吉林奇峰化纖股份有限公司
Jilin Qifeng Chemical Fiber Co., Ltd.

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

(Stock Code: 549)

Annual Report

2010

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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
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				
	2010 RMB million	2009 RMB million	2008 RMB million	2007 RMB million	2006 RMB million
Revenue	**1,501.1**	1,255.9	1,186.5	1,764.9	2,290.7
Gross profit/(loss)	**114.1**	216.9	(27.7)	82.1	286.8
Operating expenses	**(101.8)**	(103.7)	(95.0)	(119.6)	(120.3)
Other gains/(losses), net Note 3	**62.3**	154.0	(95.6)	22.0	14.1
Operating profit/(loss)	**74.6**	267.2	(218.3)	(15.5)	180.6
Finance costs, net	**(72.9)**	(74.9)	(102.9)	(85.2)	(64.2)
Share of profit/(loss) of a jointly controlled entity	**9.5**	76.4	(71.5)	(56.1)	(1.8)
Profit/(loss) before income tax	**11.2**	268.7	(392.7)	(156.8)	114.6
Income tax credit/(expense)	**1.4**	(45.2)	80.1	33.0	(15.5)
Profit/(loss) attributable to the owners of the Company	**12.6**	223.5	(312.6)	(123.8)	99.1
Earnings/(losses) per share (RMB per share) Note 1	**0.01**	0.26	(0.36)	(0.14)	0.13
Dividend per share (RMB per share) Note 1	**—**	—	—	—	0.05
Gross profit/(loss) margin	**7.6%**	17.3%	(2.3%)	4.7%	12.5%
Net profit/(loss) margin	**0.8%**	17.8%	(26.3%)	(7.0%)	4.3%

	As at 31 December				
	2010 RMB million	2009 RMB million	2008 RMB million	2007 RMB million	2006 RMB million
Current assets	**1,002.2**	841.6	657.1	896.9	789.4
Non-current assets	**1,592.5**	1,646.1	1,616.2	1,823.4	1,884.9
Total assets	**2,594.7**	2,487.7	2,273.3	2,720.3	2,674.3
Current liabilities	**1,225.4**	836.0	1,158.1	747.3	688.3
Non-current liabilities	**421.5**	716.5	403.5	948.7	794.6
Total liabilities	**1,646.9**	1,552.5	1,561.6	1,696.0	1,482.9
Total equity	**947.8**	935.2	711.7	1,024.3	1,191.4
Current ratio	**0.82**	1.01	0.57	1.20	1.15
Gearing ratio Note 2	**63.5%**	62.4%	68.7%	62.3%	55.5%

Notes:

1. 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.

2. The gearing ratios set out on this page are calculated as total liabilities divided by total assets.

3. 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.

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 subsidiaries (collectively, the "Group") for the financial year ended 31 December 2010 ("2010" or the "Year").

ANNUAL RESULTS

For the year ended 31 December 2010, the Group's revenue amounted to approximately RMB1.5 billion, representing an increase of approximately 19% as compared to RMB1.26 billion in 2009. The profit attributable to the owners of the Company for the Year amounted to approximately RMB 12.59 million, while the profit attributable to the owners of the Company was approximately RMB223.5 million in 2009.

BUSINESS REVIEW

In 2010, demand for acrylonitrile (the major raw materials for the production of the Group's products) increased substantially owing to the rapid development of ABS and polyacrylamide. ABS and polyacrylamide competed with acrylic fibers for the market supply of acrylonitrile, driving up the market prices and tightening the availability of acrylonitrile. The Group negotiated with suppliers to secure more supplies of the raw material, acrylonitrile and strived to adopt a pricing mechanism with reference to the acrylic fiber market prices in order to obtain more favourable purchase prices of raw materials than market prices. In addition, the Group entered into long-term supply contracts with overseas suppliers for importing acrylonitrile to alleviate the pressure of shortages in raw materials. The average purchase price of acrylonitrile acquired by the Group in 2010 was RMB14,679 per ton, representing an increase of approximately 70% as compared to RMB8,649 per ton for 2009. With significant increases in raw material costs, the average selling price of acrylic fiber during the Year also increased significantly. The higher market prices of acrylic fiber driven by the rising prices of acrylonitrile created pressures on downstream industries, which in turn increased downside pressures on the sales of acrylic fibers. The downstream market of carbon fiber products is still at its developing stage.

OUTLOOK

Looking forward, the Group will further enhance marketing and sales of acrylic fiber and carbon 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 production process will be enhanced through improvements in technology and research and development. The Group is committed to develop new products and improve production process to increase its production efficiency, strengthen its cost control and enhance its profitability. The Group believes that the business environment of the PRC's acrylic fiber industry will continue to be promising in the near future and the development of carbon fiber products will bring about larger market potential and long-term economic benefits for the Group.

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

25 March 2011

MAJOR OPERATIONAL DATA

1. Revenue

	Year ended 31 December			
	2010		2009	
	RMB million	**%**	RMB million	%
Acrylic top	**674.1**	**44.9**	464.5	37.0
Acrylic tow	**337.0**	**22.4**	273.1	21.7
Acrylic staple fiber	**468.0**	**31.2**	501.7	40.0
Others*	**22.0**	**1.5**	16.6	1.3
Total	**1,501.1**	**100.0**	1,255.9	100.0

2. Sales volume

	Year ended 31 December			
	2010		2009	
	Tons	**%**	Tons	%
Acrylic top	**34,598**	**43.7**	33,231	36.3
Acrylic tow	**18,358**	**23.2**	20,485	22.4
Acrylic staple fiber	**25,228**	**31.9**	36,870	40.3
Others*	**949**	**1.2**	920	1.0
Total	**79,133**	**100.0**	91,506	100.0

3. Average selling price and gross profit margin

	Year ended 31 December			
	2010		2009	
	Average selling price RMB/ton	**Gross profit margin %**	Average selling price RMB/ton	Gross profit margin %
Acrylic top	**19,484**	**6.75**	13,978	16.1
Acrylic tow	**18,357**	**8.07**	13,332	18.4
Acrylic staple fiber	**18,551**	**7.70**	13,607	17.9
Average gross profit margin		**7.6**		17.3

* Refer to sales of fiber scrap and carbon fiber

REVIEW AND OUTLOOK

Market Review

According to the preliminary estimates of the China National Textile and Apparel Council, the output value of enterprises above designated size in the Chinese textile industry would surpass RMB4 trillion in 2010 and export value would exceed US$200 billion. Profit is expected to increase 40% to reach over RMB200 billion. In the past, the Chinese textile industry used low costs at its competitive edge. However, with the introduction of energy saving and discharge reduction measures, the rise in labour costs and the unsual price fluctuation of raw materials such as cotton and chemical fiber in 2010, the low cost era of the Chinese textile industry has come to an end. Market conditions will become more complicated and it is necessary to speed up the pace of restructuring and upgrading. In 2010, domestic sales ratio of enterprises above designated size in the textile industry of the PRC further increased to 82%. In the first three quarters of 2010, the accumulative retail value of apparel in the PRC increased by 85%. The Chinese market has entered a new consumption era.

According to the National Bureau of Statistics of China and the China Customs, acrylic fiber output in the PRC was 657,200 tons in 2010, combined with the net acrylic fiber imports of 192,000 tons, the total output and net imports of acrylic fiber were amounted to 849,200 tons, which still indicated a strong market demand in the acrylic fiber industry in the PRC. For the production, operation as well as earnings perspectives of enterprises, gross profit of the acrylic fiber industry in 2010 was 6.89%, profit margin was 1.16% and inventory level of the industry was 5.12%, indicating normal product sales; and export ratio was 1.41%, indicating a good export position.

In respect of the acrylic fiber industry, demand for acrylonitrile (the major raw materials for the production of the Group's products) increased substantially in 2010 primarily due to the rapid development of ABS and polyacrylamide. ABS and polyacrylamide competed with acrylic fibers for the market supply of acrylonitrile, driving up the market prices and tightening the availability of acrylonitrile. The Group negotiated with suppliers to secure more supplies of the raw material, acrylonitrile and strived to adopt a pricing mechanism with reference to the acrylic fiber market prices in order to obtain more favourable purchase prices of raw materials than market prices. In addition, the Group entered into long-term supply contracts with overseas suppliers for importing acrylonitrile to alleviate the pressure of shortages in raw materials. The average purchase price of acrylonitrile acquired by the Group in 2010 was RMB14,679 per ton, representing an increase of approximately 70% as compared to RMB8,649 per ton for 2009. With significant increases in raw material costs, the average selling price of acrylic fiber during the Year also increased significantly. The higher market prices of acrylic fiber driven by the rising prices of acrylonitrile created pressures on downstream industries, which in turn increased downside pressures on the sales of acrylic fibers. The downstream market of carbon fiber products is still at its developing stage.

Sales Review

For the year ended 31 December 2010, the Group's revenue was approximately RMB1.5 billion, representing an increase of approximately 19% as compared with approximately RMB1.26 billion in 2009. The sales volume was 79,133 tons, decreased by approximately 14% as compared to 91,506 tons in 2009. Revenues generated by our acrylic fiber products and carbon fiber products accounted for about 99% and 1% respectively of the Group's total revenue. Sales of acrylic fiber products increased by approximately 19% and sales of carbon fiber products increased by 47% for the Year as compared to 2009. The average unit selling price of the products of the Group increased by approximately 38% from RMB13,725 per ton in 2009 to RMB18,969 per ton in 2010, but the price difference between the average selling price of the Group's products and its major raw material, acrylonitrile, was approximately RMB4,290 per ton, representing a decrease by approximately 15% from RMB5,076 per ton in 2009. The Group adopted a price raising strategy on its products and had adjusted the selling price promptly to minimise the negative impact of the increase in the price of raw materials. By adopting flexible sales strategy and maintaining a consistent product quality, the Group continued to maintain a higher average selling price for its products. The Group actively seized export opportunities by setting its goal on market expansion and outward expansion. The vigorous export strategy adopted by the Group helped to establish a "quality" brand image for the Group's products internationally and paved the way for the its penetration into the global market. The Group strengthened the implementation of its "comprehensive management" strategy and significantly enhanced its management standards, corporate culture and staff performance, etc. The Group continued to improve the quality of its products and services to increase customers' confidence. The Group maintained regular communication with its customers to build a strong business relationship, promote its image and increase product sales. The Group also kept abreast of market development trends to understand and satisfy the needs and expectations of its customers and to win customer loyalty.

Production Management

For the year ended 31 December 2010, the Group's total production output was approximately 81,203 tons, representing a decrease of 8% as compared to the previous year. Production output of cabon fiber products accounted for about 0.5% of total production output (2009:0.3%). The utilisation rate of Group's production facilities in 2010 was about 77% (2009: 83%). During the Year, the Group continued to implement stringent cost control measures to enhance operating efficiency and also implemented various other measures to improve the productivity and utilisation rate of its production facilities. It also strengthened its "sales order based production plan" and planned its production and operation in a reasonable manner. The Group seized opportunities arising from the recovery of the industry based on market demand, organised its production and implemented incentive measures for staff and workshops to take full advantage of staff motivation to achieve profit maximisation.

