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)

2009

Annual Report

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. Meng Xiangui
Ms. Feng Shuhua
Mr. Zhang Haiou
Mr. Wang Hongbo

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

LEGAL ADVISOR AS TO HONG KONG LAW
Orrick, Herrington & Sutcliffe

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				
	2009 RMB million	2008 RMB million	2007 RMB million	2006 RMB million (Note 3)	2005 RMB million
Revenue	**1,255.9**	1,186.5	1,764.9	2,290.7	2,189.1
Gross profit/(loss)	**216.9**	(27.7)	82.1	286.8	351.4
Operating expenses	**(103.7)**	(95.0)	(119.6)	(120.3)	(111.2)
Other gains/(losses), net Note 5	**154.0**	(95.6)	22.0	14.1	3.6
Operating profit/(loss)	**267.2**	(218.3)	(15.5)	180.6	243.9
Finance costs, net	**(74.9)**	(102.9)	(85.2)	(64.2)	(64.3)
Share of profit/(loss) of a jointly controlled entity	**76.4**	(71.5)	(56.1)	(1.8)	—
Profit/(loss) before income tax	**268.7**	(392.7)	(156.8)	114.6	179.6
Income tax (expense)/credit	**(45.2)**	80.1	33.0	(15.5)	(26.7)
Profit/(loss) attributable to the owners of the Company	**223.5**	(312.6)	(123.8)	99.1	152.9
Earnings/(losses) per share (RMB per share) Notes 1 & 2	**0.26**	(0.36)	(0.14)	0.13	0.24
Dividend per share (RMB per share) Notes 1 & 2	**—**	—	—	0.05	0.07
Gross profit/(loss) margin	**17.3%**	(2.3%)	4.7%	12.5%	16.1%
Net profit/(loss) margin	**17.8%**	(26.3%)	(7.0%)	4.3%	7.0%

	As at 31 December				
	2009 RMB million	2008 RMB million	2007 RMB million	2006 RMB million (Note 3)	2005 RMB million
Current assets	**841.6**	657.1	896.9	789.4	733.8
Non-current assets	**1,646.1**	1,616.2	1,823.4	1,884.9	1,478.3
Total assets	**2,487.7**	2,273.3	2,720.3	2,674.3	2,212.1
Current liabilities	**836.0**	1,158.1	747.3	688.3	666.0
Non-current liabilities	**716.5**	403.5	948.7	794.6	788.4
Total liabilities	**1,552.5**	1,561.6	1,696.0	1,482.9	1,454.4
Total equity	**935.2**	711.7	1,024.3	1,191.4	757.7
Current ratio	**1.01**	0.57	1.20	1.15	1.10
Gearing ratio Note 4	**62.4%**	68.7%	62.3%	55.5%	65.7%

Notes:

1. The earnings per share and dividend per share for the year ended 31 December 2005 are computed by dividing the profit for the year attributable to the owners 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.
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 owners of the Company and the dividend proposed for the year 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.
3. The results of the Company for the year ended 31 December 2005 and its assets and liabilities as at 31 December 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 gains/(losses), net set out on this page is the aggregated total of other income, other expenses, reversal of/provision for impairment of non-current assets and other gains/losses – net.

CHAIRMAN'S STATEMENT

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 (collectively the "Group") for the financial year ended 31 December 2009 ("2009" or the "Year").

ANNUAL RESULTS

For the year ended 31 December 2009, the Group's revenue amounted to approximately RMB1.26 billion, representing an increase of approximately 6% as compared to approximately RMB1.19 billion in 2008. The profit attributable to the owners of the Company for the Year amounted to approximately RMB223.5 million, while the loss attributable to the owners of the Company was approximately RMB312.6 million in 2008.

BUSINESS REVIEW

In 2009, the global acrylic fiber output and consumption had been gradually increased. With the rising market demand resulting from the economic stimulus package implemented by the PRC government, the PRC acrylic fiber industry recovered rapidly during the year. In addition, some smaller scale acrylic fiber plants in the PRC had ceased their productions after the challenges from the stagnated market conditions of the acrylic fiber industry in the past two years and this reduced the overall supply of acrylic fiber products in the PRC market. The market demand and supply of acrylic fiber products had become more balanced. As a result, the acrylic fiber manufacturers had been in a better position in determining the pricing strategy for acrylic products. Price of the Group's major raw materials, acrylonitrile, which is a by-product of crude oil, decreased following the decline of the international crude oil price, which reduced the raw material costs of the acrylic fiber suppliers in the PRC. In face of the ever-changing operating environment during the year, the Group achieved a better operating result by maximising the utilisation of its production capacity, strengthening the operation management control, consolidating the resources and reducing the raw material costs with a demand oriented production approach. In respect of new product development, the Group has made certain achievement in the technology improvement in the carbon fiber products.

OUTLOOK

Looking forward, the Group will further enhance marketing and sales of acrylic fiber products to expand its market share, consolidate its leading position in the PRC's acrylic fiber industry and expand the overseas markets to achieve further growth. At the same time, the Group will conduct research and development for differential acrylic fiber, speed up the second phase construction of carbon fiber plant and improve the production process by technology improvement and development. The Group is committed to new product and production developments to enhance production efficiency and strengthen its cost control and staff training to improve operating efficiency and profitability. The Group believes that the business environment of the PRC's acrylic fiber industry will continue to be promising in the near future.

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

15 April 2010

MAJOR OPERATIONAL DATA

1. Revenue

	Year ended 31 December			
	2009		2008	
	RMB million	**%**	RMB million	%
Acrylic top	**464.5**	**37.0**	457.2	38.5
Acrylic tow	**273.1**	**21.7**	258.9	21.8
Acrylic staple fiber	**501.7**	**40.0**	463.3	39.1
Others*	**16.6**	**1.3**	7.1	0.6
Total	**1,255.9**	**100.0**	1,186.5	100.0

2. Sales volume

	Year ended 31 December			
	2009		2008	
	Tons	**%**	Tons	%
Acrylic top	**33,231**	**36.3**	28,670	37.0
Acrylic tow	**20,485**	**22.4**	17,255	22.3
Acrylic staple fiber	**36,870**	**40.3**	31,228	40.4
Others*	**920**	**1.0**	221	0.3
Total	**91,506**	**100.0**	77,374	100.0

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

	Year ended 31 December			
	2009		2008	
	Average selling price RMB/ton	**Gross profit margin %**	Average selling price RMB/ton	Gross loss margin %
Acrylic top	**13,978**	**16.1**	15,947	(1.53)
Acrylic tow	**13,332**	**18.4**	15,004	(0.42)
Acrylic staple fiber	**13,607**	**17.9**	14,836	(3.01)
Average gross profit/(loss) margin		**17.3**		(2.3)

* Refer to sales of fiber scrap and carbon fiber

REVIEW AND OUTLOOK

Market Review

In 2009, the global acrylic fiber output and consumption had been gradually increased. With the rising market demand resulting from the economic stimulus package implemented by the PRC government, the PRC acrylic fiber industry recovered rapidly during the year. In addition, some smaller scale acrylic fiber plants in the PRC had ceased their productions after the challenges from the stagnated market conditions of the acrylic fiber industry in the past two years and this reduced the overall supply of acrylic fiber products in the PRC market. The market demand and supply of acrylic fiber products had become more balanced. As a result, the acrylic fiber manufacturers had been in a better position in determining the pricing strategy for acrylic products. Price of the Group's major raw materials, acrylonitrile, which is a by-product of crude oil, decreased following the decline of the international crude oil price, which reduced the raw material costs of the acrylic fiber suppliers in the PRC.

As a substitute, acrylic fiber was again widely used to substitute other fibers as the principal raw material in the production of carpets. The substitution functions of Persian fiber and dyeable polyester fiber was weakening as the functional value of acrylic fiber is superior. In the industrial chain of acrylonitrile, the consumption of acrylonitrile for producing acrylic fiber attributable to more than a half of the total consumption of acrylonitrile, reflecting the important role of acrylic fiber production in the industrial chain of acrylonitrile.

During 2009, the PRC government invested RMB4 trillion in civil projects and improvement of infrastructures from its foreign reserves to boost domestic demand and stimulate consumption. The PRC's total garment production output and export volume increased by 6.94% and decreased by 11% respectively, as compared to those of 2008. These reflected the effectiveness of the said investment by the PRC government and its policies in boosting domestic demands and consumption. Though the PRC textile industry is driven by both exports and domestic demand, it was relatively much more reliant on exports in the past. The increased domestic demands and consumption in 2009 has steered the development of the PRC textile industry in a healthier direction by reducing its reliance on exports. The acrylic fiber industry will be directly benefited from this radical change in the development of the textile industry. Following the improvement in the global production output and consumption of acrylic fiber and the PRC government's implementation of the economic stimulus package, the production volume, quality and variety of acrylic fiber products of the PRC have been gradually increasing. The operating environment and business prospective of the acrylic fiber industry has been improved significantly. The Directors believe that the PRC acrylic fiber industry will continue to maintain its leading position in the global market.

All in all, the acrylic fiber industry recovered much earlier than expected due to the elimination of certain major industrial uncertainties which adversely affected the industry in 2007 and 2008. During the year, with a larger price difference between costs of the major raw materials and selling prices of the Group's acrylic fiber products, the decrease in major raw material costs and the much higher demand in the acrylic fiber products, the Group had higher flexibility in pricing its acrylic fiber products and hence improved its profitability.

Sales Review

For the year ended 31 December 2009, the Group's revenue was approximately RMB1.26 billion, representing an increase of approximately 6% as compared with approximately RMB1.19 billion in 2008. The sales volume was 91,506 tons, increased by approximately 18% as compared to 77,374 tons in 2008. The price difference between the average selling price of the Group's acrylic fiber products and the major raw material, acrylonitrile, was approximately RMB5,076 per ton, increased sharply by approximately 25% from RMB4,071 per ton in 2008 despite that the average unit selling price of acrylic fiber products decreased by approximately 10% from RMB15,335 per ton in 2008 to RMB13,725 per ton in 2009. The increase in sales volume and price difference reflected that the total global output and consumption of acrylic fiber have been stabilised and the PRC acrylic fiber industry has also been recovered.

In 2009, the competition in the acrylic fiber industry was severe. However, the Group was still capable to sell its acrylic fiber products at better average prices in the market because of its consistent product quality and the adoption of a more flexible sales strategy. The Group still continued to seize export opportunities to actively develop and expand its market base. The vigorous export strategy adopted by the Group helped to establish a "quality" brand image for the Group's products internationally and paved way for the Group's penetration into the global market. The Group strengthened the implementation of its "comprehensive management" strategy and successfully enhanced its management standards, corporate culture and staff performance. The Group continued to improve the quality of its products and services to secure customers' confidence. The Group maintained regular communication with its customers to build up a strong relationship and promote the image and sales of its products. The Group also kept abreast of the market development to understand the needs and expectations of customers and to gain customers loyalty by meeting their needs and expectation.

Production Management

For the year ended 31 December 2009, the Group's total production output was approximately 88,206 tons, representing an increase of 34% as compared to last year. The utilisation rate of Group's production facilities was about 83% (2008: 48%). In 2009, the Group succeeded in reducing its production costs because of the adoption of sales order based production plan and the significant decrease of the price of its major raw materials, acrylonitrile. The average purchase price of acrylonitrile was approximately RMB8,648 per ton in 2009, representing a decrease of 23% as compared to 2008. The Group continued to strengthen its cost control measures throughout 2009 to enhance operating efficiency and implemented various other measures to improve the productivity and utilisation of its production facilities. The increase in utilisation of the production facilities during 2009 was mainly due to higher utilisation and shorter break-down frequency as compared to 2008, despite the fact that no maintenance of production facilities was arranged in the first half of 2009 and only one overhaul was carried out in September 2009. Production efficiency of the Group was further improved when the polymerizer A feeder and two silk weaving production lines commenced production in June 2009. The maximum productivity of the production lines was increased from 2,200 kg per hour to 2,400 kg per hour. The production information management system was put into operation during 2009. Critical production information can be monitored in real time through this newly installed online system to enhance the accuracy, timeliness of production information and facilitate systematic production control. Efficiency of production has been improved as a result while the production cost has been lowered. Taking into account the production output the Group's jointly controlled entity, the Group ranked first position, in terms of production volume, amongst all of the acrylic fiber manufacturers in the PRC for the first time in 2009.

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 enhancing internal control continuously. The Company had initially passed its annual ISO review and assessments for other certifications covering product quality, environmental protection and occupational safety and health.

In 2009, the Group conducted internal control reviews on various management control system. Based on the reviews, certain management systems of the Group were improved and revised. In accordance with the current approach of "quantitative management", traceable and measureable management objectives were documented for easy and practical management. All the quality indices of three major products of the Group improved in 2009 due to stricter quality control measures. Seminars, studies and meetings with external experts were organised by the production departments to improve product quality.

Employees

As at 31 December 2009, the Group had 1,892 employees, representing an increase of approximately 0.9% as compared to 1,875 employees as at 31 December 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 continuous training to employees at all levels. In 2009, workshop training for management members at all levels was completed successfully. The management has developed close relationships and better understanding with workers through the training. For the year ended 31 December 2009, the Group provided the employees with many training opportunities in respect of the various functions of their positions, product quality control, production safety and environmental protection. The Group also conducted assessments of the performance of all employees.

