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)

Annual Report 2008

CONTENTS

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, FCCA*

QUALIFIED ACCOUNTANT
Mr. Chan Cheung *HKICPA, FCCA*

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

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
43/F Gloucester Tower,
The Landmark,
15 Queen's Road Central,
Hong Kong

AUDITORS
PricewaterhouseCoopers

FINANCIAL 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
Bank of China Limited

H SHARE REGISTRAR AND TRANSFER OFFICE
Computershare Hong Kong Investor Services Limited
46th Floor,
Hopewell Centre, 183 Queen's Road East,
Hong Kong

FINANCIAL SUMMARY

	Year ended 31 December				
	2008 RMB million	2007 RMB million	2006 RMB million	2005 RMB million (Note 3)	2004 RMB million (Note 3)
Revenue	**1,186.5**	1,764.9	2,290.7	2,189.1	1,142.9
Gross (loss)/profit	**(27.7)**	82.1	286.8	351.4	288.0
Operating expenses	**(95.0)**	(119.6)	(120.3)	(111.2)	(111.8)
Other (losses)/gains, net Note 5	**(95.6)**	22.0	14.1	3.6	(0.5)
Operating (loss)/profit	**(218.3)**	(15.5)	180.6	243.9	175.7
Finance costs, net	**(102.9)**	(85.2)	(64.2)	(64.3)	(39.8)
Share of loss of a jointly controlled entity	**(71.5)**	(56.1)	(1.8)	—	—
(Loss)/profit before income tax	**(392.7)**	(156.8)	114.6	179.6	135.9
Income tax credit/(expense)	**80.1**	33.0	(15.5)	(26.7)	(6.5)
(Loss)/profit attributable to the equity holders of the Company	**(312.6)**	(123.8)	99.1	152.9	129.4
(Losses)/earnings per share (RMB per share) Notes 1&2	**(0.36)**	(0.14)	0.13	0.24	0.21
Dividend per share (RMB per share) Notes 1&2	**—**	—	0.05	0.07	0.11
Gross (loss)/profit margin	**(2.3%)**	4.7%	12.5%	16.1%	25.2%
Net (loss)/profit margin	**(26.3%)**	(7.0%)	4.3%	7.0%	11.3%

	As at 31 December				
	2008 RMB million	2007 RMB million	2006 RMB million	2005 RMB million (Note 3)	2004 RMB million (Note 3)
Current assets	**657.1**	896.9	789.4	733.8	661.5
Non-current assets	**1,616.2**	1,823.4	1,884.9	1,478.3	1,421.3
Total assets	**2,273.3**	2,720.3	2,674.3	2,212.1	2,082.8
Current liabilities	**1,158.1**	747.3	688.3	666.0	732.0
Non-current liabilities	**403.5**	948.7	794.6	788.4	746.0
Total liabilities	**1,561.6**	1,696.0	1,482.9	1,454.4	1,478.0
Total equity	**711.7**	1,024.3	1,191.4	757.7	604.8
Current ratio	**0.57**	1.20	1.15	1.10	0.90
Gearing ratio Note 4	**68.7%**	62.3%	55.5%	65.7%	71.0%

Notes:

1. The earnings per share and dividend per share for the two years ended 31 December 2005 are computed by dividing the profit for the year attributable to the equity holders 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 equity holders 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's H shares on 21 June 2006, respectively.
3. The results of the Company for the years ended 31 December 2004 and 2005 and its assets and liabilities as at 31 December 2004 and 2005 are extracted from the Company's prospectus dated 9 June 2006.
4. The gearing ratios set out on this page are calculated as total liabilities divided by total assets.
5. Other (losses)/gains, net set out on this page is the aggregated total of other income, other expenses, impairment of non-current assets and other losses/gains – net.

BUSINESS SUMMARY

- Sales volume was approximately 77,374 tons in 2008, representing a decrease of approximately 26% as compared to 2007.
- Sales-to-production ratio was approximately 117% in 2008, representing an increase of approximately 19% as compared to 2007.
- In terms of revenue and sales volume, acrylic staple fibre was the best selling product of the Group in 2008. The revenue and sales volume of acrylic staple fibre represented approximately 39.1% and approximately 40.4% respectively of the total revenue and sales volume of 2008.
- Production plant operated at a utilisation rate of approximately 48% in 2008 (2007: 79%).
- A wholly-owned subsidiary named “Jilin Tangu Carbon Fibre Co., Ltd.”(吉林碳谷碳纖維有限公司) was established in December 2008 to engage in the research, development, manufacturing and sales of carbon fibre and carbon fibre textile products, which is expected to have an annual production capacity of approximately 1,500 tons of carbon fibre starting from July 2009.

Dear Shareholders:

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 consolidated financial statements of the Company and its subsidiary (the "Group") for the financial year ended 31 December 2008 ("2008" or the "Year") for review by shareholders of the Company.

INDUSTRY REVIEW

In 2008, the acrylic fibre industry in the PRC experienced unprecedented difficulties. The spread of international financial crisis delivered a heavy blow to the textile industry. The lack of confidence in the economic outlook among consumers and their low desire for consumption resulted in significant shrinkage of the downstream market. As affected by the international crude oil prices, the prices of acrylonitrile, the major raw material for the Group's production of acrylic fibre products, remained at high levels until November 2008 (thereafter a significant decline occurred) and therefore squeezing the profit margin of the products. Meanwhile, the rapid development Acrylonitrile Butadiene Styrene ("ABS") and polyacrylamide has further exacerbated the shortage of acrylonitrile.

In addition, the emergence and development of substitutes also 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 have replaced the use of acrylic fibre products by 15% to 20%. These substitutes further reduced the demand for acrylic fibre products and eroded the market share of acrylic products during the year.

In terms of national policies in the PRC, adjustments to macroeconomic policies such as the appreciation of RMB, the tightening of the monetary policy, the implementation of beneficial policies for farmers and the promulgation of new labour law in 2008 have all aggravated the operation difficulties facing by the acrylic fibre industry during the year 2008.

Thus, it can be seen that acrylic fibre industry in the PRC has experienced unprecedented difficulties and highly competitive situation in 2008. However, subsequent to the significant decline of international crude oil prices in November 2008, the spread between prices of acrylonitrile and acrylic products has been maintained at a more reasonable level. The market environment of the acrylic fiber industry has demonstrated improvement starting from December 2008.

ANNUAL RESULTS

For the year ended 31 December 2008, the Group's revenue amounted to approximately RMB1.19 billion, representing a decrease of approximately 33% from approximately RMB1.76 billion in 2007. The decrease in revenue was mainly due to a decline in sales volume of acrylic fibre products of approximately 26% and the decrease of 8.7% in the average selling price of the acrylic fibre products. Total sales volume of the Group was 77,374 tons; production volume was 65,716 tons and sales-to-production ratio was approximately 117% (2007: 98%).

Loss attributable to the equity holders of the Company for the Year was approximately RMB312.6 million (2007: RMB123.8 million). The increase in net loss incurred by the Group was mainly attributable to the significant decrease in the overall gross profit margin from 4.7% in 2007 to the overall gross loss margin of 2.3% in 2008. The gross loss in 2008 was primarily resulted from the high raw material costs, high unit production costs and significant shrinkage of downstream market. The loss attributable to the equity holders of the Company for the Year also included the provision for impairment of non-current assets of RMB93.4 million and the Group's share of loss of Jilin Jimont Acrylic Fiber Co., Ltd., (the "Joint Venture") of approximately RMB71.5 million.

BUSINESS REVIEW

To cope with the challenging environment mentioned above, the Group will continue to enhance technology for improving profit margin and increasing operating efficiency. To accommodate changes in the market, the Group adopted its marketing strategy to expand overseas market, thereby retaining customers and on the other hand mitigating pressure on sales. The Group intensified its control of production volume and inventory level to reduce its costs of raw materials more effectively. The Group also established a wholly-owned subsidiary named "Jilin Tangu Carbon Fibre Co., Ltd."(吉林碳谷碳纖維有限公司) in December 2008 which is principally engaged in research, development, manufacturing and sales of carbon fibre and carbon fibre textile products. The subsidiary is expected to have an annual production capacity of approximately 1,500 tons of carbon fibre starting from July 2009. The Group still maintains its leading position in the PRC's acrylic fibre market.

In 2008, the Group continued to improve its production technology and completed 5 technological reform items so as to increase production efficiency and lower production costs. At the same time, the Group has also implemented and strengthened staff training with a view to enhance operating efficiency and profitability of the Group.

For the year ended 31 December 2008, the Group recorded sales volume of 77,374 tons, representing a decrease of 26% as compared with the same period last year. During the Year, the plant utilisation rate of the Group was approximately 48% and the production of differential acrylic fibre products amounted to 8,463 tons, accounting for 12.9% of the Group's total production and representing an increase of 1.6% as compared to the same period of last year.

OUTLOOK

Looking ahead, the management anticipates that the PRC's acrylic fibre market will still be full of challenges. Nevertheless, the Group will adopt vigorous measures and put more efforts in research and development of new products so as to maintain and expand its share and leading position in the PRC's acrylic fibre market in 2009.

Differential acrylic fibre products and carbon fibre will become the new driving forces for the Group and in the acrylic fibre industry in the PRC. Therefore, the Group 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 Group, thereby increasing the Group's overall competitiveness. In addition, the Group will continue to adopt flexible marketing strategies to satisfy the different needs of customers, strengthen internal controls to increase cost efficiency, improve and upgrade production technology to develop new products and allocate resources to improve product quality so as to strengthen its relationships with existing customers and to expand the Group's customer base.

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

APPRECIATION

Lastly, I would like to take this opportunity to thank shareholders and business partners of the Group 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 Group for their hard work and contribution.

Wang Jinjun
Chairman

Jilin City, Jilin Province, the PRC
22 April 2009

MAJOR OPERATIONAL DATA

1. Revenue

	Year ended 31 December			
	2008		2007	
	RMB million	**%**	RMB million	%
Acrylic top	**457.2**	**38.5**	612.5	34.7
Acrylic tow	**258.9**	**21.8**	494.3	28.0
Acrylic staple fibre	**463.3**	**39.1**	651.2	36.9
Others*	**7.1**	**0.6**	6.9	0.4
Total	**1,186.5**	**100.0**	1,764.9	100.0

2. Sales volume

	Year ended 31 December			
	2008		2007	
	Tons	**%**	Tons	%
Acrylic top	**28,670**	**37.0**	35,461	33.7
Acrylic tow	**17,255**	**22.3**	29,880	28.4
Acrylic staple fibre	**31,228**	**40.4**	39,060	37.2
Others*	**221**	**0.3**	695	0.7
Total	**77,374**	**100.0**	105,096	100.0

3. Average selling price and gross (loss)/profit margin

	Year ended 31 December			
	2008		2007	
	Average selling price RMB/ton	**Gross loss margin %**	Average selling price RMB/ton	Gross profit margin %
Acrylic top	**15,947**	**(1.53)**	17,242	3.7
Acrylic tow	**15,004**	**(0.42)**	16,543	6.3
Acrylic staple fibre	**14,836**	**(3.01)**	16,672	4.4
Average gross (loss)/profit margin		**(2.3)**		4.7

* Refer to fibre scrap and carbon fibre

MARKET REVIEW

In 2008, the acrylic fibre industry in the PRC experienced unprecedented difficulties. The spread of international financial crisis delivered a heavy blow to the textile industry. The lack of confidence in the economic outlook among consumers and their low desire for consumption resulted in significant shrinkage of the downstream market. As affected by the international crude oil prices, the prices of acrylonitrile, the major raw materials for the production of acrylic fibres, remained at high levels until November 2008 (thereafter a significant decline occurred), squeezing the profit margin of the Group's products. During the year, the average purchase price per ton of acrylonitrile fell by only 16.7%. Meanwhile, the rapid development of ABS and polyacrylamide has further exacerbated the shortage of acrylonitrile. The emergence and development of substitutes also 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 have replaced the use of acrylic fibre by 15% to 20%, which further reduced the demand for acrylic fibre and eroded the market share of acrylic products. In terms of national policies in the PRC, adjustments to macroeconomic policies such as the appreciation of RMB, the tightening of the monetary policy, the implementation of beneficial policies for farmers and the promulgation of new labour law have all aggravated the operating difficulties facing by the acrylic fibre industry during the year 2008. Subsequent to the significant decline of international crude oil prices in November 2008, the spread between prices of acrylonitrile and acrylic products has been maintained at a more reasonable level. The market environment of the acrylic fiber industry has demonstrated improvement starting from December 2008.

SALES REVIEW

In 2008, the Group recorded sales of 77,374 tons of acrylic fibre products, representing a sharp decrease of 26% as compared with 105,096 tons in 2007. The average unit selling price of acrylic fibre products decreased from RMB16,793 per ton in 2007 to RMB15,335 per ton in 2008. The decrease in sales volume and average unit selling price were due to shrinkage of the downstream market and the stagnated market condition.

The Group adopted a flexible marketing strategy through its established sales centre in Suzhou. Coupled with its stable product quality, the Group was able to maintain favorable pricing levels under a competitive environment. Meanwhile, in face of the increasing competitions in the domestic market, the Group seized export opportunities actively to develop and extend market base in order to achieve sales target. The Group entered into sales orders for export of acrylic staple fibre and acrylic top with customers in countries such as Vietnam, Pakistan and Italy. The vigorous export strategy, on one hand, mitigated the pressure on stagnanted domestic sales, and on the other hand helped to establish a "quality" brand image for the Group's products in the international market and paved way for the Group's penetration to the global market.

OPERATIONS REVIEW

The rising of raw material prices has driven up operating costs and products costs and resulted in a general decline in profit margin for manufacturing industries. Therefore, the Group implemented stringent cost control during the Year in an attempt to improve operating efficiency and productivity.

In 2008, our competitors continued to adopt the practice of cutting prices in order to maintain their respective market shares. In response to such competition approach, the Group had implemented a series of measures, including maintaining customers' confidence through the continuous upgrading of product and service quality and; providing excellent products and services at lowered prices; liaising with customers on a regular basis to strengthen mutual business relationships; enhancing the position of the Group and its products in the market and increasing market share; and paying close attention to market trends. All these measures enabled the Group to gain an insight into the needs and expectations of the customers on the Group's products more timely and hence attracting customers to continue to use the products and services of the Group.

PRODUCTION MANAGEMENT

For the year ended 31 December 2008, the Group's plant utilisation rate was about 48%. The Group's total production volume was approximately 65,716 tons, decreased by 38.8% from the same period last year. The production of differential acrylic products was approximately 8,463 tons, representing 12.9% of the total production which rose by 1.6% as compared with the same period last year. The decrease in utilisation rate was the result of tightened production quantity control in order to minimise the inventory level on hand in this stagnanted market.

The Group stepped up its efforts in the development of new products and enhanced the production and testing of differential fibre during the Year. Through technological exchange with other industry players and testing, the Group continued to upgrade its production technology, and successfully and systematically implemented 5 technological reforms and innovations based on the market needs, which in turn generated certain economic benefits for the Group.

INTERNAL OPERATION CONTROL

In 2002, the Company obtained the ISO 14001 Environmental Management System and other certifications. These achievements have reinforced the Group's commitment to enhance internal operation control continuously. As at 31 December 2008, the Company had passed its annual ISO review and assessments for other certifications covering product quality, environmental protection and occupational safety and health.

EMPLOYEES

As at 31 December 2008, the Group had 1,875 employees, representing an increase of approximately 57% as compared to 1,192 employees for the same period in 2007. The significant increase in the number of employees was mainly due to the Group has managed and operated the thermal power plant with effective from 4 November 2008. The Group's staff remuneration packages are determined with reference to prevailing market practices (including a performance-based incentive bonus). The Group also provided training to employees at all levels. For the year ended 31 December 2008, the Group provided the employees with training on various aspects such as the "one position, multiple capabilities concept and practice", comprehensive quality control, production safety and environmental protection etc., totalling to 4,564 class hours. The training for junior, middle and senior management members as well as the technical training conducted specially for carbon fibre program were completed satisfactorily and thus facilitated the implementation of the carbon fibre program. During the Year, the Staff Position Rank Management Plan was successfully implemented. By coducting quantified assessment on the staff's working attitudes, capabilities and performance, the Group is able to better motivate the staff to take initiatives.