Internal Operation Control

In 2002, the Company obtained the ISO14001 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 2010, the Group conducted internal control reviews on various management control systems. 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 quality indices of the three major products of the Group improved to different extents in 2010 due to stricter quality control measures. Professional seminars, analysis workshops and meetings with external experts were organised by the production departments to improve product quality.

Employees

As at 31 December 2010, the Group had 1,812 employees, representing a decrease of 80 employees as compared to 1,892 employees as at 31 December 2009. 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. For the twelve months ended 31 December 2010, the Group provided its employees with numerous training opportunities in respect of the various functions of their positions, product quality control, production safety and environmental protection. The Group also assessed the performance of all employees.

OUTLOOK

Looking forward, the management expects that market condition will be more promising in the future. The Group anticipates this will bring about new opportunities and growth points as follows:

1. Development of carbon fiber: Carbon fiber is a new type of high-performance fiber material characterized by high strength and used extensively for military, industrial and civil purposes. The demand for carbon fiber is approximately 8,000 tons per year, while the supply is only approximately 2,000 tons. Currently, the Group is building a production line with an annual capacity of 5,000 tons of crude carbon fiber and a research and development platform for T700 Grade of crude carbon fiber, which are expected to commence operation in September 2011 when the annual production capacity of crude carbon fiber will reach 5,000 tons. Our investment in the production line is approximately RMB300 million and will be funded primarily by both bank loans and internal resources. The Group believes that with the continuous improvement of the down-stream market, the development of carbon fiber products will bring about larger market potential and long-term economic benefits for the Group.

2. Development of differentiated acrylic fiber: Development of differentiated acrylic fiber products will become one of the main drivers for the future development of the acrylic fiber industry in China. The Group will further commit to the development of differentiated acrylic fiber to enhance the competitiveness of itself and of the market for differentiated acrylic fiber products in China. In 2011, apart from the differentiated acrylic fiber originally produced by the Company, the Group will carry out the research and development of Bamboo carbon fiber which as a functional fiber will have extensive market potential. The Group is well positioned to seize the business opportunities to further enhance its profitability.

FINANCIAL ANALYSIS

Operating results

For the year ended 31 December 2010, the revenue of the Group amounted to approximately RMB1.5 billion, representing an increase of approximately 19% from approximately RMB1.26 billion for the year 2009. Revenues generated by our acrylic fiber products and carbon fiber products accounted for about 99% and 1% respectively of the Group's total revenue. Sales of acrylic fiber products increased by approximately 19% and sales of carbon fiber products increased by approximately 47% as compared to 2009. The increase in revenue was mainly due to the increase in the average unit selling price of the Group's products by approximately 38%, offsetting the impact of the decrease in sales volume by approximately 14%. In 2010, the Group's total sales volume was 79,133 tons and total production volume was 81,203 tons, representing a sales-to-production ratio of approximately 97% (2009: 104%). Profit attributable to the owners of the Company for the year was RMB12.6 million, compared to the profit attributable to the owners of the Company of RMB223.5 million for 2009. The decrease in profit for the year of the Group was mainly attributable to the decrease in the overall profit margin of the Company and its jointly controlled entity. The gross profit margin of the Group decreased to 7.6% from 17.3% in 2009. The decrease in gross profit margin in 2010 was primarily due to the narrowing price difference between the cost of acrylonitrile and the selling price of the Group's products resulted from the tightened market supply and rising price of acrylonitrile. The price difference between the average selling price of the Group's products and the average purchase price of its major raw materials, acrylonitrile, was RMB4,290 per ton, representing a decrease of 15% from RMB5,076 per ton for 2009. In addition, the Group recognised a reversal of 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 expenses (distribution costs and administrative expenses)

Distribution costs decreased from approximately RMB41.0 million for the year ended 31 December 2009 to approximately RMB34.1 million in 2010. The decrease in distribution costs was primarily resulted from the decrease in transportation costs by approximately RMB5.8 million due to the decrease in the sales volume during the Year. Administrative expenses increased from approximately RMB62.8 million for the year ended 31 December 2009 to approximately RMB67.7 million in 2010 which was mainly due to the increases in stamp duties tax and other administrative expenses.

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

Net other gains for the Year was approximately RMB62.3 million, as compared to net other gains of approximately RMB154.0 million for the same period in 2009. The decrease in net other gains in 2010 was primarily due to the Group recognised a reversal of provision for impairment of property, plant and equipment and intangible assets of RMB84.6 million in 2009 while the Group did not recognise such non-recurrent gains during the Year. Further, the net gain associated with the derivative financial instrument has been decreased by approximately RMB20.7 million. The abovementioned decrease was partially offset by the increase in the net income from provision of utilisation of approximately RMB11.4 million.

Net finance costs

Net finance costs decreased from approximately RMB74.9 million in 2009 to approximately RMB72.9 million in 2010. The decrease in net finance costs was primarily resulted from the decrease in overall borrowing interest rate when our bank loans were renewed. In addition, the decrease in interest income during the current year partially offset the decrease in interest expense.

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 this jointly controlled entity for 2010 under the equity method of accounting amounted to approximately RMB9.5 million (2009: RMB76.4 million). The market condition as described in the section headed "Market Review" in this report also had a similar impact on the financial performance of the jointly controlled entity during the Year.

Financial resources, liquidity and liability position

As at 31 December 2010, the Group's total assets and total liabilities were approximately RMB2.59 billion and RMB1.65 billion respectively. As at 31 December 2010, the Group's net current liabilities amounted to approximately RMB223 million and its current ratio, calculated by dividing its current assets by its current liabilities as at 31 December 2010, was approximately 0.82 (2009: 1.01). The Group had cash in hand and cash at bank and restricted bank deposits of approximately RMB76.1 million and RMB203.0 million, respectively as at 31 December 2010. Total bank borrowings of the Group amounted to approximately RMB1.282 billion, of which approximately RMB630 million were short-term bank borrowings and current portion of long-term borrowings and non-current portion of long-term bank borrowings were RMB314 million and RMB338 million respectively. Approximately 76.6% of the Group's bank borrowings bear floating interest rates. The bank borrowings were mainly used for the expansion of production facilities in previous years and the construction of the thermal power plant which officially commenced production in early 2007. The net increase in bank borrowings of RMB62 million during the Year was mainly due to the additions of certain bank borrowings for further potential investment in the jointly controlled entity. 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 2010, the Group's gearing ratio, calculated by dividing total liabilities by total assets, was approximately 63.5% (2009: 62.4%).

INVESTMENT REVIEW

Jointly controlled entity

Our jointly controlled entity was established on 21 December 2005 with a total registered share capital of RMB450 million. It 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 financing institution set up by the Italian government. Upon completion of the equity transfer, the Group continues to hold 50.00% equity interest 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 of 100,000 tons was approximately RMB1.02 billion which was mainly financed by bank borrowings and capital contribution from the joint venture partners. All joint venture partners had fully paid up their capital contributions according to their respective share of equity interest in the jointly controlled entity prior to 2007.

The jointly controlled entity is principally engaged in the manufacturing and sale 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 2010, the sales volume and production volume of the jointly controlled entity reached 80,954 tons and 83,124 tons, respectively, representing a sales-to-production ratio of approximately 97%. The utilisation rate of the production plant was 83%. The profit of the jointly controlled entity for 2010 reached approximately RM19.10 million in 2010 (2009: RMB152.9 million). The decrease in earnings of the jointly controlled entity was mainly due to impact of the market conditions described in the section headed "Market Review" in this report.

Entrusted deposits and matured time deposits

As at 31 December 2010, 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 RMB203 million, the Group had no bank deposits which cannot be withdrawn upon maturity.

Pledged assets

As at 31 December 2010, certain property, plant and equipment and land use rights with a net book value of approximately RMB628.6 million and RMB6.0 million, respectively (As at 31 December 2009: RMB710.3 million and RMB6.7 million, respectively) were pledged as securities for bank borrowings of approximately RMB319 million (As at 31 December 2009: RMB330 million). In addition, bank deposits of approximately RMB128 million was pledged for the issue of certain letters of credit for the Group's purchases of raw materials and plant and machinery from certain overseas suppliers.

Contingent liabilities

The Group had no material contingent liabilities as at 31 December 2010.

Dividend

The Board does not recommend the declaration of a dividend for the year ended 31 December 2010 (2009: Nil).

DIRECTORS

Executive Directors

Wang Jinjun, aged 49, 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 45, 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 21 years of experience in the chemical fiber industry and is a qualified senior engineer in the PRC.

Wang Changsheng, aged 51, 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 30 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 51, 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 28 years. He graduated from Jilin Province Institute of Education in the PRC and is a qualified senior economist in the PRC.

Gong Jianzhong, aged 48, 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 19 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 47, 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 19 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 52, 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 31 years of experience in education, imports and exports as well as management.

Zhang Yuchen, aged 42, is a non-executive Director of the Company. He first became a director of the Company on 28 June 2007 Mr. Zhang graduated from the Department of Finance of the Shanxi Finance and Economics Institute with a bachelor's degree in economics. Mr. Zhang is now the manager of the finance department of Shanghai Rong Xing Investment Co., Ltd. He is a Certified Public Accountant in the PRC, an international Certified Internal Auditor and a Certified Financial Planner in Hong Kong.

Independent non-executive Directors

Ye Yongmao, aged 68, 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 44 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 42, 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 19 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 58, has been an independent non-executive Director since 9 June 2006. He is presently an executive director of Chinachem Group, 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 58, 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 16 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 45, 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 19 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 54, 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 62, 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 38, 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 40, 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 47, who joined JCF Groupco in 1985, is one of the joint company secretaries and secretary to the Board. She has approximately 23 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 37, 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 13 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 40, 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.

The Board is pleased to present their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2010.

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 36.

The Directors do not recommend the declaration of a dividend for the year ended 31 December 2010.

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 ended 31 December 2010 are set out in notes 15(b) and 16 to the consolidated financial statements. As at 31 December 2010, 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 2010, 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 2010 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 12 to 14 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 2010, none of the Directors, Supervisors and chief executives 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 2010, 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 2010, 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
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

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
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 2010, sales to the Group's five largest customers accounted for approximately 59.2% of the total sales for the year, in which sales to the largest customer represented approximately 28.1% of the total sales for the year.

Purchases from the Group's five largest suppliers amounted to approximately 81% of the total purchases for the year while total purchases from the largest supplier represented approximately 54% of the total purchases for the year.

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors own more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

CONTINUING CONNECTED TRANSACTIONS

Sales 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 a sales agreement with Tuopu Textile for a term ended on 31 December 2009 which, subject to the compliance with Listing Rules' requirements regarding connected transactions, may be renewed for three years. On 12 May 2010, the parties agreed to renew the agreement for a term of three years ending on 31 December 2012.

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 2010, sales to Tuopu Textile by the Company amounted to approximately RMB25,838, which is within the approved cap of RMB39.0 million as disclosed in the Company's announcement dated 27 April 2010 and circular dated 22 May 2010.

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, may be renewed for three years. On 12 May 2010, the parties agreed to renew the agreement for a term of three years ending on 31 December 2012.

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 2010, sales to Tuopu Textile by the Jointly Controlled Entity amounted to approximately RMB7,046, which is within the approved cap of RMB20 million as disclosed in the Company's announcement dated 27 April 2010 and circular dated 12 May 2010.

