit)/expense	**(33,001)**	15,464

The tax on the Company's loss/profit before income tax differs from the theoretical amount that would arise using the tax rate applicable to the Company as follows:

	2007	2006
	RMB'000	RMB'000
(Loss)/profit before income tax	**(156,801)**	114,580
Add: Share of losses of a jointly controlled entity	**56,054**	1,810
	(100,747)	116,390
Tax calculated at a tax rate of 25% (2006: 15%)	**(25,187)**	17,459
Income not subject to tax	**(346)**	(904)
Over provision in the prior year	**(166)**	(1,205)
Effect of change in applicable tax rate due to the New CIT Law	**(7,598)**	—
Expenses not deductible for taxation purposes	**296**	114
Income tax (credit)/expense	**(33,001)**	15,464

26 (LOSS)/EARNINGS PER SHARE

Basic (loss)/earnings per share for the years ended 31 December 2007 and 2006 have been computed by dividing the loss/profit for the year attributable to the shareholders of the Company by the weighted average number of shares in issue during the year of 866,250,000 (2006: 754,031,000) shares.

The Company has no dilutive potential ordinary shares and therefore the diluted (loss)/earnings per share is equal to the basic (loss)/earnings per share.

27 DIVIDENDS

The directors do not recommended the payment of a dividend for the year ended 31 December 2007.

At a board meeting held on 19 April 2007, the directors of the Company proposed a final dividend and a special dividend of RMB0.035 and RMB0.015 per share respectively, totalling RMB30,319,000 and RMB12,994,000 respectively, for the year ended 31 December 2006. The declared dividends have been fully paid in 2007.

28 CASH (USED IN)/GENERATED FROM OPERATIONS

	2007	2006
	RMB'000	RMB'000
(Loss)/profit before income tax	**(156,801)**	114,580
Adjustments for:		
- Depreciation *(Note 8)*	**122,492**	109,226
- Amortisation of		
- land use rights *(Note 7)*	**1,882**	1,802
- intangible assets *(Note 9)*	**8,206**	8,286
- Amortisation of deferred income on government grants *(Note 17)*	**(5,824)**	(6,024)
- Provision for impairment of *(Note 22)*		
- inventories	**31,943**	—
- trade and other receivables	**2,387**	3,234
- Loss on disposals/write-off of property, plant and equipment (see below)	**2,226**	2,806
- Interest income *(Note 24)*	**(1,182)**	(1,882)
- Interest expenses *(Note 24)*	**84,186**	66,111
- Gain on disposal of other financial assets at fair value through profit or loss	**—**	(4,017)
- Gain attributable to equity interests of a jointly controlled entity	**—**	(5,733)
- Fair value losses on other financial assets at fair value through profit or loss	**—**	16
- Share of losses of a jointly controlled entity	**56,054**	1,810
Operating profit before working capital changes	**145,569**	290,215
Changes in working capital:		
- Increase in inventories	**(129,374)**	(23,788)
- Increase in trade and other receivables	**(70,171)**	(214,929)
- Decrease in other financial assets at fair value through profit or loss	**—**	14,145
- Increase in trade and other payables	**23,248**	9,048
Cash (used in)/generated from operations	**(30,728)**	74,691

28 CASH (USED IN)/GENERATED FROM OPERATIONS – *continued*

In the cash flow statement, proceeds from disposals of property, plant and equipment comprise:

	2007	2006
	RMB'000	RMB'000
Net book amount *(Note 8)*	**2,251**	3,021
Loss on disposals /write-off of property, plant and equipment	**(2,226)**	(2,806)
Proceeds from disposals of property, plant and equipment	**25**	215

29 COMMITMENTS

(a) Capital commitments

Capital expenditure at the balance sheet date but not yet incurred is as follows:

	2007	2006
	RMB'000	RMB'000
Property, plant and equipment contracted but not provided for	**—**	63,220

(b) Operating lease arrangements

The future minimum lease payments receivable under non-cancellable operating leases are as follows:

	2007	2006
	RMB'000	RMB'000
Property, plant and equipment		
No later than 1 year	**66,140**	119
Later than 1 year and no later than 5 years	**240,383**	474
Later than 5 years	**539**	657
	307,062	1,250

The amount as disclosed above included the future minimum lease payments receivable in respect of the Leased Assets (Note 20) for the period from 1 January 2008 to 31 December 2012 of approximately RMB305,930,000.