OUTLOOK

Looking forward, the management expects market conditions will remain challenging in 2009. The Group will put more efforts in the research and development of new products in 2009. The Group foresees new opportunities and highlights for its business as set out below:

1. The establishment of Jilin Tangu Carbon Fibre Co., Ltd. (吉林碳谷碳纖維有限公司): The Group commenced research and development of carbon fibres since 2006 and convened a meeting to certify the scientific technological achievements in carbon fibre in March 2008 at which experts gave high regard to the clinical status of the Group's achievements in research and development of carbon fibres. The Group has therefore incorporated its wholly-owned subsidiary Jilin Tangu Carbon Fibre Co., Ltd. (吉林碳谷碳纖維有限公司) in December 2008, and its production plant is expected to commence full operation in July 2009 with an annual production capacity of approximately 1,500 tons of crude carbon fibres. Carbon fibre, a high performance new fibre material, has the characteristic of exceptional strength and is widely used for military, industrial and civic purposes. At present, the annual demand for carbon fibre in the PRC is approximately 6,000 tons and the supply is only approximately 2,000 tons. The development of carbon fibres offers greater market potential and long-term economic benefits for the Group.

2. Development of differential fibres: The Group will put more efforts on the development of differential fibres. As a type of high value-added acrylic fibre, differential fibre will improve the Group's profit margin and competitiveness in the domestic acrylic fibre market. The Group plans to develop air-conditioning fibre, fire-resistant fibre and original liquid dyeing fibre; and further improve the production volume of differential fibres such as pill resistant fibre, gel dyeing fibre, oerlikon fibre, high shrinkage staple and high shrinkage top in order to meet market needs. The management believes that differential acrylic fibre products will become one of the major growth drivers for the acrylic fibre industry in the PRC. The Group is well positioned to seize such opportunities to further boost the profitability of the Group.

3. Signs of stabilisation in market conditions: The current market conditions show signs of stabilisation in product demand and sales, as the spread between prices of raw materials and acrylic products is maintained at a reasonable level, providing a certain level of margin. It is expected the utilisation rate of the production plants will increase in 2009 and will lower the unit production costs and hence improve the profit margin.

The management of the Group will actively seek to capitalise on the above opportunities to consolidate its market position through cost-reduction and development of new products, so as to further strengthen the leading position of the Group in acrylic fibre industry and maximise returns to shareholders.

FINANCIAL ANALYSIS

Operation results

For the year ended 31 December 2008, the revenue of the Group amounted to approximately RMB1.19 billion, representing a decrease of approximately 33% from approximately RMB1.76 billion for the year of 2007. The decrease in revenue was mainly due to a decline in sales volume of approximately 26% and the decrease of approximately 8.7% in the average selling price per ton for the acrylic fibre products. The decrease in sales volume of acrylic fibre products was mainly due to unfavourable market conditions such as the significant shrinkage of downstream textile market. During the year of 2008, the Group's total production volume and sales volume were 65,716 tons and 77,374 tons respectively, with a sales-to-production ratio of approximately 117% (2007: 98%).

Loss attributable to the equity holders of the Company for the year was approximately RMB312.6 million, as compared with loss attributable to the equity holders of the Company of approximately RMB123.8 million in 2007. The net loss incurred by the Group was mainly attributable to the high raw material costs, high unit production costs and significant shrinkage of downstream market. The average purchase price of acrylonitrile (the major raw material for production of acrylic fibre) decreased by only 16.7% in 2008 and remained at a high level as a result of the price of crude oil and tightened domestic supply of acrylonitrile until November 2008 (thereafter a significant decline occurred). The price differential between the average selling price of the Group's acrylic fibre products and the average purchase price of acrylonitrile for the Year was approximately RMB4,071/ton, representing an increase of approximately 23% from approximately RMB3,306/ton for the year of 2007. However, the decrease in purchase price of acrylonitrile was insufficient to offset the significant decrease in demand of acrylic fibre products caused by shrinkage of downstream textile market. The decrease in plant utilisatoin rate from 79% in 2007 to 48% for the Year has increased the unit production costs significantly. In addition, the Group's loss for the year also included the provision for impairment of non-current assets of approximately RMB93.4 million and the Group's share of loss of the Joint Venture of approximately RMB71.5 million.

Operating expenses (representing distribution costs and administrative expenses)

Distribution costs decreased from approximately RMB49.5 million for the year ended 2007 to approximately RMB32.4 million for the year ended 2008. The decrease in distribution costs was primarily resulted from the decrease in transportation costs by approximately RMB13.8 million which was in line with the decrease in the sales volume for the Year. The reduction in administrative costs from approximately RMB70.1 million for the year ended 2007 to approximately RMB62.5 million for the year ended 2008 was primarily resulted from the cost control measures as implemented by the management in view of the difficult market conditions.

Net other losses (representing the net aggregate amount of other income, other expenses, impairment of non-current assets and other losses - net)

Net other losses for the Year was RMB95.6 million, as compared to net other gains of approximately RMB22.0 million in the year of 2007. The significant increase in net other losses in 2008 was primarily attributable to the provision for impairment of non-current assets recognised in the Year of approximately RMB93.4 million and the losses associated with the derivative financial instruments recognised in the Year of approximately RMB34.8 million. These increases have been partially offset by the increase in the net income from the Group's provision of utilities (mainly electricity and steam) to fellow subsidiaries, jointly controlled entity and third parties by approximately RMB11.7 million.

Net finance costs (including interest expenses on discounted notes receivable)

Net finance costs increased from approximately RMB85.2 million (excluding the interests capitalised of RMB5.7 million) for year 2007 to approximately RMB102.9 million for year 2008. The increase in net finance costs was primarily resulted from the increase in the Group's overall borrowing interest rate when bank loans were renewed, the increase in interest expenses on discounted notes receivable and the fact that interest expenses of RMB5.7 million had been capitalised as construction in progress in the prior year.

Share of loss of a jointly controlled entity

The Group's jointly controlled entity, Jilin Jimont Acrylic Fiber Co., Ltd. (the "Joint Venture"), commenced its commercial production in 2007. The Group's share of 50% of the loss of the Joint Venture for the Year under the equity method accounting amounted to RMB71.5 million (2007: RMB56.1 million). The Joint Venture's financial performance for the Year was also affected adversely due to the difficult business environment as described on the section headed "Market Review". In addition, an impairment provision of approximately RMB27.2 million has been charged against the non-current assets of the Joint Venture during the Year.

Financial resources, liquidity and liability position

As at 31 December 2008, the Group's total assets and total liabilities were approximately RMB2.27 billion and RMB1.56 billion respectively. As at 31 December 2008, the Group's net current liabilities amounted to approximately RMB501 million, and its current ratio, calculated by dividing current assets by current liabilities as at 31 December 2008, was approximately 0.57 (2007: 1.20). The liquidity of the Group is primiarily dependent on its ability to maintain adequate cash inflow from operations, to obtain external financing and refinancing and to obtain financing resources from its ultimate parent company. The Group had cash at bank and in hand of approximately RMB108.3 million as at 31 December 2008.

Total bank borrowings of the Group as at 31 December 2008 amounted to approximately RMB1,223 million, of which short term bank loans and current portion of long-term bank borrowings amounted to approximately RMB893 million and long-term bank borrowings were approximately RMB330 million. Approximately 80.1% of the Group's bank borrowings bear floating interest rates. The bank borrowings were mainly used for the expansion of production facilities in previous years and the construction of the thermal power plant which officially commenced production in early 2007. The net decrease in bank borrowings of RMB170 million during the year was mainly due to the repayments of certain matured bank borrowings.

All of the Group's bank borrowings are denominated in Renminbi. Therefore, the management believes that the Group is exposed to minimal foreign exchange risks and has not made any foreign currency hedging arrangement.

As at 31 December 2008, the Group's gearing ratio, calculated by dividing total liabilities by total assets, was approximately 68.7% (2007: 62.3%). The increased gearing ratio was mainly due to the decrease in the Group's total assets which primarily resulted from the reduction in inventory level, the depreciation and impairment charge on the non-current assets and the net cash outflow for the Year.

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 S.p.A. ("Montefibre"). In April 2007, Montefibre transferred its 10.64% equity interest in the Joint Venture to SIMEST S.p.A. ("SIMEST"), a development finance institution set up by the Italian government. Upon completion of the equity transfer, the Group 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 borrowings and capital contribution from the joint venture partners. All the joint venture partners had fully paid up their capital contributions according to their respective proportion of equity interest in the Joint Venture prior to year 2007.

The Joint Venture is principally engaged in the manufacturing and sales of acrylic fibre products. Currently, the Joint Venture does not have any concrete timetable for implementing phase two of the project, which can be expected to 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 2008, the sales volume and production volume of the Joint Venture reached 57,806 tons and 50,527 tons respectively, representing a sales-to-production ratio of 114.4%. The utilisation rate of the production plant was 50.5%. The net loss of the Joint Venture for the Year amounted to approximately RMB143 million in 2008 (2007: RMB112.1 million), which was mainly due to factors such as high raw material costs, high unit production costs, the significant shrinkage in downstream textile market and an impairment provison made against the non-current assets of the Joint Venture amounted to approximately RMB27.2 million.

Entrusted deposits and matured time deposits

As at 31 December 2008, the Group did not hold deposits under trusts in any financial institutions in the PRC. All of the Group's cash was held in commercial banks in the PRC in accordance with the applicable laws and regulations. The Group had no bank deposits that cannot be withdrawn upon maturity.

Pledged assets

As at 31 December 2008, certain property, plant and equipment and land use rights with net book value amounting to approximately RMB786.5 million and RMB7.3 million respectively (As at 31 December 2007: RMB938.7 million and RMB8.0 million respectively) were pledged as securities for bank borrowings of approximately RMB330 million (As at 31 December 2007: RMB380 million).

Contingent liabilities

The Group had no material contingent liabilities as at 31 December 2008.

Dividend

The Board does not recommend the declaration of a dividend for the year ended 31 December 2008 (2007: Nil).

DIRECTORS

Executive Directors

Wang Jinjun, aged 47, is an executive Director and chairman of the Board. Currently, he is also the chairman of the board of directors, the general manager, and the 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 Group in 1996, he had held senior management positions at various departments in the Group including the equipment and energy department and production department. He has over 20 years of 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 43, is an executive Director and the general manager of the Company. He had held managerial positions at the electric meter factory and polymerisation factory since he joined the Group in March 1997. Mr. Ma graduated from Jilin Vocational Teachers College in the PRC with a bachelor's degree in relation to electronics technology. He has over 19 years of experience in the chemical fibre industry and is a qualified senior engineer in the PRC.

Wang Changsheng, aged 49, is an executive Director and the chief financial officer who is responsible for the financial management of the Group. He has also served as our chief head of the finance department since August 2001. He has over 28 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 49, 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 office supervisor, and later, as assistant to the general manager until being promoted to the present position in January 2005. Mr. Hao has been involved in the chemical fibre industry for over 26 years. He graduated from Jilin Province Institute of Education in the PRC and is a qualified senior economist in the PRC.

Gong Jianzhong, aged 46, 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 the chief executive officer of Bank of China Group Investment Limited and a director of certain of its subsidiaries. Mr. Gong has over 17 years of experience in banking, administration and management. He graduated from Dongbei University of Finance and Economics in the PRC with a master's degree in economics.

Chen Jinkui, aged 45, is a non-executive Director. He first became a Director of the Company on 11 October 2002. Mr. Chen is currently also a director and the 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 Economics (formerly known as Central Institute of Finance and Economics) with a bachelor's degree in finance and postgraduate Finance Research Centre of the PBOC Headquarters with a master's 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 of the Company. He first became a director of the Company on 28 June 2007 Mr. Zhang graduated from the Department of Finance of the 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 66, 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 42 years of 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 40, has been an independent non-executive Director since 9 June 2006. He is currently the 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 17 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 56, has been an independent non-executive Director since 9 June 2006. He is presently a director and chief executive officer of WKCL Group Ltd., the owner of William K.C. Lee Accounting Firm, an arbitrator of Shenzhen Arbitration Committee, 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 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 56, 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 43, is a supervisor of the Company ("Supervisor"). Since she joined JCF Groupco in 1990, she had served as an auditor and the deputy head of the audit department, and deputy head of the audit and supervisory department Ms. Sun has 17 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 37, is a Supervisor. Since he joined the Company in 1997, he had served as a technician, officer and supervisor 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 52, has been an independent Supervisor since 9 June 2006. He has also been the deputy head of and an attorney at 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 60, has been an independent Supervisor since 9 June 2006. She has also been an 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 45, 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 35, who joined the Group in January 2008, is the other joint company secretary and qualified accountant of the Company. Prior to joining the Group, he served as the financial controller of a company listed on Nasdaq in the United States. He has over 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 bachelors' degree in accounting.

Zhuang Hailin, aged 38 , who joined JCF Groupco in 1993, is the deputy general manager of the Company. 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 consolidated financial statements of the Group for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The Company is principally engaged in the manufacturing and sales of acrylic fibre products. The activities of the subsidiary and the jointly controlled entity are set out in notes 10 and 11 to the consolidated financial statements respectively.

SEGMENTAL INFORMATION

The Group's segmental information is set out in Note 6 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 42.

The Directors do not recommend the declaration of a dividend for the year ended 31 December 2008.

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group 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 Group and of the Company are set out in Note 8 to the consolidated financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 15(a) to the consolidated financial statements.

RESERVES

Movements in reserves of the Group and of the Company during the year are set out in Notes 15(b) and 16 to the consolidated financial statements. As at 31 December 2008, the Group 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 2008, neither the Company nor any of its subsidiary, jointly controlled entity and fellow subsidiaries purchased, sold or redeemed any of the Company's listed securities.

DIRECTORS

The Directors of the Company in 2008 and up to the date of this report are:

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.

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 from the Group.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the Directors and the Supervisors has entered into a service contract with the Company. All these contracts will expire on 25 June 2011 and all Directors and Supervisors will retire and offer themselves for re-election at the forthcoming annual general meeting of the Company.

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' AND SUPERVISORS' COMPENSATION

The Group's remuneration policy aims to provide a fair market remuneration in a form and value to attract, retain and motivate high quality candidates. The policy is determined based on the Directors' and the Supervisors' experience and their contribution to the Group.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance in relation to the Group's business to which the Company or its subsidiary, any of its fellow subsidiaries or its parent company 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 15 to 17 under the Biography of Directors, Supervisors and Senior Management section in this report.

INTERESTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES

As at 31 December 2008, 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 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 Part XV 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 2008, 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 2008, 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 Group's business, which competes or is likely to compete, either directly or indirectly, with the Group's business.

MANAGEMENT CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

In 2008, sales to the Group's five largest customers accounted for approximately 52.5% of the total sales for the year, in which sales to the largest customer represented approximately 16.5% of the total sales for the year.

Purchases from the Group's five largest suppliers amounted to approximately 88.9% of the total purchases for the year while total purchases from the largest supplier represented approximately 67.7% of the total purchases for the year.

One of the five largest customers, Shanghai Taiyi Textile Company Limited ("Taiyi"), is one of the Company's promoters and therefore a connected person of the Group. 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

Sales and purchases of raw materials, 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 holding company 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 ended 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 2008, purchases from and sales to the Remaining JCF Group amounted to approximately RMB1.3 million and RMB242,000 respectively, which was within the approved cap of RMB1.5 million and RMB1 million as disclosed in the Company's prospectus dated 9 June 2006, respectively.