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. On 12 May 2010, the parties agreed to renew the agreement for a term of three years ending on 31 December 2013.

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 2010, 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. On 12 May 2010, the parties agreed to renew the agreement for a term of three years ending on 31 December 2013.

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 2010, Utilities and Water Treatment Services provided to Tuopu Textile by the Company amounted to approximately RMB7.86 million, which was within the approved cap of RMB10 million as disclosed in the Company's announcement dated 27 April 2010 and circular dated 12 May 2010.

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. On 12 May 2010, the parties agreed to renew the agreement for a term of three years expiring on 31 December 2013.

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 2010, purchase from Jianan by the Jointly Controlled Entity amounted to approximately RMB65,184, which was within the approved cap of RMB2.1 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. On 12 May 2010, the parties agreed to renew the agreement for a term of three years ending on 31 December 2013.

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 2010, the Company's lease expense paid to JCFCL for the JCFCL Leased Assets amounted to approximately RMB39.79 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. On 12 May 2010, the parties agreed to renew the agreement for a term of three years ending on 31 December 2013.

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 2010, provision of Utilities and Water Treatment Services to JCFCL by the Company amounted to approximately RMB217.75 million, which was within the approved cap of RMB395.34 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. On 12 May 2010, the parties agreed to renew the agreement for a term of three years ending on 31 December 2013.

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 2010, the Company's provision of Utilities and Water Treatment Services to Aika amounted to approximately RMB20.40 million, which was within the approved cap of RMB53.84 million as disclosed in the Company's announcement dated 26 August 2008 and circular dated 12 September 2008.

Other than those continuing connected transactions to be ratified as described in the next section headed "Continuing Connected Transactions to be Ratified", the Group has entered into the abovementioned continuing connected transactions as set out from pages 19 to 21 (the "Reported Connected Transactions') with connected persons which have been complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules. The Directors, including the independent non-executive directors, of the Company confirmed that the aforesaid Reported Connected Transactions were entered into:

(i) in the ordinary and usual course of business of the Company and the Jointly Controlled Entity (as applicable);

(ii) either on normal commercial terms or, on terms no less favourable to the Company and the Jointly Controlled Entity (as applicable) than available to or from independent third parties; and

(iii) in accordance with the relevant agreements governing such transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the continuing connected transactions of the Company and the Jointly Controlled Entity in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance

Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The Company's auditor has issued his letter containing (i) his findings and unqualified conclusions in respect of the Reported Connected Transactions as set out from pages 19 to 21 of this annual report; and (ii) his findings and qualified conclusions in respect of those continuing connected transactions as described in the section headed "Continuing Connected Transaction to be Ratified" below in accordance with paragraph 14A.38 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to The Stock Exchange of Hong Kong Limited

CONTINUING CONNECTED TRANSACTIONS TO BE RATIFIED

For the year ended 31 December 2010, the Company and the Jointly Controlled Entity have provided certain financial assistance to certain connected persons of the Company, which constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. These continuing connected transactions will be subject to ratification and approval by the independent shareholders of the Company at an extraordinary general meeting to be held on 23 June 2011. The details of these continuing connected transactions to be ratified are set out below.

(i) Financial advances made by the Company to connected parties during the year ended 31 December 2010:

Name of the connected parties	**Maximum amount of advances outstanding during the year** RMB'000
Jilin Chemical Fiber Co., Ltd.	46,000
Jilin Aika Viscose Fiber Co., Ltd.	27,000
Jilin Tuopu Textile Industrial Development Co., Ltd.	4,518

(ii) Financial advances made by the Jointly Controlled Entity to connected parties during the year ended 31 December 2010:

Name of the connected parties	**Maximum amount of advances outstanding during the year** RMB'000
Jilin Chemical Fiber Co., Ltd.	9,450
Hunan Tuopu Bamboo & Flax Industrial Development Co., Ltd.	5,000
Jilin Tuopu Textile Industrial Development Co., Ltd.	3,000

Relevant details of the above continuing connected transactions to be ratified will be set out in an announcement and a circular to be published by the Company in accordance with the Listing Rules.

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 25 to 29 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.

AUDITOR

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
25 March 2011

The Supervisory Committee is pleased to present the report of the Supervisory Committee for the year ended 31 December 2010.

In 2010, 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 resolutions 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, except for the situation as described in the section headed "Continuing Connected Transactions to be Ratified" set out on page 22 of this annual report, 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 2010 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 2010 fairly reflected its financial position and operating results, all of the continuing connected transactions (except for those to be ratified as disclosed on page 22 of this annual report) 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
25 March 2011

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

Except for the situation as described in the section headed "Continuing Connected Transactions to be Ratified" set out on page 22 of this annual report, 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 2010.

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	4/4
Mr. Ma Jun	4/4
Mr. Wang Changsheng	4/4
Non-executive Directors	
Mr. Hao Peijun	4/4
Mr. Gong Jianzhong (Two meetings attended by proxy)	3/4
Mr. Chen Jinkui (Two meetings attended by proxy)	3/4
Mr. Jiang Junzhou (Two meetings attended by proxy)	4/4
Mr. Zhang Yuchen (Two meetings attended by proxy)	3/4
Independent non-executive Directors	
Mr. Ye Yongmao (One meeting attended by proxy)	2/4
Mr. Mao Fengge	4/4
Mr. Lee Ka Chung, J.P.	2/4

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 2010 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 2010 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 (One meeting attended by proxy)	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 2010 on 15 April 2010. 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 (Meeting attended by proxy)	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 2010 on 15 April 2010. 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 (Meeting attended by proxy)	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 met once in 2010 on 15 April 2010. 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. 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 with respect to the procedures and internal control for the handling and dissemination of price-sensitive informations, the Company is aware of its disclosure obligation under the Listing Rules, the overriding principle, of which is that information which is expected to be price-sensitive should be announced immediately when it is the subject of a decision, 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 2010, the Board reviewed and was satisfied with the overall internal control systems of the Group. Other than the situation as described in the section headed "Continuing Connected Transactions to be Ratified" set out on page 22 of this annual report, 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 2010 was RMB1.6 million.

INVESTOR RELATIONS

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

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

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

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

羅兵咸永道會計師事務所

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

TO THE SHAREHOLDERS OF JILIN QIFENG CHEMICAL FIBER CO., LTD.

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

We have audited the consolidated financial statements of Jilin Qifeng Chemical Fiber Co., Ltd. (the "Company") and its subsidiary (collectively the "Group") set out on pages 32 to 102, which comprise the consolidated and company balance sheets as at 31 December 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated 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 2010, 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, 25 March 2011

	Note	2010 RMB'000	2009 RMB'000
ASSETS			
Non-current assets			
Land use rights	7	**24,816**	26,698
Property, plant and equipment	8	**1,279,477**	1,334,467
Intangible assets	9	**24,618**	32,825
Interest in a jointly controlled entity	11	**177,521**	167,698
Deferred income tax assets	20	**86,070**	84,466
		1,592,502	1,646,154
Current assets			
Inventories	12	**362,165**	236,747
Trade and other receivables	13	**359,108**	391,844
Current income tax recoverable		**1,893**	1,893
Restricted bank deposits	14	**202,973**	40,670
Cash and cash equivalents	14	**76,060**	170,431
		1,002,199	841,585
Total assets		**2,594,701**	2,487,739
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	**(92,831)**	(105,417)
Other reserves	16	**31,919**	31,919
Total equity		**947,815**	935,229

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2010

	Note	2010 RMB'000	2009 RMB'000
LIABILITIES			
Non-current liabilities			
Long-term bank borrowings	17	**338,000**	630,000
Deferred income	18	**83,459**	86,471
		421,459	716,471
Current liabilities			
Trade and other payables	19	**276,989**	235,922
Short-term bank borrowings	17	**630,000**	590,000
Current portion of long-term bank borrowings	17	**314,000**	—
Current income tax liabilities		**202**	3,355
Derivative financial instrument	21	**4,236**	6,762
		1,225,427	836,039
Total liabilities		**1,646,886**	1,552,510
Total equity and liabilities		**2,594,701**	2,487,739
Net current (liabilities)/assets		**(223,228)**	5,546
Total assets less current liabilities		**1,369,274**	1,651,700

The notes on pages 39 to 102 are an integral part of these financial statements.

The financial statements on pages 32 to 102 were approved by the Board of Directors on 25 March 2011 and were signed on its behalf.

Wang Jinjun
Chairman

Wang Changsheng
Director

	Note	2010 RMB'000	2009 RMB'000
ASSETS			
Non-current assets			
Land use rights	7	**24,816**	26,698
Property, plant and equipment	8	**1,171,009**	1,270,989
Intangible assets	9	**24,618**	32,825
Investment in a subsidiary	10	**215,000**	133,452
Investment in a jointly controlled entity	11	**181,616**	172,066
Deferred income tax assets	20	**68,298**	66,248
		1,685,357	1,702,278
Current assets			
Inventories	12	**330,901**	221,227
Trade and other receivables	13	**387,907**	386,296
Current income tax recoverable		**1,893**	1,893
Restricted bank deposits	14	**137,349**	40,670
Cash and cash equivalents	14	**68,733**	165,496
		926,783	815,582
Total assets		**2,612,140**	2,517,860
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	**(48,042)**	(58,443)
Other reserves	16	**31,919**	31,919
Total equity		**992,604**	982,203

BALANCE SHEET

AS AT 31 DECEMBER 2010

	Note	**2010**	2009
		RMB'000	RMB'000
LIABILITIES			
Non-current liabilities			
Long-term bank borrowings	17	**338,000**	630,000
Deferred income	18	**68,659**	71,783
		406,659	701,783
Current liabilities			
Trade and other payables	19	**264,641**	237,112
Short-term bank borrowings	17	**630,000**	590,000
Current portion of long-term bank borrowings	17	**314,000**	—
Derivative financial instrument	21	**4,236**	6,762
		1,212,877	833,874
Total liabilities		**1,619,536**	1,535,657
Total equity and liabilities		**2,612,140**	2,517,860
Net current liabilities		**(286,094)**	(18,292)
Total assets less current liabilities		**1,399,263**	1,683,986

The notes on pages 39 to 102 are an integral part of these financial statements.

The financial statements on pages 32 to 102 were approved by the Board of Directors on 25 March 2011 and were signed on its behalf.

