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)

2011

Annual Report

CONTENTS

DIRECTORS

Executive Directors
Mr. Wang Jinjun *(Chairman)*
Mr. Yang Xuefeng
Mr. Wang Changsheng

Non-executive Directors
Mr. Ma Jun
Ms. Pang Suet Mui
Mr. Chen Jinkui
Mr. Jiang Junzhou
Ms. Zhu Ping

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

SUPERVISORS
Ms. Sun Yujing
Mr. Zhang Jiaku
Mr. Liu Ming
Mr. Cheng Jianhang
Mr. Zhang Haiou
Ms. Bai Hua

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. Ma Jun

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*

AUTHORISED 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 AND BUSINESS SUMMARY

FINANCIAL SUMMARY

	Year ended 31 December				
	2011 RMB million	2010 RMB million	2009 RMB million	2008 RMB million	2007 RMB million
Revenue	**2,096.9**	1,501.1	1,255.9	1,186.5	1,764.9
Gross profit/(loss)	**215.1**	114.1	216.9	(27.7)	82.1
Operating expenses	**(116.7)**	(101.8)	(103.7)	(95.0)	(119.6)
Other gains/(losses), net Note 2	**41.4**	62.3	154.0	(95.6)	22.0
Operating profit/(loss)	**139.8**	74.6	267.2	(218.3)	(15.5)
Finance costs, net	**(102.9)**	(72.9)	(74.9)	(102.9)	(85.2)
Share of profit/(loss) of a jointly controlled entity	**36.1**	9.5	76.4	(71.5)	(56.1)
Profit/(loss) before income tax	**73.0**	11.2	268.7	(392.7)	(156.8)
Income tax (expense)/credit	**(7.8)**	1.4	(45.2)	80.1	33.0
Profit/(loss) attributable to the owners of the Company	**65.2**	12.6	223.5	(312.6)	(123.8)
Earnings/(losses) per share (RMB per share)	**0.08**	0.01	0.26	(0.36)	(0.14)
Dividend per share (RMB per share)	**—**	—	—	—	—
Gross profit/(loss) margin	**10.3%**	7.6%	17.3%	(2.3%)	4.7%
Net profit/(loss) margin	**3.1%**	0.8%	17.8%	(26.3%)	(7.0%)

	As at 31 December				
	2011 RMB million	2010 RMB million	2009 RMB million	2008 RMB million	2007 RMB million
Current assets	**1,058.3**	1,002.2	841.6	657.1	896.9
Non-current assets	**1,885.0**	1,592.5	1,646.1	1,616.2	1,823.4
Total assets	**2,943.3**	2,594.7	2,487.7	2,273.3	2,720.3
Current liabilities	**1,483.2**	1,225.4	836.0	1,158.1	747.3
Non-current liabilities	**447.1**	421.5	716.5	403.5	948.7
Total liabilities	**1,930.3**	1,646.9	1,552.5	1,561.6	1,696.0
Total equity	**1,013.0**	947.8	935.2	711.7	1,024.3
Current ratio	**0.71**	0.82	1.01	0.57	1.20
Gearing ratio Note 1	**65.6%**	63.5%	62.4%	68.7%	62.3%

Notes:

1. The gearing ratios set out on this page are calculated as total liabilities divided by total assets.
2. The amounts as set out above represent the aggregated total of other income, other expenses and other gains/losses – net as presented in the consolidated statement of comprehensive income of the Group.

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 2011 (the "Year").

ANNUAL RESULTS

For the year ended 31 December 2011, the Group's revenue amounted to approximately RMB 2.1 billion, representing an increase of approximately 40% as compared to RMB1.5 billion for the year ended 31 December 2010. The profit attributable to the owners of the Company for the Year amounted to approximately RMB65.19 million, increased substantially from approximately RMB12.59 million for the year ended 31 December 2010.

BUSINESS REVIEW

The global economy was recovering slowly in 2011 and the market condition was still volatile. Under the state policies of tightening monetary control and inhibiting inflation, the strain of capital flow and high financial cost affected the operating performance of the textile industry in China as a whole. However, the state policies as implemented by the PRC government to support the textile and garment industry are showing their accumulative positive effect, the textile and garment export of China is becoming stable and is in a critical position to resume its growing trend. In a market condition like this, the Group monitored the market closely and kept abreast of the ever-changing raw materials and wholesale markets. In particular, the Group leveraged on its large market share and influence in the acrylic fiber market to coordinate and improve the supply and demand and price stability of the domestic acrylic fiber products. On the other hand, the Group improved its profitability through improving its production and inventory control and enhancing the production capacity of its equipment. A project with an annual output of 5,000 tons of carbon fiber precursor was put into operation in November 2011, enabling the Group to take a paramount step towards its development in high-technology and play a critical role in further development of innovative products.

OUTLOOK

Looking forward, the Group will further expand its market share by enhancing marketing and sales of acrylic fiber products and carbon fiber precursor, achieve further growth by consolidating its leading position in the PRC's acrylic fiber and carbon fiber precursor industry as well as expanding its overseas markets. At the same time, the Group will enhance its production process technology and research and development capacities. The Group is also committed to the development of new products and the research and development of 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 and carbon fiber precursor industry will continue to be promising in the near future.

APPRECIATION

Lastly, I would like to take this opportunity to thank the shareholders of the Company ("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

Hong Kong

27 March 2012

MAJOR OPERATIONAL DATA

1. Revenue

	Year ended 31 December			
	2011		2010	
	RMB million	**%**	RMB million	%
Acrylic top	**1,046.0**	**49.9**	674.1	44.9
Acrylic tow	**327.2**	**15.6**	337.0	22.4
Acrylic staple fiber	**702.6**	**33.5**	468.0	31.2
Carbon fiber precursor	**15.0**	**0.7**	14.3	1.0
Others*	**6.1**	**0.3**	7.7	0.5
Total	**2,096.9**	**100.0**	1,501.1	100.0

2. Sales volume

	Year ended 31 December			
	2011		2010	
	Tons	**%**	Tons	%
Acrylic top	**50,143**	**48.5**	34,598	43.7
Acrylic tow	**16,353**	**15.8**	18,358	23.2
Acrylic staple fiber	**35,816**	**34.7**	25,228	31.9
Carbon fiber precursor	**407**	**0.4**	138	0.2
Others*	**582**	**0.6**	811	1.0
Total	**103,301**	**100.0**	79,133	100.0

3. Average selling price and gross profit margin

	Year ended 31 December			
	2011		2010	
	Average selling price RMB/ton	**Gross profit margin %**	Average selling price RMB/ton	Gross profit margin %
Acrylic top	**20,860**	**9.87**	19,484	6.75
Acrylic tow	**20,008**	**11.06**	18,357	8.07
Acrylic staple fiber	**19,617**	**10.58**	18,551	7.70
Carbon fiber precursor	**36,855**	**0.81**	103,623	33.70
Average gross profit margin		**10.3**		7.6

* Refer to sales of acrylic fiber scrap

REVIEW AND OUTLOOK

Market Review

The global economy was recovering slowly in 2011 and the market condition was still volatile. Under the state policies to tighten monetary control and inhibit inflation, the strain of capital flow and high financial cost has affected the operating performance of the textile industry as a whole. However, the state policies as implemented by the PRC government to support the textile and garment industry are showing their accumulative positive effect, the textile and garment export of China is becoming stable and is in a critical position to resume its growing trend. Downstream textile factories have benefited from the effective national macroeconomic control, which mitigated inflation pressure caused by domestic demand, and a number of tax relief measures including capital subsidies introduced by the state for small enterprises.

Along with the gradual recovery of the global production and consumption of acrylic fibers, together with the economy stimulus package implemented by the PRC government and the improvement in the balance of the supply and demand of acrylic fibre products as a result of consolidation undergone in the industry during recent years, the production volume, quality and variety of acrylic fiber products made in China have improved gradually. The operation environment and room for the development of the acrylic fiber industry were thus significantly enhanced.

For the year ended 31 December 2011, acrylic fiber products with special characteristics were further recognised by the market, whereas the weights of the substitutes for acrylic fiber in the industry were declining year by year. The industrial chain of the acrylic fiber industry is relatively stable in comparison to other industries. In 2011, the demand for acrylonitrile (the major raw material for the production of the Group's products) slowed down and the average purchase price for the Year was approximately RMB14,759 per ton while the selling price of acrylic fiber was approximately RMB20,299 per ton, resulting in an average price differential of approximately RMB5,540 per ton between acrylonitrile and acrylic fiber, represented an increase of approximately 29% as compared to the average price differential of RMB4,290 per ton in the previous year.

The Board believes that the acrylic fiber industry in China would continue to maintain its leading position in the world. In terms of the development of the Group's carbon fiber precursor project in recent years, the Group expects a gradual increase in the number of downstream carbonisation plants for carbon fiber which will facililate the development of the Group's new products. The priority of the Group is to raise its market share in the domestic market and subsequently to explore international markets including South Korea and Russia.

Sales Review

For the year ended 31 December 2011, the Group's revenue was approximately RMB2.1 billion, representing an increase of approximately 40% as compared to approximately RMB1.5 billion for the year ended 31 December 2010. The sales volume of the Group's acrylic fiber and carbon fiber products amounted to 103,301 tons for the year ended 31 December 2011, increased by approximately 31% compared with 79,133 tons for the previous year. The average unit selling price of acrylic fiber products for the year ended 31 December 2011 was RMB20,299 per ton, increased by approximately 7% as compared to that the previous year. The price differential between the average selling prices of the Group's acrylic fiber products and its major raw material, acrylonitrile, reached RMB5,540 per ton for the Year, representing an increase of approximately 29% from RMB4,290 per ton in the previous year. The increases in sales volume and price differential reflect the gradual stabilisation of the production and consumption of acrylic fiber in the global market as well as the recovery of the acrylic fiber industry in China. The total volume of the acrylic fiber produced by the Group (together with its jointly controlled entity) in the Year was 197,727 tons, accounting for about 30% of the total production volume of the domestic acrylic fiber market in China, which ranks the Group (together with its jointly controlled entity) the largest acrylic fiber producer in China. Benefiting from such leading position, the Group is capable of exercising market influence over the pricing and supply of acrylic fiber products in China. The Group coordinated with other acrylic fiber plants to improve demand and supply balance, promote healthy competitions and adjust the inventory level of acrylic fiber products, which ensured the healthy development of the acrylic fiber industry as a whole. Sales of the Group's carbon fiber products was about 407 tons for the Year (2010: 138 tons).

Production Management

For the year ended 31 December 2011, the Group's total production output was approximately 100,052 tons, representing an increase of 22% as compared to that for the previous year. Production output of carbon fiber products was about 613 tons (2010: 438 tons). The utilisation rate of Group's acrylic fiber production facilities in 2011 was about 93% (2010: 77%). During the Year, the Group continued to implement stringent cost control measures to enhance operating efficiency. In addition, the Group also introduced various other measures to improve the productivity and utilisation rate of its production facilities.

The Group strictly adhered to order-based production to control inventory level and exerted full effort in research and development for new products and experiments for new raw materials. In this regard, the Group has completed trial spinnings and technical exchanges for six new products, such as acrylic bulked yarn, ultra-bright fiber and carbon felt. The Group has also setup a technical reform project for additive-type fiber, finished 5 tests for spinning finishes for acrylic fiber and 10 trial production tasks for low pill fiber, bamboo carbon, air conditioning fiber and industrial pre-oxidised fiber, thereby enlarging the technical reserve for the Group to develop new products. In 2011, the Group focused on site management to reinforce the control and adjustment over process parameters by fully utilising the real-time monitoring function of the production management system. The production department carried out their works by focusing on three aspects, namely acceleration of acrylic top production, reduction in dust generation in acrylic top production and increase in spinnability. All of which laid a solid foundation in stabilising production, enhancing production output and quality, as well as reducing material consumption in the Year. In respect of carbon fiber precursor, the Group continued to improve product quality and reduce material consumption mainly by enhancing its technical level through technology reforms.

The Group complied with every single standard requirement on emission set by relevant government agencies. In 2011, the Group conducted internal control review on various management control systems. Certain components of the management system of the Group were improved and revised. The production department of the Group has also organised various professional seminars, analysis workshops and meetings with external experts to improve product quality.

Employees

As at 31 December 2011, the Group had 1,836 employees, representing an increase of 24 employees as compared to 1,812 employees as at 31 December 2010. The Group's staff remuneration packages were determined with reference to prevailing market practices (including a performance-based incentive bonus). The Group also provided continuous training to employees at all levels. During the Year, the Group provided its employees with numerous training opportunities in respect of the various functions of their positions including product quality control, production safety and environmental protection. The Group also conducted evaluations on 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: the Group will focus on stable production with an emphasis on quality control, development of new products, reduction of costs and safety works; meanwhile, the Group will put more efforts in exploring market and continuing to enhance market share so as to boost the sale of crude carbon fiber products. The management believes that with the steady development of the down-stream market, the development of carbon fiber products will bring about long-term economic benefits for the Group.

2. Development of differentiated acrylic fiber: development of differentiated acrylic fiber will become one of the main drives 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 its competitiveness in the market for differentiated acrylic fiber products in China. In 2012, apart from consolidating the results achieved in research and development, the Group will endeavor to expand the market share of its dyed fiber and low pill fiber. The Group is well positioned to seize business opportunities to further enhance its profitability.