Outlook

Looking forward, the management is optimistic about the market conditions in the near future. The Group foresees new opportunities and highlights for its business as set out below:

1. Development of carbon fibers: Carbon fiber is a high performance new fiber material with exceptional strength and is widely used for military, industrial and civic purposes. At present, the annual demand for carbon fiber in the PRC is approximately 6,000 tons and its annual supply is only approximately 2,000 tons. The development of carbon fibers business offers great market potential and opportunities for long-term economic benefits for the Group. In order to seize this opportunity, the Group will construct a raw carbon fibers production line and a research and development platform of T700 raw carbon fiber. A research and development laboratory for T700 raw carbon fiber will also be established in Changchun University of Technology to facilitate the Group's establishment of phase II carbon fiber production facilities.

2. Development of differential acrylic fibers: Differential acrylic fiber products will become one of the major growth drivers for the acrylic fiber industry in the PRC. The Group will continue the development of differential acrylic fibers in order to enhance its competitiveness in the PRC acrylic fiber market. The Group has three product development projects in 2010, including the commencement of production of pre-coloured acrylic fiber in the first half of year, completion of the development of pill-free acrylic fiber, and development of oerlikon acrylic fiber. The Group intends to introduce the oerlikon acrylic fiber to the market in 2010 and to become the first supplier of oerlikon acrylic fiber in the PRC .The Group is well positioned to seize such opportunities to further boost its profitability.

3. Favorable industry conditions: Domestic demand has increased significantly as a result of the recent economic policies implemented by the PRC government. The growth of the PRC textile industry, which had been mainly driven by exports in the past, will be driven by both export and domestic demand. The upstream acrylic fiber industry will be directly benefited from the development of the PRC textile industry. As the global production output and consumption of acrylic fiber has stabilised and the PRC government's economic stimulus package continues to have a positive impact on the industry, the acrylic fiber industry in the PRC will continue to maintain its leading position in the global market. For these reasons, the Directors believe that the business environment and outlook of the acrylic fiber industry in the PRC will be much improved and promising, which will continue to support the medium and long term growth of the Group's operations.

FINANCIAL ANALYSIS

Operating results

For the year ended 31 December 2009, the revenue of the Group amounted to approximately RMB1.26 billion, representing an increase of approximately 6% from approximately RMB1.19 billion for the year 2008. The increase in revenue was mainly due to the increase in sales volume of acrylic fiber products of approximately 18%, partially offset by the effect of the decrease in average selling unit price for acrylic fiber products by approximately 10%. In 2009, the Group's total sales volume was 91,506 tons and total production volume was 88,206 tons, representing a sales-to-production ratio of approximately 104% (2008: 117%).

Profit attributable to the owners of the Company for 2009 was approximately RMB223.5 million, compared to the loss attributable to the owners of the Company of approximately RMB312.6 million for 2008. The profit of the Group for 2009 was mainly attributable to the improvement in overall profit margin of the Company and also its jointly controlled entity. The gross profit margin for 2009 was 17.3%, as compared to the gross loss margin of 2.3% for 2008. The increase in gross profit margin in 2009 was primarily due to the greater price difference between the major raw materials and the Group's acrylic fiber products attributable to the better supply and demand relationship of the acrylic fiber products in the industry. The price difference between the average selling price of the Group's acrylic fiber products and the average purchase price of the major raw materials, acrylonitrile, was RMB5,076/ton for the Year, representing an increase of approximately 25% from RMB4,071/ton for 2008. In addition, the increase in plant utilisation rate from 48% in 2008 to 83% in 2009 has also effectively decreased the average unit production costs and improved the net profit and gross profit margin for 2009. The Group's profit attributable to the owners of the Company included the Group's share of the profit from Jilin Jimont Acrylic Fiber Co., Ltd. (the "Jointly Controlled Entity") of approximately RMB76.4 million (2008: loss of approximately RMB71.5 million). Besides, the acrylic fiber industry recovered much earlier than expected due to the elimination of certain major industrial uncertainties which adversely affected the industry in 2007 and 2008. The economic conditions are much more favourable as the balance between demand and supply of acrylic fiber products has been improved and the growth prospect of the downstream textile industry and the overall positive economic outlook of the PRC are promising. The above favourable factors and stabled material costs are considered to be conductive to the Group's future ongoing business operation. In view of the significant favourable change in the economic and business environment in 2009, the Group has revisited and adjusted the major assumptions as adopted in the asset impairment assessment and is able to conclude that it is not required to maintain provision for impairment on those non-current assets made in 2008. As a result, the Group has reversed the impairment provisions for property, plant and equipment and intangible assets of approximately RMB81.1 million and RMB3.5 million respectively in the consolidated statement of comprehensive income for 2009.

Operating expense (distribution costs and administrative expense)

Distribution costs increased from approximately RMB32.4 million for 2008 to approximately RMB41.0 million for 2009. The increase in distribution costs was primarily resulted from the increase in transportation costs by approximately RMB9.2 million mainly due to the increase in the sales volume for 2009. The administrative expenses for 2009 were approximately RMB62.8 million which was slightly higher than RMB62.5 million in 2008.

Net other gains (the net aggregate amount of other income, other expenses, reversal of/(provision for) impairment of non-current assets and other gain/(losses) - net)

Net other gains for 2009 was approximately RMB154.0 million, as compared to net other losses of approximately RMB95.6 million in 2008. The significant increase in net other gains in 2009 was primarily attributable to (i) the reversal of provision for impairment of property, plant and equipment and intangible assets of approximately RMB84.6 million in aggregate; (ii) net gain associated with the recognised derivative financial instrument of approximately RMB20.8 million; and (iii) reversal of provision for impairment of trade receivables of approximately RMB4.4 million. On the contrary, the Group had recognised on provisions for impairment of non-current assets of approximately RMB93.4 million, net loss associated with the recognised derivative financial instrument of approximately RMB34.8 million, provisions for impairment of trade and other receivables of approximately RMB15.2 million and provision for inventories of approximately RMB10.4 million in 2008.

In addition, the Group has started to manage power plants and certain utility facilities starting from November 2008 and this generated a net income from the provision of utilities of approximately RMB33.9 million in 2009 (2008: RMB17.2 million). The Group had ceased the leases of certain utilities production facilities (including a power plant) to a branch of the ultimate holding company from November 2008, the related rental income (net of direct outgoings) for 2009 was therefore, reduced by approximately RMB21.9 million as compared to 2008.

Net finance costs

Net finance costs decreased from approximately RMB102.9 million for 2008 to approximately RMB74.9 million for 2009. The decrease in net finance costs was primarily resulted from the decrease in the Group's overall borrowing interest rate when bank loans were renewed and the increase in interest income from bank deposits and the jointly controlled entity.

Share of profit of a jointly controlled entity

The Group's jointly controlled entity, Jilin Jimont Acrylic Fiber Co., Ltd., commenced its commercial production in 2007. The Group's share of 50% of the profit of the jointly controlled entity for 2009 under the equity method accounting amounted to RMB76.4 million (2008: loss of RMB71.5 million). The financial performance of the jointly controlled entity for 2009 was also positively affected by the recovery of the market as described in the section headed "Market Review" in this annual report.

Financial resources, liquidity and liability position

As at 31 December 2009, the Group's total assets and total liabilities were approximately RMB2.49 billion and RMB1.55 billion respectively. As at 31 December 2009, the Group's net current assets amounted to approximately RMB5.5 million and its current ratio, calculated by dividing current assets by current liabilities as at 31 December 2009, was approximately 1.01 (2008: 0.57). The Group had cash at bank and in hand and restricted bank deposits of approximately RMB170.4 million and RMB40.7 million respectively as at 31 December 2009. Total bank borrowings of the Group as at 31 December 2009 amounted to RMB1.22 billion, of which short term bank borrowings amounted to approximately RMB590 million and long-term bank borrowings were approximately RMB630 million. Approximately 82.8% of the Group's banking 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 RMB3 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 2009, the Group's gearing ratio, calculated by dividing total liabilities by total assets, was approximately 62.4% (2008: 68.7%). The decreased gearing ratio was mainly due to the increase in the Group's total assets which was primarily resulted from the increase in the Group's profit.

INVESTMENT REVIEW

Jointly Controlled Entity

The Jointly Controlled Entity 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 Jointly Controlled Entity to SIMEST S.p.A. ("SIMEST"), a development financial institution set up by the Italian government. Upon completion of the equity transfer, the Group continues to hold 50% equity interests in the Jointly Controlled Entity, whereas Montefibre and SIMEST hold 39.36% and 10.64% equity interests in the Jointly Controlled Entity, respectively. The equity transfer did not result in any changes in the board composition of the Jointly Controlled Entity.

The total fixed asset investment in phase one of the acrylic fiber project with annual production capacity reaching 100,000 tons undertaken by the Jointly Controlled Entity was approximately RMB1.02 billion which was mainly financed by bank borrowings and capital contribution from the Jointly Controlled Entity partners. All the Jointly Controlled Entity partners had fully paid up their capital contributions according to their respective proportion of equity interest in the Jointly Controlled Entity prior to 2007.

The Jointly Controlled Entity is principally engaged in the manufacturing and sales of acrylic fiber products. Currently, the Group is considering implementing phase two of the project, which is expected to further increase the total annual production capacity of the Jointly Controlled Entity to 150,000 tons. The timetable for implementing phase two of the project will depend on various factors, including, among others, future market conditions. In 2009, the sales volume and production volume of the Jointly Controlled Entity reached 102,508 tons and 100,516 tons, respectively, representing sales-to-production ratio of approximately 102%. The utilisation rate of the production plant was 100%. The profit of the Jointly Controlled Entity for 2009 reached approximately RMB152.9 million in 2009 (2008: net loss of RMB143.1 million). The significant improvement in the profitability of the Jointly Controlled Entity was mainly due to the advantages brought by the recovery of the market as described in the section headed "Market Review" in this annual report.

Entrusted deposits and matured time deposits

As at 31 December 2009, 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. Except for the restricted bank deposits of approximately RMB40.7 million, the Group had no bank deposits which cannot be withdrawn upon maturity.

Pledged assets

As at 31 December 2009, certain property, plant and equipment and land use rights with net book value amounted to approximately RMB710.3 million and RMB6.7 million, respectively (As at 31 December 2008: RMB786.5 million and RMB7.3 million respectively) were pledged as securities deposits of bank borrowings of approximately RMB330.0 million (As at 31 December 2008: RMB330.0 million). In addition, bank deposit of approximately RMB40.7 million was pledged for the issue of certain letters of credit for the Group's purchases of raw materials from certain overseas suppliers.

Contingent liabilities

The Group had no material contingent liabilities as at 31 December 2009.

Dividend

The Board does not recommend the declaration of a dividend for the year ended 31 December 2009 (2008: Nil).

BIOGRAPHY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Wang Jinjun, aged 48, 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 21 years of experience in the chemical fiber 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 44, 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 20 years of experience in the chemical fiber industry and is a qualified senior engineer in the PRC.

Wang Changsheng, aged 50, 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 29 years of experience in the chemical fiber 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 50, 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 fiber industry for over 27 years. He graduated from Jilin Province Institute of Education in the PRC and is a qualified senior economist in the PRC.

Gong Jianzhong, aged 47, 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 18 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 46, 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 18 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 51, 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.

Zhang Yuchen, aged 41, 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.

BIOGRAPHY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Independent non-executive Directors

Ye Yongmao, aged 67, 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 43 years of experience in the chemical fiber 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 41, 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 18 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 57, 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 57, 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 15 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 44, 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 18 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.

Meng Xiangui, aged 53, 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 61, 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.

Zhang Haiou, aged 37, was elected as a supervisor of the Company on 9 June 2009. Mr. Zhang worked as a technician in the spinning workshop of Jilin Chemical Fibre Joint Stock Company (吉林化纖股份有限公司) in July 1995. He worked as a technician in the spinning workshop in the Company in September 1998 and was promoted to the technician in charge in May 1999. From May 2005 to December 2005, Mr. Zhang worked as a deputy head of the manufacturing department in the Company. From December 2005 to now, he has been the head and party branch secretary of the spinning workshop of the Company. Mr. Zhang received the certificate of a senior engineer in textile engineering in January 2006 from the Personnel Department of Jilin Province. He graduated from Jilin Institute of Chemical Technology (吉林化工學院) with a bachelor's degree in chemical engineering in July 1995.

Wang Hongbo, aged 39, was elected as a Supervisor of the Company on 9 June 2009. Mr. Wang worked as a technician in acid station workshop of Jilin Chemical Fibre Joint Stock Company (吉林化纖股份有限公司) in August 1995. From August 1997 to May 2003, he worked as the technician in charge in polymer workshop of the Company. He worked as a deputy head of the manufacturing department of the Company from May 2003 to May 2005 and the head and party branch secretary of polymer workshop from May 2005 to January 2008. From January 2008 to now, Mr. Wang has been the head of the manufacturing department of the Company. Mr. Wang received the certificate of a senior engineer in textile engineering in January 2006 from the Personnel Department of Jilin Province. He graduated from Jilin Institute of Chemical Technology (吉林化工學院) with a bachelor's degree in organic chemical industry in July 1995.