Wang Jinjun
Chairman

Wang Changsheng
Director

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 RMB'000	2009 RMB'000
Revenue	6	**1,501,110**	1,255,878
Cost of sales		**(1,387,011)**	(1,038,982)
Gross profit		**114,099**	216,896
Distribution costs		**(34,112)**	(40,954)
Administrative expenses		**(67,717)**	(62,768)
Other income	22	**459,465**	403,179
Other expenses	22	**(401,125)**	(353,747)
Reversal of impairment of non-current assets	8(c)	**—**	84,550
Other gains - net	23	**3,919**	20,006
Operating profit		**74,529**	267,162
Finance income	26	**4,803**	10,060
Finance costs	26	**(77,698)**	(84,982)
		1,634	192,240
Share of profit of a jointly controlled entity	11	**9,550**	76,456
Profit before income tax		**11,184**	268,696
Income tax credit/(expense)	27	**1,402**	(45,193)
Profit and total comprehensive income for the year attributable to the owners of the Company	28	**12,586**	223,503
Earnings per share for profit attributable to the owners of the Company during the year (expressed in RMB per share)			
– basic and diluted	29	**0.01**	0.26
Dividend	30	**—**	—

The notes on pages 39 to 102 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2010

	Attributable to owners of the Company				
	Share capital RMB'000	**Share premium** RMB'000	**Accumulated losses** RMB'000	**Other reserves** RMB'000	**Total** RMB'000
At 1 January 2009	866,250	142,477	(328,920)	31,919	711,726
Profit and total comprehensive income for the year	—	—	223,503	—	223,503
At 31 December 2009	866,250	142,477	(105,417)	31,919	935,229
At 1 January 2010	866,250	142,477	(105,417)	31,919	935,229
Profit and total comprehensive income for the year	—	—	12,586	—	12,586
At 31 December 2010	866,250	142,477	(92,831)	31,919	947,815

The notes on pages 39 to 102 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	**2010** **RMB'000**	2009 RMB'000
Cash flows from operating activities			
Cash generated from operations	31(a)	**61,921**	138,590
Income tax paid		**(3,355)**	—
Net cash from operating activities		**58,566**	138,590
Cash flows from investing activities			
Purchases of property, plant and equipment		**(73,960)**	(13,152)
Increase in restricted cash in respect of potential further investment in the jointly controlled entity	14(a)	**(75,000)**	—
Government grants received		**3,950**	19,300
Interest received		**589**	1,260
Net cash (used in)/from investing activities		**(144,421)**	7,408
Cash flows from financing activities			
Proceeds from borrowings		**738,000**	890,000
Repayments of borrowings		**(676,000)**	(893,000)
Interests paid		**(70,516)**	(80,849)
Net cash used in financing activities		**(8,516)**	(83,849)
Net (decrease)/increase in cash and cash equivalents		**(94,371)**	62,149
Cash and cash equivalents at beginning of year		**170,431**	108,282
Cash and cash equivalents at end of year	14	**76,060**	170,431

The notes on pages 39 to 102 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 25 March 2011.

2 BASIS OF PREPARATION

As at 31 December 2010, the Group's current liabilities exceeded its current assets by RMB223,228,000 and the total bank borrowings as included in the Group's current liabilities amounted to RMB944,000,000. 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, Jilin Chemical Fiber Group Co., Ltd. ("JCF Group"), 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 standards, 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 2010:

HKAS 1 (Amendment)	Presentation of Financial Statements
HKAS 17 (Amendment)	Leases
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 36 (Amendment)	Impairment of Assets
HKAS 39	Eligible Hedge Items
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combination
HKFRS 5 (Amendment)	Non-current Assets Held for Sale and Discontinued Operations
HKFRIC – Int 9	Reassessment of Embedded Derivatives
HKFRIC – Int 16	Hedges of a Net Investment in a Foreign Operation
HKFRIC – Int 17	Distribution of Non-cash Assets to Owners
HKFRIC – Int 18	Transfer of Assets from Customers

The adoption of the abovementioned new or revised standards, amendments and interpretations and also the adoption of those second improvements HKFRS (2009) as issued by HKICPA in May 2009 did not result in any substantial changes to the Group's significant accounting policies and presentation of the consolidated financial statements.

The HKICPA has also issued the following new or revised standards, amendments or interpretations which are not yet effective for the financial year beginning on or after 1 January:

		Effective for accounting periods beginning on or after
HKAS 24 (Revised)	Related Party Disclosures	1 January 2011
HKAS 32 (Amendment)	Classification of Rights Issue	1 February 2010
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters	1 July 2010
HKFRS 9	Financial Instruments	1 January 2013
HKFRIC - Int 14	Prepayments of a Minimum Funding Requirement	1 January 2011
HKFRIC - Int 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2010

Except for the early adoption of HKAS 24 (Revised) "Related Party Disclosures", the Group has not early adopted the abovementined new or revised standards, amendments or interpretations and also the third improvements to HKFRS (2010) as issued by HKICPA in May 2010 in these consolidated financial statements and will apply these new or revised standards, amendments, interpretations and improvements 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.

2 BASIS OF PREPARATION – *continued*

Early adoption of HKAS 24 (Revised) "Related Party Disclosures"

HKAS 24 (Revised) introduces an exemption from all of the disclosure requirements of HKAS24 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. Accordingly, the early adoption of HKAS 24 (Revised) has just only affected the disclosures of related party transactions and did not result in any financial impact on these consolidated financial statements.

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 the 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.1 Group accounting – *continued*

(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.

3.2 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) 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 currency and the Group's presentation currency. Renminbi is also the functional currency of the subsidiary and the 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 gains/losses – net'.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.4 Property, plant and equipment

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

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

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

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

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 3.7).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are 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 non-financial 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.

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 2010 (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', restricted bank deposits 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.

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 do 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

3.11 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.

3.12 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*

3.13 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.

3.14 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).

3.15 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.

3.16 Share capital

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

3.17 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*

3.18 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.

3.19 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 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, the 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.21 Employee benefits – *continued*

(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.

3.22 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

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.

3.25 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 3.4% (2009: 1.3%) of the Group's revenue was denominated in United State dollars ("US dollar"). The net exchange loss for the year of RMB294,000 (2009: RMB110,000) 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 2010, substantially all of the Group's financial assets/liabilities are denominated in Renminbi.

Although the Group does not have any significant assets or liabilities which are denominated in currencies other than Renminbi as at 31 December 2010, 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.

4 FINANCIAL RISK MANAGEMENT – *continued*

4.1 Financial risk factors – *continued*

(a) *Market risk* – continued

Interest rate risk

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

Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. In general, the Group raises long-term borrowings at floating rates as well as fixed rates, based upon the capital market conditions and the Group's internal requirements. As at 31 December 2010, the Group's fixed rates borrowings and floating rates borrowings amounted to RMB300,000,000 (2009: RMB210,000,000) and RMB982,000,000 (2009: RMB1,010,000,000) respectively.

With all other variables held constant, the Group's finance costs on the floating rates borrowings will increase/decrease by approximately RMB3,923,000 (2009: RMB3,162,000) 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 2010 (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 2010, the 6-months LIBOR is 0.46% 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 RMB2,143,000 (2009: RMB3,500,000) if the 30-years USD CMS Rate was 50 basis points lower/higher.

4 FINANCIAL RISK MANAGEMENT – *continued*

4.1 Financial risk factors – *continued*

(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.

As at 31 December 2010, the Group has certain concentration of credit risk because approximately 83% (2009: 86%) 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 15% (2009: 35%) and 28% (2009: 15%) of the other receivables (gross amount before any impairment provisions) are due from the jointly controlled entity and the fellow subsidiaries of the Group respectively. The aging analysis of the balances due from the Top Five Debtors, the jointly controlled entity and the fellow subsidiaries are as below:

	2010 RMB'000	2009 RMB'000
Receivables from the Top Five Debtors		
Within 30 days	**10,835**	2,561
31 - 90 days	**1,942**	629
91 - 365 days	**—**	9,083
Over 365 days	**24,807**	30,858
	37,584	43,131
Receivables from the jointly controlled entity		
Within 30 days	**23,990**	46,923
31 - 90 days	**25,143**	13,250
91 - 365 days	**—**	65,582
	49,133	125,755
Receivables from the fellow subsidiaries		
Within 30 days	**30,391**	33,359
31 - 90 days	**44,261**	21,298
91 - 365 days	**17,981**	—
	92,633	54,657

4 FINANCIAL RISK MANAGEMENT – *continued*

4.1 Financial risk factors – *continued*

(b) Credit risk – continued

Except for the amounts receivable from the jointly controlled entity which are interest bearing (Note 11(c)(i)) and also the amounts due from a fellow subsidiary of RMB36,407,000 which were secured by certain production equipment of the fellow subsidiary (Note 13(b)), the receivables from the abovementioned counterparties are all unsecured and interest free. As at 31 December 2010, no provision for receivable impairment has been made against the Top Five Debtors, the jointly controlled entity and the abovementioned fellow subsidiaries and the management does not expect any 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.

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 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 its related companies 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 2010, the Group has interest bearing bank balances of RMB76,056,000 (2009 : 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 5years RMB'000	Over 5 years RMB'000
At 31 December 2010				
Long-term bank borrowings	347,313	146,802	70,647	250,585
Short-term bank borrowings	647,818	—	—	—
Financial liabilities as included in trade and other payables	220,260	—	—	—
Net settled derivative financial instrument	682	962	2,592	—
	1,216,073	147,764	73,239	250,585
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

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% (2009: 65%). The debt-to-total capital ratios at 31 December 2010 and 2009 were as follows:

	2010	2009
	RMB'000	RMB'000
Total borrowings (Note 17)	**1,282,000**	1,220,000
Less: Cash and cash equivalents (Note 14)	**(76,060)**	(170,431)
Net debt	**1,205,940**	1,049,569
Total equity	**947,815**	935,229
Total capital	**2,153,755**	1,984,798
Debt-to-total capital ratio (%)	**56%**	53%

The slight increase in the debt-to-total capital ratio in 2010 is primarily resulted from the increase in the Group's total borrowings and the decrease in cash and cash equivalents, which both lead to an increase in the Group's net debt during the year ended 31 December 2010.

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 RMB85,717,000 and RMB29,306,000 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, the 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 2010, the Group has recognised deferred income tax assets of RMB86,070,000 (2009: RMB84,466,000) (Note 20). The Company's 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 2010, the Group has past due but not impaired trade receivables of RMB25,163,000 (2009: RMB21,246,000) (Note 13(b)) and trade receivables of RMB6,125,000 (2009: RMB23,001,000) are being considered as impaired and partially provided for (Note 13(b)). In addition, the amounts due from the Group's related companies amounted to RMB142,910,000 (2009: RMB180,412,000) as of 31 December 2010 and the Company's management considers that the receivables from related companies will not expose the Group to any significant credit risks. The Group has also requested a fellow subsidiary to pledge certain of its production equipment as the securities for the amounts due from that fellow subsidiary of RMB36,407,000 as at 31 December 2010.

The management considers that the provision for impairment of trade and other receivables of RMB12,537,000 (2009: RMB20,419,000) as at 31 December 2010 adequately cover any significant losses arising from the non-performance by the counterparties.

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 RMB51,257,000 (2009: RMB16,802,000) 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 2010 consists of sales from the acrylic fiber products segment and carbon fiber products segment of RMB1,486,822,000 (2009: RMB1,246,141,000) and RMB14,288,000 (2009: RMB9,737,000) respectively.

The Group does not have any inter-segment sales during the years ended 31 December 2010 and 2009.