FINANCIAL ANALYSIS

Operating results

For the year ended 31 December 2011, the revenue of the Group amounted to approximately RMB2.1 billion, representing an increase of approximately 40% from approximately RMB1.5 billion for the year ended 31 December 2010. Sales of acrylic fiber products for the Year increased by approximately 40% as compared to that for 2010. The increase in overall revenue was mainly due to the increase in the sales volume of the Group's products by approximately 31%, and the increasing price differential between the cost of acrylonitrile (the major raw material) and the selling price of the Group's products. In the year 2011, the Group's total sales volume was 103,301 tons and total production volume was 100,052 tons, representing a sales-to-production ratio of approximately 103% (2010: 97%). Profit attributable to the owners of the Company for the year 2011 was approximately RMB65.2 million, compared to that of approximately RMB12.6 million for the year 2010. The substantial increase in profit of the Group for the year 2011 was mainly attributable to the increase in the overall sales volume and profit margin of the Company and its jointly controlled entity. In 2011, the gross profit margin of the Group increased to 10.3% from 7.6% in 2010, which was primarily due to the increasing price differential between the cost of acrylonitrile and the selling price of the Group's products. The price differential between the average selling price of the Group's products and the average purchase price of acrylonitrile was RMB5,540 per ton, representing an increase of approximately 29% from RMB4,290 per ton for that of 2010.

Operating expenses (distribution costs and administrative expenses)

Distribution costs increased from approximately RMB34.1 million for the year ended 31 December 2010 to approximately RMB42.0 million for the year ended 31 December 2011. The increase in distribution costs was primarily resulted from the increase in transportation costs due to the increase in sales volume during the year 2011. Administrative expenses increased from approximately RMB67.7 million for the year ended 31 December 2010 to approximately RMB74.7 million for the year ended 31 December 2011, which was mainly due to the increase in labor costs, depreciation charges and professional fees.

Net other gains (the net aggregate amount of other income, other expenses and other (losses)/gains - net)

Net other gains for the year ended 31 December 2011 was approximately RMB41.4 million, as compared to that of approximately RMB62.3 million for the year ended 31 December 2010. The decrease in net other gains in the year 2011 was primarily due to the net loss associated with the derivative financial instrument of approximately RMB15 million recognised during the year 2011 and also the fact that there was a non-recurring net reversal for provision for impairment of trade receivables of approximately RMB6.2 million in 2010.

Net finance costs

Net finance costs increased from approximately RMB72.9 million for the year ended 31 December 2010 to approximately RMB102.9 million for the year ended 31 December 2011. The increase in net finance costs was resulted from the increase in bank borrowings for expansion of the carbon fiber project, the increase in the average interest rates, as well as the increase in the interests on notes receivables discounted and guarantee fees to the ultimate parent company by approximately RMB7.4 million and RMB9.3 million respectively.

Share of profit of a jointly controlled entity

The Group's share of 50% of the profit of its jointly controlled entity, Jilin Jimont Acrylic Fiber Co., Ltd., under the equity method of accounting amounted to approximately RMB36.1 million for the year ended 31 December 2011 (2010: RMB9.5 million). The market condition as described in this report also had a similar impact on the financial performance of the jointly controlled entity during the year 2011.

Financial resources, liquidity and liability position

As of 31 December 2011, the Group's total assets and total liabilities were approximately RMB2.94 billion and RMB1.93 billion, respectively. As of 31 December 2011, the Group's net current liabilities amounted to approximately RMB425 million and its current ratio, calculated by dividing its current assets by its current liabilities as of 31 December 2011, was approximately 0.71 (2010: 0.82). The Group had cash in hand and cash at bank and restricted bank deposits of approximately RMB264.1 million and RMB70.8 million, respectively as of 31 December 2011. As of 31 December 2011, the total bank borrowings of the Group amounted to approximately RMB1.53 billion, of which, approximately RMB991.8 million was short-term bank borrowings, approximately RMB173.5 million was current portion of long-term borrowings and approximately RMB364.5 million was non-current portion of long-term bank borrowings. Approximately 64.2% of the Group's bank borrowings bear floating interest rates. The bank borrowings were mainly used for the expansion of production facilities and the construction of the thermal power plant as well as the development of the carbon fiber precursor project. The net increase in bank borrowings of approximately RMB247.8 million during the year 2011 was mainly due to the additions of certain bank borrowings for further investment in the crude carbon fiber project. 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 of 31 December 2011, the Group's gearing ratio, calculated by dividing total liabilities by total assets, was approximately 65.6% (2010: 63.5%).

INVESTMENT REVIEW

Jointly controlled entity

Our jointly controlled entity, Jilin Jimont Acrylic Fiber Co., Ltd., was established on 21 December 2005 with a total registered share capital of RMB450 million. The Group holds 50.00% equity interest in the jointly controlled entity, whereas Montefibre S.p.A and SIMEST S.p.A hold 39.36% and 10.64% respectively. 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 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 production and sales of acrylic fiber products.

Currently, the Group is considering implementing phase two of the project, which is expected to 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 2011, the sales volume and production volume of the jointly controlled entity reached 99,174 tons and 97,675 tons, respectively, representing a sales-to-production ratio of approximately 102%. The utilisation rate of the jointly controlled entity production plant was 98%. The profit of the jointly controlled entity reached approximately RMB72.3 million in the year ended 31 December 2011 (2010: RMB19.1 million). The increase in the profitability of the jointly controlled entity was mainly due to impact of the market conditions described in the section headed "Market Review" of this report.

Entrusted deposits and matured deposits

As of 31 December 2011, 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 applicable laws and regulations. Except for restricted bank deposits of approximately RMB70.8 million, the Group had no bank deposits which cannot be withdrawn upon maturity.

Pledged assets

As of 31 December 2011, certain properties, plants and equipments and land use rights with a net book value of approximately RMB547.0 million and RMB5.4 million, respectively (as of 31 December 2010: RMB628.6 million and RMB6.0 million, respectively) were pledged as securities for bank borrowings of approximately RMB305 million (as of 31 December 2010: RMB319 million). In addition, bank deposits of approximately RMB25 million and RMB1.9 million was pledged for the issue of certain non-trade notes payable and letters of credit for the Group's purchases of raw materials, plant and machinery from certain overseas suppliers, respectively.

Contingent liabilities

The Group had no material contingent liabilities as of 31 December 2011.

Dividend

The Board does not recommend the declaration of a dividend for the year ended 31 December 2011 (2010: Nil).

DIRECTORS

Executive Directors

Mr. Wang Jinjun, aged 50, 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 deputy secretary of the party committee of Jilin Chemical Fiber Group Co., Ltd. ("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 has held senior management positions at various departments in the Group including the equipment and energy department and the production department. Mr. Wang has over 22 years of experience in the chemical fiber industry. He graduated from Daqing Petroleum Institute of Heilongjiang Province in the PRC with a major in petroleum engineering, he also obtained a master's degree in engineering from Jilin University and is a qualified senior engineer in the PRC.

Mr. Yang Xuefeng, aged 45, is an executive Director and the General Manager of the Company. Prior to joining the Group, he had been the general manager of Jilin Jimont Acrylic Fiber Co., Ltd, the jointly controlled entity. Mr. Yang has 24 years experience in the chemical fiber industry. He graduated from Tianjin Institute of Textile Science and Technology in the PRC with a major in chemical fiber, he also obtained a master's degree in engineering from Jilin University and is a senior engineer in the PRC.

Mr. Wang Changsheng, aged 52, is an executive Director and the Chief Financial Officer, responsible for the financial management of the Group. He has been the chief financial officer of the Company since August 2001. Mr. Wang 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 majoring in accounting and is a qualified senior accountant in the PRC.

Non-executive Directors

Mr. Ma Jun, aged 46, is an non-executive Director of the Company. He is currently a deputy general manager of JCF Groupco. He had held positions as the head of electric meter factory, head of polymerisation factory, the assistant to the general manager, deputy manager and general manager of the Group 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 also obtained a master's degree from Jilin University. He has over 22 years of experience in the chemical fiber industry and is a qualified senior engineer in the PRC.

Mr. Chen Jinkui, aged 48, 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 Company Limited, a wholly-owned subsidiary of China Insurance H.K. (Holdings) Company Limited. Mr. Chen has over 20 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 from postgraduate finance research centre of the head office of the People's Bank of China with a master's degree in economics.

Mr. Jiang Junzhou, aged 53, 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 32 years of experience in education, imports and exports as well as management.

Ms. Pang Suet Mui, aged 42, is a non-executive Director. She is currently the deputy general manager of strategic investment department at Bank of China Group Investment Limited ("BOCGI"). She joined BOCGI in 1997 and has extensive experiences in banking, administration and management. Ms. Pang graduated from Peking University School of Pharmaceutical Sciences (formerly known as Beijing Medical University School of Pharmaceutical Sciences) with a bachelor's degree. She has also obtained a master's degree in finance from City University of Hong Kong. Ms. Pang holds the Chartered Financial Analyst designation.

Ms. Zhu Ping, aged 36, is a non-executive Director. She currently serves as the finance manager of Shanghai Shenghang Kangcheng International Logistics Co., Ltd. She has 10 years experience in finance and accounting. She graduated from East China Institute of Political Science and Law (now known as East China University of Political Science and Law) with a bachelor's degree in law.

Independent non-executive Directors

Mr. Ye Yongmao, aged 69, 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 45 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.

Mr. Mao Fengge, aged 43, 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 20 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.

Mr. Lee Ka Chung, J.P. , aged 59, 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

Ms. Sun Yujing, aged 46, is a Supervisor of the Company ("Supervisor"). She is currently the head of audit and supervisor department of JCF Groupco. 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.

Mr. Zhang Jiaku, aged 52, is a Supervisor. He currently serves as the director of the safety and environment department of JCF Groupco. Mr. Zhang has been working with JCF Groupco since 1986. Mr. Zhang received a bachelor's degree in mathematics from Jilin Provincial Institute of Education and a master's degree in business administration from Jilin University.

Mr. Liu Ming, aged 40, is a Supervisor. Mr. Liu is a certified public accountant in the PRC and is a founder and project manager of Jilin Hualun Accounting Firm. Mr. Liu received a bachelor's degree from Changchun Institute of Taxation (now known as Jilin University of Finance and Economics).

Mr. Cheng Jianhang, aged 41, is a Supervisor. Mr. Cheng is qualified lawyer in the PRC and he is currently practicing law at Jilin Jiuxin Law Firm. Mr. Cheng received a bachelor's degree in law from Jilin University and a master's degree in commercial law from China University of Political Science and Law.

Mr. Zhang Haiou, aged 39, is a Supervisor. 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.

Ms. Bai Hua, aged 43, is a Supervisor. She is currently the general manager of the quality control department and the general secretary of the Communist Party Branch of the Company. Ms. Bai joined Jilin Chemical Fiber Factory (吉林化學纖維廠), the predecessor of Jilin Chemical Fiber Co., Ltd. (吉林化纖股份有限公司), as a technician in July 1991. She then joined the Company in March 1997 and served as a deputy manager of the quality control department of the Company before she was promoted to her current position. Ms. Bai received a bachelor's degree in chemical fiber engineering from Dalian Polytechnic University, formerly known as Dalian Institute of Light Industry, in 1991 and a master's degree in industrial engineering from Jilin University in 2006.

OTHER SENIOR OFFICERS

Ms. Liu Xiangmei, aged 48, who joined JCF Groupco in 1985, is one of the joint company secretaries of the Company and the secretary to the Board. She has approximately 24 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.

Mr. Chan Cheung, aged 38, 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 14 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.

The Board is pleased to present their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2011.

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 35.

The Directors do not recommend the declaration of a dividend for the year ended 31 December 2011.

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 16(a) to the consolidated financial statements.

RESERVES

Movements in reserves of the Group and of the Company during the year ended 31 December 2011 are set out in notes 16(b) and 17 to the consolidated financial statements. As at 31 December 2011, 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 2011, 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 2011 and up to the date of this report are:

Executive Directors
Mr. Wang Jinjun *(Chairman)*
Mr. Yang Xuefeng (appointed as a non-executive director and re-designated as an executive director on 30 June 2011)
Mr. Wang Changsheng

Non-executive Directors
Mr. Ma Jun (re-designated as a non-executive director on 30 June 2011)
Ms. Pang Suet Mui (appointed on 16 December 2011)
Mr. Chen Jinkui
Mr. Jiang Junzhou
Ms. Zhu Ping (appointed on 30 June 2011)
Mr. Hao Peijun (retired on 30 June 2011)
Mr. Gong Jianzhong (resigned on 16 December 2011)
Mr. Zhang Yuchen (retired on 30 June 2011)

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

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 for a term of three years, effective from 30 June 2011 and expiring on the conclusion of the annual general meeting of the Company for the year 2013, except for Ms. Pang Suet Mui whose service contract is effective from 16 December 2011 and will expire on the conclusion of the annual general meeting of the Company for the year 2013. All Directors and Supervisors will retire and offer themselves for re-election at the annual general meeting of the Company for the year 2013.

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 10 to 12 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 2011, 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 (the "Model Code") (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 2011, 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 2011, 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 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 (%) Direct interests	Indirect interests	Aggregate interests	Approximate percentage in total issued share capital (%) 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 JCF Groupco 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, Jilin Jimont Acrylic Fiber Co., Ltd., 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 2011, sales to the Group's five largest customers accounted for approximately 62% of the total sales for the year, in which sales to the largest customer represented approximately 33% of the total sales for the year.