30 FINANCIAL GUARANTEE CONTRACTS

The Company has guaranteed the bank borrowings of the jointly controlled entity of RMB20,000,000 (2006: Nil) (the "Guarantee").

The directors consider that it is not probable for a claim to be made against the Company under the Guarantee as at the balance sheet date. The fair value of the guarantee contracts is not material and has not been recognised.

31 SIGNIFICANT RELATED-PARTY TRANSACTIONS

The Company is controlled by JCF Groupco, which owns 50.01% of the Company's shares.

JCF Groupco itself is a state-owned enterprise controlled by the PRC government. In accordance with HKAS 24 "Related Party Disclosures", state-owned enterprises and their subsidiaries directly or indirectly controlled by the PRC government are also defined as related parties of the Company.

For the purpose of related party transaction disclosures, the Company has identified, to the extent practicable, its customers and suppliers as to whether they are state-owned enterprises. Nevertheless, the directors believe that meaningful information in respect of related party transactions has been adequately disclosed.

In addition to those disclosed elsewhere in the financial statements, the following is a summary of significant related party transactions entered into in the ordinary course of business between the Company and its related parties during the year.

31 SIGNIFICANT RELATED-PARTY TRANSACTIONS – *continued*

(a) Related party transactions

	2007 **RMB'000**	2006 RMB'000
Sales of goods to:		
- A promoter of the Company	**310,616**	401,891
- Other state-owned enterprises	**120,421**	125,976
Net income from provision of utilities and sales of raw materials to a jointly controlled entity and fellow subsidiaries	**7,102**	4,447
Rental income from:		
- A branch of the ultimate holding company	**28,674**	—
- Fellow subsidiaries	**355**	28
Utility charges paid to		
- A branch of the ultimate holding company	**(66,547)**	—
- Fellow subsidiaries	**—**	(147,762)
Purchases of raw materials from:		
- A jointly controlled entity	**(3,854)**	—
- Fellow subsidiaries	**(3,710)**	(1,554)
- Other state-owned enterprises	**(1,479,438)**	(1,493,037)
Interest expenses paid to state-owned banks	**(77,353)**	(71,668)
Drawdown of loans from state-owned banks	**483,000**	670,000
Repayment of loans to stated-owned banks	**(392,645)**	(624,026)

JCF Groupco allowed the Company to use of the trademark of “白山” (Baishan) at nil consideration for the years ended 31 December 2007 and 2006.

The Company permitted JCF Groupco to use the Company's premises free of rent to operate its staff canteen. The Company is not required to bear the cost of the canteen's operation.

31 SIGNIFICANT RELATED-PARTY TRANSACTIONS – *continued*

(b) Related party balances

	2007 RMB'000	2006 RMB'000
Bank balances with state-owned banks	**139,544**	157,957
Trade receivables from other state-owned enterprises	**5,791**	1,696
Other receivables		
- Ultimate holding company	**9,773**	—
- Fellow subsidiaries	**138**	3,953
- A jointly controlled entity	**117,980**	55,797
- Other state-owned enterprises	**11,263**	9,918
	139,154	69,668
Trade payables		
- A promoter	**10,523**	3,173
- Other state-owned enterprises	**724**	3,179
	11,247	6,352
Other payables		
- Ultimate holding company	**13,559**	3,529
- Fellow subsidiaries	**13,091**	4,332
- Other state-owned enterprises	**—**	3,715
	26,650	11,576
Short-term bank borrowings from state-owned banks	**263,000**	140,000
Long-term bank borrowings from state-owned banks		
- Current portion	**160,000**	252,645
- Non-current portion	**770,000**	710,000
	930,000	962,645

Apart from bank deposits and bank loans, the receivables and payables with related parties are unsecured, interest free and have no fixed terms of repayment.

31 SIGNIFICANT RELATED-PARTY TRANSACTIONS – *continued*

(c) Key management compensation

	2007	2006
	RMB'000	RMB'000
Salaries and other short-term employee benefits	**3,198**	3,446
Post-employment benefits	**94**	71
	3,292	3,517

32 COMPARATIVE FIGURES

The comparative figures for administrative expenses, other income, other expenses and other gains as set out in the income statement and the related notes thereto have been reclassified or extended to conform with the current year's presentation.

In addition, certain comparative figures have been presented in response to the new disclosure requirements under the HKFRS 7 and HKAS 1 (Amendment).