6 SEGMENTAL INFORMATION – *continued*

The segment information provided to the Decision-Makers for the years ended 31 December 2010 and 2009 is as follow:

	Acrylic fiber products RMB'000	Carbon fiber products RMB'000	Total RMB'000
Year ended 31 December 2010			
Total revenue from external customers (Note i)	1,486,822	14,288	1,501,110
Adjusted segment results (Note ii)	215,293	4,395	219,688
Share of profit of a jointly controlled entity	9,550	—	9,550
Depreciation and amortisation	(140,488)	(4,815)	(145,303)
Income tax credit/(expense)	1,604	(202)	1,402
	85,959	(622)	85,337
Additions to non-current assets (other than deferred income tax assets)	31,117	49,805	80,922
Year ended 31 December 2009			
Total revenue from external customers (Note i)	1,246,141	9,737	1,255,878
Adjusted segment results (Note ii)	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	(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

6 SEGMENTAL INFORMATION – *continued*

	Acrylic fiber products RMB'000	Carbon fiber products RMB'000	Total RMB'000
As at 31 December 2010			
Total assets	2,250,574	256,164	2,506,738
Total assets include:			
Interest in a jointly controlled entity	177,521	—	177,521
Total liabilities	333,301	27,147	360,448
As at 31 December 2009			
Total assets	2,308,857	92,523	2,401,380
Total assets include:			
Interest in a jointly controlled entity	167,698	—	167,698
Total liabilities	299,516	22,877	322,393

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 before income tax is provided as follows:

	2010 RMB'000	2009 RMB'000
Adjusted segment results for reportable segments	**219,688**	300,220
Depreciation	**(135,214)**	(129,211)
Amortisation	**(10,089)**	(9,216)
Reversal of impairment of non-current assets	**—**	84,550
Net gain on derivative financial instrument	**144**	20,819
Finance costs - net	**(72,895)**	(74,922)
Share of profit of a jointly controlled entity	**9,550**	76,456
	(208,504)	(31,524)
Profit before income tax	**11,184**	268,696

6 SEGMENTAL INFORMATION – *continued*

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

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

	2010 RMB'000	2009 RMB'000
Segment assets for reportable segments	**2,506,738**	2,401,380
Unallocated:		
Deferred income tax assets	**86,070**	84,466
Current income tax recoverable	**1,893**	1,893
	87,963	86,359
Total assets per consolidated balance sheet	**2,594,701**	2,487,739

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

	2010 RMB'000	2009 RMB'000
Segment liabilities for reportable segments	360,448	322,393
Unallocated:		
Current borrowings	**944,000**	590,000
Non-current borrowings	**338,000**	630,000
Current income tax liabilities	**202**	3,355
Derivative financial instrument	**4,236**	6,762
	1,286,438	1,230,117
Total liabilities per consolidated balance sheet	**1,646,886**	1,552,510

6 SEGMENTAL INFORMATION – *continued*

Notes:

(i) Revenues of approximately RMB618,983,000 (2009: RMB431,929,000) are derived from two (2009: three) customers which individually contributed 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 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 RMB72,039,000 (2009: RMB59,686,000), 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	
	2010	2009
	RMB'000	RMB'000
At 1 January	**26,698**	28,580
Amortisation charge	**(1,882)**	(1,882)
At 31 December	**24,816**	26,698

At 31 December 2010, land use rights of the Group and the Company with carrying amount of RMB6,016,000 (2009: RMB6,678,000) have been pledged as securities for certain bank borrowings of the Group and the Company (Note 17).

8 PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings	Machinery and equipment	Electronic and office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2009						
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	—	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	—	—	—	(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
Year ended 31 December 2010						
Opening net book amount	331,261	994,172	262	2,034	6,738	1,334,467
Additions	—	2,970	242	2,205	75,505	80,922
Transfer	13,217	4,063	—	—	(17,280)	—
Depreciation	(22,526)	(111,598)	(81)	(1,009)	—	(135,214)
Others (Note d)	—	(641)	—	(57)	—	(698)
Closing net book amount	321,952	888,966	423	3,173	64,963	1,279,477
At 31 December 2010						
Cost	476,272	1,735,147	2,756	11,711	64,963	2,290,849
Accumulated depreciation	(154,320)	(846,181)	(2,333)	(8,538)	—	(1,011,372)
Net book amount	321,952	888,966	423	3,173	64,963	1,279,477

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 2009						
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	—	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	—	—	—	(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
Year ended 31 December 2010						
Opening net book amount	331,261	930,705	251	2,034	6,738	1,270,989
Additions	—	1,466	125	2,205	27,321	31,117
Transfer	13,217	3,024	—	—	(16,241)	—
Depreciation	(22,526)	(106,797)	(67)	(1,009)	—	(130,399)
Others (Note d)	—	(641)	—	(57)	—	(698)
Closing net book amount	321,952	827,757	309	3,173	17,818	1,171,009
At 31 December 2010						
Cost	476,272	1,665,643	2,625	11,711	17,818	2,174,069
Accumulated depreciation	(154,320)	(837,886)	(2,316)	(8,538)	—	(1,003,060)
Net book amount	321,952	827,757	309	3,173	17,818	1,171,009

8 PROPERTY, PLANT AND EQUIPMENT – *continued*

Notes:

(a) At 31 December 2010, property, plant and equipment of the Group and the Company with carrying amount of RMB628,600,000 (2009: RMB710,261,000) have been pledged as securities for certain bank borrowings of the Group and the Company (Note 17).

(b) Depreciation expenses of RMB103,306,000 (2009: RMB98,916,000), RMB5,162,000 (2009: RMB4,533,000) and RMB26,746,000 (2009: RMB25,762,000) have been charged in cost of sales, administrative expenses and other expenses respectively.

(c) Due to the persistent unfavorable business environment for the Group's operations in 2007 and 2008, management had assessed the recoverable amounts of the Group's key operating assets (comprise of land use rights, property, plant and equipment and intangible assets) in the relevant years. 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").

Based on the results of the impairment assessment, the Group had recognised impairment losses on its property, plant and equipment and intangible assets in the CGU of the Acrylic Fiber Product Segment of RMB89,066,000 and RMB4,362,000 respectively in 2008.

In view of the favourable changes in the economic and business environment in 2009, management considered that the Group is capable to achieve a more optimistic business forecast in the coming few years. Accordingly, management had revisited the key assumptions as adopted in the impairment assessment and concluded that it is not required to maintain the provisions for impairment on those key operating assets of the CGU of the Acrylic Fiber Product Segment. Accordingly, the Group had recognised the reversals of impairment losses on property, plant and equipment and intangible assets of RMB81,060,000 and RMB3,490,000 respectively in 2009.

Due to the Group's profitability for the current year is much lower than originally budgeted, management has revisited certain key assumptions as adopted in the impairment assessment so as to reflect the 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 56%
Discount rate	13%	13%
Growth rate beyond the Projection Period	0%	0%

8 PROPERTY, PLANT AND EQUIPMENT – *continued*

Notes: – *continued*

(i) For the Acrylic Fiber Product Segment, management expects that the gross margin will be increased to 18% from year 2012 onwards. For the Carbon Fiber Product Segment, management assumes that the Group will only be able to achieve the expected gross margin of 56% over the Projection Periods gradually, considering that it should take time for the Group to optimise the efficiency from the operation of this business segment which was just officially launched in August 2009.

(ii) Given the end products of the Group's acrylic fiber products are primarily with respect to warm keeping 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 has assumed no further growth in the cash flows beyond the Projection Periods.

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.

In determining the 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 reflects the specific risks relating to the relevant operating segments.

Based on the results of the impairment assessment for the current year, management has concluded that the estimated recoverable amounts of the Group's key operating assets are still higher than their carrying amounts and hence no provision for impairment is required to be recognised as of 31 December 2010.

(d) During the year ended 31 December 2010, the Company has transferred certain property, plant and equipment with an aggregate carrying amount of RMB698,000 to two suppliers as its settlement for an aggregate amount due to these suppliers of RMB4,335,000, resulting in a gain associated with these transfers of RMB3,637,000 (Note 23).

9 INTANGIBLE ASSETS - TECHNICAL KNOW-HOW AND LICENSES

Group and the Company

	RMB'000
At 1 January 2009	
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
Year ended 31 December 2010	
Opening net book amount	32,825
Amortisation charge	(8,207)
Closing net book amount	24,618
At 31 December 2010	
Cost	102,624
Accumulated amortisation	(78,006)
Net book amount	24,618

10 INVESTMENT IN A SUBSIDIARY

	Company	
	2010	2009
	RMB'000	RMB'000
Unlisted investment, at cost	**215,000**	133,452

Notes:

(a) In December 2010, the Company has contributed cash of RMB81,548,000 to the subsidiary as its second capital contribution to the subsidiary.

(b) Details of the subsidiary are as below:

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of registered and paid up capital		Interest directly held	
			2010 RMB	2009 RMB	**2010**	2009
Jilin TanGu Carbon Fiber Co., Ltd.	PRC, Limited liability company	Development, manufacturing and sales of carbon fiber products in the PRC	**190,000,000**	100,000,000	**100%**	100%

11 INTEREST IN A JOINTLY CONTROLLED ENTITY

	Group	
	2010	2009
	RMB'000	RMB'000
At 1 January	**167,698**	90,969
Share of profit	**9,550**	76,456
Others	**273**	273
At 31 December	**177,521**	167,698

	Company	
	2010	2009
	RMB'000	RMB'000
Unlisted investment, at cost	**225,000**	225,000
Less: provision for impairment (note b)	**(43,384)**	(52,934)
	181,616	172,066

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 2010 and 2009, 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 50.00%, 39.36% and 10.64% respectively.

(b) Management had performed an impairment assessment in 2008 and the result of which revealed that the recoverable amount of the Company's investment in the jointly controlled entity should approximate its share of the net assets of the jointly controlled entity and hence an impairment loss of RMB129,390,000 was 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 and the prior year based on a consistent basis and the result of which revealed that the provision for impairment should be reduced to RMB43,384,000 as at 31 December 2010 (2009: RMB52,934,000).

