MAJOR OPERATIONAL DATA

1. Revenue

	Year ended 31 December			
	2006 RMB million	2006 %	2005 RMB million	2005 %
Acrylic top	**861.0**	**37.6**	729.3	33.3
Acrylic tow	**749.9**	**32.7**	800.4	36.6
Acrylic staple fibre	**668.3**	**29.2**	649.3	29.7
Others*	**11.5**	**0.5**	10.1	0.4
Total	**2,290.7**	**100.0**	2,189.1	100.0

* Refer to acrylic fibre scrap which is not counted towards the sales volume.

2. Sales volume

	Year ended 31 December			
	2006 Tons	2006 %	2005 Tons	2005 %
Acrylic top	**51,307**	**36.6**	44,589	32.3
Acrylic tow	**46,855**	**33.5**	51,411	37.3
Acrylic staple fibre	**41,888**	**29.9**	41,909	30.4
Total	**140,050**	**100.0**	137,909	100.0

3. Average selling price and gross profit margin

	Year ended 31 December			
	2006 Average selling price RMB/ton	2006 Gross profit margin %	2005 Average selling price RMB/ton	2005 Gross profit margin %
Acrylic top	**16,781**	**12.4**	16,356	16.3
Acrylic tow	**16,005**	**13.6**	15,568	16.8
Acrylic staple fibre	**15,954**	**11.1**	15,493	14.7
Overall gross profit margin		**12.5**		16.1

REVIEW AND OUTLOOK

Market review

In 2006, international crude oil price stood persistently high. International crude oil price rose from US$61.0/barrel in January 2006 to approximately US$78.3/barrel in August 2006, representing an increase of approximately 28.4%. The high crude oil price and the shortage in acrylonitrile supply has pushed up the acrylonitrile cost of the Company in 2006. Purchase price of acrylonitrile rose from approximately RMB10,631/ton in January 2006 to approximately RMB13,688/ton in December 2006, representing an increase of 28.8%. However, the average selling price of acrylic fibre increased only by 9.7% from RMB15,346/ton in January 2006 to RMB16,837/ton in December 2006. The rising raw material cost has exerted pressure on the entire acrylic fibre industry in the PRC.

Sales review

In 2006, to cope with the challenging acrylic fibre market, the Company applied flexible marketing strategy riding on its well established sales network. Furthermore, capable of supplying products of stable quality in a timely manner and complemented with quality after-sales services, the Company's products enjoyed all-round competitiveness in the PRC acrylic fibre market. For the year ended 31 December 2006, the Company recorded sales of 140,050 tons, representing a growth of 1.6% compared with last year, while sales to production ratio at 98.6% was similar to that of 2005.

Operations review

In 2006, the Company adhered to the strategy of improving operational efficiency by implementing stringent internal management control measures to enhance cost efficiency continuously.

Sales management

As at the end of 2006, the sales centre jointly established by the Company, Montefibre and the New Joint Venture began operation. The sales centre is strategically located near Suzhou city in Jiangsu province, which is a hub of textile manufacturers. Apart from setting sales strategies, the sales centre has put the Company closer to its customers as well as the market, hence is expected to benefit the future development of the Company. In addition, capable of providing customers with excellent and comprehensive pre-sales and after-sales services, the sales centre is instrumental to helping the Company build stable and long-term relationship with customers.

Production management and control

In 2006, the Company successfully and systematically implemented 23 technological renovations and reforms through dedication in production management and quality, and continuous enhancement of production technology. This led to improvement in the Company's efficiency and cost effectiveness at different levels in the areas of production technology, and production and quality management.

For the year ended 31 December 2006, except for routine inspections once every six months, the production plant of the Company was operating at full capacity, with utilization rate maintaining at about 100%.

In 2002, the Company obtained ISO 14001 environment management system and other certifications. These achievements have encouraged the Company to continue to enhance internal control. In June 2006, the Company has passed its annual review of ISO and other certifications covering product quality, environment protection and occupational safety and health.