OTHER SENIOR OFFICERS

Liu Xiangmei, aged 46, who joined JCF Groupco in 1985, is one of the joint company secretaries and secretary to the Board. She has approximately 22 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 36, 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 12 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 39, who joined JCF Groupco in 1993, is the deputy general manager of the Company. Mr. Zhuang graduated from Jilin Industrial Institute (major in chemical fiber studies) and is a qualified engineer in the PRC.

DIRECTORS' REPORT

The Board is pleased to present their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2009.

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 statement of comprehensive income on page 37.

The Directors do not recommend the declaration of a dividend for the year ended 31 December 2009.

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 of this annual report.

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 2009, 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 2009, 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 2009 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, its subsidiary or jointly controlled entity, 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 11 to 13 under the Biography of Directors, Supervisors and Senior Management section in this annual report.

INTERESTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES

As at 31 December 2009, 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 2009, 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 2009, 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 Sen	30,487,573[4]	Non-H Foreign Shares	—	18.00	18.00	—	3.52	3.52
Huang Jia Zi	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 Jointly Controlled Entity, 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 2009, sales to the Group's five largest customers accounted for approximately 47.8% of the total sales for the year, in which sales to the largest customer represented approximately 12.7% of the total sales for the year.

Purchases from the Group's five largest suppliers amounted to approximately 65% of the total purchases for the year while total purchases from the largest supplier represented approximately 45% 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

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 has renewed the purchases agreement with Lotus Factory 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 2009, purchases of chemical materials from Lotus Factory amounted to approximately RMB2.1 million which was within the approved cap of RMB3.6 million as disclosed in the Company's circular dated 12 September 2008.

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 determined by the Company. The products are sold to Taiyi at prices less a discount. 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 2009, sales to Taiyi amounted to approximately RMB140.7 million which was within the approved cap of RMB560.0 million as disclosed in the Company's circular dated 12 September 2008.

Sales of finished goods to Tuopu Textile

The Company sold goods to Tuopu Textile Industrial Development Co., Ltd. ("Tuopu Textile") at the price determined by the Company with reference to the market price and no less than the price of the Acrylic Fiber Products sold by the Company to Independent Third Parties. On 8 August 2007, the Company entered into the sales agreements with Tuopu Textile for an initial term ended on 31 December 2009 which, subject to the compliance with Listing Rules' requirements regarding connected transactions, is automatically renewable for a term of three years thereafter.

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 2009, sales to Tuopu Textile by the Company amounted to approximately RMB5.2 million, which is within the approved cap of RMB173.0 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 in prior years. 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 ended on 31 December 2009 which, subject to compliance with Listing Rules' requirements regarding connected transactions, is automatically renewable for a term of three years thereafter. The transaction was negotiated on arm's length basis and the prices were determined in line with normal commercial terms.

The Power Company is a branch of JCF Groupco 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 2009, the Company did not purchase any of Utilities and Water Treatment Services from the Power Company and the amount was within the approved cap of RMB205.0 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 2009, the balance of deposits with Bank of China, Jilin City Branch amounted to approximately RMB15.1 million which was within the approved cap of RMB106.0 million as disclosed in the Company's announcement dated 8 August 2007 and circular dated 29 August 2007.

Purchases of chemical materials from Lotus Factory by the Jointly Controlled Entity

The Jointly Controlled Entity purchased from 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 Jointly Controlled Entity on 8 August 2007, the Jointly Controlled Entity 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 2009, the chemical materials as purchased by the Jointly Controlled Entity from Lotus Factory amounted to approximately RMB0.6 million and the amount was within the approved cap of RMB2.7 million as disclosed in the Company's circular dated 29 August 2007.

Purchases of auxiliary materials from Tuopu by the Jointly Controlled Entity

The Jointly Controlled Entity purchased from Tuopu Industrial and Trading Co., Ltd. ("Tuopu") auxiliary materials for manufacture business. Pursuant to the Auxiliary Materials Supply Agreement entered into with Tuopu in 2007, the Jointly Controlled Entity will purchase auxiliary materials from Tuopu for the period of three years ended 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 2009, the auxiliary materials as purchased by the Jointly Controlled Entity from Tuopu amounted to RMB0.026 million and the amount was within the approved cap of RMB0.4 million as disclosed in the Company's circular dated 29 August 2007.

Sales of finished goods to Taiyi by the Jointly Controlled Entity

The Jointly Controlled Entity 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 Jointly Controlled Entity. The Jointly Controlled Entity sold products to Taiyi at price less a discount. On 8 August 2007, the Jointly Controlled Entity entered into the sales agreements with Taiyi, for initial terms ended 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 2009, sales to Taiyi by the Jointly Controlled Entity amounted to approximately RMB87.3 million, which is within the approved cap of RMB417.0 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 Jointly Controlled Entity

The Jointly Controlled Entity sold goods to Tuopu Textile at the price determined by the Jointly Controlled Entity with reference to the market price and no less than the price of the Acrylic Fiber Products sold by the Jointly Controlled Entity to Independent Third Parties. On 8 August 2007, the Jointly Controlled Entity entered into the sales agreements with Tuopu Textile for initial terms ended 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.

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 2009, sales to Tuopu Textile by the Jointly Controlled Entity amounted to approximately RMB10.0 million, which is within the approved cap of RMB74.0 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 Jointly Controlled Entity

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

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

For the year ended 31 December 2009, no Utilities and Water Treatment Services were purchased by the Jointly Controlled Entity from the Power Company, which was within the approved cap of RMB170.0 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 2009, auxiliary materials that the Company purchased from JCFCL amounted to approximately RMB3.9 million, which was within the approved cap of RMB8.0 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 Tuopu Textile pursuant to the Utilities and Water Treatment Services Agreement entered into with Tuopu Textile 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 2009, Utilities and Water Treatment Services provided to Tuopu Textile by the Company amounted to approximately RMB1.7 million, which was within the approved cap of RMB3.6 million 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 Jointly Controlled Entity

Pursuant to the Engineering Construction Services Agreement entered into between Jilin Chemical Fiber Construction and Installation Engineering Co., Ltd., ("Jianan") and the Jointly Controlled Entity in 2007, the Jointly Controlled Entity purchased from Jianan certain engineering construction services. As certain transactions originally scheduled for 2007 were delayed or rescheduled to 2008 , on 26 August 2008 the Jointly Controlled Entity 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 2009, purchase from Jianan by the Jointly Controlled Entity amounted to approximately RMB0.7 million, which was within the approved cap of RMB2.0 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 2009, the Company's lease expense paid to JCFCL for the JCFCL Leased Assets amounted to approximately RMB39.1 million, which was within the approved cap of RMB45.72 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 2009, provision of Utilities and Water Treatment Services to JCFCL by the Company amounted to approximately RMB197.0 million, which was within the approved cap of RMB351.73 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 2009, the Company's provision of Utilities and Water Treatment Services to Aika amounted to approximately RMB17.7 million, which was within the approved cap of RMB47.9 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 26 to 30 under the Corporate Governance Report section in this annual 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 annual 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
15 April 2010

REPORT OF THE SUPERVISORY COMMITTEE

The Supervisory Committee is pleased to present the report of the Supervisory Committee for the year ended 31 December 2009.

In 2009, 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 jeopardises 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's 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 2009 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 2009 fairly 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
15 April 2010

CORPORATE GOVERNANCE REPORT

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 2009.

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 "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	5/5
Mr. Ma Jun	5/5
Mr. Wang Changsheng	5/5
Non-executive Directors	
Mr. Hao Peijun	5/5
Mr. Gong Jianzhong (Two meetings attended by proxy)	2/5
Mr. Chen Jinkui (Two meetings attended by proxy)	2/5
Mr. Jiang Junzhou (One meeting attended by proxy)	5/5
Mr. Zhang Yuchen	2/5
Independent non-executive Directors	
Mr. Ye Yongmao (One meeting attended by proxy)	2/5
Mr. Mao Fengge	5/5
Mr. Lee Ka Chung, J.P.	2/5

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. 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 2009 includes but not limit 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 2009 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	2/2

(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 2009 on 22 April 2009. 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 2009 on 22 April 2009. 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 once in 2009. The details of the attendance are set out below:

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

Supervisory Committee

The Company's Supervisory Committee consists of five Supervisors, two of 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	1/2
Mr. Meng Xiangui	2/2
Ms. Feng Shuhua	2/2
Mr. Zhang Haiou	1/2
Mr. Wang Hongbo	1/2

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 2009, 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 2009 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.

PRICEWATERHOUSECOOPERS

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 33 to 100, which comprise the consolidated and company balance sheets as at 31 December 2009, and the consolidated statements of comprehensive income, changes in equity and cash flows 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 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 15 April 2010

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2009

	Note	**2009** **RMB'000**	2008 RMB'000
ASSETS			
Non-current assets			
Land use rights	7	**26,698**	28,580
Property, plant and equipment	8	**1,334,467**	1,333,730
Intangible assets	9	**32,825**	36,669
Interest in a jointly controlled entity	11	**167,698**	90,969
Deferred income tax assets	20	**84,466**	126,304
		1,646,154	1,616,252
Current assets			
Inventories	12	**236,747**	157,571
Trade and other receivables	13	**391,844**	389,360
Current income tax recoverable		**1,893**	1,893
Restricted bank deposits	14(a)	**40,670**	—
Cash and cash equivalents	14	**170,431**	108,282
		841,585	657,106
Total assets		**2,487,739**	2,273,358
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	15(a)	**866,250**	866,250
Share premium	15(b)	**142,477**	142,477
Accumulated losses	16	**(105,417)**	(328,920)
Other reserves	16	**31,919**	31,919
Total equity		**935,229**	711,726

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2009

	Note	2009 RMB'000	2008 RMB'000
LIABILITIES			
Non-current liabilities			
Long-term bank borrowings	17	**630,000**	330,000
Deferred income	18	**86,471**	73,508
		716,471	403,508
Current liabilities			
Trade and other payables	19	**235,922**	233,624
Short-term bank borrowings	17	**590,000**	243,000
Current portion of long-term bank borrowings	17	**—**	650,000
Current income tax liabilities		**3,355**	—
Derivative financial instrument	21	**6,762**	31,500
		836,039	1,158,124
Total liabilities		**1,552,510**	1,561,632
Total equity and liabilities		**2,487,739**	2,273,358
Net current assets/(liabilities)		**5,546**	(501,018)
Total assets less current liabilities		**1,651,700**	1,115,234

The notes on pages 40 to 100 are an integral part of these financial statements.

The financial statements on pages 33 to 100 were approved by the Board of Directors on 15 April 2010 and were signed on its behalf.

Wang Jinjun
Chairman

Wang Changsheng
Director

BALANCE SHEET

AS AT 31 DECEMBER 2009

	Note	2009 RMB'000	2008 RMB'000
ASSETS			
Non-current assets			
Land use rights	7	**26,698**	28,580
Property, plant and equipment	8	**1,270,989**	1,287,453
Intangible assets	9	**32,825**	36,669
Investment in a subsidiary	10	**133,452**	133,452
Investment in a jointly controlled entity	11	**172,066**	95,610
Deferred income tax assets	20	**66,248**	111,515
		1,702,278	1,693,279
Current assets			
Inventories	12	**221,227**	157,571
Trade and other receivables	13	**386,296**	389,360
Current income tax recoverable		**1,893**	1,893
Restricted bank deposits	14(a)	**40,670**	—
Cash and cash equivalents	14	**165,496**	107,281
		815,582	656,105
Total assets		**2,517,860**	2,349,384
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	15(a)	**866,250**	866,250
Share premium	15(b)	**142,477**	142,477
Accumulated losses	16	**(58,443)**	(281,894)
Other reserves	16	**31,919**	31,919
Total equity		**982,203**	758,752

BALANCE SHEET

AS AT 31 DECEMBER 2009

	Note	2009 RMB'000	2008 RMB'000
LIABILITIES			
Non-current liabilities			
Long-term bank borrowings	17	**630,000**	330,000
Deferred income	18	**71,783**	73,508
		701,783	403,508
Current liabilities			
Trade and other payables	19	**237,112**	262,624
Short-term bank borrowings	17	**590,000**	243,000
Current portion of long-term bank borrowings	17	**—**	650,000
Derivative financial instrument	21	**6,762**	31,500
		833,874	1,187,124
Total liabilities		**1,535,657**	1,590,632
Total equity and liabilities		**2,517,860**	2,349,384
Net current liabilities		**(18,292)**	(531,019)
Total assets less current liabilities		**1,683,986**	1,162,260

The notes on pages 40 to 100 are an integral part of these financial statements.

The financial statements on pages 33 to 100 were approved by the Board of Directors on 15 April 2010 and were signed on its behalf.