Purchases 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 ended 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 Company has renewed the purchases agreement with Lotus on 26 August 2008, for another term commencing from 1 January 2009 and ending on 31 December 2011. 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 Industry Company"), being a connected person as it is one of the promoters of the Company. Lotus Factory, being an associate of Dalin Industry Company, is therefore a connected person of the Company.

For the year ended 31 December 2008, purchases of chemical materials from Lotus Factory amounted to approximately RMB1.8 million which was within the approved cap of RMB4.5 million as disclosed in the Company's prospectus dated 9 June 2006.

Sales of finished goods to Taiyi

The Company sold products to Shanghai Taiyi Textile Company ("Taiyi") and understood 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 ended 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 Company has renewed the sales agreement with Taiyi on 26 August 2008, for another term commencing from 1 January 2009 and ending on 31 December 2011. 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 2008, sales to Taiyi amounted to approximately RMB196 million which was within the approved cap of RMB560 million as disclosed in the Company's prospectus dated 9 June 2006.

Sales of finished goods to Tuopu Textile

The Company sold goods to Tuopu Textile Industrial Development Co., Ltd. ("Tuopu Textile") and understood that Tuopu Textile 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 price less a discount. On 8 August 2007, the Company entered into the sales agreements with Tuopu Textile for an initial term ended 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 Textile, 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 2008, sales to Tuopu Textile by the Company amounted to approximately RMB19.2 million, which is within the approved cap of RMB160 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 ended 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 2008, the composite services that the Company received from and provided to the Remaining JCF Group amounted to RMB439,000 and RMB19,000, respectively, which was within the approved cap of RMB12 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 ended 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 2008, JCFCL did not provide utilities to the Company and the Company did not provide utilities to JCFCL. The amount was within the approved cap of RMB3.5 million and RMB1 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 out the Leased Assets (includes utilities (such as water, steam and electricity) production facilities including a thermal power plant) 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 ending on 31 December 2009 which, subject to compliance with Listing Rules' requirements regarding connected transactions, was 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 Lease Agreement with Power Company was terminated with effect from 4 November 2008.

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 and is therefore a connected person of the Company.

For the year ended 31 December 2008, lease income for Leased Assets received by the Company from the Power Company amounted to approximately RMB51.5 million, which was within the approved cap of RMB66 million as disclosed in the Company's announcement dated 8 August 2007 and circular dated 29 August 2007.

Purchases of the Utilities and Water Treatment Services from the Power Company

The Company purchased from the Power Company certain Utilities and Water Treatment Services. Pursuant to the 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 2008, the Company's purchases of Utilities and Water Treatment Services from the Power Company amounted to approximately RMB75.6 million, which was within the approved cap of RMB205 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 2008, the balance of deposits amounted to RMB579,000 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 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 ended 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 2008, utilities that the Joint Venture received from JCFCL amounted to Nil, which was within the approved cap of RMB2.5 million as disclosed in the Company's prospectus dated 9 June 2006.

Purchases of chemical materials from Lotus Factory by the Joint Venture

The Joint Venture 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 between Lotus Factory and the Joint Venture on 8 August 2008, the Joint Venture purchases chemical materials from Lotus Factory, for a term of three years ending on 31 December 2009 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 Industry Company"), being a connected person as it is one of the promoters of the Company. Lotus Factory, being an associate of Dalin Industry Company, is therefore a connected person of the Company.

For the year ended 31 December 2008, no chemical materials were purchased from Lotus Factory by the Joint Venture and therefore, the amount was within the approved cap of RMB2.5 million as disclosed in the Company's prospectus dated 9 June 2006.

Purchases of auxiliary materials from Tuopu by the Joint Venture

The Joint Venture purchased from Tuopu auxiliary materials for manufacture 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 2008, no auxiliary materials were purchased by the Joint Venture from Tuopu and therefore, the amount was within the approved cap of RMB400,000 as disclosed in the Company's announcement dated 8 August 2007 and circular dated 29 August 2007.

Sales 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 discounted 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 2008, sales to Taiyi by the Joint Venture amounted to approximately RMB184 million, which is within the approved cap of RMB386 million as disclosed in the Company's announcement dated 8 August 2007 and circular dated 29 August 2007.

Sales of finished goods to Tuopu Textile by the Joint Venture

The Joint Venture sold goods to Tuopu Textile and understood that Tuopu Textile 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 Textile at a discounted 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 Textile, 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 2008, sales to Tuopu Textile by the Joint Venture amounted to approximately RMB22.7 million, which is within the approved cap of RMB69 million as disclosed in the Company's announcement dated 8 August 2007 and circular dated 29 August 2007.

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

The Joint Venture purchased from the Power Company certain Utilities and 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 has an initial term commencing from 4 November 2008 and 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 and is therefore a connected person of the Company.

For the year ended 31 December 2008, the Joint Venture's purchases of the Utilities and Water Treatment Services from the Power Company amounted to approximately RMB63 million, which was within the approved cap of RMB170 million as disclosed in the Company's announcement dated 8 August 2007 and circular dated 29 August 2007.

Purchases of auxiliary materials from JCFCL by the Company

The Company purchased auxiliary materials from JCFCL pursuant to the Auxiliary Materials Purchase Agreement entered into with JCFCL on 26 August 2008, for an initial term commencing from 4 November 2008 and ending on 31 December 2010 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 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 2008, auxiliary materials that the Company purchased from JCFCL amounted to approximately RMB2.4 million, which was within the approved cap of RMB2.6 million as disclosed in the Company's announcement dated 26 August 2008 and circular dated 12 September 2008.

Provision of Utilities and Water Treatment Services to Tuopu Textile by the Company

The Company provided Utilities and Water Treatment Services to Jilin Tuopu Textile Industrial Development Co., Ltd. ("Tuopu Textile") pursuant to the Utilities and Water Treatment Services Agreement entered into with Tuopu on 26 August 2008, for an initial term commencing from 4 November 2008 and ending on 31 December 2010 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 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 Textile, 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 2008, Utilities and Water Treatment Services provided to Tuopu Textile by the Company amounted to RMB291,000, which was within the approved cap of RMB960,000 as disclosed in the Company's announcement dated 26 August 2008 and circular dated 12 September 2008.

Purchases of Engineering Construction Services from Jianan by the Joint Venture

Pursuant to the Engineering Construction Services Agreement entered into between Jilin Chemical Fiber Construction and Installation Engineering Co., Ltd., ("Jianan") and the Joint Venture in 2007, the Joint Venture purchased from Jianan engineering construction services. As certain transactions originally scheduled for 2007 were delayed or rescheduled to 2008 , on 26 August 2008 the Joint Venture entered into a new Engineering Construction Services Agreement with Jianan for an initial term commencing from 4 November 2008 and ending on 31 December 2010 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 2008, purchase from Jianan by the Joint Venture amounted to approximately RMB10 million, which approved cap of RMB11.8 million as disclosed in the Company's circular dated 12 September 2008.

Agreement relating to lease of the JCFCL Leased Assets to the Company by JCFCL

Pursuant to the Lease Agreement entered into between the Company and JCFCL on 26 August 2008, JCFCL leased the JCFCL Leased Assets to the Company for an initial term commencing from 4 November 2008 and ending on 31 December 2010 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.

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 2008, the Company's lease expense paid to JCFCL for the JCFCL Leased Assets amounted to approximately RMB7.0 million, which was within the approved cap of RMB11.43 million as disclosed in the Company's announcement dated 26 August 2008 and circular dated 12 September 2008.

Provision of Utilities and Water Treatment Services to JCFCL by the Company

The Company provided Utilities and Water Treatment Services to JCFCL. Pursuant to the Utilities and Water Treatment Services Agreement entered into between the Company and JCFCL on 26 August 2008 by the Company, for an initial term commmencing from 4 November 2008 and ending on 31 December 2010 and, subject to the 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.

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 2008, provision of Utilities and Water Treatment Services to JCFCL by the Company amounted to approximately RMB46.8 million, which was within the approved cap of RMB93.88 million as disclosed in the Company's announcement dated 26 August 2008 and circular dated 12 September 2008.

Provision of Utilities and Water Treatment Services to Aika by the Company

The Company provided Utilities and Water Treatment Services to Jilin Aika Viscose Fiber Co., Ltd. ("Aika"). Pursuant to Utilities and Water Treatment Services Agreement entered into between the Company and Aika on 26 August 2008 with an initial term commencing from 4 November 2008 and ending on 31 December 2010, subject to the requirements of Listing Rules in relation to connected transactions, the agreement is automatically renewable for a term of three years thereafter. The transaction was negotiated on an arm's length basis and the prices were determined in line with normal commercial terms.

Aika is owned as to 70% by JCFCL. As JCFCL is a connected person of the Company, Aika, being a subsidiary of JCFCL, is also a connected person of the Company.

For the year ended 31 December 2008, the Company's provision of Utilities and Water Treatment Services to Aika amounted to approximately RMB2.9 million, which is within the approved cap of RMB12.78 million as disclosed in the Company's announcement dated 26 August 2008 and circular dated 12 September 2008.

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

(a) the continuing connected transactions disclosed above were entered into by the Group 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 the requirements of section 14A.38 of the Listing Rules, the Board of Directors engaged the auditors of the Group 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 31 to 35 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 consolidated financial statements have been audited by 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 City, Jilin Province, the PRC
22 April 2009

The Supervisory Committee is pleased to present the report of the Supervisory Committee for the year ended 31 December 2008.

In 2008, 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 senior management through observation and attendance at the board meetings and general meetings. The Supervisory Committee is of the opinion that the Directors and senior 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 senior management.

INSPECTION OVER LEGAL COMPLIANCE OF THE GROUP'S OPERATIONS

The Supervisory Committee exercised supervision on a regular basis over the legal compliance and rationality of the Group operation and management in its ordinary work. It has also exercised supervision over work performance of the Board and senior management. The Supervisory Committee is of the opinion that the Group'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 Group have conscientiously and diligently performed their duties, and none of their act would prejudice the interests of the Group and the shareholders.

INSPECTION OVER THE GROUP'S DAILY OPERATING ACTIVITIES

The Supervisory Committee exercised supervision over the Group's operating activities. The Supervisory Committee is of the opinion that the Group 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 Group's operation is in compliance with the PRC laws and regulations, the Articles and its internal work procedures.

INSPECTION OVER THE GROUP'S FINANCIAL CONDITION

The Supervisory Committee has seriously verified the Group's 2008 consolidated financial statements, supervised and inspected the Group's implementation of relevant financial policies and legislations as well as details on the Group's assets, financial income and expenditure and connected transactions. It is of the opinion that the financial report for 2008 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 on arm's length basis and did not impair the interests of the Group 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 City, Jilin Province, the PRC
22 April 2009

The Group confirms that maintaining good corporate governance standards throughout the Group serves as an effective risk management measure for the Group. The Board is committed to lead the Group 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 Group 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 (the "CPs") and most of the recommended best practices.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Group 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 Group that they have complied with the required standards set out in the Model Code for the reporting period of 2008.

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 Group. The Board is directly accountable to the shareholders and is responsible for preparing the consolidated 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, Supervisors and Senior Management" section in this report for the biographical details of the Directors and senior management.

The Directors acknowledge that it is their responsibility to prepare the Group's consolidated financial statements and warrant the consolidated 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 Group's consolidated 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 Group policies in conjunction with the Board and for ensuring that he and his delegates shall, in the capacity of chairman, perform his responsibilities. The chief executive officer is responsible for managing the Group's 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 Group.

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	5/6
Mr. Ma Jun	6/6
Mr. Wang Changsheng	5/6
Non-executive Directors	
Mr. Hao Peijun	6/6
Mr. Gong Jianzhong (Four meetings attended by proxy)	4/6
Mr. Chen Jinkui (Three meetings attended by proxy)	4/6
Mr. Jiang Junzhou (Two meetings attended by proxy)	5/6
Mr. Zhang Yuchen	5/6
Independent non-executive Directors	
Mr. Ye Yongmao (One meeting attended by proxy)	6/6
Mr. Mao Fengge	6/6
Mr. Lee Ka Chung, J.P.	3/6

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 one non-executive Director Mr. Jiang Junzhou (appointed on 28 June 2007). Mr. Lee Ka Chung, J.P. possesses recognised professional qualification in finance and accounting. The terms of reference of the Audit Committee are in compliance with the 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 Group;
- Discussing with the external auditors for problems or issues of significance identified during the course of audit; and
- 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 exact than those set out in the CPs.

The work of the Audit Committee in 2008 includes but not limited to following:

- Reviewing the interim results and annual results of the Group;
- Discussing with the management of the Group over the completeness, fairness and appropriateness of the accounting standards and policies adopted by the Group in the preparation of the interim and annual financial statements;
- Reviewing and discussing with the external auditors over the financial report of the Group; and
- 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 2008 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	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 responsibilities and the time commitment of the directors.

The Board Remuneration Committee met once in 2008 on 28 April 2008. The details of the attendance are set out below:

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

(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 Group 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 Group 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 2008 on 28 April 2008. 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 Group's proposed connected transactions (including connected transactions exempted under the Listing Rules) to be entered into with any connected person of the Group. It also reviews the approval procedures of relevant board meetings. The connected transactions committee has also reviewed the continuing connected transactions proposed in August 2008.

The Connected Transactions Committee met twice in 2008. The details of the attendance are set out below:

Directors	Attendance
Mr. Mao Fengge (Chairman)	2/2
Mr. Lee Ka Chung, J.P.	2/2
Mr. Ye Yongmao	2/2

Supervisory Committee

The Company's Supervisory Committee consists of five Supervisors, two of which 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 Group'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 Group. 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 senior management of the Group reviews and discusses the reporting and control systems with the executive Directors regularly and with the Audit Committee, Board Remuneration Committee, Nomination Committee and Connected Transaction Committee annually.

Assessment on the 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 the Group'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 year 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 Group 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 2008, the Board reviewed and was satisfied with the internal control systems of the Group and no significant areas of concern was identified.

AUDITORS' REMUNERATION

Remuneration paid to the Group's external auditors for audit services provided for the year ended 31 December 2008 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 to maximise the values of shareholders and have made to the Group 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 Group's core business;
3. Be responsible for the Company's investment and business risks management; and
4. Make disclosure which gives a true, fair and full view of the Group's financial condition and operating performance.

The Group considers that the shareholders' rights should be respected and guaranteed. The Group 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 Group encourages shareholders participation through shareholders' general meetings and other means.

In order to promote the communication with shareholders, the Group has maintained a website as a channel to provide the latest information and to strengthen communication with the shareholders and the public. The Group's corporate correspondence and information will also be published on the website in a timely way.

羅兵咸永道會計師事務所

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

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 consolidated financial statements of Jilin Qifeng Chemical Fiber Co., Ltd. (the "Company") and its subsidiary (collectively the "Group") set out on pages 38 to 100, which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's 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.