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

	As at 31 December 2010		As at 31 December 2009	
	Jimont RMB'000	**50% shared by the Group RMB'000**	Jimont RMB'000	50% shared by the Group RMB'000
Balance sheet				
ASSETS				
Non-current assets				
Land use rights	**24,009**	**12,005**	24,538	12,269
Property, plant and equipment	**883,212**	**441,606**	944,519	472,260
Intangible assets	**28,325**	**14,162**	30,258	15,129
Deferred income tax assets	**14,574**	**7,287**	17,326	8,663
	950,120	**475,060**	1,016,641	508,321
Current assets				
Inventories	**165,292**	**82,646**	95,340	47,670
Trade and other receivables	**118,388**	**59,194**	53,324	26,662
Derivative financial instrument	**1,734**	**867**	—	—
Taxation prepayment	**11,396**	**5,698**	10,146	5,073
Cash and cash equivalents	**91,436**	**45,718**	155,241	77,620
	388,246	**194,123**	314,051	157,025
Total assets	**1,338,366**	**669,183**	1,330,692	665,346

11 INTEREST IN A JOINTLY CONTROLLED ENTITY – *continued*

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

	As at 31 December 2010		As at 31 December 2009	
	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	**(86,767)**	**(43,384)**	(105,867)	(52,934)
Total equity	**363,233**	**181,616**	344,133	172,066
LIABILITIES				
Non-current liabilities				
Long-term bank borrowings	**479,000**	**239,500**	613,520	306,760
Current liabilities				
Trade and other payables (note i)	**124,613**	**62,307**	211,284	105,642
Short-term bank borrowings	**238,000**	**119,000**	100,000	50,000
Current portion of long-term bank borrowings	**133,520**	**66,760**	59,000	29,500
Derivative financial instrument	**—**	**—**	2,755	1,378
	496,133	**248,067**	373,039	186,520
Total liabilities	**975,133**	**487,567**	986,559	493,280
Total equity and liabilities	**1,338,366**	**669,183**	1,330,692	665,346
Jointly controlled entity's capital commitments	**54,880**	**27,440**	—	—

11 INTEREST IN A JOINTLY CONTROLLED ENTITY – *continued*

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

	For the year ended 31 December 2010		For the year ended 31 December 2009	
	Jimont RMB'000	50% shared by the Group RMB'000	Jimont RMB'000	50% shared by the Group RMB'000
Income statement				
Revenue	**1,496,511**	**748,256**	1,353,383	676,692
Cost of sales	**(1,369,663)**	**(684,832)**	(1,095,135)	(547,568)
Gross profit	**126,848**	**63,424**	258,248	129,124
Distribution costs	**(33,493)**	**(16,747)**	(43,901)	(21,951)
Administrative expenses	**(22,572)**	**(11,286)**	(22,970)	(11,485)
Other income - net	**1,031**	**516**	142	71
Other gains - net	**6,215**	**3,108**	43,604	21,802
Operating profit	**78,029**	**39,015**	235,123	117,561
Finance income	**407**	**203**	389	195
Finance costs	**(56,584)**	**(28,292)**	(62,565)	(31,282)
Profit before income tax	**21,852**	**10,926**	172,947	86,474
Income tax expense	**(2,752)**	**(1,376)**	(20,035)	(10,018)
Profit for the year	**19,100**	**9,550**	152,912	76,456

Notes:

(i) Trade and other payables included amounts due to the Company of RMB49,133,000 (2009: RMB125,755,000) 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 2010 amounted to RMB2,688,000 (2009: RMB8,800,000)(Note 33(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	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Raw materials	**138,882**	126,273	**138,187**	125,877
Work in progress	**99,387**	64,630	**96,315**	61,595
Finished goods	**129,509**	50,431	**100,986**	38,342
	367,778	241,334	**335,488**	225,814
Less: provision for impairment	**(5,613)**	(4,587)	**(4,587)**	(4,587)
	362,165	236,747	**330,901**	221,227

The cost of inventories recognised as expenses and included in cost of sales and other expenses amounted to RMB1,290,455,000 (2009: RMB945,480,000) and 313,113,000 (2009: RMB269,244,000) respectively.

13 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables (Note a)	**45,440**	50,012	**45,084**	49,223
Less: provision for impairment	**(5,021)**	(12,903)	**(5,021)**	(12,903)
Trade receivables – net	**40,419**	37,109	**40,063**	36,320
Prepayments	**50,083**	23,004	**14,409**	22,408
Notes receivables	**107,217**	128,321	**107,217**	128,321
Other receivables	**25,995**	30,514	**20,396**	26,351
Less: provision for impairment	**(7,516)**	(7,516)	**(7,516)**	(7,516)
Other receivables – net	**18,479**	22,998	**12,880**	18,835
Amounts due from (Notes d and 33(b))				
– the ultimate parent company	**1,144**	—	**1,144**	—
– fellow subsidiaries	**92,633**	54,657	**92,400**	54,657
– the jointly controlled entity (Note 11(c)(i))	**49,133**	125,755	**49,133**	125,755
– the subsidiary	**—**	—	**70,661**	—
	142,910	180,412	**213,338**	180,412
	359,108	391,844	**387,907**	386,296

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	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
0 - 30 days	**14,152**	5,765	**14,152**	5,160
31 - 90 days	**2,895**	1,228	**2,539**	1,060
91 - 365 days	**146**	9,991	**146**	9,975
Over 365 days	**28,247**	33,028	**28,247**	33,028
	45,440	50,012	**45,084**	49,223

(b) Trade receivables with aging less than 30 days are not considered as past due. As of 31 December 2010, the following trade receivables were past due but not impaired. These balances relate to a number of customers for whom there is no recent history of default. The aging analysis of these trade receivables is as follows:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
31 - 90 days	**356**	1,228	**—**	1,060
91 -365 days	**—**	9,381	**—**	9,365
Over 365 days (Note)	**24,807**	10,637	**24,807**	10,637
	25,163	21,246	**24,807**	21,062

Note:

The balances with aging more than 90 days include trade receivables balance due from a fellow subsidiary of RMB24,807,000 (2009: RMB17,129,000). The Group has also provided utilities (such as electricity and steam) and funding advances to that fellow subsidiary and the related receivable balances due from that fellow subsidiary in respect of those transactions amounted to RMB9,332,000 (2009: Nil) and RMB 2,268,000 (2009:Nil) respectively. Therefore, the total trade and other receivable due from the abovementioned fellow subsidiary amounted to RMB36,407,000 (2009: RMB17,129,000). As of the report of these consolidated financial statements, the fellow subsidiary has subsequently settled a portion of the total receivable balances of approximately RMB17,000,000. The fellow subsidiary has already pledged certain of its production equipment to the Company as the securities for its repayment of the amounts due to the Group. Management does not expect any significant loss from the non-performance by the fellow subsidiary.

As of 31 December 2010, trade receivables of RMB6,125,000 (2009: RMB23,001,000) were considered as impaired and provided for. The amount of the provision was RMB5,021,000 (2009: RMB12,903,000) as of 31 December 2010. 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	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
31 - 90 days	**2,539**	—	**2,539**	—
91 -365 days	**146**	610	**146**	610
Over 365 days	**3,440**	22,391	**3,440**	22,391
	6,125	23,001	**6,125**	23,001

13 TRADE AND OTHER RECEIVABLES – *continued*

Notes: – *continued*

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

	Group and Company	
	2010	2009
	RMB'000	RMB'000
At 1 January	**12,903**	17,341
Provision for receivable impairment	**1,649**	—
Unused amounts reversed (Note)	**(7,888)**	(4,438)
Receivables written off during the year as uncollectible	**(1,643)**	—
At 31 December	**5,021**	12,903

Note:

The Company had a long outstanding trade receivable balance due from a third party customer with carrying amounts of RMB10,096,000 (already net of provision for impairment of RMB10,844,000) as at 31 December 2009. Through the process of certain legal proceedings against that customer, the Company has finally obtained the ownerships of certain inventories of cotton and manufacturing equipment of the customer in November 2010 as the customer's final settlement of the related balance due to the Company. After considering the value of the aforesaid inventories of cotton and manufacturing equipment as estimated by management, the Company has recognised a net reversal of provision for impairment of RMB7,888,000 during the year ended 31 December 2010.

There are no movements in the provision for impairment of other receivables for the years ended 31 December 2010 and 2009.

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 aging analysis of the amounts due from related companies is as follows:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
0 - 30 days	**55,525**	80,282	**75,607**	80,282
31 - 90 days	**69,404**	34,548	**119,750**	34,548
91 - 365 days	**17,981**	65,582	**17,981**	65,582
	142,910	180,412	**213,338**	180,412

13 TRADE AND OTHER RECEIVABLES – *continued*

Notes: – *continued*

(e) The amounts due from related companies are unsecured and have no fixed terms of repayment. 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, the amounts due from related companies are interest free as at 31 December 2010 and 2009.

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

(g) The carrying amounts of trade and other receivables are all denominated in Renminbi except that, trade receivables of RMB150,000 (2009: Nil) as at 31 December 2010 are denominated in US dollars.

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

(i) The maximum exposure to credit risk at the reporting date is the carrying amounts of each class of receivables mentioned above. Except that a fellow subsidiary has pledged certain of its production equipment to the Company as the securities for its repayment of the amount due to the Company of RMB36,407,000 as at 31 December 2010 (Note 13(b)), 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	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and on hand	**279,033**	211,101	**206,082**	206,166
Less: restricted bank deposits (note a)	**(202,973)**	(40,670)	**(137,349)**	(40,670)
Cash and cash equivalents	**76,060**	170,431	**68,733**	165,496

Notes:

(a) As at 31 December 2010, bank deposits of RMB127,973,000(2009: RMB40,670,000) have been pledged for the issues of certain letters of credit for the Group's purchases of raw materials and machinery from certain overseas suppliers.

In addition, the Company has drawn down a bank borrowing of RMB75,000,000 in July 2010 which can only be used for funding the Company's further capital contribution to its jointly controlled entity. The Company has not yet made any further capital contribution to its jointly controlled entity as of the date of these consolidated financial statements and hence the proceed from the abovementioned bank borrowing which was deposited in a designated bank account was being classified as a restricted bank deposit.

(b) The maximum exposure to credit risk at the reporting date is the carrying amounts of the cash and cash equivalents and the restricted bank deposits.

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 2010 and 2009.

(ii) The Company was converted into a joint stock company on 23 May 2005, with 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 2009	—	—	31,919	(328,920)	(297,001)
Profit for the year	—	—	—	223,503	223,503
At 31 December 2009	—	—	31,919	(105,417)	(73,498)
Profit for the year	—	—	—	12,586	12,586
At 31 December 2010	**—**	**—**	**31,919**	**(92,831)**	**(60,912)**

Company

	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 2009	—	—	31,919	(281,894)	(249,975)
Profit for the year	—	—	—	223,451	223,451
At 31 December 2009	—	—	31,919	(58,443)	(26,524)
Profit for the year	—	—	—	10,401	10,401
At 31 December 2010	**—**	**—**	**31,919**	**(48,042)**	**(16,123)**

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 2010 and 2009.

17 BORROWINGS

	Group and Company	
	2010	2009
	RMB'000	RMB'000
Non-current		
Long-term bank borrowings	**652,000**	630,000
Less: Current portion of long-term bank borrowings	**(314,000)**	—
	338,000	630,000
Current		
Short-term bank borrowings	**630,000**	590,000
Current portion of long-term bank borrowings	**314,000**	—
	944,000	590,000
Total bank borrowings	**1,282,000**	1,220,000
Representing:		
- secured	**319,000**	330,000
- unsecured	**963,000**	890,000
	1,282,000	1,220,000

Unsecured bank borrowings of RMB963,000,000 (2009: RMB890,000,000) are guaranteed by the ultimate parent company.

Borrowings as at 31 December 2010 were repayable as follows:

	Group and Company	
	2010	2009
	RMB'000	RMB'000
Within 1 year	**944,000**	590,000
Between 1 and 2 years	**128,000**	360,000
Between 2 and 5 years	**33,000**	140,000
Over 5 years	**177,000**	130,000
	1,282,000	1,220,000

17 BORROWINGS *– continued*

The effective interest rate of the bank borrowings as at the balance sheet date was 5.27% (2009: 5.53%) per annum.

Secured bank borrowings of RMB319,000,000 (2009: RMB330,000,000) are secured by certain property, plant and equipment and land use rights of the Company with carrying amounts of approximately RMB628,600,000 (2009: RMB710,261,000) (Note 8) and RMB6,016,000 (2009: RMB6,678,000) (Note 7), respectively.