Purchases from the Group's five largest suppliers amounted to approximately 72% of the total purchases for the year while total purchases from the largest supplier represented approximately 61% 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 pursuant to a sales agreement entered into with Tuopu Textile on 8 August 2007 for an initial term ended on 31 December 2009 which, subject to the compliance with Listing Rules' requirements regarding connected transactions, shall be automatically renewable for terms not longer than three years. The agreement was renewed for a term of three years commencing on 1 January 2010 and 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 2011, sales to Tuopu Textile by the Company amounted to approximately RMB1.2 million, which is within the approved cap of RMB78.0 million as disclosed in the Company's announcement dated 27 April 2010 and circular dated 12 May 2010.

Sales of finished goods to Tuopu Textile by the jointly controlled entity

The jointly controlled entity, Jilin Jimont Acrylic Fiber Co., Ltd. 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 pursuant to a sales agreement entered into with Tuopu Textile on 8 August 2007 for an initial term ended on 31 December 2009 which, subject to the compliance with Listing Rules' requirements regarding connected transactions, shall be automatically renewable for terms not longer than three years. The agreement was renewed for a term of three years commencing on 1 January 2010 and ending on 31 December 2012.

The jointly controlled entity is a Sino-foreign equity joint-venture company jointly controlled by the Company, Montefibre S.p.A. and SIMEST S.p.A.. The Company holds 50% equity interest in the jointly controlled entity, it therefore does not constitute a subsidiary of the Company for legal or accounting purposes. However, for the purpose of the listing of the H shares of the Company on the Stock Exchange and good corporate governance, the Company and the Directors have undertaken to the Stock Exchange to have the jointly controlled entity generally regulated in a manner consistent with the regulation of subsidiaries of a listed group for the purposes of application of the Listing Rules. For the purposes of the Listing Rules provisions regarding connected transactions, the jointly controlled entity is regarded as a non-wholly owned subsidiary of the Company.

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 2011, sales to Tuopu Textile by the jointly controlled entity amounted to approximately RMB2.5 million, 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.

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 a utilities and water treatment services agreement entered into with Tuopu Textile on 26 August 2008, for an initial term ended on 31 December 2010 and, subject to the compliance with Listing Rules' requirements regarding connected transactions, and shall be automatically renewable for a term not longer than three years thereafter. The transaction was negotiated on arm's length basis and the prices were determined in line with normal commercial terms. The agreement was renewed for a term of three years commencing on 1 January 2010 and 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 2011, utilities and water treatment services provided to Tuopu Textile by the Company amounted to approximately RMB4.8 million, which was within the approved cap of RMB15 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 a engineering construction services agreement entered into between Jilin Chemical Fiber Construction and Installation Engineering Co., Ltd. ("Jianan") and the jointly controlled entity in 2008, the jointly controlled entity purchased from Jianan certain engineering construction services. 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 27 April 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 2011, purchase from Jianan by the jointly controlled entity amounted to approximately RMB690,000, which was within the approved cap of RMB2 million as disclosed in the Company's announcement dated 27 April 2010.

Purchase of sodium bisulfite from Huidong by the Company

The Company purchased sodium bisulfite from Huidong pursuant to a huidong purchase agreement entered into with Huidong on 11 April 2011, for an initial term up to 31 December 2013 and subject to compliance with relevant laws and requirements relating to continuing connected transactions under the Listing Rules (including reporting, announcement and Independent Shareholders' approval where applicable), shall be automatically renewable by the Company for terms not longer than three years each thereafter.

Huidong is a company established in the PRC principally engaged in the production of sodium bisulfite. It is owned as to 52.2% by JCF Groupco and 47.8% by independent third parties. Huidong is an associate of JCF Groupco and is therefore, a connected person of the Company.

For the year ended 31 December 2011, the Company's purchases of sodium bisulfite from Huidong amounted to approximately RMB7.9 million, which was within the approved cap of RMB8.0 million as disclosed in the Company's announcement dated 11 April 2011.

Purchases of repair and maintenance services from Jianan by the Company

The Company purchased repair and maintenance services from Jianan pursuant to a repair and maintenance contract entered into with Jianan on 2 August 2011, for an initial term up to 31 December 2013 and subject to compliance with relevant laws and requirements relating to continuing connected transactions under the Listing Rules (including reporting, announcement and Independent Shareholders' approval where applicable), shall be automatically renewable by the Company for terms not longer than three years each thereafter. Pursuant to the repair and maintenance contract, the tentative contract price is RMB8.0 million per year. The actual contract price will be determined by negotiation by the parties on case by case basis and in any event Jianan guarantees that the price it charges the Company will not be higher than the prices when it charges third parties or will not be higher than the prices at which the Company would be charged by independent third parties in providing the same or similar types of services.

Jianan is a wholly owned subsidiary of JCF Groupco and is therefore, a connected person of the Company.

For the year ended 31 December 2011, repair and maintenance services that the Company purchased from Jianan amounted to approximately RMB3.9 million, which was within the approved cap of RMB8.0 million as disclosed in the Company's announcement dated 2 August 2011.

The Group has entered into the abovementioned continuing connected transactions as set out from pages 17 to 19 (the "Continuing 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 Continuing 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 Shareholders as a whole.

The Company's auditor was engaged to report on the abovementioned 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 his findings and unqualified conclusions in respect of the abovementioned Continuing Connected Transactions as set out from pages 17 to 19 of this annual report. A copy of the auditor's letter has been provided by the Company to The Stock Exchange of Hong Kong Limited.

Relationship with Jilin Chemical Fiber Co., Ltd. ("JCFCL") and its subsidiaries

At all times during the year ended 31 December 2011, JCF Groupco held approximately 50.01% of the total issued share capital of the Company and held 21.26% of the equity interest of JCFCL and therefore, JCFCL was not within the meaning of "associate" of JCF Groupco under the Listing Rules or otherwise a "connected person" of the Company. Accordingly, the continuing transactions conducted between the Group and JCFCL and its subsidiary, Jilin Aika Viscose Fiber Co., Ltd., during the year ended 31 December 2011 were not considered as connected transactions and not subject to the requirements with respect to connected transactions under Chapter 14A of the Listing Rules.

CONNECTED TRANSACTIONS

Provision of construction services by Jianan to a subsidiary of the Company

On 2 August 2011, Jilin Tangu Carbon Fiber Co., Ltd. ("Jilin Tangu"), a wholly-owned subsidiary of the Company, entered into a construction contract with Jianan, pursuant to which Jinan agreed to provide construction services to build pipe rack structure for Jilin Tangu, for a contract price of RMB5.0 million, which was determined with reference to the estimated amount of work to be performed, the relevant statutory fee rates for construction and repair works in Jilin province with a 13.5% discount, which Jianan guaranteed to be not less than the discount it provided to independent third parties.

Pursuant to the construction contract, before the 10th day of each month, Jilin Tangu shall pay 85% of the amount of settlement for the work conducted during the preceding month, and upon completion, Jilin Tangu will pay 95% of the amount of the final settlement of the contract price to Jianan and retain the remaining balance of 5% as security, which shall be released to Jianan upon the expiry of the relevant statutory warranty period.

JCF Groupco is a substantial shareholder of the Company, thus a connected person of the Company under the Listing Rules. Jianan is a wholly-owned subsidiary of the JCF Groupco, therefore it is an associate of the JCF Groupco, thus a connected person of the Company under the Listing Rules. Accordingly, the transaction under the abovementioned construction contract constitutes a connected transaction of the Company under the Listing Rules. Details of such transaction are set out in the announcement of the Company dated 2 August 2011.

Provision of information technology services by Yingke to the Company

On 2 August 2011, the Company entered into a contract with Jilin Yingke Information Technology Co., Ltd. ("Yingke"), pursuant to which Yingke agreed to provide certain information technology services to the Company for a contract price of RMB5.0 million, which was determined based on arm's length negotiation by reference to the estimated size of the project in terms of man-hours and the related cost and expenses. Pursuant to the contact, the Company shall pay 40% of the total contract price upon execution of the contract, and the remaining balance by installments according to the progress of the project.

Yingke is owned as to 40% by JCF Groupco, and is therefore an associate of JCF Groupco. JCF Groupco is a substantial shareholder of the Company, thus a connected person of the Company. Therefore, Yingke is a connected person of the Company under the Listing Rules. Accordingly, the transaction under the abovementioned contract constitutes a connected transaction of the Company under the Listing Rules. Details of such transaction are set out in the announcement of the Company dated 2 August 2011.

Provision of information technology services by Yingke to the jointly controlled entity of the Company

On 2 August 2011, the jointly controlled entity of the Company, Jilin Jimont Acrylic Fiber Co., Ltd., entered into a contract with Yingke, pursuant to which Yingke agreed to provide certain information technology services to the jointly controlled entity for a contract price of RMB3.0 million, which was determined based on arm's length negotiation by reference to the estimated size of the project in terms of man-hours and the related cost and expenses. Pursuant to the contact, the jointly controlled entity shall pay 40% of the total contract price upon the execution of contract, and the remaining balance by installments according to the progress of the project.

As set out above, Yingke is a connected person of the Company. Accordingly, the transaction under the contract constitutes a connected transaction of the Company under the Listing Rules. Details of such transaction are set out in the announcement of the Company dated 2 August 2011.

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 23 to 28 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

Hong Kong
27 March 2012

The supervisory committee of the Company (the "Supervisory Committee") is pleased to present the report of the Supervisory Committee for the year ended 31 December 2011.

In 2011, 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, 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 Shareholders.

INSPECTION OVER THE GROUP'S DAILY OPERATING ACTIVITIES

The Supervisory Committee exercised supervision over the Group's operating activities. As set out in the paragraph headed "Internal Control" in the Corporate Governance Report of this annual report that certain internal approval procedures in relation to certain payments were not strictly followed by the management which has been reversed. Save as aforesaid, the Supervisory Committee is of the opinion that the Group has 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 and the Articles.

INSPECTION OVER THE GROUP'S FINANCIAL CONDITION

The Supervisory Committee has seriously verified the Group's 2011 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 2011 fairly reflected its financial position and operating results, all of the continuing connected transactions were entered into on a fair basis and the pricing of the transactions is determined on arm's length basis and did not impair the interests of the Group and 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 Shareholders.

Sun Yujing
Chairman of the Supervisory Committee

Jilin City, Jilin Province, the PRC
27 March 2012

CORPORATE GOVERNANCE REPORT

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

CORPORATE GOVERNANCE PRACTICES

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

For the purpose of complying with the new code of corporate governance practice as set out in the Appendix 14 of the Listing Rules, which shall take effect from 1 April 2012, the Board has adopted the revised Code ("New Code") on 27 March 2012.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Group has adopted 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 2011.

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 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 Directors' Report 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. Yang Xuefeng, respectively and their roles and responsibilities are separate. The chairman is responsible for formulating Group's 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.

Pursuant to the Articles, the Directors including the non-executive Directors shall be elected at a shareholders' general meeting of the Company and serve for a term of three years. Upon the expiry of their term of office, the Directors may be re-elected for another term.

The details of the attendance of directors at Board meetings during the year 2011 are set out below:

Directors	Attendance
Executive Directors	
Mr. Wang Jinjun	4/4
Mr. Yang Xuefeng	3/4
Mr. Wang Changsheng	4/4
Non-executive Directors	
Mr. Ma Jun	4/4
Mr. Hao Peijun	1/4
Mr. Gong Jianzhong (Three meetings attended by proxy)	3/4
Mr. Chen Jinkui (Four meetings attended by proxy)	4/4
Ms. Pang Suet Mui	1/4
Ms. Zhu Ping (One meetings attended by proxy)	3/4
Mr. Jiang Junzhou (Two meetings attended by proxy)	4/4
Mr. Zhang Yuchen	4/4
Independent non-executive Directors	
Mr. Ye Yongmao	4/4
Mr. Mao Fengge	4/4
Mr. Lee Ka Chung, J.P. (One meetings attended by proxy)	4/4

Continuous Professional Development

The Directors have been informed of the requirement under Code Provision A.6.5 of the New Code regarding continuous professional development. Details of how each Director complies with such requirement for the year ending 31 December 2012 will be set out in the corporate governance report in the Company's 2012 annual report.

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. The chairman of the Audit Committee is Mr. Lee Ka Chung, J.P. who possesses recognised professional qualification in finance and accounting. The terms of reference of the Audit Committee are in compliance with the Code. For the purpose of complying with the New Code adopted by the Company on 27 March 2012, the Board has adopted revised terms of reference for the Audit Committee on 27 March 2012. The terms of reference of the Audit Committee which explain their respective roles and the authority delegated to them by the Board are available on the websites of the Company and the Stock Exchange.

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
- Overseeing the financial reporting system and the internal control procedures of the Company.

The work of the Audit Committee in 2011 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 consolidated financial statements 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 2011 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, namely Mr. Mao Fengge and Mr. Lee Ka Chung J.P. and one non-executive Director, Mr. Ma Jun (appointed on 27 March 2012). The terms of reference of the Board Remuneration Committee are in compliance with the Code. The chairman of the Board Remuneration Committee is Mr. Mao Fengge. The committee meets at least once a year. For the purpose of complying with the New Code adopted by the Company on 27 March 2012, the Board has adopted revised terms of reference for Board Remuneration Committee on 27 March 2012. The terms of reference of the Board Remuneration Committee which explain their respective roles and the authority delegated to them by the Board are available on the websites of the Company and the Stock Exchange.

The principal responsibilities of the Board Remuneration Committee are to make recommendations or proposals to the Board for examination on the overall remuneration policy and structure of the Directors and officers of the Company, to determine the remuneration packages of specific executive Directors and officers, to approve the terms of the service contracts requiring approval of Shareholders and to assess the performance of the Directors and officers.