Wang Jinjun
Chairman

Wang Changsheng
Director

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	**2009**	2008
		RMB'000	RMB'000
Revenue	6	**1,255,878**	1,186,501
Cost of sales		**(1,038,982)**	(1,214,197)
Gross profit/(loss)		**216,896**	(27,696)
Distribution costs		**(40,954)**	(32,422)
Administrative expenses		**(62,768)**	(62,529)
Other income	22	**403,179**	138,167
Other expenses	22	**(353,747)**	(101,636)
Reversal of/(provision for) impairment of non-current assets	8(c)	**84,550**	(93,428)
Other gains/(losses) - net	23	**20,006**	(38,735)
Operating profit/(loss)		**267,162**	(218,279)
Finance income	26	**10,060**	452
Finance costs	26	**(84,982)**	(103,339)
		192,240	(321,166)
Share of profit/(loss) of a jointly controlled entity	11	**76,456**	(71,526)
Profit/(loss) before income tax		**268,696**	(392,692)
Income tax (expense)/credit	27	**(45,193)**	80,086
Profit/(loss) and total comprehensive income/(loss) for the year attributable to the owners of the Company	28	**223,503**	(312,606)
Earnings/(losses) per share for profit/(loss) attributable to the owners of the Company during the year (expressed in RMB per share)			
– basic and diluted	29	**0.26**	(0.36)
Dividend	30	**—**	—

The notes on pages 40 to 100 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2009

	Attributable to owners of the Company				
	Share capital	**Share premium**	**Accumulated losses**	**Other reserves**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
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
At 1 January 2009	866,250	142,477	(328,920)	31,919	711,726
Profit for the year	—	—	223,503	—	223,503
At 31 December 2009	866,250	142,477	(105,417)	31,919	935,229

The notes on pages 40 to 100 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	**2009**	2008
		RMB'000	RMB'000
Cash flows from operating activities			
Cash generated from operations	31	**138,590**	242,943
Net cash from operating activities		**138,590**	242,943
Cash flows from investing activities			
Purchases of property, plant and equipment		**(13,152)**	(27,131)
Government grants received		**19,300**	1,500
Interest received		**1,260**	452
Net cash from/(used in) investing activities		**7,408**	(25,179)
Cash flows from financing activities			
Proceeds from borrowings		**890,000**	243,000
Repayments of borrowings		**(893,000)**	(413,000)
Interests paid		**(80,849)**	(97,888)
Net cash used in financing activities		**(83,849)**	(267,888)
Net increase/(decrease) in cash and cash equivalents		**62,149**	(50,124)
Cash and cash equivalents at beginning of year		**108,282**	158,406
Cash and cash equivalents at end of year	14	**170,431**	108,282

The notes on pages 40 to 100 are an integral part of these financial statements.

1 GENERAL INFORMATION

Jilin Qifeng Chemical Fiber Co., Ltd. (the "Company") and its subsidiary (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 Board of Directors of the Company on 15 April 2010.

2 BASIS OF PREPARATION

As at 31 December 2009, the Group's total bank borrowings repayable within the next twelve months from the balance sheet date amounted to RMB590,000,000. The Company's directors are of the opinion that the Group will be able to finance its future financing requirements and working capital based on the following considerations:

(a) The Group is expected to be continuously profitable and hence generating cash inflows from its future business operations.

(b) The Group has maintained its strong business relationship with its principal bankers and those principal bankers have indicated their willingness to renew their borrowings to the Group upon their original maturities for terms of not less than another one year. The Company's directors believe that formal and binding facility letters will be entered into with the respective principal bankers upon the original maturity dates of the related borrowings.

(c) 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.

In view of the above, the Company's directors are confident that there will be sufficient financial resources available to the Group for enabling it to meet its liabilities as and when they fall due and to continue as a going concern. Accordingly, the Company's directors have prepared the consolidated financial statements on a going concern basis.

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") 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 the derivative financial instrument being categorised as financial assets/liabilities at fair value through profit or loss (Note 21).

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires 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.

2 BASIS OF PREPARATION – *continued*

The Group has adopted the following standard, amendments and interpretations to published standards issued by the HKICPA, which are mandatory for the first time for the financial year beginning on or after 1 January 2009:

HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Amendment)	Borrowing Costs
HKAS 32 and HKAS 1 (Amendment)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 and HKAS 27 (Amendment)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Share-based Payment – Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments – Fair Value Measurement and Liquidity Risk of Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC) Int-9 and HKAS 39 (Amendment)	Reassessment of Embedded Derivatives
HK(IFRIC) Int-13	Customer Loyalty Programmes
HK(IFRIC) Int-15	Agreements for the Construction of Real Estate
HK(IFRIC) Int-16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC) Int-18	Transfer of Assets from Customers

Except for new disclosure requirements of HKAS 1 (Revised), HKFRS 7 (Amendment) and HKFRS 8 as described below, the adoption of the abovementioned standard, amendments and interpretations to published standards did not result in any substantial changes to the Group's significant accounting policies and presentation of the consolidated financial statements.

<u>HKAS 1 (Revised)</u>

HKAS 1 (Revised) requires 'non-owner changes in equity' to be presented separately from owner changes in equity. All 'non-owner changes in equity' are required to be shown in a performance statement. Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). The Group has not prepared a separate consolidated income statement because it is identical to the consolidated statement of comprehensive income.

<u>HKFRS 7 (Amendment)</u>

HKFRS 7 (Amendment) requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on earnings per share.

2 BASIS OF PREPARATION – *continued*

HKFRS 8

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". This new standard requires a "management approach" under which segment information is presented on the same basis as that used for internal reporting purposes. Operating segments are reported in a manner that is more consistent with the internal reporting provided to the chief operating decision-makers. The Group's chief operating decision-makers and the reportable segments as identified under the requirements of HKFRS 8 have been set out in Note 6 to these consolidated financial statements. Comparatives for 2008 in Note 6 have been restated to conform with the current year's presentation.

The HKICPA has also issued the following new or revised standards, amendments or interpretations which are not yet effective for the financial year beginning 1 January 2009 (the "New or Revised HKFRSs"):

		Effective for accounting periods beginning on or after
Relevant to the Group's operations		
HKAS 24 (Revised)	Related Party Disclosures	1 January 2011
Not currently relevant to the Group's operations		
HKAS 27 (Amendment)	Consolidated and Separate Financial Statements	1 July 2009
HKAS 32 (Amendment)	Classification of Rights Issue	1 February 2010
HKAS 36 (Amendment)	Impairment of Assets	1 January 2010
HKAS 38 (Amendment)	Intangible Assets	1 July 2009
HKAS 39 (Amendment)	Eligible Hedged Items	1 July 2009
HKFRS 2 (Amendment)	Group Cash-Settled Share-based Payment Transaction	1 January 2010
HKFRS 3 (Revised)	Business Combinations	1 July 2009
HKFRS 5 (Amendment)	Measurement of Non-current Assets (or Disposal Groups) Classified as Held for Sale	1 January 2010
HKFRS 9	Financial Instruments	1 January 2013
HK(IFRIC) - Int 14	Prepayments of a Minimum Funding Requirement	1 January 2011
HK(IFRIC) - Int 17	Distributions of Non-cash Assets to Owners	1 July 2009
HK(IFRIC) - Int 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2010

2 BASIS OF PREPARATION – *continued*

The nature of the impending changes in respect of HKAS 24 (Revised) which is relevant to the Group's existing operations are summarised as below:

HKAS 24 (Revised) introduces an exemption from all of the disclosure requirements of HKAS 24 for transactions among government-related entities and the government. Those disclosures are replaced with a requirement to disclose:

— the name of the government and the nature of their relationship;

— the nature and amount of any individually-significant transactions; and

— the extent of any collectively-significant transactions qualitatively or quantitatively.

It also clarifies and simplifies the definition of a related party.

In addition to the abovementioned New or Revised HKFRSs, the HKICPA has also published certain improvements to the HKFRS in May 2009 (the "Improvement Project"), which are not effective for the financial year beginning 1 January 2009.

The Group has not early adopted the abovementioned 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 comprises of the Company and its subsidiary. The Group also has an investment in a jointly controlled entity.

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. Inter-company transactions, balances and unrealised gains/losses on transactions between group companies are eliminated.

Investment in the jointly controlled entity is accounted for using the equity method of accounting and is initially recognised at cost. The consolidated statement of comprehensive income 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. Unrealised gains on transactions between the Group and its jointly controlled entity are eliminated to the extent of the Group's interest in the jointly controlled entity. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the assets transferred.

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 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

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers. The chief operating decision-makers have been identified as the three Executive Directors of the Company (including the General Manager and the Chief Financial Officer of the Company) (collectively the "Decision-Makers") who are responsible for allocating resources, assessing performance of operating segments and making strategic decisions.

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 statement of comprehensive income within 'finance income or costs'. All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within 'other losses/gains - 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 presented in the consolidated statement of comprehensive income within 'other gains/losses - net'.

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 for land over the remaining lease terms.

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). Non-financial assets that suffered from impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment testing of the investments in the subsidiary and jointly controlled entity is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary or jointly controlled entity in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets.

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 an interest rate swap contract which is not designated as hedge and therefore has been categorised as financial asset/liability at fair value through profit or loss. The related interest rate swap contract is a financial liability of the Group as at 31 December 2009 (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 values. Gains or losses arising from changes in the fair values 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.9 Derivative financial instruments – *continued*

As mentioned in Note 3.8 above, the Group has entered into an interest rate swap contract which has been classified as financial asset/liability at fair value through profit or loss and the Company's directors consider that this derivative financial instrument does not qualify for hedge accounting. Changes in the fair value of this derivative financial instrument is recognised immediately in the income statement and presented in the consolidated statement of comprehensive income within 'other gains/losses - net'.

3.10 Impairment of financial assets carried at amortised costs

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider; or
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation.

The Group first assesses whether objective evidence of impairment exists.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

3.11 Inventories

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.12 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

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.

3.13 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).

3.14 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 as 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 period of the lease.

(b) Leases - where the Group as 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 3.22(b) below.

3.15 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.

3.16 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.17 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

3.18 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.

3.19 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 failed to make payment when due in accordance with the terms of a debt instrument.

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.20 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 other comprehensive income or directly in equity, respectively.

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 authorities.

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, deferred income tax is not accounted for if it arises from initial recognition of an asset or a liability in a transaction 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.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

3.21 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*

3.22 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 amount 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 associated with the sales and income has 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

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

(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.

(e) Dividend income

Dividend income is recognised when the right to receive payment is established.

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

3.24 Dividend distribution

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.25 Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the 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 with most of the transactions settle in Renminbi, only with approximately 1.3% (2008: 3.5%) of the Group's revenue was denominated in United State dollars ("US dollar"). The net exchange loss for the year of RMB110,000 (2008: RMB1,735,000) was primarily associated with such US dollar denominated sales.

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

As at 31 December 2009, all the Group's financial assets/liabilities are denominated in Renminbi.

Although the Group does not have any other significant assets or liabilities which are denominated in currencies other than Renminbi as at 31 December 2009, 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 and restricted cash), 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.

4 FINANCIAL RISK MANAGEMENT – *continued*

4.1 Financial risk factors – *continued*

(a) Market risk – continued

Interest rate risk – *continued*

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 2009, the Group's fixed rates borrowings and floating rates borrowings amounted to RMB210,000,000 (2008: RMB243,000,000) and RMB1,010,000,000 (2008: RMB980,000,000) respectively.

With all other variables held constant, the Group's finance costs on the floating rates borrowings will increase/decrease by approximately RMB3,162,000 (2008: RMB4,890,000) if the interest rate was 50 basis points higher/lower.

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 2009 (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 higher 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 lower 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 at 31 December 2009, the 6-months LIBOR is 0.43% 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 net fair value gain on the interest rate swap contract will decrease/increase by approximately RMB3,500,000 (2008: RMB11,555,000) if the 30-years USD CMS Rate was 50 basis points lower/higher.

(b) Credit risk

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

In respect of trade receivables, the 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 2009, the Group has certain concentration of credit risk because approximately 86% (2008: 59%) of the total trade receivables (gross amount before any impairment provision) was due from five of the Group's customers (the "Top Five Debtors"). Moreover, approximately 35% (2008: 55%) and 14% (2008: Nil) of the other receivables (gross amount before any impairment provisions) are due from the jointly controlled entity and a fellow subsidiary of the Group respectively. The aging analysis of the balances due from the Top Five Debtors, the jointly controlled entity and the fellow subsidiary are as below:

	2009	2008
	RMB'000	RMB'000
Receivables from the Top Five Debtors		
Within 30 days	**2,561**	9,641
31 - 90 days	**629**	3,256
91 - 365 days	**9,083**	41,469
Over 365 days	**30,858**	15,206
	43,131	69,572
Receivables from the jointly controlled entity		
Within 30 days	**46,923**	80,964
31 - 90 days	**13,250**	12,438
91 - 365 days	**65,582**	61,258
Over 365 days	**—**	8,608
	125,755	163,268
Receivables from the fellow subsidiary		
Within 30 days	**33,359**	—
31 - 90 days	**17,451**	—
	50,810	—

Except for the amounts receivable from the jointly controlled entity which are interest bearing (Note 11(c)(i)), the receivables from the abovementioned counter parties are all unsecured and interest free. As at 31 December 2009, provision for receivable impairment of RMB10,843,000 (2008: RMB12,904,000) has been made against one 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 instrument and deposits with banks and financial institutions, the Group has limited its credit exposure by restricting their selection of banks and financial institutions on those reputable local banks or state-owned banks.

4 FINANCIAL RISK MANAGEMENT – *continued*

4.1 Financial risk factors – *continued*

(b) Credit risk – continued

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.

As of the balance sheet date, the Group does not have provide any financial guarantees to any parties which would expose the Group to credit risk.

(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.

Management monitors regularly rolling cash flow forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities or funding from the ultimate parent company at all times. Such forecasting takes into consideration the Group's debt financing plans and compliance with internal balance sheet ratio targets.