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

	Group and Company	
	2010	2009
	RMB'000	RMB'000
Within 6 months	**682,000**	610,000
6 - 12 months	**600,000**	610,000
	1,282,000	1,220,000

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

As at 31 December 2010, the Group has fixed interest rates bank borrowings of approximately RMB300,000,000 (2009: RMB210,000,000) 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) RMB'000	Purchases of domestically manufacture equipment (note b) RMB'000	Total RMB'000
At 1 January 2009	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
Additions	3,950	—	3,950
Amortisation	(5,578)	(1,384)	(6,962)
At 31 December 2010	**69,199**	**14,260**	**83,459**

Company

	Construction of new facilities (note a) RMB'000	Purchases of domestically manufacture equipment (note b) RMB'000	Total RMB'000
At 1 January 2009	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
Additions	2,900	—	2,900
Amortisation	(4,640)	(1,384)	(6,024)
At 31 December 2010	**54,399**	**14,260**	**68,659**

18 DEFERRED INCOME – *continued*

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.

In 2010, the Group has received government grants for the installation of certain energy recycling facilities for the Company of RMB2,900,000 and for financing certain of the research and development expenses to be incurred by the subsidiary of RMB1,050,000 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/installations 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 to 22 years. The government grant in connection with the research and development expenses to be incurred by the subsidiary will be recognised in the consolidated statement of comprehensive income as and when the related expenses are incurred.

19 TRADE AND OTHER PAYABLES

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables	**154,182**	96,800	**149,320**	93,745
Receipts in advance from customers	**38,506**	45,001	**37,884**	44,184
Payable for purchases of property, plant and equipment	**25,911**	26,724	**19,084**	24,847
Amounts due to (Notes b and 33(b))				
– the ultimate parent company	**—**	1,545	**—**	1,545
– fellow subsidiaries	**3,759**	1,282	**3,731**	1,282
– the subsidiary	**—**	—	**—**	9,377
– a shareholder of the Company	**—**	219	**—**	219
Other payables and accruals	**21,276**	27,027	**21,267**	25,280
Provision for staff welfare	**27,679**	30,238	**27,679**	30,238
Other taxes	**5,676**	7,086	**5,676**	6,395
	276,989	235,922	**264,641**	237,112

Notes:

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

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
0 - 30 days	**45,823**	39,632	**44,062**	36,577
31 - 90 days	**94,320**	44,465	**92,927**	44,465
91 - 365 days	**9,756**	4,004	**8,048**	4,004
Over 365 days	**4,283**	8,699	**4,283**	8,699
	154,182	96,800	**149,320**	93,745

(b) The amounts due to the related companies are unsecured, interest free and have no fixed terms 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 2009	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
Credited /(charged) to the consolidated statement of comprehensive income	—	(851)	(632)	1,625	(1,560)	257	4,312	(407)	(1,140)	1,604
At 31 December 2010	—	8,512	1,059	10,771	3,545	1,404	40,704	4,590	15,485	86,070

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 2009	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
Credited/(charged) to the statement of comprehensive income	—	(851)	(632)	1,625	(1,560)	—	4,312	(435)	(409)	2,050
At 31 December 2010	—	8,512	1,059	10,595	3,545	1,147	40,704	890	1,846	68,298

20 DEFERRED INCOME TAX – *continued*

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

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 12 months	**37,306**	36,451	**38,037**	35,503
More than 12 months	**48,764**	48,015	**30,261**	30,745
	86,070	84,466	**68,298**	66,248

21 DERIVATIVE FINANCIAL INSTRUMENT

	Group and Company	
	2010	2009
	RMB'000	RMB'000
Derivative financial liability		
- Interest rate swap contract	**4,236**	6,762

Note:

As at 31 December 2010, the derivative financial liability represents an outstanding interest rate swap contract with a notional principal amount of RMB130,000,000 (2009: 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 RMB144,000 (fair value gain of RMB2,526,000, net of realised loss of RMB2,382,000 on the contract for the year ended 31 December 2010) (2009: RMB20,819,000) have been recognised within 'other gains - net' in the consolidated statement of comprehensive income for the year ended 31 December 2010 (Note 23).

22 OTHER INCOME AND EXPENSES

	2010 RMB'000	2009 RMB'000
Other income		
Rental income	**130**	226
Income from provision of utilities (Note)	**444,428**	387,576
Amortisation of deferred income (Note 18)	**6,962**	6,337
Reversal of provision for impairment of trade receivables	**7,888**	4,438
Others	**57**	4,602
	459,465	403,179
Other expenses		
Direct outgoings in respect of provision of utilities (Note)	**(399,135)**	(353,652)
Provision for impairment of trade receivables	**(1,649)**	—
Others	**(341)**	(95)
	(401,125)	(353,747)
	58,340	49,432

Note:

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. The lease agreement was renewed for another three years' term in December 2010. Combined with certain utility production facilities (including a thermal power plant) as owned by the Group (the "Utility Facilities"), 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 2010, the income from the provision of utilities to the fellow subsidiaries, jointly controlled entity and third parties amounted to RMB246,005,000 (2009: RMB216,380,000), RMB148,845,000 (2009: RMB140,097,000), RMB49,578,000 (2009: RMB31,099,000) 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 RMB313,113,000 (2009: RMB269,244,000), RMB29,841,000 (2009: RMB29,339,000), RMB26,746,000 (2009: RMB25,762,000) and RMB16,850,000 (2009: RMB13,025,000) respectively.

23 OTHER GAINS - NET

	2010 RMB'000	2009 RMB'000
Other gains		
Gain attributable to equity interests of a jointly controlled entity	**273**	273
Net gain on derivative financial instrument (Note 21)	**144**	20,819
Gain on transfer of property, plant and equipment (Note 8(d))	**3,637**	—
Others	**159**	—
	4,213	21,092
Other losses		
Loss on write-off or transfer of property, plant and equipment	**—**	(964)
Foreign exchange losses, net	**(294)**	(110)
Others	**—**	(12)
	(294)	(1,086)
	3,919	20,006

24 EXPENSES BY NATURE

	2010 RMB'000	2009 RMB'000
Changes in inventories of finished goods and work in progress	**(113,835)**	(28,256)
Raw materials used for production of fiber products	**1,404,290**	973,736
Cost of inventories sold (Note)	**1,290,455**	945,480
Raw materials used for provision of utilities	**313,113**	269,244
Depreciation (Note 8)	**135,214**	129,211
Amortisation (included in administrative expenses) of		
– land use rights (Note 7)	**1,882**	1,882
– intangible assets (Note 9)	**8,207**	7,334
Provision for impairment of trade receivables	**1,649**	—
Employee benefit expenses (Note 25)	**64,299**	58,308
Transportation expenses	**33,019**	38,829
Auditors' remuneration	**1,600**	1,600
Legal and professional fees	**482**	2,582
Stamp duty and business tax expenses	**1,851**	1,058
Urban real estate tax expenses and other taxes	**11,504**	10,370
Other expenses	**26,690**	30,553
Total cost of sales, distribution costs, administrative expenses and other expenses	**1,889,965**	1,496,451

Note:

The cost of inventories sold for the year ended 31 December 2010 included a provision for impairment of inventories of RMB1,026,000 (2009: Nil).

25 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2010 RMB'000	2009 RMB'000
Wages and salaries	**45,469**	42,608
Pension costs - defined contribution plans	**9,970**	9,495
Social security costs	**8,860**	6,205
	64,299	58,308

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 2010

Name of director and supervisor	Fees RMB'000	Salary RMB'000	Employer's contribution to pension scheme RMB'000	Total RMB'000
Director				
Mr. WANG Jinjun	450	—	—	450
Mr. MA Jun	400	—	—	400
Mr. WANG Changsheng	350	—	—	350
	1,200	—	—	1,200
Non-executive director				
Mr. HAO Peijun	20	—	—	20
Mr. GONG Jianzhong	20	—	—	20
Mr. CHEN Jinkui	20	—	—	20
Mr. JIANG Junzhou	20	—	—	20
Mr. ZHANG Yuchen	20	—	—	20
	100	—	—	100
Independent non-executive director				
Mr. YE Yongmao	50	—	—	50
Mr. MAO Fengge	50	—	—	50
Mr. LEE Ka Chung	300	—	—	300
	400	—	—	400
	1,700	—	—	1,700
Supervisor				
Mr JIANG Yanfeng	50	—	—	50
Ms. SUN Yujing	20	—	—	20
Mr. ZHANG Haiou	10	26	12	48
Mr. WANG Hongbo	10	24	11	45
Mr. MENG Xiangui	30	—	—	30
Mr. FENG Shuhua	30	—	—	30
	150	50	23	223

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

Emoluments of directors and senior management *– continued*

Year ended 31 December 2009

Name of director and supervisor	Fees RMB'000	Salary RMB'000	Employer's contribution to pension scheme RMB'000	Total RMB'000
Director				
Mr. WANG Jinjun	450	—	—	450
Mr. MA Jun	400	—	—	400
Mr. WANG Changsheng	350	—	—	350
	1,200	—	—	1,200
Non-executive director				
Mr. HAO Peijun	20	—	—	20
Mr. GONG Jianzhong	20	—	—	20
Mr. CHEN Jinkui	20	—	—	20
Mr. JIANG Junzhou	20	—	—	20
Mr. ZHANG Yuchen	20	—	—	20
	100	—	—	100
Independent non-executive director				
Mr. YE Yongmao	50	—	—	50
Mr. MAO Fengge	50	—	—	50
Mr. LEE Ka Chung	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
Mr. FENG Shuhua	30	—	—	30
	150	46	23	219

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 2010 amounting to RMB138,000 (2009: 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 2010 included four (2009: four) directors whose emoluments are reflected in the analysis presented above. The aggregate amounts of emoluments paid and payable to the remaining one (2009: one) individual whose emoluments was the highest in the Group during the year are as follows:

	2010	2009
	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	
	2010	2009
HK$1,000,000 - HK$1,500,000 (equivalent to RMB850,930 – RMB1,276,395)	1	1

During the years ended 31 December 2010 and 2009, 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

	2010 RMB'000	2009 RMB'000
Interest income	**(4,803)**	(10,060)
Interest expenses on bank borrowings		
– wholly repayable within five years	**61,188**	71,550
– repayable over five years	**9,250**	8,927
	70,438	80,477
Interests on discounted notes receivable	**7,260**	4,505
Finance costs	**77,698**	84,982
Finance costs – net	**72,895**	74,922

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 2010 (2009: 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 by the Company as it has sufficient tax losses brought forward to offset the estimated tax assessable profit generated in the PRC for the current and the prior year.

The current income tax for the current and the prior year represent the provisions for corporate income tax on the estimated tax assessable profit as generated by the subsidiary in the PRC.

27 INCOME TAX – *continued*

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

	2010 RMB'000	2009 RMB'000
Current income tax		
– PRC corporate income tax	202	3,355
Deferred income tax		
– (credit)/charge for the year (Note 20)	(1,604)	41,838
Income tax (credit)/expense	(1,402)	45,193

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

	2010 RMB'000	2009 RMB'000
Profit before income tax	11,184	268,696
Add: Share of profit of the jointly controlled entity	(9,550)	(76,456)
	1,634	192,240
Tax calculated at the tax rate of 25% (2009: 25%)	409	48,060
Income not subject to tax	(2,808)	(3,826)
Expenses not deductible for taxation purposes	997	959
Income tax (credit)/expense	(1,402)	45,193

28 PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The profit attributable to owners of the Company is dealt with in the financial statements of the Company to the extent of RMB10,401,000 (2009: RMB223,451,000).