The Board Remuneration Committee met once in 2011 on 25 March 2011. 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, namely Mr. Mao Fengge and Mr. Ye Yongmao and one non-executive Director Mr. Chen Jinkui. The chairman of the Nomination Committee is Mr. Mao Fengge. The terms of reference of the Nomination Committee are in compliance with the Code. The Committee meets at least once a year. For the purpose of complying with the New Code adopted by the Company on 27 March 2012, the Board has adopted revised terms of reference for Nomination Committee on 27 March 2012. The terms of reference of the Nomination Committee which explain their respective roles and the authority delegated to them by the Board are available on the websites of the Company and the Stock Exchange.

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 Shareholders for approval at the general meeting.

The Nomination Committee met once in 2011 on 25 March 2011. 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 2011 on 25 March 2011. 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 six Supervisors, two of which are elected by Shareholders as their representatives, two 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
Ms. Sun Yujing	2/2
Mr. Zhang Jiaku (elected on 30 June 2011)	2/2
Mr. Liu Ming (elected on 30 June 2011)	2/2
Mr. Cheng Jianhang (elected on 30 June 2011)	2/2
Mr. Zhang Haiou	1/2
Ms. Bai Hua (elected on 30 June 2011)	
Mr. Jiang Yanfeng (retired on 30 June 2011)	2/2
Mr. Meng Xiangui (retired on 30 June 2011)	2/2
Ms. Feng Shuhua (retired on 30 June 2011)	2/2
Mr. Wang Hongbo (retired on 30 June 2011)	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 reviewing the effectiveness of the system of the internal control of the Group in 2011, the Board identified that, during the year ended 31 December 2011, certain internal approval procedures in relation to certain payments made by the Group were not strictly followed by the management. Certain payments were made by the Group without approval from the proper level of authority, but were subsequently identified and reversed. The Directors confirm that these payments did not result in any material adverse impact on the financial performance or condition of the Group. In order to manage the risk of recurrence, the Board will continue to periodically review the effectiveness of the system of internal control of the Group, provide training to the relevant management to ensure they understand the internal approval procedures and engage internal control advisors to conduct review, as appropriate.

AUDITORS' REMUNERATION

Remuneration paid to the Group's external auditors for audit services provided for the year ended 31 December 2011 was RMB1.5 million.

SHAREHOLDERS' RIGHTS

How Shareholders can convene an extraordinary general meeting and put forward proposals at Shareholders' meetings

The procedures for Shareholders to convene an extraordinary general meeting and put forward proposals at Shareholders' meetings are set out in the Articles.

One or more Shareholders in aggregate holding not less than 10% of the issued share capital of the Company carrying the right of voting at general meeting of the Company, may by written request to require an extraordinary general meeting to be called by the Board for the transaction of business specified in such request and such meeting shall be held within two months after the Board receives such request.

If the Board fails to issue the notice for the extraordinary general meeting within 30 days after receipt of the above written request or is unable to or fails to perform the duty of calling a general meeting, the Supervisory Committee shall convene and hold the meeting promptly.

If the Supervisory Committee fails to convene and hold the meeting, one or more Shareholders in aggregate holding more than 10% of the issued share capital of the Company in 90 successive days may proceed to convene such meeting himself/herself (themselves) four months after the Board receives such written request. All reasonable expenses arising out of the calling and holding of the general meeting by such Shareholders shall be borne by the Company.

Shareholders holding no less than 3% of the total voting shares of the Company shall be entitled to submit written provisional proposals to the Board 10 days before the annual general meeting. The Board shall inform other Shareholders of the proposals within two days after the receipt of such proposals and include the relevant matters in the agenda of the general meeting.

Procedures by which enquiries may be put to the Board

Shareholders may send their enquiries and concerns to the Board by addressing them to the joint company secretary of the Company by mail at No. 516-1, Jiuzhan Street, Jilin City, Jilin Province, the PRC or by email at sy1121@jlcfc.com. The joint company secretaries will forward communications relating to matters within the Board's direct responsibilities to the Board and communications relating to ordinary business matters, such as suggestions, inquiries and customer complaints, to the chief executive of the Company.

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 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

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 (together, the "Group") set out on pages 31 to 96, which comprise the consolidated and company balance sheets as at 31 December 2011, 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' REPONSIBILTIY 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 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.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

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 2011, 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, 27 March 2012

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2011

	Note	2011 RMB'000	2010 RMB'000
ASSETS			
Non-current assets			
Land use rights	7	**29,477**	24,816
Property, plant and equipment	8	**1,538,788**	1,279,477
Intangible assets	9	**16,411**	24,618
Interest in a jointly controlled entity	11	**213,945**	177,521
Deferred income tax assets	21	**80,354**	86,070
Prepayments	12	**6,068**	—
		1,885,043	1,592,502
Current assets			
Inventories	13	**257,516**	362,165
Trade and other receivables	14	**463,929**	359,108
Current income tax recoverable		**1,893**	1,893
Restricted bank deposits	15	**70,790**	202,973
Cash and cash equivalents	15	**264,127**	76,060
		1,058,255	1,002,199
Total assets		**2,943,298**	2,594,701
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	16(a)	**866,250**	866,250
Share premium	16(b)	**142,477**	142,477
Accumulated losses	17	**(27,639)**	(92,831)
Other reserves	17	**31,919**	31,919
Total equity		**1,013,007**	947,815

	Note	2011 RMB'000	2010 RMB'000
LIABILITIES			
Non-current liabilities			
Long-term bank borrowings	18	**364,500**	338,000
Deferred income	19	**82,567**	83,459
		447,067	421,459
Current liabilities			
Trade and other payables	20	**300,197**	276,989
Short-term bank borrowings	18	**991,800**	630,000
Current portion of long-term bank borrowings	18	**173,500**	314,000
Current income tax liabilities		**202**	202
Derivative financial instrument	22	**17,525**	4,236
		1,483,224	1,225,427
Total liabilities		**1,930,291**	1,646,886
Total equity and liabilities		**2,943,298**	2,594,701
Net current liabilities		**(424,969)**	(223,228)
Total assets less current liabilities		**1,460,074**	1,369,274

The notes on pages 38 to 96 are an integral part of these financial statements.

The financial statements on pages 31 to 96 were approved by the Board of Directors on 27 March 2012 and were signed on its behalf.

Wang Jinjun
Chairman

Wang Changsheng
Director

BALANCE SHEET

AS AT 31 DECEMBER 2011

	Note	2011 RMB'000	2010 RMB'000
ASSETS			
Non-current assets			
Land use rights	7	**22,934**	24,816
Property, plant and equipment	8	**1,103,246**	1,171,009
Intangible assets	9	**16,411**	24,618
Investment in a subsidiary	10	**215,000**	215,000
Investment in a jointly controlled entity	11	**225,000**	181,616
Deferred income tax assets	21	**60,429**	68,298
Prepayments	12	**3,269**	—
		1,646,289	1,685,357
Current assets			
Inventories	13	**214,125**	330,901
Trade and other receivables	14	**593,915**	387,907
Current income tax recoverable		**1,893**	1,893
Restricted bank deposits	15	**69,368**	137,349
Cash and cash equivalents	15	**219,493**	68,733
		1,098,794	926,783
Total assets		**2,745,083**	2,612,140
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	16(a)	**866,250**	866,250
Share premium	16(b)	**142,477**	142,477
Retained profits/(accumulated losses)	17	**23,665**	(48,042)
Other reserves	17	**31,919**	31,919
Total equity		**1,064,311**	992,604

	Note	**2011** **RMB'000**	2010 RMB'000
LIABILITIES			
Non-current liabilities			
Long-term bank borrowings	18	**184,500**	338,000
Deferred income	19	**69,755**	68,659
		254,255	406,659
Current liabilities			
Trade and other payables	20	**263,692**	264,641
Short-term bank borrowings	18	**991,800**	630,000
Current portion of long-term bank borrowings	18	**153,500**	314,000
Derivative financial instrument	22	**17,525**	4,236
		1,426,517	1,212,877
Total liabilities		**1,680,772**	1,619,536
Total equity and liabilities		**2,745,083**	2,612,140
Net current liabilities		**(327,723)**	(286,094)
Total assets less current liabilities		**1,318,566**	1,399,263

The notes on pages 38 to 96 are an integral part of these financial statements.

The financial statements on pages 31 to 96 were approved by the Board of Directors on 27 March 2012 and were signed on its behalf.

Wang Jinjun
Chairman

Wang Changsheng
Director

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 RMB'000	2010 RMB'000
Revenue	6	**2,096,909**	1,501,110
Cost of sales		**(1,881,773)**	(1,387,011)
Gross profit		**215,136**	114,099
Distribution costs		**(41,997)**	(34,112)
Administrative expenses		**(74,706)**	(67,717)
Other income	23	**461,911**	459,465
Other expenses	23	**(403,522)**	(401,125)
Other (losses)/gains - net	24	**(17,034)**	3,919
Operating profit		**139,788**	74,529
Finance income	27	**2,715**	4,803
Finance costs	27	**(105,638)**	(77,698)
		36,865	1,634
Share of profit of a jointly controlled entity	11	**36,151**	9,550
Profit before income tax		**73,016**	11,184
Income tax (expense)/credit	28	**(7,824)**	1,402
Profit and total comprehensive income for the year attributable to the owners of the Company	29	**65,192**	12,586
Earnings per share for profit attributable to the owners of the Company during the year (expressed in RMB per share)			
– basic and diluted	30	**0.08**	0.01
Dividend	31	**—**	—

The notes on pages 38 to 96 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2011

	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 2010	866,250	142,477	(105,417)	31,919	935,229
Profit for the year	—	—	12,586	—	12,586
At 31 December 2010	866,250	142,477	(92,831)	31,919	947,815
At 1 January 2011	866,250	142,477	(92,831)	31,919	947,815
Profit for the year	—	—	65,192	—	65,192
At 31 December 2011	866,250	142,477	(27,639)	31,919	1,013,007

The notes on pages 38 to 96 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	**2011**	2010
		RMB'000	RMB'000
Cash flows from operating activities			
Cash generated from operations	32(a)	**288,182**	61,921
Income tax paid		**(2,107)**	(3,355)
Net cash from operating activities		**286,075**	58,566
Cash flows from investing activities			
Purchases of property, plant and equipment		**(317,801)**	(73,960)
Purchases of land use rights		**(6,543)**	—
Decrease/(increase) in restricted bank deposits		**95,267**	(75,000)
Government grants received		**7,320**	3,950
Interest received		**1,987**	589
Net cash used in investing activities		**(219,770)**	(144,421)
Cash flows from financing activities			
Proceeds from borrowings		**1,668,800**	738,000
Repayments of borrowings		**(1,421,000)**	(676,000)
Increase in restricted cash for other borrowings		**(25,000)**	—
Interests and guarantee fees paid		**(101,038)**	(70,516)
Net cash from /(used in) financing activities		**121,762**	(8,516)
Net increase /(decrease) in cash and cash equivalents		**188,067**	(94,371)
Cash and cash equivalents at beginning of year		**76,060**	170,431
Cash and cash equivalents at end of year	15	**264,127**	76,060

The notes on pages 38 to 96 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 27 March 2012.

2 BASIS OF PREPARATION

As at 31 December 2011, the Group's current liabilities exceeded its current assets by RMB424,969,000 and the total bank borrowings as included in the Group's current liabilities amounted to RMB1,165,300,000. 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 has maintained its good business relationship with its principal bankers and the 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.

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

(c) The ultimate parent company, Jilin Chemical Fiber Group Co., Ltd. ("JCF Groupco"), 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 of the view that there will be sufficient financial resources available to the Group to enable 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 22).

The Group has not prepared a separate consolidated income statement because it is identical to the consolidated statement of comprehensive income.

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 1 January 2011:

HKAS 24 (Revised)	Related Party Disclosures
HKAS 32 (Amendment)	Classification of Rights Issue
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters
HK(IFRIC) - Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement
HK(IFRIC) - Int 19	Extinguishing Financial Liabilities with Equity Instruments

The Group has already early adopted the HKAS 24 (Revised) in the Company's consolidated financial statements for the year ended 31 December 2010. See Note 34 for disclosures of significant transactions among state-owned entities in the PRC.

The adoption of the abovementioned new or revised standards, amendments and interpretations and also the adoption of those second and third improvements to HKFRS (2009) as issued by HKICPA in May 2009 and May 2010 respectively 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 may be applicable to the Group but not yet effective for the financial year beginning 1 January 2011:

		Effective for accounting periods beginning on or after
HKAS 1 (Amendment)	Presentation of Financial Statements	1 July 2012
HKAS 12 (Amendment)	Deferred Tax: Recovery of Underlying Assets	1 January 2012
HKAS 19 (Amendment)	Employee Benefits	1 January 2013
HKAS 27 (Revised 2011)	Separate Financial Statements	1 January 2013
HKAS 28 (Revised 2011)	Associates and Joint Ventures	1 January 2013
HKAS 32 (Amendment)	Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2014
HKFRS 7 (Amendment)	Disclosures – Transfers of Financial Assets	1 July 2011
HKFRS 7 (Amendment)	Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2013
HKFRS 7 and HKFRS 9 (Amendment)	Mandatory Effective Date and Transition Disclosures	1 January 2015
HKFRS 9 (Amendment)	Financial Instruments	1 January 2015
HKFRS 10 (Amendment)	Consolidated Financial Statements	1 January 2013
HKFRS 11	Joint Arrangements	1 January 2013
HKFRS 12	Disclosure of Interests in Other Entities	1 January 2013
HKFRS 13	Fair Value Measurements	1 January 2013

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Group accounting

The Group is currently comprises of the Company and its subsidiary. The Group also has an investment in a jointly controlled entity.