Management also monitors regularly the surplus cash held by the operating entities over and above balance required for working capital management and the Group will invest surplus cash in interest bearing current accounts or deposits, choosing instruments with appropriate maturities or sufficient liquidity, to provide sufficient head-room as determined by the abovementioned forecasts. At 31 December 2009, the Group has interest bearing bank balances of RMB170,429,000 that are expected to readily generate cash inflows for managing liquidity risk.

The table below analyses the Group's non-derivative financial liabilities (with contractual obligations) and net-settled derivative financial liability into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. Derivative financial liability is included in the analysis as its contractual maturity is essential for an understanding of the timing of the expected cash flows. 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).

4 FINANCIAL RISK MANAGEMENT – *continued*

4.1 Financial risk factors – *continued*

(c) Liquidity risk – continued

	Less than 1 year RMB'000	**Between 1 and 2 years** RMB'000	**Between 2 and 5 years** RMB'000	**Over 5 years** RMB'000
At 31 December 2009				
Long-term bank borrowings	35,803	389,103	167,427	187,883
Short-term bank borrowings	606,689	—	—	—
Financial liabilities as included in trade and other payables	160,683	—	—	—
Net settled derivative financial instrument	104	557	3,898	2,203
	803,279	389,660	171,325	190,086
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 payables	181,968	—	—	—
Net settled derivative financial instrument	7,836	11,191	12,473	—
	1,139,096	36,701	262,852	216,216

Although the Group has a considerable amount of financial liabilities to be settled or refinanced within the next twelve months from the balance sheet date, the Company's directors believe that the Group can manage the associated liquidity risks in view of the situations as described 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 shareholders 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% (2008: 65%). The debt-to-total capital ratios at 31 December 2009 and 2008 were as follows:

	2009	2008
	RMB'000	RMB'000
Total borrowings (Note 17)	**1,220,000**	1,223,000
Less: Cash and cash equivalents (Note 14)	**(170,431)**	(108,282)
Net debt	**1,049,569**	1,114,718
Total equity	**935,229**	711,726
Total capital	**1,984,798**	1,826,444
Debt-to-total capital ratio (%)	**53%**	61%

The decrease in the debt-to-total capital ratio in 2009 is primarily resulted from the significant improvement in the Group's profitability during the current year, which leads to the increase in both of the Group's cash and cash equivalents and total equity.

4 FINANCIAL RISK MANAGEMENT – *continued*

4.3 Fair value estimation

Except for the interest rate swap contract as mentioned in Notes 4.1(a) and 21, the Group does not have any financial assets/liabilities which are required to be measured in the balance sheet at fair value as of the reporting date. This interest rate swap contract has been categorised to the level 2 of the fair value measurement hierarchy as set out in the HKFRS 7 "Financial Instruments - Disclosures (Amendment)" because its fair value can be determined by the use of valuation techniques which maximise the use of non-entity specific market data which is observable. The fair value of the interest rate swap contract is calculated at the present value of the estimated future cash flows based on observable yield curves.

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

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgements 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 non-current key operating assets

Land use rights, property, plant and equipment and intangible assets are the key operating assets for the Group's business operations (collectively the "Key Operating Assets"). Management tests whether the Key Operating Assets have suffered any impairment in accordance with the accounting policy as stated in Note 3.7. Management has assessed the recoverable amounts of the Key Operating Assets based on value-in-use calculations which require the use of estimates on the projections of cash inflows from the continual use of the Key Operating Assets and discount rate.

If the projected future cash flow stream from the use of the Key Operating Assets had been 5% lower than the management's estimates or the discount rate as applied in the impairment assessment was higher than management's existing estimates by 0.5 percentage point, the recoverable amounts of the Key Operating Assets will be reduced by approximately RMB72,086,000 and RMB27,323,000 respectively. Even the recoverable amounts of the Key Operating Assets are reduced by the abovementioned respective amounts, the adjusted recoverable amounts of those Key Operating Assets are still higher than their carrying amounts as of the balance sheet date.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS – *continued*

5.1 Critical accounting estimates and assumptions – *continued*

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

In determining the net realisable value of inventories, management is required to estimate the subsequent 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 realisable values of inventories had been 5% lower than the estimates as adopted by the Company's management, the Group is still not required to recognise any provision for impairment of inventories.

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 judgment 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 considers 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 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 2009, the Group has recognised deferred income tax assets of RMB84,466,000 (2008: 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 2009, the Group has past due but not impaired trade receivables of RMB21,246,000 (2008: RMB38,719,000) (out of which trade receivables of RMB10,637,000 (2008: RMB8,496,000) are aged more than 1 year) (Note 13(b)). In addition, the Group has trade receivables of RMB23,001,000 (2008: RMB35,940,000) which are considered as impaired and partially provided for.

The management considers that the provision for impairment of trade and other receivables of RMB20,419,000 (2008: RMB24,857,000) as at 31 December 2009 adequately cover any significant losses arising from the non-performance by the counterparts.

6 SEGMENTAL INFORMATION

The chief operating decision-makers have been identified as the three Executive Directors of the Company (including the General Manager and the Chief Financial Officer of the Company) (collectively the "Decision-Makers"). The Decision-Makers review the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The Group is principally engaged in the development, production and sales of chemical fiber, namely acrylic fiber and carbon fiber products. The operating segment for carbon fiber products has officially commenced its first phase of operation in August 2009.

All of the Group's operations and assets are located in the PRC except that, a portion of the Group's revenue of RMB16,802,000 (2008: RMB35,114,000) was in connection with sales to overseas customers. Therefore, the Decision-Makers only consider the Group's business from a product perspective, rather from a geographic perspective. The Decision-Makers assesses the performance of the operating segments of acrylic fiber products and carbon fiber products on a regular basis.

The Decision-Makers primarily assesses the performance of the operating segments based on a measure of adjusted segment results which are earnings before interests, tax, depreciation and amortisation. This measurement basis excludes the effects of non-recurring expenditure from the operating segments (such as legal expenses and impairments when the impairment is the result of an isolated, non-recurring event). Interest income and expenditure are not included in the result for each operating segment that is reviewed by the Decision-Makers.

Turnover for the year ended 31 December 2009 consists of sales from the acrylic fiber products segment and carbon fiber products segment of RMB1,246,141,000 (2008: RMB1,181,349,000) and RMB9,737,000 (2008: RMB5,152,000) respectively.

The Group does not have any inter-segment sales during the year.

6 SEGMENTAL INFORMATION – *continued*

The segment information provided to the Decision-Makers for the year ended 31 December 2009 and 2008 is as follow:

	Acrylic fiber products	**Carbon fiber products**	**Total**
	RMB'000	RMB'000	RMB'000
Year ended 31 December 2009			
Total revenue from external customers	1,246,141	9,737	1,255,878
Adjusted segment results (Note)	297,033	3,187	300,220
Share of profit of a jointly controlled entity	76,456	—	76,456
Depreciation and amortisation	(134,931)	(3,496)	(138,427)
Reversal of impairment of non-current assets	84,550	—	84,550
Income tax (expense)/credit	(41,838)	(3,355)	(45,193)
	281,270	(3,664)	277,606
Additions to non-current assets (other than deferred income tax assets)	29,855	20,697	50,552
Year ended 31 December 2008			
Total revenue from external customers	1,181,349	5,152	1,186,501
Adjusted segment results (Note)	55,423	1,209	56,632
Share of loss of a jointly controlled entity	(71,526)	—	(71,526)
Depreciation and amortisation	(146,696)	—	(146,696)
Impairment of non-current assets	(93,428)	—	(93,428)
Income tax credit	80,086	—	80,086
	(176,141)	1,209	(174,932)
Additions to non-current assets (other than deferred income tax assets)	26,509	—	26,509

6 SEGMENTAL INFORMATION – *continued*

The segment information provided to the Decision-Makers for the year ended 31 December 2009 and 2008 is as follow: – *continued*

	Acrylic fiber products RMB'000	**Carbon fiber products** RMB'000	**Total** RMB'000
As at 31 December 2009			
Total assets	2,308,857	92,523	2,401,380
Total assets include:			
Interest in jointly controlled entity	167,698	—	167,698
Total liabilities	299,516	22,877	322,393
As at 31 December 2008			
Total assets	2,140,510	4,651	2,145,161
Total assets include:			
Interest in jointly controlled entity	90,969	—	90,969
Total liabilities	307,132	—	307,132

The revenue from external parties reported to the Decision-Makers is measured in a manner consistent with that in the consolidated statement of comprehensive income.

A reconciliation of adjusted segment results to profit/(loss) before income tax is provided as follows:

	2009 **RMB'000**	2008 RMB'000
Adjusted segment results for reportable segments	**300,220**	56,632
Depreciation	**(129,211)**	(136,608)
Amortisation	**(9,216)**	(10,088)
Reversal of/(provision for) impairment of non-current assets	**84,550**	(93,428)
Net gain/(loss) on derivative financial instrument	**20,819**	(34,787)
Finance costs - net	**(74,922)**	(102,887)
Share of profit/(loss) of a jointly controlled entity	**76,456**	(71,526)
	(31,524)	(449,324)
Profit/(loss) before income tax	**268,696**	(392,692)

6 SEGMENTAL INFORMATION – *continued*

The amounts provided to the Decision-Makers with respect to total assets are measured in a manner consistent with that of the consolidated financial statements. These assets are allocated based on the operations of the respective segments.

Reportable segments' assets are reconciled to total assets as follows:

	2009 RMB'000	2008 RMB'000
Segment assets for reportable segments	**2,401,380**	2,145,161
Unallocated		
Deferred income tax assets	**84,466**	126,304
Current income tax recoverable	**1,893**	1,893
	86,359	128,197
Total assets per consolidated balance sheet	**2,487,739**	2,273,358

The amounts provided to the Decision-Makers with respect to total liabilities are measured in a manner consistent with that of the consolidated financial statements. These liabilities are allocated based on the operations of the respective segments.

Reportable segments' liabilities are reconciled to total liabilities as follows:

	2009 RMB'000	2008 RMB'000
Segment liabilities for reportable segments	**322,393**	307,132
Unallocated:		
Current borrowings	**590,000**	893,000
Non-current borrowings	**630,000**	330,000
Current income tax liabilities	**3,355**	—
Derivative financial instrument	**6,762**	31,500
	1,230,117	1,254,500
Total liabilities per consolidated balance sheet	**1,552,510**	1,561,632

6 SEGMENTAL INFORMATION – *continued*

Notes:

(i) Revenues of approximately RMB431,929,000 (2008: RMB377,756,000) are derived from three (2008: two) external customers which individually contributed to more than 10% of the Group's revenue. These revenues are all attributable to the acrylic fiber products segment.

(ii) As detailed out in Note 22, the Group has managed and operated certain Utility Facilities and Leased Assets starting from November 2008 with the primarily aim to produce electricity and steam for its own production of acrylic fiber and carbon fiber products at the most cost efficient manner and any surplus of utilities as generated from these Utility Facilities and Leased Assets will be provided to fellow subsidiaries, jointly controlled entity, other related companies and third parties at rates to be determined amongst the parties concerned. The adjusted segment results as disclosed above for the acrylic fiber products segment included an amount of RMB59,686,000 (2008: RMB21,849,000), representing the related income net of direct outgoings (other than depreciation charge), which is attributable to the provisions of surplus utilities to fellow subsidiaries, jointly controlled entity and third parties.

7 LAND USE RIGHTS

The Group's interests in land use rights represent prepaid operating lease payments for lands 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	
	2009	2008
	RMB'000	RMB'000
At 1 January	**28,580**	30,462
Amortisation charge	**(1,882)**	(1,882)
At 31 December	**26,698**	28,580

At 31 December 2009, land use rights of the Group and the Company with net book amount of RMB6,678,000 (2008: RMB7,340,000) have been pledged as securities for certain bank borrowings of the Group and the Company (Note 17).

8 PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings 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 2008						
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)	—
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
Year ended 31 December 2009						
Opening net book amount	335,224	992,772	395	4,053	1,286	1,333,730
Additions (Note d)	—	2,079	57	224	48,192	50,552
Transfer	(7,937)	50,677	—	—	(42,740)	—
Write-off	—	(569)	(19)	—	—	(588)
Depreciation	(20,454)	(107,419)	(171)	(1,167)	—	(129,211)
Reversal of provision for impairment (Note c)	24,428	56,632	—	—	—	81,060
Others (Note f)	—	—	—	(1,076)	—	(1,076)
Closing net book amount	331,261	994,172	262	2,034	6,738	1,334,467
At 31 December 2009						
Cost	463,055	1,744,104	2,514	11,962	6,738	2,228,373
Accumulated depreciation	(131,794)	(749,932)	(2,252)	(9,928)	—	(893,906)
Net book amount	331,261	994,172	262	2,034	6,738	1,334,467

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 2008						
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)	—
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 e)	—	(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
Year ended 31 December 2009						
Opening net book amount	335,224	946,495	395	4,053	1,286	1,287,453
Additions (Note d)	—	1,989	43	224	27,599	29,855
Transfer	(7,937)	30,084	—	—	(22,147)	—
Write-off	—	(569)	(19)	—	—	(588)
Depreciation	(20,454)	(103,926)	(168)	(1,167)	—	(125,715)
Reversal of provision for impairment (Note c)	24,428	56,632	—	—	—	81,060
Others (Note f)	—	—	—	(1,076)	—	(1,076)
Closing net book amount	331,261	930,705	251	2,034	6,738	1,270,989
At 31 December 2009						
Cost	463,055	1,663,887	2,500	11,962	6,738	2,148,142
Accumulated depreciation	(131,794)	(733,182)	(2,249)	(9,928)	—	(877,153)
Net book amount	331,261	930,705	251	2,034	6,738	1,270,989

8 PROPERTY, PLANT AND EQUIPMENT – *continued*

Notes :

(a) At 31 December 2009, property, plant and equipment of the Group and the Company with net book value of RMB710,261,000 (2008: RMB786,517,000) have been pledged as securities for certain bank borrowings of the Group and the Company (Note 17).