EMPHASIS OF MATTER IN RELATION TO THE GOING CONCERN BASIS FOR PREPARATION OF FINANCIAL STATEMENTS

Without qualifying our opinion, we draw your attention to Note 2 to the consolidated financial statements which indicates that the Group incurred a net loss of RMB312,606,000 during the year ended 31 December 2008 and, as of that date, the Group's current liabilities exceeded its current assets by RMB501,018,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The directors of the Company are of the opinion that it is appropriate to prepare the consolidated financial statements on a going concern basis based on the considerations as set out in Note 2 to the consolidated financial statements, the validity of which primarily depends upon the ongoing support from the Group's principal bankers in renewing their borrowings to the Group as and when they fall due and the continuing financial support from the Group's ultimate parent company to cover the Group's operating costs and to meet its financing commitments. The consolidated financial statements do not include any adjustments that would result from a failure to obtain such ongoing support from the Group's principal bankers and the Group's ultimate parent company.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 22 April 2009

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2008

	Note	2008 RMB'000	2007 RMB'000
ASSETS			
Non-current assets			
Land use rights	7	**28,580**	30,462
Property, plant and equipment	8	**1,333,730**	1,535,288
Intangible assets	9	**36,669**	49,237
Interest in a jointly controlled entity	11	**90,969**	162,222
Deferred income tax assets	20	**126,304**	46,218
		1,616,252	1,823,427
Current assets			
Inventories	12	**157,571**	345,766
Trade and other receivables	13	**389,360**	390,845
Current income tax recoverable		**1,893**	1,893
Cash and cash equivalents	14	**108,282**	158,406
		657,106	896,910
Total assets		**2,273,358**	2,720,337
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	15(a)	**866,250**	866,250
Share premium	15(b)	**142,477**	142,477
Accumulated losses	16	**(328,920)**	(16,314)
Other reserves	16	**31,919**	31,919
Total equity		**711,726**	1,024,332

AS AT 31 DECEMBER 2008

	Note	**2008**	2007
		RMB'000	RMB'000
LIABILITIES			
Non-current liabilities			
Long-term bank borrowings	17	**330,000**	870,000
Deferred income	18	**73,508**	78,732
		403,508	948,732
Current liabilities			
Trade and other payables	19	**233,624**	224,273
Short-term bank borrowings	17	**243,000**	363,000
Current portion of long-term bank borrowings	17	**650,000**	160,000
Derivative financial instrument	21	**31,500**	—
		1,158,124	747,273
Total liabilities		**1,561,632**	1,696,005
Total equity and liabilities		**2,273,358**	2,720,337
Net current (liabilities)/assets		**(501,018)**	149,637
Total assets less current liabilities		**1,115,234**	1,973,064

On behalf of the Board

Wang Jinjun
Chairman

Wang Changsheng
Director

The notes on pages 45 to 100 are an integral part of these financial statements.

BALANCE SHEET

AS AT 31 DECEMBER 2008

	Note	2008 RMB'000	2007 RMB'000
ASSETS			
Non-current assets			
Land use rights	7	**28,580**	30,462
Property, plant and equipment	8	**1,287,453**	1,535,288
Intangible assets	9	**36,669**	49,237
Investment in a subsidiary	10	**133,452**	—
Investment in a jointly controlled entity	11	**95,610**	225,000
Deferred income tax assets	20	**111,515**	46,218
		1,693,279	1,886,205
Current assets			
Inventories	12	**157,571**	345,766
Trade and other receivables	13	**389,360**	390,845
Current income tax recoverable		**1,893**	1,893
Cash and cash equivalents	14	**107,281**	158,406
		656,105	896,910
Total assets		**2,349,384**	2,783,115
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	15(a)	**866,250**	866,250
Share premium	15(b)	**142,477**	142,477
(Accumulated loss)/retained earnings	16	**(281,894)**	46,464
Other reserves	16	**31,919**	31,919
Total equity		**758,752**	1,087,110

	Note	2008 RMB'000	2007 RMB'000
LIABILITIES			
Non-current liabilities			
Long-term bank borrowings	17	**330,000**	870,000
Deferred income	18	**73,508**	78,732
		403,508	948,732
Current liabilities			
Trade and other payables	19	**262,624**	224,273
Short-term bank borrowings	17	**243,000**	363,000
Current portion of long-term bank borrowings	17	**650,000**	160,000
Derivative financial instrument	21	**31,500**	—
		1,187,124	747,273
Total liabilities		**1,590,632**	1,696,005
Total equity and liabilities		**2,349,384**	2,783,115
Net current (liabilities)/assets		**(531,019)**	149,637
Total assets less current liabilities		**1,162,260**	2,035,842

On behalf of the Board

Wang Jinjun
Chairman

Wang Changsheng
Director

The notes on pages 45 to 100 are an integral part of these financial statements.

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	**2008**	2007
		RMB'000	RMB'000
Revenue	6	**1,186,501**	1,764,867
Cost of sales		**(1,214,197)**	(1,682,775)
Gross (loss)/profit		**(27,696)**	82,092
Distribution costs		**(32,422)**	(49,489)
Administrative expenses		**(62,529)**	(70,097)
Other income	22	**138,167**	88,237
Other expenses	22	**(101,636)**	(61,733)
Impairment of non-current assets	8(c)	**(93,428)**	—
Other losses – net	23	**(38,735)**	(4,512)
Operating loss		**(218,279)**	(15,502)
Finance income	26	**452**	1,182
Finance costs	26	**(103,339)**	(86,427)
Operating loss after finance income and costs		**(321,166)**	(100,747)
Share of loss of a jointly controlled entity	11	**(71,526)**	(56,054)
Loss before income tax		**(392,692)**	(156,801)
Income tax credit	27	**80,086**	33,001
Loss for the year attributable to the equity holders of the Company	28	**(312,606)**	(123,800)
Loss per share for loss attributable to the equity holders of the Company during the year (expressed in RMB per share)			
– basic and diluted	29	**(0.36)**	(0.14)
Dividends	30	**—**	—

The notes on pages 45 to 100 are an integral part of these financial statements.

FOR THE YEAR ENDED 31 DECEMBER 2008

	Share capital RMB'000	Share premium RMB'000	(Accumulated losses)/ retained earnings RMB'000	Other reserves RMB'000	Total RMB'000
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
At 1 January 2008	866,250	142,477	(16,314)	31,919	1,024,332
Loss for the year	—	—	(312,606)	—	(312,606)
At 31 December 2008	866,250	142,477	(328,920)	31,919	711,726

The notes on pages 45 to 100 are an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	2008 RMB'000	2007 RMB'000
Cash flows from operating activities			
Cash generated from/(used in) operations	31	**242,943**	(30,728)
Income tax paid		**—**	(505)
Net cash from/(used in) operating activities		**242,943**	(31,233)
Cash flows from investing activities			
Purchases of property, plant and equipment		**(27,131)**	(85,169)
Proceeds from disposals of property, plant and equipment	31	**—**	25
Government grants received		**1,500**	—
Interest received		**452**	1,182
Net cash used in investing activities		**(25,179)**	(83,962)
Cash flows from financing activities			
Proceeds from borrowings		**243,000**	683,000
Repayments of borrowings		**(413,000)**	(492,645)
Interest paid		**(97,888)**	(89,910)
Dividends paid		**—**	(43,313)
Net cash (used in)/from financing activities		**(267,888)**	57,132
Net decrease in cash and cash equivalents		**(50,124)**	(58,063)
Cash and cash equivalents at beginning of the year	14	**158,406**	216,469
Cash and cash equivalents at end of the year	14	**108,282**	158,406

The notes on pages 45 to 100 are an integral part of these financial statements.

1 GENERAL INFORMATION

Jilin Qifeng Chemical Fiber Co., Ltd. (the "Company") and its newly established subsidiary (Note 10) (collectively the "Group") is principally engaged in the production and sales of different types of acrylic fiber products (namely acrylic top, acrylic tow and acrylic staple fiber) and the development, production and sales of carbon fiber products.

The Company is a limited liability company incorporated in the People's Republic of China (the "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 consolidated financial statements have been approved for issue by the Company's Board of Directors on 22 April 2009.

2 BASIS OF PREPARATION

During the year ended 31 December 2008, the Group incurred a net loss of RMB312,606,000 and as of that date, the Group's current liabilities exceeded its current assets by RMB501,018,000 and the bank borrowings as included in the Group's current liabilities amounted to RMB893,000,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

The directors of the Company are of the opinion that the Group will be able to finance its future financing requirements and working capital based on the considerations as set out below:

(a) The Group has maintained strong business relationship with its principal bankers to gain their ongoing financial support. As of the date of approval of the consolidated financial statements, the Company has already obtained a standby banking facility from a principal banker for a period up to February 2010 and this committed facility is to be guaranteed by Jilin Chemical Fiber Group Co., Ltd. ("JCF Groupco"), the Company's ultimate state-owned parent company.

In addition, the Group has also been actively discussing with other principal bankers for the renewal of certain banking facilities when they fall due in 2009. The Company has obtained a signed letter of intent from another principal banker which indicates its willingness to maintain the existing banking facilities granted by this banker to the Company be remained at the same amount in year 2008 for a period up to May 2010. The Company's directors believe that formal and binding facility letter will be entered into with this banker upon the maturity dates of the related borrowings.

The Company's directors considered that the abovementioned banking facilities should be sufficient for the Group to meet its funding and working capital requirements in the next twelve months from the balance sheet date.

(b) The ultimate parent company has confirmed its intention and ability to provide continuing financial support to the Group so as to enable it to meet its liabilities as and when they fall due and to carry on its business for the foreseeable future; and

(c) The Group's profitability and cash flows are expected to be improved in view of the recent significant reduction in the prices of acrylonitrile, the major raw materials for the Group's production, and the expected favourable returns from the new business segment which is to be fully operated in the second half of 2009 (Note 6).

2 BASIS OF PREPARATION – *continued*

The Company's directors are confident that the Group will continue to obtain the ongoing financial support from its principal bankers and the ultimate parent company and the Group's financial results and cash flows from its future operations will be improved, and there will be sufficient financial resources to cover the Group's operating costs and to meet its financing commitments. In view of the above, the Company's directors have prepared the consolidated financial statements on a going concern basis. The consolidated financial statements do not include any adjustments that would result from the failure to obtain such ongoing support from the Group's principal bankers and the Group's ultimate parent company and to generate sufficient cash flows from the Group's future operations.

The consolidated 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 consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss (including derivative financial instruments) (Note 21).

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

(a) Standards, interpretations and amendments which are effective in 2008

In 2008, the Group has adopted the following amendments and interpretations which are mandatory for the Group's accounting periods on or after 1 January 2008:

HKAS 39 and HKFRS 7 (Amendments)	Financial Instruments: Recognition and Meausrement and Financial Instruments: Disclosures – Reclassification of Financial Assets
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction

The above amendments and interpretations are not relevant to the Group and therefore the adoption of these amendments and interpretations in the current year did not result in any significant change in the Group's significant accounting policies and the presentation of the consolidated financial statements.

2 BASIS OF PREPARATION – *continued*

(b) Standards, interpretations and amendments to published standards that are not yet effective for the year ended 31 December 2008 and have not been early adopted by the Group

The HKICPA has issued the following new/revised standards, amendments or interpretations which are not yet effective for the year ended 31 December 2008 (collectively the "New or Revised HKFRSs"):

		Effective for accounting periods beginning on or after
Relevant to the Group's operations		
HKAS 1 (Revised)	Presentation of Financial Statements	1 January 2009
HKAS 23 (Revised)	Borrowing Costs	1 January 2009
HKAS 27 (Revised)	Consolidated and Separate Financial Statements	1 July 2009
HKFRS 8	Operating Segments	1 January 2009
Not relevant to the Group's operations		
HKAS 32 and HKAS 1 (Amendments)	Financial Instruments: Presentation and Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation	1 January 2009
HKAS 39 (Amendments)	Financial Instruments: Recognition and Measurement – Eligible Hedged Items	I January 2009
HKFRS 1 and HKAS 27 (Amendments)	First-time adoption of HKFRS and Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	1 July 2009
HKFRS 2 (Amendment)	Share-based Payment – Vesting Conditions and Cancellations	1 January 2009
HKFRS 3 (Revised)	Business Combinations	1 July 2009
HK(IFRIC)-Int 13	Customer Loyalty Programmes	1 July 2008
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate	1 January 2009
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation	1 October 2008
HK(IFRIC)-Int 17	Distribution of Non-cash Assets to Owners	1 July 2009
HK(IFRIC)-Int 18	Transfers of Assets from Customers	1 July 2009

2 BASIS OF PREPARATION – *continued*

(b) Standards, interpretations and amendments to published standards that are not yet effective for the year ended 31 December 2008 and have not been early adopted by the Group – *continued*

Note:

The nature of the impending changes in respect of those New or Revised HKFRSs which may be relevant to the Group's existing operations are summarised as below:

- The HKAS 1 (Revised) will prohibit the presentation of items of income and expenses (that is, "non-owner changes in equity") in the statement of changes in equity, requiring "non-owner changes in equity" to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the consolidated income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period.

- The HKAS 23 (Revised) requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed.

- The HKAS 27 (Revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss.

- The HKFRS 8 replaces HKAS 14 "Segment Reporting", and aligns segment reporting with the requirements of the US standard SFAS 131 "Disclosures about Segments of an Enterprise and Related Information". The new standard requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes. This may resulted in an increase in the number of reportable segments presented. In addition, the segments are to be reported in a manner that is more consistent with the internal reporting provided to the chief operating decision-maker.

2 BASIS OF PREPARATION – *continued*

(b) Standards, interpretations and amendments to published standards that are not yet effective for the year ended 31 December 2008 and have not been early adopted by the Group – *continued*

In addition to the New or Revised HKFRSs, the HKICPA has also published certain improvements to the HKFRSs in October 2008 (the "Improvement Project"). The Improvement Project covers the following standards:

HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 7 (Amendment)	Cash Flow Statements
HKAS 8 (Amendment)	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10 (Amendment)	Events After the Balance Sheet Date
HKAS 16 (Amendment)	Property, Plant and Equipment
HKAS 18 (Amendment)	Revenue
HKAS 19 (Amendment)	Employee Benefits
HKAS 20 (Amendment)	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 23 (Revised)	Borrowing Costs
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 28 (Amendment)	Investments in Associates
HKAS 29 (Amendment)	Financial Reporting in Hyperinflationary Economies
HKAS 31 (Amendment)	Interests in Joint Ventures
HKAS 32 (Amendment)	Financial Instruments: Presentation
HKAS 34 (Amendment)	Interim Financial Reporting
HKAS 36 (Amendment)	Impairment of Assets
HKAS 38 (Amendment)	Intangible Assets
HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement
HKAS 40 (Amendment)	Investment Property
HKAS 41 (Amendment)	Agriculture
HKFRS 5 (Amendment)	Non-current Assets Held for Sale and Discontinued Operations
HKFRS 7 (Amendment)	Financial Instruments: Disclosures

Except for the amendment to HKFRS 5 which will be effective for accounting periods on or after 1 July 2009, the other amendments under the Improvement Project will be effective for accounting periods on or after 1 January 2009.

The Group has not early adopted the New or Revised HKFRSs and those amendments under the Improvement Project in these consolidated financial statements and will apply these New or Revised HKFRSs and amendments under the Improvement Project in accordance with their respective effective dates. The Group has already commenced an assessment of the related impact to the Group. The Group is not yet in a position to state whether any substantial changes to the Group's significant accounting policies or presentation of the consolidated financial statements will be resulted.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Group accounting

The Group is currently comprised of the Company and a subsidiary newly established in December 2008 (Note 10). The Group also has a jointly controlled entity which was established in December 2005.

The consolidated financial statements include the financial statements of the Company and its subsidiary made up to 31 December.

Subsidiary is fully consolidated from the date on which control is transferred to the Group and is de-consolidated from the date that control ceases.

Investment in the jointly controlled entity is accounted for using the equity method of accounting and is initially recognised at cost. The consolidated income statement includes the Group's share of the results of the jointly control entity for the year and the consolidated balance sheet includes the Group's share of net assets of the jointly controlled entity.

Inter-company transactions and balances between group companies are eliminated. Unrealised gains on transactions between group companies and between the Group and its jointly controlled entity are eliminated to the extent of the Group's interests in the subsidiary and the jointly controlled entity. Unrealised losses are also eliminated.

Accounting policies of the subsidiary and jointly controlled entity have been changed where necessary in the consolidated financial statements to ensure consistency with the policies adopted by the Group.

(a) Subsidiary

Subsidiary is an entity (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

In the Company's balance sheet, the investment in the subsidiary is stated at cost less provision for impairment losses (if any). The result of the subsidiary is accounted by the Company on the basis of dividend received and receivable.

(b) 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.

In the Company's balance sheet, the investment in the jointly controlled entity is stated at cost less provision for impairment losses (if any). The result of the jointly controlled entity is accounted by the Company on the basis of dividend received and receivable.

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 of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi ("RMB") which is the Company's functional and the Group's presentation currency. Renminbi is also the functional currency of the subsidiary and jointly controlled entity of the Company.