Subsidiary is fully consolidated from the date on which control is transferred to the Group and is de-consolidated from the date that control ceases. Inter-company transactions, balances and unrealised gains/losses on transactions between group companies are eliminated.

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

Accounting policies of the subsidiary and 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.

(b) Jointly controlled entity

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.2 Segment reporting

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

3.3 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi ("RMB") which is the Company's functional and the Group's presentation currency. Renminbi is also the functional currency of the subsidiary and 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	12 - 16 years
Electronic and office equipment	5 years
Motor vehicles	5 years

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

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement and 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. Assets that are subject to depreciation or amortisation 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.

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

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 2011 (Note 22).

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 initially recognised at fair value and subsequent measured 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 if expected to be settled within 12 months; otherwise, they are classified as non-current. Assets in this category are initially recognised and subsequently measured at their fair values, and transaction costs are expensed in the income statement. Gains or losses arising from changes in the fair values of financial assets at fair value through profit or loss are recognised in profit or loss in the period in which they arise.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.9 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured 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'.

3.10 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.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, 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 carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement. The Group first assesses whether objective evidence of impairment exists.

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 3.23 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.

3.20 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.21 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or 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 Group and the 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. It 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.

3.22 Employee benefits

(a) Retirement benefits costs

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

(b) Bonus plans

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.23 Recognition of revenue and income

Revenue is measured at 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, when it is probable that future economic benefits will flow to the entity and when 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.

3.24 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 recognised 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.25 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.

3.26 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 7.6% (2010: 3.4%) of the Group's revenue was denominated in United State dollars ("US dollar"). The net exchange loss for the current year of RMB1,253,000 (2010: RMB294,000) 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 2011, all the Group's financial assets/liabilities are denominated in Renminbi.

Although the Group does not have any other significant assets or liabilities which are denominated in currencies other than Renminbi as at 31 December 2011, the management considers that the possible appreciation of Renminbi in future periods may have an unfavourable 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 and restricted cash), the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest rate risk primarily arises from bank borrowings and derivative financial instrument.

Borrowings obtained at variable rates expose the Group to cash flow interest rate risk. Borrowings obtained 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 2011, the Group's fixed rates borrowings and floating rates borrowings amounted to RMB548,000,000 (2010: RMB300,000,000) and RMB981,800,000 (2010: RMB982,000,000) respectively.

With all other variables held constant, the Group's finance costs on the floating rates borrowings will increase/decrease by approximately RMB4,545,000 (2010: RMB3,923,000) 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 2011 (Note 22). 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 2011, the 6-months LIBOR is 0.81% 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 loss on the interest rate swap contract will increase/decrease by approximately RMB19,702,000 (2010: RMB2,143,000) 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 2011, the Group has certain concentration of credit risk because approximately 80% (2010: 83%) 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 45% (2010: 28%) of the other receivables (gross amount before any impairment provisions) are due from the related companies of the Group. The aging analysis of the balances due from the Top Five Debtors, and the related companies are as below:

	2011	2010
	RMB'000	RMB'000
Receivables from the Top Five Debtors		
Within 30 days	**15,135**	10,835
31 - 90 days	**45,156**	1,942
91 - 365 days	**17,450**	—
Over 365 days	**14,845**	24,807
	92,586	37,584
Amounts due from related companies		
Within 30 days	**14,438**	55,525
31 - 90 days	**40,534**	69,404
91 - 365 days	**103,090**	17,981
Over 365 days	**5,332**	—
	163,394	142,910

4 FINANCIAL RISK MANAGEMENT – *continued*

4.1 Financial risk factors – *continued*

(b) Credit risk – continued

The amounts due from related companies as set out above primarily comprise of balances arisen from the Group's provision of utilities to a fellow subsidiary and its subsidiary of RMB157,672,000, out of which receivable balances of RMB143,622,000 have already been past due. The Group has agreed a settlement plan with this fellow subsidiary as set out in Note 14(e) to these consolidated financial statements.

As at 31 December 2011, no provision for receivable impairment has been made against the Top Five Debtors 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 joint-stock commercial banks or state-owned banks.

Notes receivable are all to be settled by reputable local joint-stock commercial 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 the ultimate parent company at all times. Such forecasting takes into consideration the Group's debt financing plans and compliance with internal balance sheet ratio targets.

Management also monitors regularly the surplus cash held by the operating entities over and above balance required for working capital management and the Group will invest surplus cash in interest bearing current accounts or deposits, choosing instruments with appropriate maturities or sufficient liquidity, to provide sufficient head-room as determined by the abovementioned forecasts. At 31 December 2011, the Group has interest bearing bank balances of RMB264,124,000 (2010: 76,056,000) that are expected to be readily for use in managing liquidity risk.

4 FINANCIAL RISK MANAGEMENT – *continued*

4.1 Financial risk factors – *continued*

(c) *Liquidity risk* – continued

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).

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000
At 31 December 2011				
Long-term bank borrowings	**180,441**	**80,698**	**202,944**	**188,735**
Short-term bank borrowings	**1,031,373**	**—**	**—**	**—**
Financial liabilities as included in trade and other payables	**221,304**	**—**	**—**	**—**
Net settled derivative financial instrument	**6,626**	**4,597**	**6,302**	**—**
	1,439,744	**85,295**	**209,246**	**188,735**
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

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 are of the view 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% (2010: 65%). The debt-to-total capital ratios at 31 December 2011 and 2010 were as follows:

	2011	2010
	RMB'000	RMB'000
Total borrowings (Note 18)	**1,529,800**	1,282,000
Less: Cash and cash equivalents (Note 15)	**(264,127)**	(76,060)
Net debt	**1,265,673**	1,205,940
Total equity	**1,013,007**	947,815
Total capital	**2,278,680**	2,153,755
Debt-to-total capital ratio (%)	**56%**	56%

The debt-to-equity ratio remained stable at approximately 56% as the slight increase in the Group's net debt has been partially offset by the increase in the Group's total equity resulting from the Group's profit for the current year.

4.3 Fair value estimation

Except for the interest rate swap contract as mentioned in Notes 4.1(a) and 22, 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 gross margin 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 RMB167,669,000 and RMB67,939,000 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.

(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 on the inventories for its acrylic fiber products segment (representing approximately 84% of the Group's total inventories) whereas the Group would have to recognise an additional provision for impairment on the inventories for its carbon fiber products segment of approximately RMB921,000.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS – *continued*

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 use of judgement and estimates. As at 31 December 2011, the Group has recognised deferred income tax assets of RMB80,354,000 (2010: RMB86,070,000) (Note 21). The management considers that the Group is capable to generate sufficient taxable profit from its future business operations for utilising the recognised temporary differences.

(c) Impairment of receivables

The Group makes provision for impairment of receivables based on an assessment of the recoverability of trade and other receivables. The identification of doubtful debts requires the use of judgment and estimates.

As at 31 December 2011, the Group has trade receivables which are past due but not impaired of RMB77,013,000 (2010: RMB25,163,000) and trade receivables of RMB6,731,000 (2010: RMB6,125,000) which are being considered as impaired and provided for (Note 14(b)). In addition, the Group has also requested a fellow subsidiary to pledge certain of its production equipment as the securities for the repayment of the related trade receivable balances of RMB20,479,000 (Note 14(b)).

As at 31 December 2011, the Group has overdue balance of RMB157,672,000 due from a fellow subsidiary and its subsidiary in respect of the provision of utilities as set out in Note 14(e). As of the dates of these consolidated financial statements, the fellow subsidiary has subsequently settled a portion of the overdue balance of RMB50,000,000 in accordance with the settlement plan as committed by the fellow subsidiary. Based on the progress of the subsequent settlement, management does not expect a significant loss would be arising from the overdue balance.

Management considers that the provision for impairment of trade and other receivables of RMB12,537,000 (2010: RMB12,537,000) as at 31 December 2011 adequately cover any significant losses arising from any non-performance by the third party and related party 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 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 RMB160,030,000 (2010: RMB51,257,000) was in connection with sales to overseas customers. Therefore, the Decision-Makers only consider the Group's business from a product perspective, rather than from a geographic perspective. The Decision-Makers assess the performance of the operating segments of acrylic fiber products and carbon fiber products on a regular basis.

The Decision-Makers primarily assess 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 2011 consists of sales from the acrylic fiber products segment and carbon fiber products segment of RMB2,081,914,000 (2010: RMB1,486,822,000) and RMB14,995,000 (2010: RMB14,288,000) respectively.

The Group does not have any inter-segment sales during the years ended 31 December 2011 and 2010.

6 SEGMENTAL INFORMATION – *continued*

The segment information provided to the Decision-Makers for the years ended 31 December 2011 and 2010 is as follow:

	Acrylic fiber products RMB'000	**Carbon fiber products** RMB'000	**Total** RMB'000
Year ended 31 December 2011			
Total revenue from external customers (Note i)	2,081,914	14,995	2,096,909
Adjusted segment results (Note ii)	302,286	232	302,518
Share of profit of a jointly controlled entity	36,151	—	36,151
Depreciation and amortisation	(142,824)	(4,906)	(147,730)
Income tax (expense)/credit	(8,898)	1,074	(7,824)
	186,715	(3,600)	183,115
Additions to non-current assets (other than deferred income tax assets)	64,972	338,523	403,495
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

6 SEGMENTAL INFORMATION – *continued*

	Acrylic fiber products RMB'000	**Carbon fiber products** RMB'000	**Total** RMB'000
As at 31 December 2011			
Total assets	2,275,525	585,526	2,861,051
Total assets include:			
Interest in a jointly controlled entity	213,945	—	213,945
Total liabilities	333,447	49,317	382,764
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

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:

	2011 **RMB'000**	2010 RMB'000
Adjusted segment results for reportable segments	**302,518**	219,688
Depreciation and amortisation	**(147,730)**	(145,303)
Net (loss)/gain on derivative financial instrument	**(15,000)**	144
Finance costs – net	**(102,923)**	(72,895)
Share of profit of a jointly controlled entity	**36,151**	9,550
	(229,502)	(208,504)
Profit before income tax	**73,016**	11,184

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.

6 SEGMENTAL INFORMATION – *continued*

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

	2011 RMB'000	2010 RMB'000
Segment assets for reportable segments	**2,861,051**	2,506,738
Unallocated:		
Deferred income tax assets	**80,354**	86,070
Current income tax recoverable	**1,893**	1,893
	82,247	87,963
Total assets per consolidated balance sheet	**2,943,298**	2,594,701

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

	2011 RMB'000	2010 RMB'000
Segment liabilities for reportable segments	**382,764**	360,448
Unallocated:		
Current borrowings	**1,165,300**	944,000
Non-current borrowings	**364,500**	338,000
Current income tax liabilities	**202**	202
Derivative financial instrument	**17,525**	4,236
	1,547,527	1,286,438
Total liabilities per consolidated balance sheet	**1,930,291**	1,646,886

Notes:

(i) Revenues of approximately RMB966,056,000 (2010: RMB618,983,000) are derived from two (2010: two) customers which individually contributed more than 10% to the Group's revenue. These revenues are all attributable to the acrylic fiber products segment. Details of the revenues from these two customers are as follows:

	2011		2010	
Customer name	**Revenue**	**Proportion to the total revenues**	Revenue	Proportion to the total revenues
Shanghai Taiyi Textile Co., Ltd.	**697,341**	**33%**	421,349	28%
Qinhuangdao Aipurui Chemical Co., Ltd.	**268,715**	**13%**	197,634	13%
Total	**966,056**	**46%**	618,983	41%

6 SEGMENTAL INFORMATION – *continued*

Notes:

(ii) As detailed out in Note 23, the Group has managed and operated certain Utility Facilities and Leased Assets primarily 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 RMB76,537,000 (2010: RMB72,039,000), 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		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**24,816**	26,698	**24,816**	26,698
Additions	**6,543**	—	**—**	—
Amortisation charge	**(1,882)**	(1,882)	**(1,882)**	(1,882)
At 31 December	**29,477**	24,816	**22,934**	24,816

At 31 December 2011, land use rights of the Group and the Company with carrying amount of RMB5,354,000 (2010: RMB6,016,000) have been pledged as securities for certain bank borrowings of the Group and the Company (Note 18).

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 2010						
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 32(b)(iv))	—	(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
Year ended 31 December 2011						
Opening net book amount	321,952	888,966	423	3,173	64,963	1,279,477
Additions	—	1,966	78	810	394,098	396,952
Transfer	—	13,197	—	—	(13,197)	—
Depreciation	(24,211)	(112,507)	(83)	(840)	—	(137,641)
Closing net book amount	297,741	791,622	418	3,143	445,864	1,538,788
At 31 December 2011						
Cost	476,272	1,750,310	2,834	12,521	445,864	2,687,801
Accumulated depreciation	(178,531)	(958,688)	(2,416)	(9,378)	—	(1,149,013)
Net book amount	297,741	791,622	418	3,143	445,864	1,538,788

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 2010						
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 32(b)(iv))	—	(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
Year ended 31 December 2011						
Opening net book amount	321,952	827,757	309	3,173	17,818	1,171,009
Additions	—	1,626	36	806	62,504	64,972
Transfer	—	13,197	—	—	(13,197)	—
Depreciation	(24,211)	(107,618)	(66)	(840)	—	(132,735)
Closing net book amount	297,741	734,962	279	3,139	67,125	1,103,246
At 31 December 2011						
Cost	476,272	1,680,466	2,661	12,517	67,125	2,239,041
Accumulated depreciation	(178,531)	(945,504)	(2,382)	(9,378)	—	(1,135,795)
Net book amount	297,741	734,962	279	3,139	67,125	1,103,246

8 PROPERTY, PLANT AND EQUIPMENT – *continued*

Notes:

(a) At 31 December 2011, property, plant and equipment of the Group and the Company with carrying amount of RMB546,971,000 (2010: RMB628,600,000) have been pledged as securities for certain bank borrowings of the Group and the Company (Note 18).