29 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit 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 (2009: 866,250,000) shares.

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

30 DIVIDEND

The Company's directors do not recommend the payment of a dividend for the years ended 31 December 2010 and 2009.

31 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Cash generated from operations

	2010	2009
	RMB'000	RMB'000
Profit before income tax	**11,184**	268,696
Adjustments for:		
– Depreciation	**135,214**	129,211
– Amortisation of		
– land use rights	**1,882**	1,882
– intangible assets	**8,207**	7,334
– Amortisation of deferred income	**(6,962)**	(6,337)
– Provision for:		
– trade receivables	**1,649**	—
– inventories	**1,026**	—
– Reversals of provisions for impairment of		
– property, plant and equipment	**—**	(81,060)
– intangible assets	**—**	(3,490)
– trade receivables	**(7,888)**	(4,438)
– Unrealised gain on derivative financial instrument	**(2,526)**	(24,738)
– (Gain)/loss on transfer or disposal/write-off of property, plant and equipment (see below)	**(3,637)**	964
– Interest income	**(4,803)**	(10,060)
– Interest expenses	**70,438**	80,477
– Share of profit of a jointly controlled entity	**(9,550)**	(76,456)
– Gain attributable to equity interests of a jointly controlled entity	**(273)**	(273)
Operating profit before working capital changes	**193,961**	281,712
Changes in working capital:		
– Increase in inventories	**(134,264)**	(85,153)
– Decrease/(increase) in trade and other receivables	**42,991**	(31,874)
– Increase in trade and other payables	**46,536**	14,575
– Increase in restricted bank deposits	**(87,303)**	(40,670)
Cash generated from operations	**61,921**	138,590

31 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS – *continued*

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

	2010 RMB'000	2009 RMB'000
Net book amount	**698**	1,664
Gain/(loss) on transfer or write-off of property, plant and equipment (Note 23)	**3,637**	(964)
Non-cash settlement to suppliers (Note 8(d))	**(4,335)**	(700)
Proceeds from disposals of property, plant and equipment	**—**	—

(c) Major non-cash transactions

(i) During the year ended 31 December 2010, certain notes receivables as collected from the Group's customers with carrying amounts of RMB449,748,000 (2009: 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 RMB25,696,000 (2009: RMB35,011,000), RMB392,928,000 (2009: RMB427,941,000) and RMB31,124,000 (2009: RMB21,900,000) respectively.

(ii) In November 2010, the Company has obtained the ownership of certain inventories of cotton and manufacturing equipment of a third party customer as the customer's final settlement of the related balance due to the Group (Note 13(c)).

(iii) In April and July 2010, the Group has transfer certain of its equipment to two suppliers as the Group's partial settlements of its payable balances due to these suppliers (Note 8(d)).

32 COMMITMENTS

(a) Capital Commitment

Capital expenditure contracted for at the end of the reporting period but not yet incurred is as follows:

	2010 RMB'000	2009 RMB'000
Property, plant and equipment	**89,776**	—

32 COMMITMENTS – *continued*

(b) Operating lease commitments – The Group as the lessee

The Group has leased certain utilities production facilities (the "Leased Assets") from a fellow subsidiary for an initial period from 4 November 2008 to 31 December 2010 and the lease term was renewed for another three years in December 2010 (Note 22).

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

	2010	2009
	RMB'000	RMB'000
No later than 1 year	**36,890**	36,799
Later than 1 year and no later than 5 years	**69,119**	—
	106,009	36,799

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

	2010	2009
	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	**177**	302
	770	895

33 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 (Revised) "Related Party Disclosures", government related entities (e.g. state-owned enterprises) and their subsidiaries directly or indirectly controlled, jointly controlled or significantly influenced 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 government related entities in the PRC (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 government related entities. The Company's directors believe that it is meaningful to disclose any significant related party transactions with these government related entities for the interests of the financial statements users, although these transactions are exempted from disclosure upon the early adoption of HKAS 24 (Revised). The Company's directors believe that the information in respect of related party transactions has been adequately disclosed in these consolidated financial statements.

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.

(a) Related party transactions

	2010 **RMB'000**	2009 RMB'000
Sales of goods to:		
– a shareholder of the Company	**421,349**	140,655
– fellow subsidiaries	**26**	5,232
Provision of utilities to:		
– jointly controlled entity	**148,845**	140,097
– fellow subsidiaries	**246,005**	216,380
Net income from sales of raw materials to the jointly controlled entity and fellow subsidiaries	**250**	3,637
Interest income from the jointly controlled entity	**2,688**	8,800
Rental expense to a fellow subsidiary in respect of the Leased Assets	**(39,787)**	(39,118)
Purchases of raw materials from:		
– jointly controlled entity	**(68,513)**	(44,434)
– fellow subsidiaries	**(5,362)**	(4,382)

Notes:

(i) JCF Groupco allowed the Group to use of the trademark of "白山" (Baishan) at nil consideration during the years ended 31 December 2010 and 2009.

(ii) 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.

33 SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

(b) Balances with related parties

	2010 RMB'000	2009 RMB'000
Trade receivables in respect of sales of goods		
– a fellow subsidiary	**24,807**	17,129
Amounts due from:		
In respect of provision of utilities		
– the ultimate parent company	**1,144**	—
– fellow subsidiaries	**90,365**	54,657
– the jointly controlled entity	**49,133**	125,755
	140,642	180,412
In respect of advances and others (Note ii):		
– fellow subsidiaries	**2,268**	—
	142,910	180,412
Receipts in advance from customers		
– a shareholder of the Company	**9,456**	—
Amounts due to		
– the ultimate parent company	**—**	1,545
– fellow subsidiaries	**3,759**	1,282
– a shareholder of the Company	**—**	219
	3,759	3,046

33 SIGNIFICANT RELATED PARTY TRANSACTIONS *– continued*

(b) Balances with related parties *– continued*

Notes:

(i) Except for the amount due from the jointly controlled entity which is interest bearing (Note 11(c)(i)), all of the trade or non-trade receivable and payable balances with related parties are unsecured, interest free and have no fixed terms of repayment.

(ii) During the year ended 31 December 2010, the Group has certain non-trade advances to/from fellow subsidiaries and details of which are summarised as below:

	Amounts of the advances during the year RMB'000	Amounts of the repayments during the year RMB'000	Amounts outstanding as at 31 December 2010 RMB'000	Maximum amounts outstanding during the year RMB'000
Advances to fellow subsidiaries				
Jilin Chemical Fiber Co., Ltd.	111,000	(111,000)	—	46,000
Jilin Aika Viscose Fiber Co., Ltd.	27,000	(27,000)	—	27,000
Jilin Tuopu Texitile Industrial Development Co., Ltd.	6,748	(4,480)	2,268	4,518
Advances from fellow subsidiaries				
Jilin Chemical Fiber Co., Ltd.	(30,000)	30,000	—	(30,000)
Jilin Aika Viscose Fiber Co., Ltd.	(22,000)	22,000	—	(12,000)
Jilin Tuopu Texitile Industrial Development Co., Ltd.	(500)	500	—	(500)

(c) Transactions/ balances with other state-owned entities in the PRC

The Group operates in an economic environment currently predominated by enterprises directly or indirectly owned, jointly controlled or significant influenced by the PRC government (collectively the "state-controlled entities"). Management considers that state-controlled entities are independent third parties so far as the Group's business transactions with them are concerned.

During the year ended 31 December 2010, the Group's significant transactions with these state-controlled entities primarily include the revenue generated from the sales of finished goods and the purchases of the raw materials to/from these state-controlled entities of RMB61,555,000 (2009: RMB71,582,000) and RMB923,251,000 (2009: RMB560,201,000) respectively.

In additional, approximately 97% and 87% (2009: 85% and 92% respectively) of the Group's bank balances (including restricted bank deposits) and borrowings are deposited/arranged with state-owned banks as at 31 December 2010.

33 SIGNIFICANT RELATED PARTY TRANSACTIONS *– continued*

(d) 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 these key management is shown below:

	2010	2009
	RMB'000	RMB'000
Wages, salaries and other short-term employee benefits	**3,027**	2,957
Pension and social security costs	**74**	68
	3,101	3,025

34 FINANCIAL INSTRUMENTS BY CATEGORY

As of the respective balance sheet dates, the financial instruments of the Group and the Company are categorised as follows:

Group	**Assets/(liabilities) as per consolidated balance sheet**				
	Loans and receivables RMB'000	**Total RMB'000**	**Liablilities at fair value through the profit & loss RMB'000**	**Other financial liabilities at amortised costs RMB'000**	**Total RMB'000**
At 31 December 2010					
Trade and other receivables (excluding prepayments)	**309,025**	**309,025**	**—**	**—**	**—**
Cash and cash equivalents	**76,060**	**76,060**	**—**	**—**	**—**
Borrowings	**—**	**—**	**—**	**(1,282,000)**	**(1,282,000)**
Derivative financial instrument	**—**	**—**	**(4,236)**	**—**	**(4,236)**
Trade and other payables (excluding statutory liabilities)	**—**	**—**	**—**	**(271,313)**	**(271,313)**
Total	**385,085**	**385,085**	**(4,236)**	**(1,553,313)**	**(1,557,549)**
At 31 December 2009					
Trade and other receivables (excluding prepayments)	368,840	368,840	—	—	—
Cash and cash equivalents	170,431	170,431	—	—	—
Borrowings	—	—	—	(1,220,000)	(1,220,000)
Derivative financial instrument	—	—	(6,762)	—	(6,762)
Trade and other payables (excluding statutory liabilities)	—	—	—	(228,836)	(228,836)
Total	539,271	539,271	(6,762)	(1,448,836)	(1,455,598)

34 FINANCIAL INSTRUMENTS BY CATEGORY *– continued*

Company	Assets/(liabilities) as per balance sheet				
	Loans and receivables RMB'000	Total RMB'000	Liablilities at fair value through the profit & loss RMB'000	Other financial liabilities at amortised costs RMB'000	Total RMB'000
At 31 December 2010					
Trade and other receivables (excluding prepayments)	**383,498**	**383,498**	**—**	**—**	**—**
Cash and cash equivalents	**68,733**	**68,733**	**—**	**—**	**—**
Borrowings	**—**	**—**	**—**	**(1,282,000)**	**(1,282,000)**
Derivative financial instrument	**—**	**—**	**(4,236)**	**—**	**(4,236)**
Trade and other payables (excluding statutory liabilities)	**—**	**—**	**—**	**(258,965)**	**(258,965)**
Total	**452,231**	**452,231**	**(4,236)**	**(1,540,965)**	**(1,545,201)**
At 31 December 2009					
Trade and other receivables (excluding prepayments)	363,888	363,888	—	—	—
Cash and cash equivalents	165,496	165,496	—	—	—
Borrowings	—	—	—	(1,220,000)	(1,220,000)
Derivative financial instrument	—	—	(6,762)	—	(6,762)
Trade and other payables (excluding statutory liabilities)	—	—	—	(230,717)	(230,717)
Total	529,384	529,384	(6,762)	(1,450,717)	(1,457,479)