(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.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated income statement within finance income/costs. All other foreign exchange gains and losses are presented in the consolidated income statement within other gains/losses – net.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.4 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses (if any). 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 Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values 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

Construction in progress represents buildings, plant and machinery under construction and pending installation and is stated at cost. No depreciation is provided for construction in progress during the construction and installation stage. When the related construction and installation works have been completed and the relevant assets are brought into their intended use, construction in progress will then be transferred to the relevant categories of property, plant and equipment and depreciated in accordance with the policy as stated above.

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 (Note 3.7).

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

3.5 Land use rights

All the land in the PRC is state-owned and no individual land ownership right exists. The Group leased several pieces of 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 (if any). Amortisation is calculated using the straight-line method to allocate the prepaid operating lease payments over the unexpired lease periods.

3.6 Intangible assets - Technical know-how and licenses

Separately acquired technical know-how and licenses are shown at historical cost 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 (if any).

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.7 Impairment of assets

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

3.8 Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. As of the balance sheet dates, the Group only has financial assets in the category of loans and receivables.The Group has entered into certain interest rate swap contracts which are not designated as hedges and therefore have been categorised as financial assets/liabilities at fair value through profit or loss. The related interest rate swap contract is a financial liability of the Group as at 31 December 2008 (Note 21).

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date which will then be classified as non-current assets. The Group's loans and receivables comprise trade and other receivables and cash and cash equivalents. Loans and receivables are carried at amortised cost using the effective interest method.

Financial assets at fair value through profit or loss are financial assets held for trading. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets and are recognised initially and measured subsequently at their fair value. Gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss are recognised in the income statement in the period in which they arise.

3.9 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designed as a hedging instrument, and if so, the nature of the item being hedged.

As mentioned in Note 3.8 above, the Group has entered into certain interest rate swap contracts which have been classified as financial assets/liabilities at fair value through profit or loss and the Company's directors consider that these derivative financial instruments do not qualify for hedge accounting. Changes in the fair value of these derivative financial instruments are recognised immediately in the consolidated income statement within other gains/losses – net.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.10 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.

3.11 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 and other receivables is established when there is objective evidence that the Group 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 and other receivables are 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 consolidated income statement within other expenses. When a receivable is uncollectible, it is written off against the allowance account for trade and other receivables. Subsequent recoveries of amounts previously written off are credited against other expenses in the consolidated income statement.

3.12 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 (if any).

3.13 Leases

Leases in which a significant portion of the risks and rewards of ownership of the leased assets are retained by the lessor are classified as operating leases.

(a) Leases – where the Group is the lessee

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

(b) Leases – where the Group is the lessor

When the Group 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 Group'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 Group's income recognition policy as set out in Note 3.21(b) below.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.14 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.

3.15 Provisions

Provisions are recognised when the Group 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.

3.16 Trade and other payables

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

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.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group 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.

3.18 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 it incurs because a specified debtor fails 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.19 Current and deferred income tax

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

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, its subsidiary and 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 recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the 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 investments in the subsidiary and the jointly controlled entity, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

3.20 Employee benefits

(a) Retirement benefits costs

The Group 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 Group has no further obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

(b) Bonus plans

The Group recognises a liability and an expense for bonuses, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group 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*

3.21 Recognition of revenue and income

Revenue comprises the fair values of the considerations received or receivable for the sales of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue and income when the amounts of revenue and income can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for the Group's activities as described below. The amounts of revenue and income are not considered to be reliably measureable until all contingences relating to the sales and income have been resolved.

(a) Sales of goods

Sales of goods are recognised when the Group has delivered products to the customers; the customers have accepted the products and collectability of the related receivables is reasonably assured.

(b) Operating lease rental income

Operating lease rental income is recognised on a straight-line basis over the lease periods.

(c) Income from provision of utilities

Income from provision of utilities is recognised when the related utilities are provided to the customers or users.

(d) Interest income

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

3.22 Government grants

Grants from government are recognised at their fair value when there is a reasonable assurance that the grants will be received and the Group complies with the attached conditions.

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

Government grants relating to the purchases 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.23 Dividend distribution

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

3.24 Contingent liabilities

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 Group. 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 are not recognised but are disclosed in the notes to the consolidated 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.

4 FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

The Group'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 Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

Foreign exchange risk

The Group mainly operates in the PRC and most of the transactions are settled in Renminbi, with only approximately 3.5% of the Group's revenue was denominated in United States dollars ("US dollar"). The exchange loss for the year ended 31 December 2008 of RMB1,735,000 was primarily associated with these US dollar denominated sales.

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

As at 31 December 2008, all of the Group's financial assets/liabilities are denominated in Renminbi.

Although the Group does not have any assets and liabilities which are denominated in currencies other than Renminbi as at 31 December 2008, the management considers that the possible appreciation of Renminbi in future periods may have an unfavorable implication on the Group's sales and costs of production but the potential impacts cannot be quantified.

Interest rate risk

As the Group has no significant interest bearing assets (other than cash and cash equivalents), the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest rate risk primarily arises from bank borrowings and derivative financial instrument.

Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. In general, the Group raises long-term borrowings at floating rates as well as fixed rates, based upon the capital market conditions and the Group's internal requirements. As at 31 December 2008, the Group's fixed rates borrowings and floating rates borrowings amounted to RMB243,000,000 (2007: RMB100,000,000) and RMB980,000,000 (2007: RMB1,293,000,000) respectively.

With all other variables held constant, the Group's finance costs on the floating rates borrowings will increase/decrease by approximately RMB4,890,000 (2007: RMB4,320,000) if the interest rate was 50 basis points higher/lower.

4 FINANCIAL RISK MANAGEMENT – *continued*

4.1 Financial risk factors – *continued*

(a) Market risk – continued

Interest rate risk – *continued*

The Group has entered into an interest rate swap contract with a financial institution which is remained in an open position as at 31 December 2008 (Note 21). Pursuant to the terms of the interest rate swap contract, the Group has to pay interests to the financial institution at an interest rate of 6.84% per annum based on the notional principal amount of RMB130,000,000 while the Group is entitled to receive interest payments from the financial institution at the rate of 7.84% per annum for the period when the 30-years US dollar Constant Maturity Swap Rate (the "30-years USD CMS Rate") is larger than or equal to 3.85% and at the same time the 6-months US dollar London Inter-bank Offered Rate (the "6-months LIBOR") is smaller than or equal to 7.00%. Any interest payments or receipts associated with the interest rate swap contract are settled with the financial institution on a net basis semi-annually.

As as 31 December 2008, the 6-months LIBOR is 1.75% which is far below the rate of 7.00% as specified in the interest rate swap contract. Therefore, the management considers that the Group's interest rate risk associated with the interest rate swap contract should be more dependent on the future trends of the 30-years USD CMS Rate. With all other variables held constant, the fair value loss on the interest rate swap contract will decrease/increase by approximately RMB11,555,000 if the 30-years USD CMS Rate was 50 basis points higher/lower.

(b) Credit risk

The Group's credit risks are primarily attributable to trade and other receivables (including notes receivable), derivative financial instruments, deposits with banks and financial institutions and the financial guarantee given by the Group (Note 33). The Group's maximum exposure to credit risk is the unimpaired carrying amounts of respective financial assets as mentioned above and the amounts of borrowings as guaranteed by the Group. Management has credit policy in place and the exposure to the credit risks is monitored on an ongoing basis.

In respect of trade receivables, the Group limits its exposure to credit risk by performing credit reviews and monitoring the financial strength of its major customers. Customers are assessed and rated based on their credit quality, taking into account its financial position, past repayment history and other factors. Individual credit limits are set by the management and utilisation of these credit limits is regularly monitored.

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

4 FINANCIAL RISK MANAGEMENT – *continued*

4.1 Financial risk factors – *continued*

(b) Credit risk – continued

As at 31 December 2008, the Group has concentration of credit risk to certain extent because approximately 59% (2007: 66%) of the trade receivables (gross amount before any impairment provisions) was due from five customers (the "Top Five Debtors"). Moreover, 55% (2007: 43%) of the other receivables (gross amount before any impairment provisions) was due from the Group's jointly controlled entity. The aging analysis of the receivables from the Top Five Debtors and the jointly controlled entity is as below:

	2008	2007
	RMB'000	RMB'000
Receivables from the Top Five Debtors		
Within 30 days	**9,641**	13,862
31 - 90 days	**3,256**	14,660
91 - 365 days	**41,469**	54,013
Over 365 days	**15,206**	—
	69,572	82,535
Receivables from the jointly controlled entity		
Within 30 days	**80,964**	13,131
31 - 90 days	**12,438**	79,871
91 - 365 days	**61,258**	24,978
Over 365 days	**8,608**	—
	163,268	117,980

Trade receivables and amount due from the jointly controlled entity are all unsecured and interest free. As at 31 December 2008, provision for receivable impairment of RMB12,904,000 (2007: Nil) has been made against one (2007: Nil) of the Top Five Debtors and the management does not expect any further significant losses from the non-performance by the abovementioned counterparties.

For derivative financial instruments and deposits with banks and financial institutions, the Group has limited its credit exposure by restricting their selection of banks and financial institutions to those reputable local banks or state-owned banks.

Notes receivable are all to be settled by reputable banks or state-owned banks and therefore the management considers that they will not expose the Group to any significant credit risk.

Except for the financial guarantees given by the Group as set out in Note 33, the Group has not provided any other guarantees which might expose the Group to credit risk.

4 FINANCIAL RISK MANAGEMENT – *continued*

4.1 Financial risk factors – *continued*

(c) Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its liabilities and obligations as when they fall due. Prudent liquidity risk management implies maintaining sufficient cash and the ability to close out market positions.

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

The table below analyses the Group's financial liabilities with contractual obligations and net-settled derivative financial liabilities 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 (including the estimated interest expenses on the related borrowings up to their maturities). Balances due within 12 months equal their carrying amounts as the impact of discounting is not significant.

	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 2008				
Long-term bank borrowings	699,087	25,510	250,379	216,216
Short-term bank borrowings	250,205	—	—	—
Financial liabilities as included in trade and other payable	181,968	—	—	—
Derivative financial instrument	7,836	11,191	12,473	—
	1,139,096	36,701	262,852	216,216
At 31 December 2007				
Long-term bank borrowings	224,835	779,242	85,895	171,273
Short-term bank borrowings	372,146	—	—	—
Financial liabilities as included in trade and other payables	177,737	—	—	—
	774,718	779,242	85,895	171,273

Although the Group has a considerable amount of financial liabilities which have to be settled within the next 12 months from the balance sheet date, the Company's directors believe that the Group can manage the associated liquidity risk based on the factors as set out in Note 2 to the consolidated financial statements.

4 FINANCIAL RISK MANAGEMENT – *continued*

4.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group'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 Group 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 Group 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 less cash and cash equivalents. Total capital is calculated as the total equity as shown in the consolidated balance sheet, plus net debt.

The Group aims to maintain a manageable debt-to-total capital ratio of not exceeding 65% (2007: 60%). The debt-to-total capital ratios at 31 December 2008 and 2007 were as follows:

	2008	2007
	RMB'000	RMB'000
Total borrowings (Note 17)	**1,223,000**	1,393,000
Less: Cash and cash equivalents (Note 14)	**(108,282)**	(158,406)
Net debt	**1,114,718**	1,234,594
Total equity	**711,726**	1,024,332
Total capital	**1,826,444**	2,258,926
Debt-to-total capital ratio (%)	**61%**	55%

The increase in the debt-to-total capital ratio in 2008 is primarily resulted from the loss for the year, which leads to the decrease in the Group's total equity.

4.3 Fair value estimation

The fair value of interest rate swap contracts is calculated as the present value of the estimated future cash flows.

The carrying amounts less impairment provision of receivables and payables 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 Group 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 arrangement or the interest rate differentials charged by lenders on the related borrowings with and without the related financial guarantees.

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.

5.1 Critical accounting estimates and assumptions

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

(a) Impairment of key operating assets

During the year ended 31 December 2008, the continuous appreciation of Renminbi, the stagnant textile market and the global economic downturn have all imposed unfavourable impacts on the business environment of the Group's customers and therefore reducing their demands on the acrylic fiber products as manufactured by the Group. Combined with the prices of acrylonitrile remained at a high level till November 2008, the Group has suffered from losses for the second consecutive years and this circumstance is an indication that the Group's key operating assets (representing the Group's land use rights, property, plant and equipment and intangible assets) may be impaired. The Company's management tests whether these key operating assets have suffered any impairment in accordance with the accounting policy as stated in Note 3.7. The recoverable amounts of the key operating assets are determined based on value-in-use calculations which require the use of estimates (primarily with respect to the projected cash flows and discount rate) (Note 8(c)).

Based on the result of the management's assessment, an aggregate impairment loss of RMB93,428,000 has been recognised in the consolidated income statement for the year ended 31 December 2008 (Note 8(c)). The management considers that the recoverable amounts of land use rights to be above their carrying amounts and therefore the impairment loss has only been allocated, on a pro rata basis by reference to the carrying amounts of property, plant and equipment and intangible assets, to reduce the carrying amounts of property, plant and equipment and intangible assets to their estimated recoverable amounts.

If the projected future cash flow stream had been 5% lower than the estimates as adopted by the management in the impairment assessment, the Group would have to recognise an additional impairment loss and a further reduction of carrying amounts of the property, plant and equipment and intangible assets of approximately RMB59,913,000.

If the estimated discount rate applied in the impairment assessment was higher than the management's existing estimates by 0.5 percentage point, the Group would have to recognise an additional impairment loss and a further reduction of carrying amounts of the property, plant and equipment and intangible assets of approximately RMB53,098,000.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS – *continued*

5.1 Critical accounting estimates and assumptions – *continued*

(b) Write-down of inventories to net realisable value

As of 31 December 2008, the provision for impairment of inventories amounted to RMB15,003,000 (2007: RMB36,530,000). In determining the net relisable value of inventories, the management is required to estimate the selling price of the inventories, the estimated costs to completion for work in progress and selling expenses. The management made the estimates by reference to the latest market condition and the historical experience of manufacturing and sales of similar products in the past.

If the estimated net relisable values of inventories had been 5% lower than the estimates as adopted by the Company's management, the Group would have to recognise an additional provision for impairment and a further reduction of carrying amounts of inventories of approximately RMB3,163,000.

5.2 Critical judgements in applying the Group's significant accounting policies

(a) Going concern consideration

The assessment of the going concern assumption involves making a judgement by the Company's directors, at a particular point of time, about the future outcome of events or conditions which are inherently uncertain. The Company's directors consider that the Group has the capability to continue as a going concern and the major events or conditions, which may give rise to business risks, that individually or collectively may cast significant doubt about the going concern assumption are set out in Note 2 to the consolidated financial statements.

(b) Recoverability of deferred income tax assets

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the recognised temporary differences (including tax losses) can be utilised. The assessment on the probability of whether the recognised deferred income tax assets can be fully recovered involves the uses of judgement and estimates. As at 31 December 2008, the Group has recognised deferred income tax assets of RMB126,304,000 (Note 20). The management considers that the Group is capable to generate sufficient taxable profit from its future business operations for utilising the recognised temporary differences.

(c) Impairment of receivables

The Group makes provision for impairment of receivables based on an assessment of the recoverability of trade and other receivables. The identification of doubtful debts requires the use of judgment and estimates. As at 31 December 2008, the Group has past due but not impaired trade receivables of RMB38,719,000 (2007: RMB62,819,000) (out of which trade receivables of RMB8,496,000 (2007: RMB475,000) are aged more than 1 year) (Note 13(b)). In addition, the Group has trade receivables of RMB35,940,000 (2007: RMB21,738,000) which are considered as impaired and provided for.

The management considers that the provision for impairment of trade and other receivables of RMB24,857,000 (2007: RMB10,901,000) as at 31 December 2008 adequately cover any significant losses arising from the non-performance by the counterparties.