(b) Depreciation expenses of RMB104,262,000 (2010: RMB103,306,000), RMB6,523,000 (2010: RMB5,162,000) and RMB 26,856,000 (2010: RMB26,746,000) have been charged in cost of sales, administrative expenses and other expenses respectively.

(c) Due to the Group's financial performance for the current year is much lower than those originally budgeted, management has re-assessed the recoverable amounts of the Group's key operating assets (comprise of land use rights, property, plant and equipment and intangible assets). 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 pre-tax cash flow projections based on financial budgets approved by management covering a five-year period (the "Projection Period").

The key assumptions as adopted in the impairment assessment are summarised as below:

	Acrylic Fiber Product Segment	Carbon Fiber Product Segment
Gross margin (note i)	13% to 15%	-21% to 42%
Discount rate	16.2%	15.8%
Growth rate within the Projection Period (note ii)	0% to 7%	14% to 250%
Growth rate beyond the Projection Period	0%	0%

(i) For the Acrylic Fiber Product Segment, management expects that the gross margin will be increased to 15% from year 2014 onwards. For the Carbon Fiber Product Segment, management assumes that the Group will only be able to achieve the expected gross margin of 42% over the Projection Periods gradually, considering that it may take time for the Group to optimise the efficiency from the operations of this business segment as the new production lines are still under the trial production period as of 31 December 2011.

(ii) Management expects that the Group's annual production capacity of the carbon fiber products will increase to 5,000 tons (representing a 233% increase) in 2012. In view of this, management has projected a relatively high growth rates for the Carbon Fiber Product Segment within the Projection Period.

(iii) 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. Similarly, the end products of the Group's carbon fiber products can be widely used for the production of many carbonised products in different areas which do not have close substitutes or subject to technology changes. Therefore, management believes that the Group's operations in the Acrylic Fiber Product Segment and Carbon Fiber Product Segment can be carried on perpetually on a going concern basis.

In assuming the perpetual operations of the key operating assets for the Acrylic Fiber Product Segment and the Carbon 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.

(iv) Management has assumed no further growth in the cash flows beyond the Projection Periods.

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 pre-tax and reflects the specific risks relating to the relevant operating segments.

Based on the impairment assessment, 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 2011.

8 PROPERTY, PLANT AND EQUIPMENT – *continued*

Notes: – *continued*

(d) During the year ended 31 December 2011, the Group has capitalised borrowing costs of RMB14,398,000 (2010: Nil) on qualifying assets (Note 27). Borrowing costs were capitalised at the weighted average rate of its specific borrowings of 6.5% (2010: Not applicable).

9 INTANGIBLE ASSETS - TECHNICAL KNOW-HOW AND LICENSES

Group and the Company

	RMB'000
At 1 January 2010	
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
Year ended 31 December 2011	
Opening net book amount	24,618
Amortisation charge	(8,207)
Closing net book amount	16,411
At 31 December 2011	
Cost	102,624
Accumulated amortisation	(86,213)
Net book amount	16,411

10 INVESTMENT IN A SUBSIDIARY

	Company	
	2011	2010
	RMB'000	RMB'000
Unlisted investment, at cost	**215,000**	215,000

Notes:

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

(b) Details of the subsidiary are as follows:

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	
			2011 RMB	2010 RMB	**2011**	2010
Jilin Tangu Carbon Fiber Co.,Ltd	PRC, Limited liability company	Development, production and sales of carbon fiber products in the PRC	**190,000,000**	190,000,000	**100%**	100%

(c) Due to the subsidiary's major new production lines are still under the trial production period, its financial performance for the current year is lower than that originally budgeted. Considering the recoverable amounts of the CGU of Carbon Fibre Product Segment as determined based on the management's assessment as described on Note 8(c) is higher than the aggregate carrying amounts of the Key Operating Assets of the Carbon Fibre Product Segment and the Company's investment costs in the subsidiary, management has concluded that no provision for impairment on the Company's investment in the subsidiary is required to be recognised as of 31 December 2011.

11 INTEREST IN A JOINTLY CONTROLLED ENTITY

	Group	
	2011	2010
At 1 January	**177,521**	167,698
Share of profit	**36,151**	9,550
Others	**273**	273
At 31 December	**213,945**	177,521

	Company	
	2011	2010
	RMB'000	RMB'000
Unlisted investment, at cost	**225,000**	225,000
Less: provision for impairment (note b)	**—**	(43,384)
	225,000	181,616

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 production and sales of acrylic fibres. As at 31 December 2011 and 2010, 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) In prior years, management has recognised provision for impairment on the Company's investment in the jointly controlled entity by reference to the Company's share of the net assets of the jointly controlled entity. In view of the business environment in which the jointly controlled entity operates becomes more favorable in recent years, management considers that the future income stream of the jointly controlled entity becomes more predictable. Therefore, management has re-assessed the carrying amounts of the Company's investment in the jointly controlled entity based on value-in-use calculations which used pre-tax cash flow projections based on financial budgets approved by management of the jointly controlled entity covering a five-year period (the "Projection Period"). The key assumptions as adopted in the impairment assessment are summarised as below:

Gross margin of the jointly controlled entity	12% to 15%
Discount rate	16.6%
Growth rate beyond the Projection Period	0%

In determining the budgeted gross margin, management has made reference to the past performance of the jointly controlled entity and also their expectations for the market development in the next few years. Management expects that the gross margin of the jointly controlled entity will be increased to 15% from 2016 onwards. The discount rate used is pre-tax and reflects the specific risks relating to the jointly controlled entity.

Based on the impairment assessment, management has concluded that the estimated recoverable amount of the Company's investment in the jointly controlled entity is higher than its carrying amounts and a reversal of provision for impairment of RMB43,384,000 has been recognised during the year ended 31 December 2011.

(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 2011		As at 31 December 2010	
	Jimont	**50% shared by the Group**	Jimont	50% shared by the Group
	RMB'000	**RMB'000**	RMB'000	RMB'000
Non-current assets	**933,543**	**466,772**	950,120	475,060
Current assets	**534,056**	**267,028**	388,246	194,123
Total assets	**1,467,599**	**733,800**	1,338,366	669,183
Non-current liabilities	**370,000**	**185,000**	479,000	239,500
Current liabilities	**662,065**	**331,033**	496,133	248,067
Total liabilities	**1,032,065**	**516,033**	975,133	487,567
Jointly controlled entity's capital commitments	**—**	**—**	54,880	27,440

11 INTEREST IN A JOINTLY CONTROLLED ENTITY – *continued*

	Year ended 31 December 2011		Year ended 31 December 2010	
		50% shared		50% shared
	Jimont	by the Group	Jimont	by the Group
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	1,969,150	984,575	1,496,511	748,256
Expenses	(1,896,849)	(948,424)	(1,477,411)	(738,706)
Net profit for the year	72,301	36,151	19,100	9,550

(d) 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 PREPAYMENTS

The prepayments as classified as non-current assets are all associated with the Group's and the Company's purchases of property, plant and equipment.

13 INVENTORIES

	Group		Company	
	2011	2010	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	118,943	134,295	118,267	133,600
Work in progress	65,364	99,387	62,943	96,315
Finished goods	73,209	128,483	32,915	100,986
	257,516	362,165	214,125	330,901

The cost of inventories recognised as expense and included in cost of sales and other expenses amounted to RMB1,881,773,000 (2010: RMB1,387,011,000) and RMB307,911,000 (2010: RMB313,113,000) respectively.

As at 31 December 2011, a batch of raw materials and finished goods with costs of RMB8,686,000 and RMB21,319,000 (2010: RMB8,787,000 and RMB6,661,000) respectively were considered as obsolete. Provisions for impairment on the abovementioned raw materials and finished goods of RMB4,587,000 and RMB2,889,000 (2010: RMB4,587,000 and RMB1,026,000) respectively were made as at 31 December 2011.

The provision for impairment on inventories recognised and written off/utilised during the year ended 31 December 2011 amounted to RMB2,502,000 (2010: RMB1,026,000) and RMB639,000 (2010: Nil) respectively and there was not any reversal of provision for impairment on inventories during the years ended 31 December 2011 and 2010.

14 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables (Note a)	**115,383**	45,440	**112,108**	45,084
Less: provision for impairment	**(5,021)**	(5,021)	**(5,021)**	(5,021)
Trade receivables – net	**110,362**	40,419	**107,087**	40,063
Notes receivables	**121,879**	107,217	**121,279**	107,217
Amounts due from related companies (Note e and 34(b))	**163,394**	142,910	**341,711**	213,338
Other receivables	**68,286**	25,995	**25,262**	20,396
Less: provision for impairment	**(7,516)**	(7,516)	**(7,516)**	(7,516)
Other receivables – net	**60,770**	18,479	**17,746**	12,880
Prepayments	**7,524**	50,083	**6,092**	14,409
	463,929	359,108	**593,915**	387,907

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	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
0 - 30 days	**31,639**	14,152	**30,324**	14,152
31 - 90 days	**47,739**	2,895	**45,958**	2,539
91 - 365 days	**17,698**	146	**17,675**	146
Over 365 days	**18,307**	28,247	**18,151**	28,247
	115,383	45,440	**112,108**	45,084

14 TRADE AND OTHER RECEIVABLES – *continued*

Notes: – *continued*

(b) Trade receivables with aging less than 30 days are not considered as past due. As of 31 December 2011, the following trade receivables were past due but not impaired. These balances relate to a number of independent customers for whom there is no recent history of default. The aging analysis of these trade receivables is as follows:

	Group		Company	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
31 - 90 days	**44,688**	356	**42,907**	—
91 - 365 days	**17,455**	—	**17,450**	—
Over 365 days	**14,870**	24,807	**14,845**	24,807
	77,013	25,163	**75,202**	24,807

The past due but not impaired trade receivables as set out above included the balance receivable from a fellow subsidiary of RMB14,845,000. The Group has also provided utilities (such as electricity and steam) to this fellow subsidiary and the receivable balances in respect of these transactions amounted to RMB5,634,000. Therefore, the total trade and other receivables due from this fellow subsidiary amounted to RMB20,479,000 as at 31 December 2011 (2010: RMB36,407,000). The fellow subsidiary has pledged certain of its production equipment to the Company as 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 and hence no provision for impairment has been made as of 31 December 2011.

As of 31 December 2011, trade receivables of RMB6,731,000 (2010: RMB6,125,000) were considered as impaired and provided for. The amount of the provision was RMB5,021,000 (2010: RMB5,021,000) as of 31 December 2011. 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	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
31 - 90 days	**3,051**	2,539	**3,051**	2,539
91 -365 days	**243**	146	**225**	146
Over 365 days	**3,437**	3,440	**3,306**	3,440
	6,731	6,125	**6,582**	6,125

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

	Group and Company	
	2011 RMB'000	2010 RMB'000
At 1 January	**5,021**	12,903
Provision for receivable impairment	**—**	1,649
Amounts recovered	**—**	(7,888)
Receivables written off during the year as uncollectible	**—**	(1,643)
At 31 December	**5,021**	5,021

14 TRADE AND OTHER RECEIVABLES – *continued*

Notes: – *continued*

(i) By reference to the estimated value of the certain assets as obtained from a long-outstanding customer in the prior year for the final settlement of the balances due to the Company of RMB20,940,000, the Company had recognised a net reversal of provision for impairment of RMB7,888,000 during the year ended 31 December 2010.

(ii) 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 23). Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

(d) There are no movements in the provision for impairment of other receivables for the years ended 31 December 2011 and 2010.

(e) The aging analysis of the amounts due from the related companies is as follows:

	Group		Company	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
0 - 30 days	**14,438**	55,525	**14,438**	75,607
31 - 90 days	**40,534**	69,404	**218,853**	119,750
91 - 365 days	**103,090**	17,981	**103,088**	17,981
Over 365 days	**5,332**	—	**5,332**	—
	163,394	142,910	**341,711**	213,338

The amounts due from the fellow subsidiaries primarily comprise of receivable balances in respect of the Group's provision of utilities to a fellow subsidiary and its subsidiary of RMB157,672,000 (the "Outstanding Balance"), out of which RMB143,622,000 has already been past due based on the original credit term of 30 days. According to a settlement plan entered into between the Group and this fellow subsidiary, the Outstanding Balance will be fully repaid by 31 December 2012, and the credit term of the Group's provision of utilities to this fellow subsidiary and its subsidiary were extended to 90 days with effect from 1 January 2012.

(f) Except for the amounts due from the jointly controlled entity which bore 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.

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

(h) The carrying amounts of trade and other receivables are all denominated in Renminbi except that, trade receivables of RMB49,761,000 (2010: RMB150,000) are denominated in US dollars.

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

(j) The maximum exposure to credit risk at the reporting date is the carrying amounts of each class of receivables mentioned above.