(b) Depreciation expenses of RMB98,916,000 (2008: RMB98,899,000), RMB4,533,000 (2008: RMB4,538,000) and RMB25,762,000 (2008: RMB33,171,000) have been charged in cost of sales, administrative expenses and other expenses respectively.

(c) Due the unfavourable business environment in the prior years, the Group had suffered from losses for the two years ended 31 December 2008 and 2007. Management had performed an impairment assessment on the recoverable amounts of the Group's key operating assets (comprise of land use rights, property, plant and equipment and intangible assets) in the prior year. For the purpose of the impairment assessment, management had identified two cash generating units ("CGU") namely the Acrylic Fiber Product Segment and the Carbon Fiber Product Segment. The recoverable amounts of the key operating assets of these two CGUs had been determined based on value-in-use calculations which used post-tax cash flow projections based on financial budgets approved by management covering a five-year period (the "Projection Period"). Given the end products of the Group's acrylic fiber products are primarily with respect to warmkeeping clothes, blanket and materials which do not have close substitutes or subject to technology changes, management believes that the Group's operations in the Acrylic Fiber Product Segment can be carried on perpetually on a going concern basis. Management had assumed no further growth in the cash flows beyond the Projection Periods.

Based on the results of the prior year's impairment assessment, the carrying amounts of the property, plant and equipment and intangible assets in the CGU of the Acrylic Fiber Product Segment had been written down by RMB89,066,000 and RMB4,362,000 respectively and the aggregate impairment losses of RMB93,428,000 had been recognised in the consolidated statement of comprehensive income for the year ended 31 December 2008.

In view of the recent favourable changes in the economic and business environment in the current year, management considers that the Group is capable to achieve a more optimistic business forecast in the coming few years. Accordingly, management has revisited the key assumptions as adopted in the prior year's impairment assessment. The key assumptions as used for the value-in-use calculations in the current year's impairment assessment have been adjusted to reflect the abovementioned favourable changes in circumstances and the revised key assumptions are summarised as below:

	Acrylic Fiber Product Segment	**Carbon Fiber Product Segment**
Gross margin (note i)	17% to 18%	-28% to 47%
Discount rate	12%	12%
Growth rate beyond the Projection Period	0%	0%

Notes:

(i) For the Acrylic Fiber Product Segment, management expects that the gross margin will be increased to 18% from year 2011 onwards. For the Carbon Fiber Product Segment, management assumes that the Group will only be able to achieve the expected gross margin of 47% over the Projection Period gradually, considering that it may take time for the Group to optimise the efficiency from the operations of this new business segment.

(ii) In assuming the perpetual operations of the key operating assets for the Acrylic Fiber Product Segment, 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.

8 PROPERTY, PLANT AND EQUIPMENT – *continued*

In determining the revised budgeted gross margin, management has made reference to the past performance of the Group and also their expectations for the market development in the upcoming few years. The discount rate used is post-tax and has been adjusted to reflect the relatively lower level of specific risks relating to the relevant operating segments as compared to the prior year.

Based on the impairment assessment in the current year, management is able to conclude that it is not required to maintain provision for impairment on those key operating assets of the CGU of the Acrylic Fiber Product Segment. Accordingly, reversals of impairment of property, plant and equipment and intangible assets of RMB81,060,000 and RMB3,490,000 respectively have been recognised in the consolidated statement of comprehensive income for the year ended 31 December 2009.

(d) The additions to the construction in progress for the year ended 31 December 2009 included an adjustment for the under-accruals of certain construction costs of a thermal power plant of RMB22,147,000 which is determined in accordance with the final completion certificates as agreed with the respective constructors in the current year.

(e) On 24 December 2008, the Company had 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.

(f) During the year ended 31 December 2009, the Company has transferred two vehicles with net book amount of RMB1,076,000 to a supplier as the settlement for an amount due to that supplier of RMB700,000, resulting in a loss associated with this transfer of RMB376,000.

9 INTANGIBLE ASSETS - TECHNICAL KNOW-HOW AND LICENSES

Group and Company

	RMB'000
At 1 January 2008	
Cost	102,624
Accumulated amortisation	(53,387)
Net book amount	49,237
Year ended 31 December 2008	
Opening net book amount	49,237
Amortisation charge	(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
Year ended 31 December 2009	
Opening net book amount	36,669
Amortisation charge	(7,334)
Reversal of provision for impairment (Note 8(c))	3,490
Closing net book amount	32,825
At 31 December 2009	
Cost	102,624
Accumulated amortisation	(69,799)
Net book amount	32,825

10 INVESTMENT IN A SUBSIDIARY

	Company	
	2009	2008
	RMB'000	RMB'000
Unlisted investment, at cost	**133,452**	133,452

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

The Company had settled its investment in the subsidiary by transferring certain machinery and equipment (the "Machinery and Equipment"), cash and a self-generated technical know-how for the production of carbon fiber products (the "Technical Know-how") to the subsidiary at the values of RMB45,000,000, RMB30,000,000 and RMB58,452,000 respectively as determined by Jilin Hualun Assets Revaluation Co., Ltd., an independent valuer in the PRC. Prior to the transfer, the carrying amounts of the transferred Machinery and Equipment, cash and Technical Know-how amounted to RMB46,277,000, RMB30,000,000 and nil respectively.

11 INTEREST IN A JOINTLY CONTROLLED ENTITY

	Group	
	2009	2008
	RMB'000	RMB'000
At 1 January	**90,969**	162,222
Share of profit/(loss)	**76,456**	(71,526)
Others	**273**	273
At 31 December	**167,698**	90,969

	Company	
	2009	2008
	RMB'000	RMB'000
Unlisted investment, at cost	**225,000**	225,000
Less: provision for impairment (note b)	**(52,934)**	(129,390)
	172,066	95,610

11 INTEREST IN A JOINTLY CONTROLLED ENTITY – *continued*

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. As at 31 December 2009 and 2008, Jimont has a registered and paid-in capital of RMB450,000,000 and is jointly owned by the Company, Montefiber S.p.A and SIMEST S.p.A as to 50%, 39.38% and 10.62% respectively.

(b) Given the jointly controlled entity is in the same industry as the Group, its financial performance was also affected adversely due to the unfavorable business environment during the years ended 31 December 2008 and 2007. Management had performed an impairment assessment in the prior year and the result of which revealed that the recoverable amount of the Company's investment in the jointly controlled entity approximates its share of the net assets of the jointly controlled entity and hence an impairment loss of RMB129,390,000 had been recognised in the Company's statement of comprehensive income for the year ended 31 December 2008. Management had updated the impairment assessment in the current year based on a consistent basis and the result of which revealed that the provision for impairment should be reduced to RMB52,934,000 as at 31 December 2009.

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

	As at 31 December 2009		As at 31 December 2008	
	Jimont	**50% shared by the Group**	Jimont	50% shared by the Group
	RMB'000	**RMB'000**	RMB'000	RMB'000
Balance sheet				
ASSETS				
Non-current assets				
Land use rights	**24,538**	**12,269**	25,068	12,534
Property, plant and equipment	**944,519**	**472,260**	979,630	489,815
Intangible assets	**30,258**	**15,129**	31,076	15,538
Deferred income tax assets	**17,326**	**8,663**	37,361	18,681
	1,016,641	**508,321**	1,073,135	536,568
Current assets				
Inventories	**95,340**	**47,670**	69,187	34,594
Trade and other receivables	**53,324**	**26,662**	105,881	52,940
Current income tax recoverable	**10,146**	**5,073**	7,034	3,517
Cash and cash equivalents	**155,241**	**77,620**	52,777	26,388
	314,051	**157,025**	234,879	117,439
Total assets	**1,330,692**	**665,346**	1,308,014	654,007

11 INTEREST IN A JOINTLY CONTROLLED ENTITY – *continued*

Notes: – *continued*

(c) The following is the extract of the financial information of Jimont and the respective 50% interest shared by the Group:– *continued*

	As at 31 December 2009		As at 31 December 2008	
	Jimont RMB'000	50% shared by the Group RMB'000	Jimont RMB'000	50% shared by the Group RMB'000
EQUITY				
Capital and reserves attributable to owners				
Share capital	450,000	225,000	450,000	225,000
Accumulated losses	(105,867)	(52,934)	(258,779)	(129,390)
Total equity	344,133	172,066	191,221	95,610
LIABILITIES				
Non-current liabilities				
Long-term bank borrowings	613,520	306,760	584,520	292,260
Current liabilities				
Trade and other payables (note i)	211,284	105,642	283,640	141,820
Short-term bank borrowings	100,000	50,000	—	—
Current portion of long-term bank borrowings	59,000	29,500	230,000	115,000
Derivative financial instrument	2,755	1,378	18,633	9,317
	373,039	186,520	532,273	266,137
Total liabilities	986,559	493,280	1,116,793	558,397
Total equity and liabilities	1,330,692	665,346	1,308,014	654,007
Jointly controlled entity's capital commitments	—	—	—	—

11 INTEREST IN A JOINTLY CONTROLLED ENTITY – *continued*

Notes: – *continued*

(c) The following is the extract of the financial information of Jimont and the respective 50% interest shared by the Group:– *continued*

	For the year ended 31 December 2009		For the year ended 31 December 2008	
	Jimont RMB'000	50% shared by the Group RMB'000	Jimont RMB'000	50% shared by the Group RMB'000
Income statement				
Revenue	1,353,383	676,692	895,292	447,646
Cost of sales	(1,095,135)	(547,568)	(910,873)	(455,437)
Gross profit/(loss)	258,248	129,124	(15,581)	(7,791)
Distribution costs	(43,901)	(21,951)	(27,145)	(13,573)
Administrative expenses	(22,970)	(11,485)	(19,021)	(9,510)
Other income - net	142	71	362	181
Other gains/(losses) - net	43,604	21,802	(48,484)	(24,242)
Operating profit/(loss)	235,123	117,561	(109,869)	(54,935)
Finance income	389	195	3,747	1,873
Finance costs	(62,565)	(31,282)	(67,355)	(33,677)
Profit/(loss) before income tax	172,947	86,474	(173,477)	(86,739)
Income tax (expense)/ credit	(20,035)	(10,018)	30,425	15,213
Profit/(loss) for the year	152,912	76,456	(143,052)	(71,526)

Notes:

(i) Trade and other payables included amounts due to the Company of RMB125,755,000 (2008: RMB163,268,000) which are primarily arise 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. The Group's amounts due from the jointly controlled entity (Note 13) are unsecured and have no fixed terms of repayment. The balances become interest bearing in April 2009 and interest is calculated based on the one-year basic call rate as pronounced by the People's Bank of China, with retrospective effect starting from 1 January 2008. The related interest expenses as recognised in the financial statements of the jointly controlled entity for the year ended 31 December 2009 amounted to RMB8,800,000 (2008: Not applicable) (Note 34(a)).

(ii) There are no contingent liabilities relating to the Group's interest in the jointly controlled entity, and no contingent liabilities of the jointly controlled entity itself.

12 INVENTORIES

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Raw materials	**126,273**	85,769	**125,877**	85,769
Work in progress	**64,630**	27,701	**61,595**	27,701
Finished goods	**50,431**	59,104	**38,342**	59,104
	241,334	172,574	**225,814**	172,574
Less: provision for impairment	**(4,587)**	(15,003)	**(4,587)**	(15,003)
	236,747	157,571	**221,227**	157,571

The cost of inventories recognised as expense and included in cost of sales and other expenses amounted to RMB938,200,000 (2008: RMB1,088,215,000) and RMB269,244,000 (2008: RMB42,697,000) respectively.

13 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables (Note a)				
– third parties	**32,883**	96,117	**32,094**	96,117
– a fellow subsidiary (Note 34(b))	**17,129**	22,429	**17,129**	22,429
	50,012	118,546	**49,223**	118,546
Less: provision for impairment	**(12,903)**	(17,341)	**(12,903)**	(17,341)
Trade receivables - net	**37,109**	101,205	**36,320**	101,205
Prepayments	**23,004**	18,590	**22,408**	18,590
Notes receivables	**128,321**	88,118	**128,321**	88,118
Other receivables	**30,514**	16,898	**26,351**	16,898
Less: provision for impairment	**(7,516)**	(7,516)	**(7,516)**	(7,516)
Other receivables - net	**22,998**	9,382	**18,835**	9,382
Amounts due from (Notes b and 34(b))				
– the ultimate parent company	**—**	7,158	**—**	7,158
– fellow subsidiaries	**54,657**	1,639	**54,657**	1,639
– the jointly controlled entity (Note 11(c)(i))	**125,755**	163,268	**125,755**	163,268
	391,844	389,360	**386,296**	389,360

13 TRADE AND OTHER RECEIVABLES – *continued*

Notes:

(a) The Group's sales are normally conducted on the cash on delivery terms or a credit term of 30 days. Aging analysis of trade receivables based on invoice date are as follows:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
0 - 30 days	**5,765**	43,887	**5,160**	43,887
31 - 90 days	**1,228**	10,857	**1,060**	10,857
91 - 365 days	**9,991**	47,656	**9,975**	47,656
Over 365 days	**33,028**	16,146	**33,028**	16,146
	50,012	118,546	**49,223**	118,546

(b) Except for the amounts due from the jointly controlled entity which bear interests at the one-year basic call rate as pronounced by the People's Bank of China with retrospective from 1 January 2008 onwards, the amounts due from the related companies are unsecured, interest free and have no fixed terms of repayment.