6 REVENUE AND SEGMENTAL INFORMATION

Revenue recognised during the current and the prior year primarily represents the turnover from sales of acrylic fiber products.

During the years ended 31 December 2008 and 2007, the Group was principally engaged in the production and sales of acrylic fiber products (the "Acrylic Fiber Segment"), and all of the operations and assets in connection with this business segment are located in the PRC. Except for a portion of the Group's revenue of RMB35,114,000 (2007: Nil) which was in connection with sales to overseas customers, the Group's revenue derived from this business segment was all related to sales of acrylic fiber products to domestic customers in the PRC.

In December 2008, the Group started to prepare for its diversification to another business segment in the production and sales of carbon fiber products (the "Carbon Fiber Segment"). As of 31 December 2008, certain production lines (primarily comprises of property, plant and equipment with carrying amounts of RMB46,277,000) were under modification for the Group's future operations in this new business segment. For the year ended 31 December 2008, the revenue and gross profit from the trial operation of this business segment amounted to RMB5,152,000 (2007: not applicable) and RMB1,209,000 (2007: not applicable) respectively which are all in connnection with the sales of carbon fiber products to domestic customers in the PRC. The Company's directors anticipate that the full operations of this new business segment will only be commenced in the second half of 2009.

In view of the situation as described above, the Company's directors considered that it is not necessary to present any more detailed business or geographical segmental information in these consolidated financial statements.

7 LAND USE RIGHTS

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

Movements in the land use rights are analysed as below:

	Group and Company	
	2008	2007
	RMB'000	RMB'000
At 1 January	**30,462**	32,344
Amortisation charge	**(1,882)**	(1,882)
At 31 December	**28,580**	30,462

At 31 December 2008, land use rights of the Group and the Company with net book amount of RMB7,340,000 (2007: RMB8,003,000) have been pledged as securities for certain bank borrowings of the Group and the Company (Note 17).

8 PROPERTY, PLANT AND EQUIPMENT

Group

	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 2007						
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	199,765	304,863	—	—	(504,628)	—
Disposals/write-off	—	(2,251)	—	—	—	(2,251)
Depreciation	(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
Year ended 31 December 2008						
Opening net book amount	380,515	1,150,004	547	3,077	1,145	1,535,288
Additions	—	23,050	55	2,290	1,114	26,509
Transfer	973	—	—	—	(973)	—
Disposals/write-off	—	(2,040)	—	(353)	—	(2,393)
Depreciation	(20,253)	(115,187)	(207)	(961)	—	(136,608)
Provision for impairment (Note c)	(26,011)	(63,055)	—	—	—	(89,066)
Closing net book amount	335,224	992,772	395	4,053	1,286	1,333,730
At 31 December 2008						
Cost	471,952	1,691,994	2,476	12,878	1,286	2,180,586
Accumulated depreciation	(110,717)	(636,167)	(2,081)	(8,825)	—	(757,790)
Accumulated impairment losses	(26,011)	(63,055)	—	—	—	(89,066)
Net book amount	335,224	992,772	395	4,053	1,286	1,333,730

8 PROPERTY, PLANT AND EQUIPMENT – *continued*

Company

	Buildings RMB'000	Machinery and equipment RMB'000	Electronic and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2007						
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	199,765	304,863	—	—	(504,628)	—
Disposals/write-off	—	(2,251)	—	—	—	(2,251)
Depreciation	(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
Year ended 31 December 2008						
Opening net book amount	380,515	1,150,004	547	3,077	1,145	1,535,288
Additions	—	23,050	55	2,290	1,114	26,509
Transfer	973	—	—	—	(973)	—
Disposals/ write-off	—	(2,040)	—	(353)	—	(2,393)
Depreciation	(20,253)	(115,187)	(207)	(961)	—	(136,608)
Capital injection for the establishment of a subsidiary (Note d)	—	(46,277)	—	—	—	(46,277)
Provision for impairment (Note c)	(26,011)	(63,055)	—	—	—	(89,066)
Closing net book amount	335,224	946,495	395	4,053	1,286	1,287,453
At 31 December 2008						
Cost	471,952	1,632,460	2,476	12,878	1,286	2,121,052
Accumulated depreciation	(110,717)	(622,910)	(2,081)	(8,825)	—	(744,533)
Accumulated impairment losses	(26,011)	(63,055)	—	—	—	(89,066)
Net book amount	335,224	946,495	395	4,053	1,286	1,287,453

8 PROPERTY, PLANT AND EQUIPMENT – *continued*

Notes :

(a) At 31 December 2008, property, plant and equipment of the Group and the Company with net book amount of RMB786,517,000 (2007: RMB938,707,000) have been pledged as securities for certain bank borrowings of the Group and the Company (Note 17).

(b) Depreciation of RMB98,899,000 (2007: RMB101,729,000), RMB4,538,000 (2007: RMB4,810,000) and RMB33,171,000 (2007: RMB15,953,000) have been charged in the cost of sales, administrative expenses and other expenses respectively.

(c) As mentioned in Note 5.1(a), the Group has performed an assessment on the recoverable amounts of the key operating assets (the "Impairment Assessment"). The Group has identified two cash generating units ("CGUs") for the purpose of the Impairment Assessment, representing the CGUs of the Acrylic Fiber Segment and the Carbon Fiber Segment respectively (Note 6). The carrying amounts of the key operating assets (comprise of land use rights, property, plant and equipment and intangible assets) allocated to the Acrylic Fiber Segment and Carbon Fiber Segment amounted to approximately RMB1,100,124,000 and RMB392,283,000 respectively. The recoverable amounts of the key operating assets of these two CGUs have been determined based on value-in-use calculations. These calculations use post-tax cash flow projections by reference to the financial budgets as approved by management covering a five-year period (the "Projection Periods"). Given the end products of the Group's acrylic fiber products are primarily with respect to warm-keeping clothes, blankets and materials which do not have close substitutes or subject to technology changes, management believes that the Group's operations in the Acrylic Fiber Segment can be carried on perpetually on a going concern basis. Cash flows beyond the Projection Periods are extrapolated using the estimated growth rate as stated below.

The key assumptions used for the value-in-use calculations are as follows:

	Acrylic Fiber Segment	Carbon Fiber Segment
Gross margin (Note a)	4% to 20%	19% to 52%
Discount rate	13%	13%
Growth rate beyond the Projection Periods	0%	0%

Notes:

(a) For the Acrylic Fiber Segment, the management expects that the gross margin will be gradually increased back to historical average gross margin of 20% (excluding the gross loss margin for year 2008) over the Projection Periods. For the Carboon Fiber Segment, the management assumes that the Group will only be able to achieve the expected gross margin of 52% over the Projection Periods gradually considering that it may take time for the Group to optimise the effciency from the operations of this new business segment.

(b) In assuming the perpetual operations of the key operating assets for the Acrylic Fiber Segment, the management has assumed an annual capital expenditure to be incurred for maintenance and replacement at an amount which approximates the estimated annual depreciation charge of the related key operating assets.

The management determined budgeted gross margin based on past performance and its expectations for the market development. The discount rate used is post-tax and reflects specific risks relating to the relevant operating segments.

Based on the Impairment Assessment, the carrying amounts of the property, plant and equipment and intangible assets in the CGU of the Acrylic Fiber Segment have been written down by RMB89,066,000 (2007: Nil) and RMB4,362,000 (2007: Nil) (Note 9) respectively. The aggregate impairment losses of RMB93,428,000 has been recognised in the consolidated income statement for the year ended 31 December 2008.

(d) On 24 December 2008, the Company has transferred certain property, plant and equipment with an aggregate carrying amount of RMB46,277,000 to a newly established subsidiary as its capital contribution for the establishment of that subsidiary (Note 10).

9 INTANGIBLE ASSETS – TECHNICAL KNOW-HOW AND LICENSES

Group and Company

	RMB'000
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	(8,206)
Closing net book amount	49,237
At 31 December 2007	
Cost	102,624
Accumulated amortisation	(53,387)
Net book amount	49,237
Year ended 31 December 2008	
Opening net book amount	49,237
Amortisation	(8,206)
Provision of impairment (Note 8(c))	(4,362)
Closing net book amount	36,669
At 31 December 2008	
Cost	102,624
Accumulated amortisation	(61,593)
Accumulated impairment losses	(4,362)
Net book amount	36,669

10 INVESTMENT IN A SUBSIDIARY

	Company	
	2008	2007
	RMB'000	RMB'000
Unlisted investment, at cost	**133,452**	—

On 24 December 2008, the Company has established a wholly-owned subsidiary, Jilin TanGu Carbon Fibre Co., Ltd., in the PRC. The principal activity of the subsidiary is the development, manufacturing and sales of carbon fibre products and the registered and paid up capital of the subsidiary is RMB100,000,000.

The Company's original investment in the subsidiary is settled by the transfer of certain machinery and equipment (the "Machinery and Equipment"), cash and a self-generated technical known-how for the production of carbon fiber products (the "Technical Known-how") to the subsidiary (the "Capital Injection") at the values of RMB40,000,000, RMB30,000,000 and RMB 30,000,000 respectively (the "Capital Contribution Amounts"). Prior to the Capital Injection, the carrying amounts of the transferred Machinery and Equipment, cash and Technical Known-how amounted to RMB46,277,000, RMB30,000,000 and nil respectively. For the purpose of the Capital Injection, the Machinery and Equipment and Technical Know-how have been revaluated by Jilin Hualun Assets Revaluation Co., Ltd., an independent valuer in the PRC, and the revalued amounts of the Machinery and Equipment and Technical Know-how amounted to RMB45,000,000 and RMB58,452,000 respectively (the "Revalued Amounts"). The aggregate Revalued Amounts of the Machinery and Equipment and Technical Known-how in excess of their respective Capital Contribution Amounts of RMB33,452,000 has been recognised as part of the Company's additional investment in the subsidiary, resulting in a total investment cost in the subsidiary of RMB133,452,000.

11 INTEREST IN A JOINTLY CONTROLLED ENTITY

	Group	
	2008	2007
	RMB'000	RMB'000
At 1 January	**162,222**	218,003
Share of losses	**(71,526)**	(56,054)
Others	**273**	273
At 31 December	**90,969**	162,222

	Company	
	2008	2007
	RMB'000	RMB'000
Unlisted investment, at cost	**225,000**	225,000
Less: provision for impairment (note b)	**(129,390)**	—
	95,610	225,000

Notes:

(a) The Group has a 50% equity interest in a jointly controlled entity, Jilin Jimont Acrylic Fiber Co., Ltd. ("Jimont"), which was established in the PRC on 21 December 2005 and its principal activity is the manufacturing and sales of acrylic fibers. Pursuant to the terms of the joint venture agreement entered into between the Group and Montefibre S.p.A ("Montefibre") (the "Joint Venture Agreement"), Jimont was equally owned and jointly controlled by the Company and Montefibre and has a registered and paid-in capital of RMB450,000,000.

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

(b) Given the jointly controlled entity is in the same industry as the Group, its financial performance for the year ended 31 December 2008 was also affected adversely due to the difficult business environment as described in Note 5.1(a). As a result, the jointly controlled entity has suffered from losses for the second consecutive years and this circumstance is an indication that the Company's investment in the jointly controlled entity may be impaired. The Company has performed an impairment assessment and the result of which reveals that the recoverable amount of its investment in the jointly controlled entity approximates its share of net assets of the jointly controlled entity. The assessment involved the estimation of the future cash flows expected to be generated by the jointly controlled entity. Based on the assessment, an impairment loss of RMB129,390,000 has been recognised in the Company's income statement for the year ended 31 December 2008.

11 INTEREST IN A JOINTLY CONTROLLED ENTITY – *continued*

Notes:

(c) The following is the extract of the financial information of Jimont as at 31 December 2008 and the respective 50% interest shared by the Group:

	As at 31 December 2008		As at 31 December 2007	
Balance sheet	**Jimont RMB'000**	**50% shared by the Group RMB'000**	Jimont RMB'000	50% shared by the Group RMB'000
ASSETS				
Non-current assets				
Land use rights	**25,068**	**12,534**	25,597	12,799
Property, plant and equipment	**979,630**	**489,815**	1,021,269	510,635
Intangible assets	**31,076**	**15,538**	33,567	16,783
Deferred income tax assets	**37,361**	**18,681**	6,936	3,468
	1,073,135	**536,568**	1,087,369	543,685
Current assets				
Inventories	**69,187**	**34,594**	232,003	116,001
Trade and other receivables	**105,881**	**52,940**	121,218	60,609
Current income tax recoverable	**7,034**	**3,517**	—	—
Cash and cash equivalents	**52,777**	**26,388**	31,020	15,510
	234,879	**117,439**	384,241	192,120
Total assets	**1,308,014**	**654,007**	1,471,610	735,805
EQUITY				
Capital and reserves attributable to equity holders				
Paid-in capital	**450,000**	**225,000**	450,000	225,000
Accumulated losses	**(258,779)**	**(129,390)**	(115,727)	(57,864)
Total equity	**191,221**	**95,610**	334,273	167,136
LIABILITIES				
Non-current liabilities				
Long-term bank borrowings	**584,520**	**292,260**	660,000	330,000
Current liabilities				
Trade and other payables (note)	**283,640**	**141,820**	237,337	118,669
Current portion of long-term bank borrowings	**230,000**	**115,000**	240,000	120,000
Derivative financial instrument	**18,633**	**9,317**	—	—
	532,273	**266,137**	477,337	238,669
Total liabilities	**1,116,793**	**558,397**	1,137,337	568,669
Total equity and liabilities	**1,308,014**	**654,007**	1,471,610	735,805
Jointly controlled entity's capital commitments	**—**	**—**	—	—

Note:

Trade and other payables included an amount due to the Company of RMB163,268,000 (2007: RMB117,980,000). The amount is unsecured, interest free and has no fixed term of repayment. The balance primarily arises from the provision of utilities to the jointly controlled entity and the purchases of raw materials and payments of certain production costs on behalf of the jointly controlled entity.

11 INTEREST IN A JOINTLY CONTROLLED ENTITY *– continued*

Notes:

(d) The following is the extract of the financial information of Jimont for the year ended 31 December 2008 and the respective 50% interest shared by the Group:

	For the year ended 31 December 2008		For the year ended 31 December 2007	
Income statement	**Jimont RMB'000**	**50% shared by the Group RMB'000**	Jimont RMB'000	50% shared by the Group RMB'000
Revenue	**895,292**	**447,646**	904,312	452,156
Cost of sales	**(910,873)**	**(455,437)**	(922,236)	(461,118)
Gross loss	**(15,581)**	**(7,791)**	(17,924)	(8,962)
Distribution costs	**(27,145)**	**(13,573)**	(24,182)	(12,091)
Administrative expenses	**(19,021)**	**(9,510)**	(16,794)	(8,397)
Other income	**362**	**181**	936	468
Other losses – net	**(48,484)**	**(24,242)**	(1,935)	(968)
Operating loss	**(109,869)**	**(54,935)**	(59,899)	(29,950)
Finance income	**3,747**	**1,873**	1,103	552
Finance costs	**(67,355)**	**(33,677)**	(60,248)	(30,124)
Loss before income tax	**(173,477)**	**(86,739)**	(119,044)	(59,522)
Income tax credit	**30,425**	**15,213**	6,936	3,468
Loss for the year	**(143,052)**	**(71,526)**	(112,108)	(56,054)

(e) The jointly controlled entity has no contingent liability as at 31 December 2008 and 2007.

12 INVENTORIES

	Group and Company	
	2008	2007
	RMB'000	RMB'000
Raw materials	**85,769**	22,314
Work in progress	**27,701**	91,288
Finished goods	**59,104**	268,694
	172,574	382,296
Less: provision for impairment	**(15,003)**	(36,530)
	157,571	345,766

During the year ended 31 December 2008, the Group has reversed a previous inventory write-down of RMB8,223,000 in respect of those inventories which were subsequently sold at prices above their net realisable values. The reversal has been credited against the cost of sales in the consolidated income statement for the current year.