15 CASH AND CASH EQUIVALENTS

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

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and on hand	**334,917**	279,033	**288,861**	206,082
Less: restricted bank deposits (note a)	**(70,790)**	(202,973)	**(69,368)**	(137,349)
Cash and cash equivalents	**264,127**	76,060	**219,493**	68,733

Notes:

(a) The Company has drawn down a specific 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 proceeds from the bank borrowings have to be deposited in a designated bank account and restricted for the specific usage as mentioned above and hence the related deposit amount of RMB75,000,000 has been classified as a restricted bank deposit as at 31 December 2010. With the consent from the borrowing bank, the Company has used a portion of the restricted deposits of RMB31,067,000 for financing the working capital of the Company. Hence, the restricted bank deposit in connection with the abovementioned specific borrowing has been reduced to RMB43,933,000 as at 31 December 2011.

In addition, the Company has pledged certain bank deposits with carrying amounts of RMB25,000,000 (2010: Nil) to a financial institution for the issues of certain non-trade notes payable (Note 18 (a)) .

Furthermore, bank deposits of RMB1,857,000 (2010: RMB127,973,000) as at 31 December 2011 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.

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

16 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 2011 and 2010.

(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).

16 SHARE CAPITAL AND PREMIUM – *continued*

(a) Share capital – *continued*

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.

17 RESERVES

Group

	Reserve fund	Enterprise expansion fund	Statutory reserve fund	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(note a)	(note a)	(note b)		
At 1 January 2010	—	—	31,919	(105,417)	(73,498)
Profit for the year	—	—	—	12,586	12,586
At 31 December 2010	—	—	31,919	(92,831)	(60,912)
Profit for the year	—	—	—	65,192	65,192
At 31 December 2011	**—**	**—**	**31,919**	**(27,639)**	**4,280**

Company

	Reserve fund	Enterprise expansion fund	Statutory reserve fund	Retained profits/ (accumulated losses)	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(note a)	(note a)	(note b)		
At 1 January 2010	—	—	31,919	(58,443)	(26,524)
Profit for the year	—	—	—	10,401	10,401
At 31 December 2010	—	—	31,919	(48,042)	(16,123)
Profit for the year	—	—	—	71,707	71,707
At 31 December 2011	**—**	**—**	**31,919**	**23,665**	**55,584**

17 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 2011 and 2010.

18 BORROWINGS

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Non-current				
Long-term bank borrowings	**538,000**	652,000	**338,000**	652,000
Less: Current portion of long-term bank borrowings	**(173,500)**	(314,000)	**(153,500)**	(314,000)
	364,500	338,000	**184,500**	338,000
Current				
Short-term bank borrowings	**941,800**	630,000	**941,800**	630,000
Current portion of long-term bank borrowings	**173,500**	314,000	**153,500**	314,000
Other borrowings (note a)	**50,000**	—	**50,000**	—
	1,165,300	944,000	**1,145,300**	944,000
Total bank borrowings	**1,529,800**	1,282,000	**1,329,800**	1,282,000
Representing:				
– secured borrowings	**1,529,800**	1,282,000	**1,329,800**	1,282,000

Notes:

(a) Other borrowings represented non-trade notes payable for financing the Group's working capital. As at 31 December 2011, the Group has pledged certain bank deposits of RMB25,000,000 as securities for the issue of the abovementioned non-trade notes payable of RMB50,000,000.

(b) Secured bank borrowings of RMB1,174,800,000 (2010: RMB1,282,000,000) are guaranteed by the ultimate parent company, out of which, bank borrowing of RMB200,000,000 (2010: Nil) is also secured by certain self-generated technical know-how as held by the subsidiary (which was contributed by the Company as part of its capital contribution to the subsidiary in 2008). In addition, secured bank borrowings of RMB305,000,000 (2010: RMB319,000,000) are secured by certain property, plant and equipment and land use rights of the Company with carrying amounts of approximately RMB546,971,000 (2010: RMB628,600,000) (Note 8) and RMB5,354,000 (2010: RMB6,016,000) (Note 7), respectively.

18 BORROWINGS – *continued*

Notes: – *continued*

(c) Borrowings as at 31 December 2011 were repayable as follows:

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year	**1,165,300**	944,000	**1,145,300**	944,000
Between 1 and 2 years	**57,000**	128,000	**27,000**	128,000
Between 2 and 5 years	**154,000**	33,000	**64,000**	33,000
Over 5 years	**153,500**	177,000	**93,500**	177,000
	1,529,800	1,282,000	**1,329,800**	1,282,000

(d) The effective interest rate of the bank borrowings as at the balance sheet date was 6.27% (2010: 5.27%) per annum.

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

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 6 months	**782,000**	682,000	**782,000**	682,000
6 - 12 months	**747,800**	600,000	**547,800**	600,000
	1,529,800	1,282,000	**1,329,800**	1,282,000

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

(g) As at 31 December 2011, the Group and the Company has fixed interest rates bank borrowings of approximately RMB548,000,000 (2010: RMB300,000,000) 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 their fair values.

19 DEFERRED INCOME

Group

	Government grant for construction of new facilities (note a) RMB'000	Purchases of domestically manufactured equipment (note b) RMB'000	Total RMB'000
At 1 January 2010	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
Additions	7,120	—	7,120
Amortisation	(6,628)	(1,384)	(8,012)
At 31 December 2011	**69,691**	**12,876**	**82,567**

Company

	Government grant for construction of new facilities (note a) RMB'000	Purchases of domestically manufactured equipment (note b) RMB'000	Total RMB'000
At 1 January 2010	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
Additions	7,120	—	7,120
Amortisation	(4,640)	(1,384)	(6,024)
At 31 December 2011	**56,879**	**12,876**	**69,755**

Notes:

(a) In 2010, the Group received government grants for the installation of certain energy recycle facilities of RMB2,900,000 and also for financing certain of the research and development expenses of RMB1,050,000.

In 2011, the Group received governments grants for the constructions of certain bio-chemical sewage treatment facilities of RMB7,120,000.

19 DEFERRED INCOME – *continued*

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

(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 and 22 years. The government grant in connection with the research and development expenses will be recognised in the consolidated statement of comprehensive income as and when the related expenses are incurred.

20 TRADE AND OTHER PAYABLES

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables	**124,629**	154,182	**113,982**	149,320
Advance from customers	**32,968**	38,506	**31,692**	37,884
Payable for purchases of property, plant and equipment	**56,315**	25,911	**34,062**	19,084
Amounts due to (Notes b and 34(b))				
– the ultimate parent company	**7,345**	—	**7,261**	—
– fellow subsidiaries	**3,123**	3,759	**1,437**	3,731
– the jointly controlled entity	**1,896**	—	**1,613**	—
	12,364	3,759	**10,311**	3,731
Other payables and accruals	**27,996**	21,276	**27,720**	21,267
Provision for staff welfare	**26,599**	27,679	**26,599**	27,679
Other taxes	**19,326**	5,676	**19,326**	5,676
	300,197	276,989	**263,692**	264,641

Notes:

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

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
0 - 30 days	**28,000**	45,823	**26,025**	44,062
31 - 90 days	**81,371**	94,320	**76,758**	92,927
91 - 365 days	**9,629**	9,756	**6,616**	8,048
Over 365 days	**5,629**	4,283	**4,583**	4,283
	124,629	154,182	**113,982**	149,320

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

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

21 DEFERRED INCOME TAX

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

Group

	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 2010	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
(Charged)/credited to the consolidated statement of comprehensive income	(851)	3,322	1,631	—	465	(10,747)	1,283	(819)	(5,716)
At 31 December 2011	**7,661**	**4,381**	**12,402**	**3,545**	**1,869**	**29,957**	**5,873**	**14,666**	**80,354**

Company

	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 2010	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
(Charged)/credited to the statement of comprehensive income	(851)	3,322	1,631	—	—	(11,854)	1,780	(1,897)	(7,869)
At 31 December 2011	**7,661**	**4,381**	**12,226**	**3,545**	**1,147**	**28,850**	**2,670**	**(51)**	**60,429**

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

	Group		Company	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Within 12 months	**12,247**	37,306	**12,978**	38,037
More than 12 months	**68,107**	48,764	**47,451**	30,261
	80,354	86,070	**60,429**	68,298

22 DERIVATIVE FINANCIAL INSTRUMENT

	Group and Company	
	2011	2010
	RMB'000	RMB'000
Derivative financial liability		
– Interest rate swap contract	**17,525**	4,236

Note:

As at 31 December 2011, the derivative financial liability represents an outstanding interest rate swap contract with a notional principal amount of RMB130,000,000 (2010: RMB130,000,000). The interest rate swap contract is to mature in November 2015 and the key terms of which have 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 loss associated with this derivative financial instrument of RMB15,000,000 (the aggregate of the amount of fair value loss of RMB13,289,000 and the realised loss of RMB1,711,000 on the contract for the year ended 31 December 2011) (2010: net gain of RMB144,000) have been recognised within 'other losses/gains - net' in the consolidated statement of comprehensive income for the year ended 31 December 2011 (Note 24).

23 OTHER INCOME AND EXPENSES

	2011	2010
	RMB'000	RMB'000
Other income		
Rental income	**1,003**	130
Income from provision of utilities (Note)	**452,633**	444,428
Amortisation of deferred income (Note 19)	**8,012**	6,962
Reversal of provision for impairment of trade receivables	**—**	7,888
Others	**263**	57
	461,911	459,465
Other expenses		
Direct outgoings in respect of provision of utilities	**(402,953)**	(399,135)
Provision for impairment of trade receivables	**—**	(1,649)
Others	**(569)**	(341)
	(403,522)	(401,125)
	58,389	58,340

23 OTHER INCOME AND EXPENSES – *continued*

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 and the lease term has been renewed for another three years. Combined with certain utility production facilities (including a thermal power plant (the "Utility Facilities")) as owned by the Group, 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 2011, the income from the provision of utilities to the fellow subsidiaries, jointly controlled entity and third parties amounted to RMB231,234,000 (2010: RMB246,005,000), RMB172,989,000 (2010: RMB148,845,000), RMB48,410,000 (2010: RMB49,578,000) 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 RMB307,911,000 (2010: RMB313,113,000), RMB35,946,000 (2010: RMB29,841,000), RMB26,857,000 (2010: RMB26,746,000) and RMB17,165,000 (2010: RMB16,850,000) respectively.

24 OTHER (LOSSES)/GAINS - NET

	2011	2010
	RMB'000	RMB'000
Other gains		
Gain attributable to equity interests of a jointly controlled entity	**273**	273
Net gain on derivative financial instrument (Note 22)	**—**	144
Gain on transfer of property, plant and equipment	**—**	3,637
Others	**—**	159
	273	4,213
Other losses		
Net loss on derivative financial instrument (Note 22)	**(15,000)**	—
Foreign exchange losses, net	**(1,253)**	(294)
Others	**(1,054)**	—
	(17,307)	(294)
	(17,034)	3,919

25 EXPENSES BY NATURE

	2011 RMB'000	2010 RMB'000
Changes in inventories of finished goods and work in progress	87,434	(113,835)
Raw materials used for production of fiber products	1,653,656	1,364,502
	1,741,090	1,250,667
Raw materials used for provision of utilities	307,911	313,113
Depreciation (Note 8)	137,641	135,214
Amortisation of		
– land use rights (Note 7)	1,882	1,882
– intangible assets (included in administrative expenses) (Note 9)	8,207	8,207
Provision for impairment of trade receivables	—	1,649
Employee benefit expenses (Note 26)	72,605	64,299
Transportation expenses	39,980	33,019
Operating lease payment	49,941	39,788
Auditors' remuneration	1,500	1,600
Legal and professional fees	2,159	482
Stamp duty and business tax expenses	969	1,851
Urban real estate tax expenses and other taxes	10,817	11,504
Other expenses	27,296	26,690
Total cost of sales, distribution costs, administrative expenses and other expenses	2,401,998	1,889,965

26 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2011 RMB'000	2010 RMB'000
Wages and salaries	51,328	45,469
Pension costs - defined contribution plans	11,117	9,970
Other social security costs	10,160	8,860
	72,605	64,299

26 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 2011

Name of director and supervisor	**Fees**	**Salary**	**Employer's contribution to pension scheme**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
Director				
Mr. WANG Jinjun	450	—	—	450
Mr. YANG Xuefeng (a)	200	—	—	200
Mr. WANG Changsheng	350	—	—	350
	1,000	—	—	1,000
Non-executive director				
Mr. MA Jun (b)	210	—	—	210
Mr. CHEN Jinkui	20	—	—	20
Mr. JIANG Junzhou	20	—	—	20
Ms. ZHU Ping (c)	10	—	—	10
Mr. HAO Peijun (c)	10	—	—	10
Mr. ZHANG Yuchen (c)	10	—	—	10
Ms. PANG Suet Mui (d)	—	—	—	—
Mr. GONG Jianzhong (d)	20	—	—	20
	300	—	—	300
Independent non-executive director				
Mr. YE Yongmao	50	—	—	50
Mr. MAO Fengge	50	—	—	50
Mr. LEE Ka Chung	243	—	—	243
	343	—	—	343
	1,643	—	—	1,643

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

Emoluments of directors and senior management – *continued*

Year ended 31 December 2011 – *continued*

Name of director and supervisor	Fees	Salary	Employer's contribution to pension scheme	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Supervisor				
Ms. SUN Yujing	20	—	—	20
Mr. ZHANG Haiou	15	43	18	76
Mr. ZHANG Jiaku (e)	10	—	—	10
Ms. BAI Hua (e)	10	43	18	71
Mr. CHENG Jianhang (e)	10	—	—	10
Mr. LIU Ming (e)	10	—	—	10
Mr. JIANG Yanfeng (e)	25	—	—	25
Mr. WANG Hongbo (e)	5	—	—	5
Mr. MENG Xiangui (e)	15	—	—	15
Ms. FENG Shuhua (e)	15	—	—	15
	135	86	36	257

Notes:

(a) Mr. Yang Xuefeng has been appointed as a director of the Company on 30 June 2011.