Trade receivables with aging less than 30 days are not considered as past due. As of 31 December 2009, the following trade receivables 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		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
31 - 90 days	**1,228**	10,675	**1,060**	10,675
91 - 365 days	**9,381**	19,548	**9,365**	19,548
Over 365 days	**10,637**	8,496	**10,637**	8,496
	21,246	38,719	**21,062**	38,719

As of 31 December 2009, trade receivables of RMB23,001,000 (2008: RMB35,940,000) were considered as impaired and provided for. The amount of the provision was RMB12,903,000 (2008: RMB17,341,000) as of 31 December 2009. 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		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
31 - 90 days	**—**	182	**—**	182
91 - 365 days	**610**	28,108	**610**	28,108
Over 365 days	**22,391**	7,650	**22,391**	7,650
	23,001	35,940	**23,001**	35,940

13 TRADE AND OTHER RECEIVABLES – *continued*

Notes: – *continued*

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

	Group and Company	
	2009	2008
	RMB'000	RMB'000
At 1 January	**17,341**	5,670
Provision for receivable impairment	**—**	12,904
Receivable written off during the year as uncollectible	**—**	(1,233)
Unused amounts reversed	**(4,438)**	—
At 31 December	**12,903**	17,341

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

	Group and Company	
	2009	2008
	RMB'000	RMB'000
At 1 January	**7,516**	5,231
Provision for receivable impairment	**—**	2,285
At 31 December	**7,516**	7,516

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

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

(e) The carrying amounts of trade and other receivables are all denominated in Renminbi.

(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 which are all denominated in Renminbi are analysed as follows:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and on hand	**211,101**	108,282	**206,166**	107,281
Less: restricted bank deposits (note a)	**(40,670)**	—	**(40,670)**	—
Cash and cash equivalents	**170,431**	108,282	**165,496**	107,281

Notes:

(a) As at 31 December 2009, bank balances of RMB40,670,000 has been pledged for the issues of certain letters of credit for the Group's purchases of raw materials from certain overseas suppliers.

(b) 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)	Nominal values RMB'000
Registered, issued and fully paid		
– Domestic shares of RMB 1 each	**437,017**	437,017
– Non-H foreign shares of RMB 1 each	**169,358**	169,358
– H shares of RMB 1 each	**259,875**	259,875
	866,250	866,250

Notes:

(i) There was no movement in share capital during the years ended 31 December 2009 and 2008.

(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 RMB 1 each (out of which: 460,642,000 shares were domestic shares and 169,358,000 shares are foreign shares).

On 21 June 2006, the Company successfully offered 236,250,000 H shares and listed on The Stock Exchange of Hong Kong Limited. On the same date, the Company had 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 RMB'000	Total RMB'000
At 1 January 2008	—	—	31,919	(16,314)	15,605
Loss for the year	—	—	—	(312,606)	(312,606)
At 31 December 2008	—	—	31,919	(328,920)	(297,001)
Profit for the year	—	—	—	223,503	223,503
At 31 December 2009	**—**	**—**	**31,919**	**(105,417)**	**(73,498)**

Company

	Reserve fund RMB'000 (note a)	Enterprise expansion fund RMB'000 (note a)	Statutory reserve fund RMB'000 (note b)	(Accumulated losses)/ retained profits RMB'000	Total RMB'000
At 1 January 2008	—	—	31,919	46,464	78,383
Loss for the year	—	—	—	(328,358)	(328,358)
At 31 December 2008	—	—	31,919	(281,894)	(249,975)
Profit for the year	—	—	—	223,451	223,451
At 31 December 2009	**—**	**—**	**31,919**	**(58,443)**	**(26,524)**

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.

(b) Statutory reserve fund

In accordance with the relevant laws and regulations in the PRC and 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.

(c) The boards of directors of the Company and the subsidiary have determined not to make any appropriations to the reserve fund, enterprise expansion fund and statutory reserve fund for the years ended 31 December 2009 and 2008.

17 BORROWINGS

	Group and Company	
	2009	2008
	RMB'000	RMB'000
Non-current		
Long-term bank borrowings	**630,000**	980,000
Less: Current portion of long-term bank borrowings	**—**	(650,000)
	630,000	330,000
Current		
Short-term bank borrowings	**590,000**	243,000
Current portion of long-term bank borrowings	**—**	650,000
	590,000	893,000
Total bank borrowings	**1,220,000**	1,223,000
Representing:		
– secured	**330,000**	330,000
– unsecured	**890,000**	893,000
	1,220,000	1,223,000

Unsecured bank borrowings of RMB890,000,000 (2008: RMB743,000,000) is guaranteed by the ultimate parent company.

Borrowings as at 31 December 2009 were repayable as follows:

	Group and Company	
	2009	2008
	RMB'000	RMB'000
Within 1 year	**590,000**	893,000
Between 1 and 2 years	**360,000**	—
Between 2 and 5 years	**140,000**	200,000
Over 5 years	**130,000**	130,000
	1,220,000	1,223,000

The effective interest rate of the bank borrowings as at the balance sheet date was 5.53% (2008: 7.46%) per annum.

17 BORROWINGS – *continued*

Secured bank borrowings of RMB330,000,000 (2008: RMB330,000,000) are secured by certain property, plant and equipment and land use rights of the Company with net book amounts of approximately RMB710,261,000 (2008: RMB786,517,000) (Note 8(a)) and RMB6,678,000 (2008: RMB7,340,000) (Note 7), respectively.

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

	Group and Company	
	2009	2008
	RMB'000	RMB'000
Within 6 months	**610,000**	280,000
6 - 12 months	**610,000**	943,000
	1,220,000	1,223,000

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

As at 31 December 2009, the Group has fixed interest rates bank borrowings of approximately RMB210,000,000 (2008: RMB243,000,000) 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.

18 DEFERRED INCOME

Group

	Construction of new facilities (note a)	**Purchases of domestically manufacture equipment (note b)**	**Total**
	RMB'000	RMB'000	RMB'000
At 1 January 2008	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
Additions	19,300	—	19,300
Amortisation	(4,953)	(1,384)	(6,337)
At 31 December 2009	**70,827**	**15,644**	**86,471**

18 DEFERRED INCOME – *continued*

Company

	Construction of new facilities (note a) RMB'000	Purchases of domestically manufacture equipment (note b) RMB'000	Total RMB'000
At 1 January 2008	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
Additions	4,300	—	4,300
Amortisation	(4,641)	(1,384)	(6,025)
At 31 December 2009	**56,139**	**15,644**	**71,783**

Notes:

(a) In 2004, the Company had received government grants for the construction of certain new production facilities of RMB74,240,000.

In 2008, the Group had received government grants for the constructions of certain sewage facilities and carbon fiber production facilities of RMB1,000,000 and RMB500,000 respectively.

In 2009, the Group has received government grants for the constructions of certain sewage facilities of the Company and carbon fiber production facilities of the subsidiary of RMB4,300,000 and RMB15,000,000 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 constructions of property, plant and equipment have been deferred and credited to the consolidated statement of comprehensive income on a straight-line basis over the estimated useful lives of the related assets of 16 years.

19 TRADE AND OTHER PAYABLES

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables	**96,800**	83,585	**93,745**	83,585
Advance from customers	**45,001**	19,259	**44,184**	19,259
Payable for purchases of property, plant and equipment	**26,724**	42,269	**24,847**	42,269
Amounts due to (Notes b and 34(b))				
– the ultimate parent company	**1,545**	—	**1,545**	—
– fellow subsidiaries	**1,282**	6,849	**1,282**	6,849
– the subsidiary	**—**	—	**9,377**	29,000
– a shareholder of the Company	**219**	1,540	**219**	1,540
Other payables and accruals	**27,027**	41,619	**25,280**	41,619
Provision for staff welfare	**30,238**	32,397	**30,238**	32,397
Social security and other taxes	**7,086**	6,106	**6,395**	6,106
	235,922	233,624	**237,112**	262,624

Notes:

(a) The aging analysis of the trade payables is as follows:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
0 - 30 days	**39,632**	25,629	**36,577**	25,629
31 - 90 days	**44,465**	30,156	**44,465**	30,156
91 - 365 days	**4,004**	17,719	**4,004**	17,719
Over 365 days	**8,699**	10,081	**8,699**	10,081
	96,800	83,585	**93,745**	83,585

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

(c) The carrying amounts of trade and other payables 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 RMB'000	Pre-operating expenses RMB'000	Fair value loss on derivative financial instrument RMB'000	Accelerated accounting depreciation RMB'000	Provisions for impairment of receivables RMB'000	Inventories write-down RMB'000	Tax losses RMB'000	Deferred income RMB'000	Others RMB'000	Total RMB'000
At 1 January 2008	—	11,064	—	5,858	2,913	9,133	13,831	—	3,419	46,218
Credited/(charged) to the consolidated statement of comprehensive income	23,357	(850)	7,875	1,663	3,301	(5,382)	36,020	200	13,902	80,086
At 31 December 2008	23,357	10,214	7,875	7,521	6,214	3,751	49,851	200	17,321	126,304
(Charged)/credited to the consolidated statement of comprehensive income	(23,357)	(851)	(6,184)	1,625	(1,109)	(2,604)	(13,459)	4,797	(696)	(41,838)
At 31 December 2009	—	9,363	1,691	9,146	5,105	1,147	36,392	4,997	16,625	84,466

Company

	Provision for impairment of non-current assets RMB'000	Pre-operating expenses RMB'000	Fair value loss on derivative financial instrument RMB'000	Accelerated accounting depreciation RMB'000	Provisions for impairment of receivables RMB'000	Inventories write-down RMB'000	Tax losses RMB'000	Deferred income RMB'000	Others RMB'000	Total RMB'000
At 1 January 2008	—	11,064	—	5,858	2,913	9,133	13,831	—	3,419	46,218
Credited/(charged) to the statement of comprehensive income	23,357	(850)	7,875	1,487	3,301	(5,382)	36,020	200	(711)	65,297
At 31 December 2008	23,357	10,214	7,875	7,345	6,214	3,751	49,851	200	2,708	111,515
(Charged)/credited to the statement of comprehensive income	(23,357)	(851)	(6,184)	1,625	(1,109)	(2,604)	(13,459)	1,125	(453)	(45,267)
At 31 December 2009	—	9,363	1,691	8,970	5,105	1,147	36,392	1,325	2,255	66,248

20 DEFERRED INCOME TAX *– continued*

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

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 12 months	**36,451**	6,496	**35,503**	5,034
More than 12 months	**48,015**	119,808	**30,745**	106,481
	84,466	126,304	**66,248**	111,515

21 DERIVATIVE FINANCIAL INSTRUMENT

	Group and Company	
	2009	2008
	RMB'000	RMB'000
Derivative financial liability		
– Interest rate swap contract	**6,762**	31,500

Note:

As at 31 December 2009, the derivative financial liability represents an outstanding interest rate swap contract with a notional principal amount of RMB130,000,000 (2008: 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 of the respective balance sheet dates.

The Company's directors consider that the abovementioned interest rate swap contract does not qualify for hedge accounting and the net gain associated with this derivative financial instrument of RMB20,819,000 (2008: net loss of RMB34,787,000) have been recognised within 'other gains/losses - net' in the consolidated statement of comprehensive income for the year ended 31 December 2009 (Note 23).

22 OTHER INCOME AND EXPENSES

	2009 RMB'000	2008 RMB'000
Other income		
Rental income (note a)	**226**	51,897
Income from provision of utilities (note b)	**387,576**	73,661
Amortisation of deferred income (Note 18)	**6,337**	6,724
Reversal of provision for impairment of trade receivables	**4,438**	—
Others	**4,602**	5,885
	403,179	138,167
Other expenses		
Direct outgoings in respect of		
– rental income (note a)	**—**	(29,945)
– provision of utilities (note b)	**(353,652)**	(56,502)
Provision for impairment of trade and other receivables	**—**	(15,189)
Others	**(95)**	—
	(353,747)	(101,636)
	49,432	36,531

22 OTHER INCOME AND EXPENSES *– continued*

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.

Subsequently, the Group had agreed with the Branch for the early termination of the leases of those Utility Facilities with effect from November 2008. The rental income recognised for the year ended 31 December 2008 in respect of those Utility Facilities amounted to RMB51,541,000 and the direct outgoings in respect of those rental income primarily comprise of depreciation on the Utility Facilities of RMB28,481,000.