The cost of inventories recognised as expense and included in cost of sales amounted to RMB1,130,912,000 (2007: RMB1,569,942,000).

13 TRADE AND OTHER RECEIVABLES

	Group and Company	
	2008	2007
	RMB'000	RMB'000
Trade receivables		
– third parties	**96,117**	124,944
– a fellow subsidiary	**22,429**	—
	118,546	124,944
Less: provision for impairment	**(17,341)**	(5,670)
Trade receivables – net	**101,205**	119,274
Prepayments	**18,590**	17,218
Notes receivable	**88,118**	117,269
Other receivables	**16,898**	14,424
Less: provision for impairment	**(7,516)**	(5,231)
Other receivables – net	**9,382**	9,193
Amounts due from (Note a)		
– ultimate parent company (Note 34(b))	**7,158**	9,773
– fellow subsidiaries (Note 34(b))	**1,639**	138
– jointly controlled entity (Notes 11(c) and 34(b))	**163,268**	117,980
	389,360	390,845

Notes:

(a) The amounts due from these related companies are unsecured, interest free and have no fixed terms of repayment.

13 TRADE AND OTHER RECEIVABLES – *continued*

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

	Group and Company	
	2008	2007
	RMB'000	RMB'000
0 - 30 days	**43,887**	40,387
31 - 90 days	**10,857**	23,489
91 - 365 days	**47,656**	59,157
Over 365 days	**16,146**	1,911
	118,546	124,944

Trade receivables with aging less than 30 days are not considered as past due. As of 31 December 2008, trade receivables of RMB38,719,000 (2007: RMB62,819,000) were past due but not impaired. These balances relate to a number of independent customers for whom there is no recent history of default. The aging analysis of these trade receivables is as follows:

	Group and Company	
	2008	2007
	RMB'000	RMB'000
31 - 90 days	**10,675**	11,699
91 -365 days	**19,548**	50,645
Over 365 days	**8,496**	475
	38,719	62,819

As of 31 December 2008, trade receivables of RMB35,940,000 (2007: RMB21,738,000) were considered as impaired and provided for. The amount of the provision was RMB17,341,000 (2007: RMB5,670,000) as of 31 December 2008. The individually impaired receivables mainly relate to customers which are in unexpected difficult economic situations. It was assessed that a portion of the receivables is expected to be recovered. The aging of these impaired receivables is as follows:

	Group and Company	
	2008	2007
	RMB'000	RMB'000
31 - 90 days	**182**	11,790
91 - 365 days	**28,108**	8,512
Over 365 days	**7,650**	1,436
	35,940	21,738

13 TRADE AND OTHER RECEIVABLES – *continued*

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

	Group and Company	
	2008	2007
	RMB'000	RMB'000
At 1 January	**5,670**	3,283
Provision for impairment	**12,904**	2,387
Receivable written off during the year as uncollectible	**(1,233)**	—
At 31 December	**17,341**	5,670

The creation and release of provision for impaired receivables have been included in other expenses in the consolidated income statement (Note 22). Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

Movements on the provision for impairment of other receivables are as follows:

	Group and Company	
	2008	2007
	RMB'000	RMB'000
At 1 January	**5,231**	5,231
Provision for impairment	**2,285**	—
At 31 December	**7,516**	5,231

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

	Group and Company	
	2008	2007
	RMB'000	RMB'000
Renminbi	**389,360**	368,815
US dollar	**—**	22,030
	389,360	390,845

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

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

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

14 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are all denominated in Renminbi and are analysed as follows:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and on hand	**108,282**	158,406	**107,281**	158,406

The maximum exposure to credit risk at the reporting date is the carrying amounts of the cash and cash equivalents.

15 SHARE CAPITAL AND PREMIUM

(a) Share capital

	Group and Company	
	Number of shares (in thousand)	Nominate values RMB'000
Registered, issued and fully paid		
– Domestic shares of RMB1 each	**437,017**	437,017
– Non-H foreign shares of RMB1 each	**169,358**	169,358
– H shares of RMB1 each	**259,875**	259,875
	866,250	866,250

Notes:

(i) There was no movement in share capital during the years ended 31 December 2008 and 2007.

(ii) The Company was converted into a joint stock company on 23 May 2005, with an registered, issued and fully paid capital of RMB630,000,000 divided into 630,000,000 shares at par value of RMB1 each (out of which: 460,642,000 shares are domestic shares and 169,358,000 shares are foreign shares).

On 21 June 2006, the Company has succeeded in its public offering of 236,250,000 H shares and listed on The Stock Exchange of Hong Kong Limited. On the same date, 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 the Company's H shares.

(b) Share Premium

Share premium represents the amount of funds contributed by the shareholders in excess of the par value of the Company's H shares as issued during the Company's initial public offering in June 2006.

16 RESERVES

Group

	Reserve fund RMB'000 (note a)	Enterprise expansion fund RMB'000 (note a)	Statutory reserve fund RMB'000 (note b)	(Accumulated losses)/ retained earnings RMB'000	Total RMB'000
At 1 January 2007	—	—	34,173	148,545	182,718
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	—	—	31,919	(16,314)	15,605
Loss for the year	—	—	—	(312,606)	(312,606)
At 31 December 2008	**—**	**—**	**31,919**	**(328,920)**	**(297,001)**

Company

	Reserve fund RMB'000 (note a)	Enterprise expansion fund RMB'000 (note a)	Statutory reserve fund RMB'000 (note b)	(Accumulated losses)/ retained earnings RMB'000	Total RMB'000
At 1 January 2007	—	—	34,173	155,542	189,715
Loss for the year	—	—	—	(68,019)	(68,019)
Dividends relating to 2006	—	—	—	(43,313)	(43,313)
Transfer	—	—	(2,254)	2,254	—
At 31 December 2007	—	—	31,919	46,464	78,383
Loss for the year	—	—	—	(328,358)	(328,358)
At 31 December 2008	**—**	**—**	**31,919**	**(281,894)**	**(249,975)**

16 RESERVES – *continued*

Notes:

(a) Reserve fund and enterprise expansion fund

In accordance with the relevant laws and regulations in the PRC and the requirements of the Articles of Associations of the Company and its subsidiary, 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 of the Company and its subsidiary have determined that it is not applicable for the Company and the subsidiary to make any appropriation to the reserve fund and enterprise expansion fund for the year ended 31 December 2008 as the Company and the subsidiary have incurred losses for that year. No appropriation to the reserve fund and enterprise expansion fund had been made by the Company in the prior year as it had incurred loss for the year ended 31 December 2007.

(b) Statutory reserve fund

In accordance with the relevant laws and regulations in the PRC and the requirements of the Articles of Associations of the Company and its subsidiary, it is required to appropriate 10% of the 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 respective balance of the statutory reserve fund reaches 50% of the share capital of the Company and its subsidiary, any further appropriation is at the discretion of shareholders of the Company and its subsidiary. 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 respective remaining balance of the statutory reserve fund after such issue is not less than 25% of registered capital of the Company and its subsidiary.

The board of directors of the Company and its subsidiary have determined that it is not applicable for the Company and the subsidiary to make any appropriation to the statutory reserve fund for the year ended 31 December 2008 as the Company and the subsidiary have incurred losses for that year. No appropriation to the statutory reserve fund had been made by the Company in the prior year as it had incurred loss for the year ended 31 December 2007.

17 BORROWINGS

	Group and Company	
	2008	2007
	RMB'000	RMB'000
Non-current		
Long-term bank borrowings	**980,000**	1,030,000
Less: Current portion of long-term bank borrowings	**(650,000)**	(160,000)
	330,000	870,000
Current		
Short-term bank borrowings	**243,000**	363,000
Current portion of long-term bank borrowings	**650,000**	160,000
	893,000	523,000
Total bank borrowings	**1,223,000**	1,393,000
Representing:		
– secured	**330,000**	380,000
– unsecured	**893,000**	1,013,000
	1,223,000	1,393,000

Unsecured bank borrowings of RMB743,000,000 (2007: Nil) are guaranteed by the ultimate parent company.

Borrowings as at 31 December 2008 are repayable as follows:

	Group and Company	
	2008	2007
	RMB'000	RMB'000
Within 1 year	**893,000**	523,000
Between 1 and 2 years	**—**	740,000
Between 2 and 5 years	**200,000**	—
Over 5 years	**130,000**	130,000
	1,223,000	1,393,000

The effective interest rate of the bank borrowings as at the balance sheet date was 7.46% (2007: 6.80%) per annum.

17 BORROWINGS – *continued*

Secured bank borrowings of RMB330,000,000 (2007: RMB380,000,000) are secured by certain property, plant and equipment and land use rights of the Company with net book amounts of approximately RMB786,517,000 (2007: RMB938,707,000) (Note 8) and RMB7,340,000 (2007: RMB8,003,000) (Note 7), respectively.

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

	Group and Company	
	2008	2007
	RMB'000	RMB'000
Within 6 months	**280,000**	263,000
6 -12 months	**943,000**	1,130,000
	1,223,000	1,393,000

As at 31 December 2008, the Group has fixed interest rates bank borrowings of approximately RMB243,000,000 (2007: RMB100,000,000) which are all short-term bank borrowings. The carrying amounts of these fixed interest rates bank borrowings approximate their fair values as the impact of discounting is not significant. All other bank borrowings are floating interest rates bank borrowings and the carrying amounts of these floating rates borrowings approximate to their fair values.

The carrying amounts of bank borrowings are all denominated in Renminbi.

18 DEFERRED INCOME

Group and Company

	Construction of new facilities (note a) RMB'000	Purchases of domestically manufactured equipment (note b) RMB'000	Total RMB'000
At 1 January 2007	64,960	19,596	84,556
Amortisation	(4,640)	(1,184)	(5,824)
At 31 December 2007	60,320	18,412	78,732
Additions	1,500	—	1,500
Amortisation	(5,340)	(1,384)	(6,724)
At 31 December 2008	56,480	17,028	73,508

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.

In 2008, the Company received government grants for the constructions of sewage facilities and carbon fibre production line of RMB1,000,000 and RMB500,000 respectively.

(b) The Company claimed enterprise income tax credits on 40% of the costs of certain qualified equipment manufactured in the PRC, which was approved by the local tax bureau.

(c) The abovementioned government grants and income tax credits received in connection with purchases or construction of property, plant and equipment have been deferred and credited to the consolidated income statement on a straight-line basis over the estimated useful lives of the related assets of 16 years.

19 TRADE AND OTHER PAYABLES

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables	**83,585**	58,428	**83,585**	58,428
Advance from customers	**19,259**	11,386	**19,259**	11,386
Payables for purchases of property, plant and equipment	**42,269**	42,891	**42,269**	42,891
Other payables and accruals	**47,725**	49,768	**47,725**	49,768
Amounts due to (Notes b and 34(b))				
– ultimate parent company	**—**	13,559	**—**	13,559
– fellow subsidiaries	**6,849**	13,091	**6,849**	13,091
– subsidiary	**—**	—	**29,000**	—
– a shareholder of the Company	**1,540**	—	**1,540**	—
Provision for staff welfare	**32,397**	35,150	**32,397**	35,150
	233,624	224,273	**262,624**	224,273

Notes:

(a) Aging analysis of the trade payables at the respective balance sheet dates are as follows:

	Group and Company	
	2008	2007
	RMB'000	RMB'000
0 - 30 days	**25,629**	33,205
31 - 90 days	**30,156**	7,109
91 - 365 days	**17,719**	12,007
Over 365 days	**10,081**	6,107
	83,585	58,428

(b) The amounts due to these related parties are unsecured, interest free and have no fixed terms of repayment.

(c) The carrying amounts of trade and other payables are all denominated in Renminbi and approximate their fair values.

20 DEFERRED INCOME TAX

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

Group

	Provision for impairment of non-current assets	Pre-operating expenses	Fair value loss on derivative financial instrument	Accelerated accounting depreciation	Provisions for impairment of receivables	Inventories write-down	Unrecognised gain due from investment	Tax losses	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2007	—	7,149	—	2,574	1,176	688	1,220	—	576	13,383
Effect of change in applicable tax rate due to the New CIT Law	—	4,426	—	1,716	783	459	(170)	—	384	7,598
Credited/(charged) to the consolidated income statement	—	(511)	—	1,568	954	7,986	(61)	13,831	1,470	25,237
At 31 December 2007	—	11,064	—	5,858	2,913	9,133	989	13,831	2,430	46,218
Credited/(charged) to the consolidated income statement	23,357	(850)	7,875	1,663	3,301	(5,382)	69	36,020	14,033	80,086
At 31 December 2008	23,357	10,214	7,875	7,521	6,214	3,751	1,058	49,851	16,463	126,304

Company

	Provision for impairment of non-current assets	Pre-operating expenses	Fair value loss on derivative financial instrument	Accelerated accounting depreciation	Provisions for impairment of receivables	Inventories write-down	Unrecognised gain due from investment	Tax losses	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2007	—	7,149	—	2,574	1,176	688	1,220	—	576	13,383
Effect of change in applicable tax rate due to the New CIT Law	—	4,426	—	1,716	783	459	(170)	—	384	7,598
Credited/(charged) to the income statement	—	(511)	—	1,568	954	7,986	(61)	13,831	1,470	25,237
At 31 December 2007	—	11,064	—	5,858	2,913	9,133	989	13,831	2,430	46,218
Credited/(charged) to the income statement	23,357	(850)	7,875	1,487	3,301	(5,382)	69	36,020	(580)	65,297
At 31 December 2008	23,357	10,214	7,875	7,345	6,214	3,751	1,058	49,851	1,850	111,515

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

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 12 months	**6,496**	10,045	**5,034**	10,045
More than 12 months	**119,808**	36,173	**106,481**	36,173
	126,304	46,218	**111,515**	46,218

21 DERIVATIVE FINANCIAL INSTRUMENT

	Group and Company	
	2008	2007
	RMB'000	RMB'000
Derivative financial liability		
– Interest rate swap contract	**31,500**	—

Note:

As at 31 December 2008, the derivative financial liability represents an outstanding interest rate swap contract with a notional principal amount of RMB130,000,000. The interest rate swap contract is maturing in November 2015 and the key terms of which has been set out in Note 4.1(a). The interest rate swap contract has been recognised in the balance sheets based on its fair value as at 31 December 2008.

In September 2008, the Group has early terminated another interest rate swap contract with notional principal amount of RMB280,000,000 which was originally maturing in November 2009.

The Company's directors consider that the abovementioned interest rate swap contracts do not qualify for hedge accounting and the realised and unrealised losses associated with these derivative financial instruments of RMB3,287,000 (2007: Nil) and RMB31,500,000 (2007: Nil) respectively and have been recognised as other losses in the consolidated income statement for the year ended 31 December 2008 (Note 23).

22 OTHER INCOME AND EXPENSES

	2008 RMB'000	2007 RMB'000
Other income		
Rental income (Note a)	**51,897**	29,029
Income from provision of utilities (Note b)	**73,661**	51,774
Amortisation of deferred income (Note 18)	**6,724**	5,824
Others	**5,885**	1,610
	138,167	88,237
Other expenses		
Direct outgoings in respect of		
– rental income (Note a)	**(29,945)**	(13,064)
– provision of utilities (Note b)	**(56,502)**	(46,282)
Provision for impairment of trade and other receivables	**(15,189)**	(2,387)
	(101,636)	(61,733)
	36,531	26,504

Notes:

(a) Pursuant to a leasing agreement dated 8 August 2007 (the "Lease Agreement"), the Group agreed to lease certain utilities (such as water, steam and electricity) production facilities including a thermal power plant (collectively the "Utility Facilities") to a branch of the ultimate parent company (the "Branch") at rates as predetermined in the Lease Agreement. The initial term of the Lease Agreement would expire on 31 December 2009 and was renewable for another three years.