(b) Mr. Ma Jun was an executive director of the Company prior to 30 June 2011 and he has been re-designated as a non-executive director of the Company on 30 June 2011.

(c) Mr. Hao Peijun and Mr. Zhang Yuchen retired on 30 June 2011 and Ms. Zhu Ping has been appointed as a director of the Company on the same date.

(d) Mr. Gong Jianzhong resigned on 16 December 2011 and Ms. Pang Suet Mui has been appointed as a director of the Company on the same date.

(e) Mr. Jiang Yanfeng, Mr. Wang Hongbo, Mr. Meng Xiangui and Ms. Feng Shuhua resigned on 30 June 2011 and Mr. Zhang Jiaku, Ms. Bai Hua, Mr. Cheng Jianhang and Mr. Liu Ming have been elected as supervisors of the Company on the same date.

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

Emoluments of directors and senior management *– continued*

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	255	—	—	255
	355	—	—	355
	1,655	—	—	1,655
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
Ms. FENG Shuhua	30	—	—	30
	150	50	23	223

26 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 2011 amounting to RMB470,000 (2010: RMB138,000), part of which is in respect of their services rendered to the Company and its subsidiary. No apportionment has been made as the directors consider that it is impracticable to apportion this amount between their services rendered to the Company and its subsidiary 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 Company and its subsidiary for the year ended 31 December 2011 included four (2010: four) directors whose emoluments are reflected in the analysis presented above. The aggregate amounts of emoluments paid and payable to the remaining one (2010: one) individual whose emoluments was the highest in the Group during the year are as follows:

	2011 **RMB'000**	2010 RMB'000
Basic salaries and allowances	**1,068**	922

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

	Number of individual	
	2011	2010
HK$1,000,000 - HK$1,500,000 (equivalent to RMB810,700 – RMB1,216,050)	**1**	1

During the years ended 31 December 2011 and 2010, 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.

27 FINANCE INCOME AND COSTS

	2011 RMB'000	2010 RMB'000
Interest income	(2,715)	(4,803)
Interest expenses on bank borrowings		
– wholly repayable within five years	86,356	61,188
– repayable over five years	9,769	9,250
	96,125	70,438
Less: amounts capitalised in construction in progress	(14,398)	—
	81,727	70,438
Interests on notes receivable discounted	14,623	7,260
Bank borrowings guarantee fees to the ultimate parent company (Note)	9,288	—
Finance costs	105,638	77,698
Finance costs – net	102,923	72,895

Note:

The ultimate parent company has guaranteed the bank borrowings of the Group for years (the "Guaranteed Borrowings") (Note 18(b)). With effect from 1 January 2011, the ultimate parent company has charged the Group guarantee fees on those Guaranteed Borrowings which are calculated at predetermined rates on the daily outstanding principal amounts of the Guarantee Borrowings.

28 INCOME TAX

(a) 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%.

(b) 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 profits generated in the PRC for the current and the prior year. The current income tax charge for the current year represents the Company's under-provision of income tax expenses in the prior years as identified by the local tax bureau during the course of a tax inspection as conducted in April 2011.

The subsidiary did not have any estimated tax assessable profit generated in the PRC for the current and the prior years.

28 INCOME TAX – *continued*

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

	2011 RMB'000	2010 RMB'000
Current income tax		
– under-provision of PRC corporate income tax in prior years	**2,108**	202
Deferred income tax		
– charge/(credit) for the year (Note 21)	**5,716**	(1,604)
Income tax expense/(credit)	**7,824**	(1,402)

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

	2011 RMB'000	2010 RMB'000
Profit before income tax	**73,016**	11,184
Tax calculated at the tax rate of 25% (2010: 25%)	**18,254**	2,796
Tax effects of:		
- jointly controlled entity's results reported net of tax	**(9,038)**	(2,387)
- income not subject to tax	**(4,069)**	(2,808)
- expenses not deductible for taxation purposes	**569**	997
- under-provision of PRC corporate income tax in prior years	**2,108**	—
Income tax expense/(credit)	**7,824**	(1,402)

29 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 RMB71,707,000 (2010: RMB10,401,000).

30 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 (2010: 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.

31 DIVIDEND

The Company's directors do not recommend the payment of a dividend for the years ended 31 December 2011 and 2010.

32 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Cash generated from operations

	2011	2010
	RMB'000	RMB'000
Profit before income tax	**73,016**	11,184
Adjustments for:		
– Depreciation	**137,641**	135,214
– Amortisation of		
– land use rights	**1,882**	1,882
– intangible assets	**8,207**	8,207
– Amortisation of deferred income	**(8,012)**	(6,962)
– Provisions for:		
– trade receivables	**—**	1,649
– inventories	**—**	1,026
– Reversals of provision for impairment of trade receivables	**—**	(7,888)
– Unrealised loss/(gain) on derivative financial instrument	**13,289**	(2,526)
– Gain on transfer of property, plant and equipment	**—**	(3,637)
– Interest income	**(2,715)**	(4,803)
– Interest and guarantee fee expenses	**94,284**	70,438
– Share of profit of a jointly controlled entity	**(36,151)**	(9,550)
– Gain attributable to equity interests of a jointly controlled entity	**(273)**	(273)
Operating profit before working capital changes	**281,168**	193,961
Changes in working capital:		
– decrease/(increase) in inventories	**93,736**	(134,264)
– (increase)/decrease in trade and other receivables	**(130,067)**	42,991
– (decrease)/increase in trade and other payables	**(18,570)**	46,536
– decrease/(increase) in restricted bank deposits	**61,915**	(87,303)
Cash generated from operations	**288,182**	61,921

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

(b) Major non-cash transactions

(i) During the year ended 31 December 2011, certain notes receivables collected from the Group's customers with carrying amounts of RMB523,686,000 (2010: RMB449,748,000) have been assigned 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 RMB24,406,000 (2010:RMB25,696,000), RMB461,345,000 (2010: RMB392,928,000), and RMB37,935,000 (2010: RMB31,124,000), respectively.

(ii) The payable balances in connection with additions to property, plant and equipment increased to RMB57,820,000 (including an amount due to a fellow subsidiary of RMB1,505,000) as of 31 December 2011 (2010: RMB25,911,000).

(iii) In 2010, the Company has obtained the ownership of certain assets from a third party customer as its final settlement of the related receivable balance of RMB20,940,000 (Note 14(c)(i)).

(iv) In April and July 2010, the Group has transferred certain of its equipment with aggregate carrying amounts of RMB698,000 to two suppliers as the Group's partial settlement of its payable balances due to these suppliers of RMB4,335,000, resulting in a gain associated with these transfers of RMB3,637,000.

33 COMMITMENTS

(a) Capital Commitment

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

	2011	2010
	RMB'000	RMB'000
Property, plant and equipment	**3,531**	89,776

(b) Operating lease commitments

The Group as the lessee

The Group leases certain utilities production facilities (the "Leased Assets") from a fellow subsidiary for the period from 4 November 2008 to 31 December 2010 (the "Initial Lease Period") and the lease term was renewed for another three years (Note 23).

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

	2011	2010
	RMB'000	RMB'000
No later than 1 year	**47,059**	36,890
Later than 1 year and no later than 5 years	**44,878**	69,119
	91,937	106,009

33 COMMITMENTS – *continued*

(b) Operating lease commitments – *continued*

The Group as the lessor

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

	2011	2010
	RMB'000	RMB'000
Land use rights and machinery		
No later than 1 year	**919**	119
Later than 1 year and no later than 5 years	**1,184**	474
Later than 5 years	**1,749**	177
	3,852	770

34 SIGNIFICANT RELATED PARTY TRANSACTIONS

The Group is controlled by JCF Groupco, the ultimate parent company, which owns 50.01% of the Company's shares. The remaining 49.99% of the shares are held by public shareholders and several strategic investors. JCF Groupco itself is a state-owned enterprise controlled by the PRC government. In accordance with HKAS 24 (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 the disclosure requirements as set out in the 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.

34 SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

(a) Related party transactions

	2011	2010
	RMB'000	RMB'000
Sales of goods to:		
– a shareholder of the Company	**697,341**	421,349
– a fellow subsidiary	**1,152**	26
Provision of utilities to:		
– jointly controlled entity	**172,989**	148,845
– fellow subsidiaries	**231,234**	246,005
Provision of quality inspection services to the jointly controlled entity	**1,749**	—
Interest income from the jointly controlled entity	**729**	2,688
Sales of raw materials to the jointly controlled entity	**10,871**	10,454
Rental expense to fellow subsidiaries in respect of the Leased Assets	**(49,941)**	(39,787)
Bank borrowings guarantee fees to the ultimate parent company	**(9,288)**	—
Repair and maintenance service fee to fellow subsidiaries	**(5,989)**	(3,846)
Purchases of raw materials from:		
– jointly controlled entity	**(92,317)**	(68,513)
– fellow subsidiaries	**(12,067)**	(5,362)
Construction costs to a fellow subsidiary	**(1,505)**	(189)

JCF Groupco allowed the Group to the use of the trademark of "白山" (Baishan) at nil consideration during the years ended 31 December 2011 and 2010.

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

34 SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

(b) Balances with related parties

	2011 RMB'000	2010 RMB'000
Trade receivables		
– a fellow subsidiary	**14,845**	24,807
– a shareholder of the company	**11,109**	—
	25,954	24,807
Amounts due from		
In respect of provision of utilities		
– the ultimate parent company	**—**	1,144
– fellow subsidiaries	**163,394**	90,365
– the jointly controlled entity	**—**	49,133
	163,394	140,642
In respect of advances and others		
– fellow subsidiaries	**—**	2,268
	163,394	142,910
Prepayments to fellow subsidiaries in respect of construction works and purchases of intangible assets	**3,673**	—
Trade payables		
– fellow subsidiaries	**1,695**	—
Receipts in advance from customers		
– a shareholder of the Company	**—**	9,456
Amounts due to		
– the ultimate parent company	**7,345**	—
– fellow subsidiaries	**3,123**	3,759
– the jointly controlled entity	**1,896**	—
	12,364	3,759

Notes:

Except for the amount due to the jointly controlled entity which was interest bearing (Note 14(f)) and the receivable balances from a fellow subsidiary which was pledged by certain of the plant and equipment of the fellow subsidiary (Note 14(b)), the receivable and payable balances with related parties are unsecured, interest free and have no fixed terms of repayment.

34 SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

(c) 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 significantly 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 2011, 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 RMB62,711,000 (2010: RMB61,555,000) and RMB1,298,365,000 (2010: RMB923,251,000) respectively.

In addition, approximately 90% and 79% (2010: 97% and 87% respectively) of the Group's bank balances (including restricted bank deposits) and borrowings are deposited/arranged with state-owned banks as at 31 December 2011.

(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:

	2011 **RMB'000**	2010 RMB'000
Wages, salaries and other short-term employee benefits	**3,155**	3,027
Pension and social security costs	**80**	74
	3,235	3,101

35 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

	Asset/(liabilities) as per consolidated balance sheet				
	Loans and receivables RMB'000	Total RMB'000	Liabilities at fair value through the profit or loss RMB'000	Other financial liabilities at amortised costs RMB'000	Total RMB'000
At 31 December 2011					
Trade and other receivables (excluding prepayments)	**456,405**	**456,405**	**—**	**—**	**—**
Cash and cash equivalents	**264,127**	**264,127**	**—**	**—**	**—**
Borrowings	**—**	**—**	**—**	**(1,529,800)**	**(1,529,800)**
Derivative financial instrument	**—**	**—**	**(17,525)**	**—**	**(17,525)**
Trade and other payables (excluding statutory liabilities, advance from customers and provision for staff welfare)	**—**	**—**	**—**	**(221,304)**	**(221,304)**
Total	**720,532**	**720,532**	**(17,525)**	**(1,751,104)**	**(1,768,629)**
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, advance from customers and provision for staff welfare)	—	—	—	(271,313)	(271,313)
Total	385,085	385,085	(4,236)	(1,553,313)	(1,557,549)

35 FINANCIAL INSTRUMENTS BY CATEGORY *– continued*

Company	Asset/(liabilities) as per balance sheet				
	Loans and receivables RMB'000	Total RMB'000	Liabilities at fair value through the profit or loss RMB'000	Other financial liabilities at amortised costs RMB'000	Total RMB'000
At 31 December 2011					
Trade and other receivables (excluding prepayments)	**587,823**	**587,823**	**—**	**—**	**—**
Cash and cash equivalents	**219,493**	**219,493**	**—**	**—**	**—**
Borrowings	**—**	**—**	**—**	**(1,329,800)**	**(1,329,800)**
Derivative financial instrument	**—**	**—**	**(17,525)**	**—**	**(17,525)**
Trade and other payables (excluding statutory liabilities, advance from customers and provision for staff welfare)	**—**	**—**	**—**	**(186,075)**	**(186,075)**
Total	**807,316**	**807,316**	**(17,525)**	**(1,515,875)**	**(1,533,400)**
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, advance from customers and provision for staff welfare)	—	—	—	(258,965)	(258,965)
Total	452,231	452,231	(4,236)	(1,540,965)	(1,545,201)