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 22(a)), management believes that the Group can produce electricity and steam for its own production in a more cost efficient manner and any surplus of utilities generated from the Utility Facilities and the Leased Assets will be provided to the Group's fellow subsidiaries, jointly controlled entity, other related companies and third parties at the rates to be determined amongst the parties concerned.

For the year ended 31 December 2009, the income from the provision of utilities to the fellow subsidiaries, jointly controlled entity and third parties amounted to RMB216,380,000 (2008: RMB49,954,000), RMB140,097,000 (2008: RMB18,217,000), RMB31,099,000 (2008: RMB5,490,000) respectively. Direct outgoings in respect of the income from provision of utilities primarily comprise of costs of raw materials, apportioned operating lease rentals for the Leased Assets, depreciation of the Utility Facilities and related staff costs of RMB269,244,000 (2008: RMB42,697,000), RMB29,339,000 (2008: RMB7,025,000), RMB25,762,000 (2008: RMB4,690,000) and RMB13,025,000 (2008: RMB1,803,000) respectively.

23 OTHER GAINS/(LOSSES) - NET

	2009	2008
	RMB'000	RMB'000
Other gains		
Gain attributable to equity interests of a jointly controlled entity	**273**	273
Net gain on derivative financial instrument (Note 21)	**20,819**	—
	21,092	273
Other losses		
Net loss on derivative financial instrument (Note 21)	**—**	(34,787)
Loss on write-off or transfer of property, plant and equipment	**(964)**	(2,393)
Foreign exchange losses, net	**(110)**	(1,735)
Others	**(12)**	(93)
	(1,086)	(39,008)
	20,006	(38,735)

24 EXPENSES BY NATURE

	2009 RMB'000	2008 RMB'000
Changes in inventories of finished goods and work in progress	(28,256)	249,457
Raw materials used for production of fiber products	966,456	838,758
	938,200	1,088,215
Raw materials used for provision of utilities	276,524	42,697
Depreciation (Note 8)	129,211	136,608
Amortisation of		
– land use rights (Note 7)	1,882	1,882
– intangible assets (included in administrative expenses) (Note 9)	7,334	8,206
Employee benefit expenses (Note 25)	58,308	44,401
Transportation expenses	38,829	29,611
Provision for impairment		
– inventories	—	10,416
– trade and other receivables	—	15,189
Reversal of inventories write-down	—	(8,223)
Auditors' remuneration	1,600	1,600
Legal and professional fees	2,582	2,013
Stamp duty and business tax expenses	1,058	2,549
Urban real estate tax expenses and other taxes	10,370	7,127
Other expenses	30,553	28,493
Total cost of sales, distribution costs, administrative expenses and other expenses	1,496,451	1,410,784

25 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2009 RMB'000	2008 RMB'000
Wages and salaries	42,608	30,989
Pension costs - defined contribution plans	9,495	7,026
Social security costs	6,205	6,386
	58,308	44,401

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

Emoluments of directors and senior management

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

Year ended 31 December 2009

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. 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	300	—	—	300
	400	—	—	400
	1,700	—	—	1,700
Supervisor				
Mr JIANG Yanfeng	50	—	—	50
Ms. SUN Yujing	20	—	—	20
Mr. ZHANG Haiou	10	24	12	46
Mr. Wang Hongbo	10	22	11	43
Mr. MENG Xiangui	30	—	—	30
Ms. FENG Shuhua	30	—	—	30
	150	46	23	219

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

Emoluments of directors and senior management *– continued*

Year ended 31 December 2008

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. 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
Ms. FENG Shuhua	30	—	—	30
	150	32	15	197

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

Emoluments of directors and senior management – *continued*

Note:

In addition to the directors' emoluments as disclosed above, certain directors of the Company received emoluments from JCF Groupco, the ultimate parent company, and its fellow subsidiaries during the year ended 31 December 2009 amounting to RMB138,000 (2008: RMB138,000), 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 2009 included four (2008: four) directors whose emoluments are reflected in the analysis presented above. The aggregate amounts of emoluments paid and payable to the remaining one (2008: one) individual whose emoluments was the highest in the Group during the year are as follows:

	2009	2008
	RMB'000	RMB'000
Basic salaries and allowances	**922**	922

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

	Number of individual	
	2009	2008
HK$1,000,000 - HK$1,500,000 (equivalent to RMB880,480 - RMB1,320,720)	**1**	1

During the years ended 31 December 2009 and 2008, no emoluments have 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

	2009 RMB'000	2008 RMB'000
Interest income on		
– bank balances	(1,260)	(452)
– amounts due from the jointly controlled entity	(8,800)	—
Finance income	(10,060)	(452)
Interest expenses on bank borrowings		
– wholly repayable within five years	71,550	87,370
– repayable over five years	8,927	10,518
	80,477	97,888
Interests on discounted notes receivable	4,505	5,451
Finance costs	84,982	103,339
Finance costs - net	74,922	102,887

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 2009 (2008: Nil).

(b) By reference to the Corporate Income Tax Law of the PRC as approved by the National People's Congress on 16 March 2007, the corporate income tax rate applicable to the Company and its subsidiary for the current and the prior year is 25%.

No provision for corporate income tax has been made as the Company has sufficient tax losses brought forward to offset the estimated tax assessable profit generated in the PRC for the current year. The Company did not have any estimated tax assessable profit generated in the PRC for the prior year.

Provision for corporate income tax has been made by the subsidiary on the estimated tax assessable profit generated in the PRC for the current year based on the applicable tax rate of 25%. The subsidiary did not have any estimated tax assessable profit generated in the PRC for the prior year.

27 INCOME TAX – *continued*

(c) The amount of income tax charged/(credited) to the consolidated statement of comprehensive income represents:

	2009 RMB'000	2008 RMB'000
Current income tax		
– PRC corporate income tax	**3,355**	—
Deferred income tax		
– charge/(credit) for the year (Note 20)	**41,838**	(80,086)
Income tax expense/(credit)	**45,193**	(80,086)

(d) The tax on the Group's profit/(loss) before income tax differs from the theoretical amount that would arising using the tax rate applicable to the results of consolidated entities as follows:

	2009 RMB'000	2008 RMB'000
Profit/(loss) before income tax	**268,696**	(392,692)
Add: Share of (profit)/loss of a jointly controlled entity	**(76,456)**	71,526
	192,240	(321,166)
Tax calculated at the tax rate of 25% (2008: 25%)	**48,060**	(80,291)
Income not subject to tax	**(3,826)**	(272)
Expenses not deductible for taxation purposes	**959**	477
Income tax expense/(credit)	**45,193**	(80,086)

28 PROFIT/(LOSS) ATTRIBUTABLE TO OWNERS OF THE COMPANY

The profit/(loss) attributable to owners of the Company is dealt with in the financial statements of the Company to the extent of RMB223,451,000 (2008: loss of RMB328,358,000).

29 EARNINGS/(LOSSES) PER SHARE

Basic earnings/(losses) per share is calculated by dividing the profit/(loss) attributable to the owners 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 (2008: 866,250,000) shares.

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

30 DIVIDEND

The Company's directors do not recommend the payment of a dividend for the years ended 31 December 2009 and 2008.

31 CASH GENERATED FROM OPERATIONS

(a) Cash generated from operations

	2009 RMB'000	2008 RMB'000
Profit/(loss) before income tax	**268,696**	(392,692)
Adjustments for:		
– Depreciation	**129,211**	136,608
– Amortisation of		
– land use rights	**1,882**	1,882
– intangible assets	**7,334**	8,206
– Amortisation of deferred income	**(6,337)**	(6,724)
– Provisions for impairment of		
– property, plant and equipment	**—**	89,066
– intangible assets	**—**	4,362
– trade and other receivables	**—**	15,189
– inventories	**—**	10,416
– Reversals of provision for impairment of		
– property, plant and equipment	**(81,060)**	—
– intangible assets	**(3,490)**	—
– inventories	**—**	(8,223)
– trade receivables	**(4,438)**	—
– Unrealised (gain)/loss on derivative financial instrument	**(24,738)**	31,500
– Loss on write-off or transfer of property, plant and equipment (see below)	**964**	2,393
– Interest income	**(10,060)**	(452)
– Interest expenses	**80,477**	97,888
– Share of (profit)/loss of a jointly controlled entity	**(76,456)**	71,526
– Gain attributable to equity interests of a jointly controlled entity	**(273)**	(273)
Operating profit before working capital changes	**281,712**	60,672
Changes in working capital:		
– (Increase)/decrease in inventories	**(85,153)**	186,002
– Increase in trade and other receivables	**(31,874)**	(13,704)
– Increase in trade and other payables	**14,575**	9,973
– Increase in restricted bank deposits	**(40,670)**	—
Cash generated from operations	**138,590**	242,943

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

(b) In the consolidated statement of cash flows, proceeds from sales of property, plant and equipment comprise:

	2009 RMB'000	2008 RMB'000
Net book amount (Note 8)	**1,664**	2,393
Loss on write-off or transfer of property, plant and equipment (Note 23)	**(964)**	(2,393)
Non-cash settlement to a supplier (Note 8(f))	**(700)**	—
Proceeds from disposals of property, plant and equipment	**—**	—

(c) Major non-cash transaction

During the year ended 31 December 2009, certain notes receivables as collected from the Group's customers with carrying amounts of RMB484,852,000 have been transferred to several contractors, raw materials suppliers and transportation service providers of the Group as the Group's settlements for its purchases of plant and equipment, raw materials and transportation services amounted to RMB35,011,000, RMB427,941,000 and RMB21,900,000 respectively.

32 COMMITMENTS

(a) Operating lease commitments - The Group as 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:

	2009 RMB'000	2008 RMB'000
No later than 1 year	**36,799**	40,479
Later than 1 year and no later than 5 years	**—**	38,805
	36,799	79,284

32 COMMITMENTS – *continued*

(b) Operating lease arrangements - The Group as the lessor

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

	2009	2008
	RMB'000	RMB'000
Land use rights		
No later than 1 year	**119**	119
Later than 1 year and no later than 5 years	**474**	474
Later than 5 years	**302**	420
	895	1,013

33 FINANCIAL GUARANTEE CONTRACT

As at 31 December 2008, the Group had guaranteed the bank borrowings of the jointly controlled entity of RMB20,000,000. The financial guarantee contract had not been recognised in the consolidated financial statements as the Company's directors considered that the fair value of the guarantee contract was insignificant.

The jointly controlled entity has repaid the related borrowings in December 2009 and hence the financial guarantee has been released accordingly.

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

	2009	2008
	RMB'000	RMB'000
Sales of goods to:		
– a shareholder of the Company	**140,655**	195,618
– fellow subsidiaries	**5,232**	19,227
– other state-owned enterprises	**71,582**	75,717
Provision of utilities to:		
– jointly controlled entity	**140,097**	18,217
– fellow subsidiaries	**216,380**	49,954
Net income of sales of raw materials and services to the jointly controlled entity and fellow subsidiaries	**3,872**	5,885
Rental income from a branch of the ultimate parent company (Note 22(a))	**—**	51,541
Interest income from the jointly controlled entity	**8,800**	—
Rental expense to a fellow subsidiary in respect of the Leased Assets	**(39,118)**	(7,025)
Utility charges paid to a branch of the ultimate parent company	**—**	(75,629)
Purchases of raw materials from:		
– jointly controlled entity	**(44,434)**	(1,520)
– fellow subsidiaries	**(4,382)**	(3,739)
– other state-owned enterprises	**(560,201)**	(710,641)
Interest expenses paid to state-owned banks	**(75,173)**	(87,125)
Drawdown of borrowings from state-owned banks	**790,000**	243,000
Repayment of borrowings to stated-owned banks	**(793,000)**	(313,000)

JCF Groupco allowed the Group to use of the trademark of "白山" (Baishan) at nil consideration during the years ended 31 December 2009 and 2008.

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 costs of the canteen.

34 SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

(b) Balances with related parties

	2009 RMB'000	2008 RMB'000
Bank balances with state-owned banks	**138,434**	64,962
Trade receivables		
– a fellow subsidiary	**17,129**	22,429
– other state-owned enterprises	**—**	167
	17,129	22,596
Other receivables from		
– the ultimate parent company	**—**	7,158
– fellow subsidiaries	**54,657**	1,639
– the jointly controlled entity	**125,755**	163,268
– other state-owned enterprises	**15,203**	3,879
	195,615	175,944
Trade payables to		
– a fellow subsidiary	**195**	—
– other state-owned enterprises	**1,100**	1,100
	1,295	1,100
Other payables due to		
– the ultimate parent company	**1,545**	—
– fellow subsidiaries	**1,401**	6,849
– a shareholder of the Company	**219**	1,540
– other state-owned enterprises	**4,453**	—
	7,618	8,389
Short-term bank borrowings from state-owned banks	**490,000**	243,000
Long-term bank borrowings from state-owned banks	**630,000**	880,000

Apart from bank deposits, bank loans and amounts due from the jointly controlled entity which are interest bearing, the receivable and payable balances with related parties are all unsecured, interest free and have no fixed terms of repayment.

34 SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

(c) Key management compensation

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

	2009	2008
	RMB'000	RMB'000
Wages, salaries and other short-term employee benefits	**2,957**	2,916
Pension and social security costs	**68**	83
	3,025	2,999