In August 2008, the Group had entered into an agreement with the Branch pursuant to which, the Lease Agreement would be terminated subject to the fulfilment of certain conditions precedents as set out thereto (the "Termination Agreement"). The Termination Agreement was subsequently terminated and became effective in November 2008. For the year ended 31 December 2008, the rental income received or receivable from the Branch in respect of the leases of the Utility Facilities amounted to RMB51,541,000 (2007: RMB28,674,000). Direct outgoings in respect of the rental income primarily comprise of depreciation on the Utility Facilities of RMB28,481,000 (2007: RMB11,566,000).

After the termination of the Lease Agreement, the Group has managed and operated the Utility Facilities to produce electricity and steam for its own production.

(b) On 26 August 2008, the Group has entered into a lease agreement with a fellow subsidiary pursuant to which, the Group leases certain utilities production facilities (the "Leased Assets") from the fellow subsidiary for the period from 4 November 2008 to 31 December 2010 and the lease term is renewable for another three years. Combined with the utilities production capacities of the Utility Facilities (Note a above refers), management believes that the Group can produce electricity and steam for its own production in a more cost efficient manner and the surplus of utilities generated from the Utility Facilities and the Leased Assets (if any) will be provided to the Group's jointly controlled entity, related companies and third parties at rates as agreed among the parties in concern.

For the year ended 31 December 2008, the income from the provision of utilities to the fellow subsidiaries, jointly controlled entity and third parties amounted to RMB49,954,000 (2007: Nil), RMB18,217,000 (2007: RMB51,774,000) and RMB5,490,000 (2007: Nil) respectively. Direct outgoings in respect of the income from provision of utilities primarily comprise of costs of raw materials, operating lease rentals for the Leased Assets and depreciation of the Utility Facilities of RMB42,697,000 (2007: RMB39,940,000), RMB7,025,000 (2007: Nil) and RMB4,690,000 (2007: RMB4,387,000) respectively.

23 OTHER LOSSES – NET

	2008 RMB'000	2007 RMB'000
Other gain		
Gain attributable to equity interests of a jointly controlled entity	273	273
Other losses		
Realised and unrealised losses on derivative financial instruments (Note 21)	(34,787)	—
Losses on disposals/write-off of property, plant and equipment	(2,393)	(2,226)
Foreign exchange losses, net	(1,735)	(2,069)
Others	(93)	(490)
	(39,008)	(4,785)
	(38,735)	(4,512)

24 EXPENSES BY NATURE

	2008 RMB'000	2007 RMB'000
Changes in inventories of finished goods and work in progress	249,457	(134,595)
Raw materials used	881,455	1,704,537
Depreciation (Note 8)	136,608	122,492
Amortisation of		
– land use rights (Note 7)	1,882	1,882
– intangible assets (included in administrative expenses) (Note 9)	8,206	8,206
Employee benefit expenses (Note 25)	44,401	39,671
Transportation expenses	29,611	43,400
Provisions for impairment		
– inventories	10,416	31,943
– trade and other receivables	15,189	2,387
Reversal of inventories write-down	(8,223)	—
Auditor's remuneration	1,600	1,600
Legal and professional fees	2,013	3,777
Stamp duty and business tax	2,549	3,053
Urban real estate tax	4,637	3,160
Other expenses	30,983	32,581
Total cost of sales, distribution costs, administrative expenses and other expenses	1,410,784	1,864,094

25 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2008 RMB'000	2007 RMB'000
Wages and salaries	**30,989**	28,001
Pension costs – defined contribution plans	**7,026**	5,659
Social security costs	**6,386**	6,011
	44,401	39,671

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 2008

Name of director and supervisor	**Fees** RMB'000	**Salary** RMB'000	**Employer's contribution to pension scheme** RMB'000	**Total** 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. JIANG Junzhou	**20**	**—**	**—**	**20**
Mr. ZHANG Yuchen	**20**	**—**	**—**	**20**
	100	**—**	**—**	**100**
Independent non-executive director				
Mr. YE Yongmao	**50**	**—**	**—**	**50**
Mr. MAO Fengge	**50**	**—**	**—**	**50**
Mr. LEE Ka Chung	**264**	**—**	**—**	**264**
	364	**—**	**—**	**364**
	1,664	**—**	**—**	**1,664**
Supervisor				
Mr JIANG Yanfeng	**50**	**—**	**—**	**50**
Ms. SUN Yujing	**20**	**—**	**—**	**20**
Mr. LIU Mingzhe	**20**	**32**	**15**	**67**
Mr. MENG Xiangui	**30**	**—**	**—**	**30**
Mr. FENG Shuhua	**30**	**—**	**—**	**30**
	150	**32**	**15**	**197**

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

Emoluments of directors and senior management – *continued*

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	10	—	—	10
Mr. JIANG Junzhou	20	—	—	20
Mr. ZHANG Yuchen	20	—	—	20
	110	—	—	110
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

25 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 the Jilin Chemical Fiber Group Co., Ltd., the ultimate parent company, and its fellow subsidiaries during the year ended 31 December 2008 amounting to RMB138,000 (2007: RMB180,000), part of which is in respect of their services rendered to the Group. No apportionment has been made as the directors consider that it is impracticable to apportion this amount between their services rendered to the Group and their services rendered to the ultimate parent company and those fellow subsidiaries.

Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2008 included four (2007: four) directors whose emoluments are reflected in the analysis presented above. The emoluments paid and payable to the remaining one (2007: one) individual whose emoluments was the highest in the Group during the year are as follows:

	2008	2007
	RMB'000	RMB'000
Basic salaries and allowances	**922**	992

The emoluments of that highest paid individual fell within the following bands:

	Number of individual	
	2008	2007
HK$1,000,000 - HK$1,500,000 (equivalent to RMB881,890 - RMB1,322,835)	**1**	1

During the years ended 31 December 2008 and 2007, no emoluments had been paid by the Group to the directors or the five highest paid individuals as an inducements to join or upon joining the Group or as compensation for loss of office and there is no director waived or agreed to waive any of their emoluments.

26 FINANCE INCOME AND COSTS

	2008 RMB'000	2007 RMB'000
Interest expenses on bank borrowings		
– wholly repayable within five years	**87,370**	85,936
– repayable over five years	**10,518**	3,974
	97,888	89,910
Less: amount capitalised in construction in progress (note)	**—**	(5,724)
	97,888	84,186
Interests on discounted notes receivable	**5,451**	2,241
Finance costs	**103,339**	86,427
Finance income – interest income on bank balances	**(452)**	(1,182)
Finance costs – net	**102,887**	85,245

Note:

The borrowing costs had been capitalised at the weighted average interest rate of 6.80% per annum.

27 INCOME TAX

(a) No provision for Hong Kong profits tax has been made as the Group did not carry out any business or generate any assessable profits in Hong Kong for the year ended 31 December 2008 (2007: Nil).

(b) On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the PRC (the "New CIT Law") which is effective from 1 January 2008. Prior to the effective date of the New CIT Law, the enterprise income tax rate and local income tax rate applicable to the Company were 30% and 3% respectively, resulting in an aggregate income tax rate of 33%. The Company was exempted from local income tax and was requalified as an advanced technology company on 1 February 2005 and hence the Company was entitled to a 50% tax reduction for an additional three-year period from 2005 to 2007. Therefore, the effective income tax rate applicable to the Company for the three years ended 31 December 2007 was 15%. By reference to the New CIT Law, the corporate income tax rate applicable to the Company changed to 25% with effect from 1 January 2008.

The corporate income tax rate applicable to the subsidiary established in December 2008 is 25% (2007: not applicable).

No provision for corporate income tax has been made as the Group does not have estimated assessable profit for the year ended 31 December 2008 (2007: Nil).

27 INCOME TAX – *continued*

(c) The amount of income tax credited to the consolidated income statement represent:

	2008 RMB'000	2007 RMB'000
Current income tax		
– over provision in the prior year	—	166
Deferred income tax (Note 20)		
– credit for the year	80,086	25,237
– effect of change in applicable tax rate due to the New CIT Law	—	7,598
	80,086	32,835
Income tax credit	80,086	33,001

The tax on the Group's loss before income tax differs from the theoretical amount that would arising using the tax rate applicable to the Group as follows:

	2008 RMB'000	2007 RMB'000
Loss before income tax	(392,692)	(156,801)
Add: Share of loss of the jointly controlled entity	71,526	56,054
	(321,166)	(100,747)
Tax calculated at a tax rate of 25% (2007: 25%)	80,291	25,187
Income not subject to tax	272	346
Expenses not deductible for taxation purposes	(477)	(296)
Over provision in the prior year	—	166
Effect of change in applicable tax rate due to the New CIT Law	—	7,598
Income tax credit	80,086	33,001

28 LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of RMB328,358,000 (2007: RMB68,019,000).

29 LOSSES PER SHARE

Basic losses per share is calculated by dividing the loss attributable to the equity holders of the Company for the year by the weighted average number of the Company's shares in issue during the year of 866,250,000 (2007: 866,250,000) shares.

The Company has no dilutive potential ordinary shares and therefore the diluted losses per share is equal to the basic losses per share.

30 DIVIDENDS

The Company's directors do not recommend the declaration of a dividend for the years ended 31 December 2008 and 2007.

31 CASH GENERATED FROM/(USED IN) OPERATIONS

	2008 **RMB'000**	2007 RMB'000
Loss before income tax	**(392,692)**	(156,801)
Adjustments for:		
– Depreciation	**136,608**	122,492
– Amortisation of		
– land use rights	**1,882**	1,882
– intangible assets	**8,206**	8,206
– Amortisation of deferred income	**(6,724)**	(5,824)
– Provisions for impairment of		
– property, plant and equipment	**89,066**	—
– intangible assets	**4,362**	—
– trade and other receivables	**15,189**	2,387
– inventories	**10,416**	31,943
– Reversal of inventories write-down	**(8,223)**	—
– Unrealised losses on derivative financial instruments	**31,500**	—
– Losses on disposals/write-off of property, plant and equipment (see below)	**2,393**	2,226
– Interest income	**(452)**	(1,182)
– Interest expenses	**97,888**	84,186
– Share of loss of a jointly controlled entity	**71,526**	56,054
– Gain attributable to equity interests of a jointly controlled entity	**(273)**	(273)
Operating profit before working capital changes	**60,672**	145,296
Changes in working capital:		
– Decrease/(increase) in inventories	**186,002**	(129,374)
– Increase in trade and other receivables	**(13,704)**	(69,898)
– Increase in trade and other payables	**9,973**	23,248
Cash generated from/(used in) operations	**242,943**	(30,728)

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

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

	2008 RMB'000	2007 RMB'000
Net book amount (Note 8)	**2,393**	2,251
Losses on disposals/write-off of property, plant and equipment	**(2,393)**	(2,226)
Proceeds from disposals of property, plant and equipment	**—**	25

32 COMMITMENTS

(a) Operating lease commitments – The Group is the lessee

The Group leases certain utilities production facilities (the "Leased Assets") from a fellow subsidiary for the period from 4 November 2008 to 31 December 2010 (the "Initial Lease Period") and the lease term is renewable for another three years (Note 22(b)).

The future aggregate minimum lease payments under non-cancellable operating leases in respect of these Leased Assets during the Initial Lease Period are as follows:

	2008 RMB'000	2007 RMB'000
No later than 1 year	**40,479**	—
Later than 1 year and not later than 5 years	**38,805**	—
	79,284	—

(b) Operating lease arrangements – The Group is the lessor

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

	2008 RMB'000	2007 RMB'000
Land use rights and Utility Facilities (note)		
No later than 1 year	**119**	66,140
Later than 1 year and not later than 5 years	**474**	64,370
Later than 5 years	**420**	539
	1,013	131,049

Note:

The receivable amount as at 31 December 2007 included the future minimum lease payments receivable in respect of the leases of Utility Facilities for the period from 1 January 2008 to 31 December 2009 of approximately RMB129,917,000. The related lease agreement was early terminated in November 2008 (Note 22(a)).

33 FINANCIAL GUARANTEE CONTRACT

The Group has guaranteed a bank borrowing of the jointly controlled entity of RMB20,000,000 (2007: RMB20,000,000) (the "Guarantee").

The directors of the Company consider that it is not probable for a claim to be made against the Group under the Guarantee as at the balance sheet date and the fair value of the guarantee contract is insignificant.

34 SIGNIFICANT RELATED PARTY TRANSACTIONS

The Group is controlled by JCF Groupco, the ultimate parent company, which owns 50.01% of the Company's shares. The remaining 49.99% of the shares are held by public shareholders and several strategic investors.

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 Group. A portion of the Group's business activities is conducted with other PRC state-owned enterprises (primarily with respect to sales of finished products, purchases of raw materials and transactions with state-owned banks). The Group believes that these transactions are carried out on terms that are similarly and consistently applied to all other customers or suppliers.

For the purpose of related party transaction disclosures, the Group has identified, to the extent practicable, its customers and suppliers as to whether they are state-owned enterprises. It should be noted, however, that substantially all of the Group's business activities are conducted in the PRC and the influence of the PRC government in the Chinese economy is pervasive. In this regard, the PRC government indirectly holds interests in many companies. Many PRC state-owned enterprises have multi-layered corporate structure and the ownership structures change over time as a result of transfers and privatisation programs. Some of these interests may, in themselves or when combined with other indirect interests, be controlling interests. Such interests, however, would not be known to the Group and are not reflected in the disclosures below. Nevertheless, the Company's directors believe that meaningful information in respect of related party transactions has been adequately disclosed.

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

34 SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

(a) Related party transactions

	2008 RMB'000	2007 RMB'000
Sales of goods to:		
– a shareholder of the Company	**195,618**	310,616
– a fellow subsidiary	**19,227**	—
– other state-owned enterprises	**75,717**	120,421
Income from provision of utilities to the jointly controlled entity and fellow subsidiaries	**68,171**	51,774
Net income of sales of raw materials to the jointly controlled entity and fellow subsidiaries	**5,885**	1,610
Rental income from a branch of the ultimate parent company (Note 22(a))	**51,541**	28,674
Rental expense to a fellow subsidiary in respect of the Leased Assets (Note 22(b))	**(7,025)**	—
Utility charges to a branch of the ultimate parent company	**(75,629)**	(66,547)
Purchases of raw materials from:		
– jointly controlled entity	**(1,520)**	(3,854)
– fellow subsidiaries	**(3,739)**	(3,710)
– other state-owned enterprises	**(710,641)**	(1,479,438)
Interest expenses paid to state-owned banks	**(87,125)**	(77,353)
Drawdown of borrowings from state-owned banks	**243,000**	483,000
Repayment of borrowings to stated-owned bank	**(313,000)**	(392,645)

JCF Groupco allowed the Group to use of the trademark of "白山" (Baishan) at nil consideration during the years ended 31 December 2008 and 2007.

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

34 SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

(b) Balances with related parties

	2008 RMB'000	2007 RMB'000
Bank balances with state-owned banks	**64,962**	139,544
Trade receivables		
– a fellow subsidiary	**22,429**	—
– other state-owned enterprises	**167**	5,791
	22,596	5,791
Other receivables		
– ultimate parent company	**7,158**	9,773
– fellow subsidiaries	**1,639**	138
– jointly controlled entity	**163,268**	117,980
– other state-owned enterprises	**3,879**	11,263
	175,944	139,154
Trade payables to other state-owned enterprises	**1,100**	724
Other payables		
– ultimate parent company	**—**	13,559
– fellow subsidiaries	**6,849**	13,091
– a shareholder of the Company	**1,540**	—
	8,389	26,650
Short-term bank borrowings from state-owned banks	**243,000**	263,000
Long-term bank borrowings from state-owned banks	**880,000**	930,000

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

34 SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

(c) Key management compensation

Key management includes executive and non-executive directors, supervisors and secretaries to the board of directors of the Company. The compensation paid or payable to the key management is shown below:

	2008	2007
	RMB'000	RMB'000
Wages, salaries and other short-term employee benefits	**2,916**	2,980
Pension and social security costs	**83**	94
	2,999	3,074

35 COMPARATIVE FIGURES

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