Employees

As at 31 December 2006, the Company had 1,216 employees, representing a decrease of 6.4% as compared to 1,299 in 2005, which was mainly attributable to the relocation of certain staff members to the New Joint Venture. The Company's staff remuneration packages are determined with reference to prevailing market practices and include a performance-based incentive bonus. The Company also provides training in areas of production technology, production quality control, production safety and environmental protection to employees at all levels.

Outlook

Looking forward, the management expects the PRC acrylic fibre market to remain challenging in 2007. Nevertheless, as the PRC economy and textile industry continue to prosper, international crude oil and acrylonitrile price stabilizing and the Company's New Joint Venture and thermal power plant having began operation, the Company sees new opportunities and room for advancement for its business as stated below:

1. Continuously tight acrylic fibre supply: Demand for acrylic fibre products has been growing in recent years alongside the booming textile industry and textile export business of the PRC. In 2006, approximately 32% of the domestic demand of the acrylic fibre products was met by imported products. The management believes that the supply deficit will persist in the foreseeable future. Taking that into account, the New Joint Venture with Montefibre, which will increase the aggregate production capacity of the Company and the New Joint Venture will benefit the future development of the Company.

2. Continued to develop differential fibre: Differential fibres refer to acrylic fibres manufactured through chemical or technical treatments different from those applied to conventional fibres. Thus, they have special characteristics, appearances and functions. Currently, the differential fibres produced by the Company included low dernier fibre, high shrinkage fibre, low pilling fibre and dyed fibre. In 2006, the Company also developed and launched the gel dyeing fibre and continued to actively develop various differential fibres to satisfy market demands. Although currently differential fibres made up only 7.9% of the Company's total output, the scope of application of the products is expanding, meaning they have huge development potentials. Therefore, the Company will focus on developing more differential fibres so as to enhance its competitiveness in the domestic acrylic fibre market. As the selling price and gross profit of differential fibres are in general higher than those of conventional fibres, continuous development of differential fibres will give room to the Company to boost profit.

   The management believes differential fibre products will become a major growth driver of the acrylic fibre industry in the PRC. The Company is prepared to capture the related business opportunities to boost its profitability.

3. Raw material prices to stabilize: In 2007, barring unforeseeable circumstances, international crude oil price is expected to stabilize, and so will the price of acrylonitrile, the Company's principal raw material. At the same time, with overall output of acrylonitrile in the market set to increase and supply and demand of raw materials returning to a more balanced level, the management expects the improved raw material cost would create a favorable condition in the business and operational aspect of the Company.

4. Full operation of the New Joint Venture and thermal power plant: The New Joint Venture established with Montefibre commenced trial production in November 2006, and became full operational in 2007. The Company and the New Joint Venture have a combined annual production capacity of 236,000 tons, and is currently the fourth largest acrylic fibre producer in the world. Benefiting from the close relationship between the New Joint Venture and Montefibre, the third largest acrylic fibre producer in the world with strong technical expertise, the Company believes it will be able to strengthen its market position in the PRC. Capitalizing on the synergies and economies of scale in the area of procurement brought about by the strategic alliance with Montefibre, the Company and the New Joint Venture will strive to boost their market influence and bargaining power with suppliers.

   In addition, the Company's thermal power plant began trial operation at the same time as the New Joint Venture at the end of 2006. The power plant can help the Company reduces production costs, making it more cost competitive and giving strong support for the development of the Company.

5. Optimizing capital structure: The net proceeds from the listing of the Company on the Stock Exchange on 21 June 2006 have been used to set up the New Joint Venture, repay short-term bank loans and general working capital purposes. The Company's gearing ratio, calculated by dividing total liabilities by total assets, decreased from 65.7% as at 31 December 2005 to 55.5% as at 31 December 2006. The management will strive to maintain the Company's leverage position, and will continue to optimize its capital structure and reduce finance costs, with the aim of ultimately improving profitability.

The management of the Company will actively capitalize on the above opportunities and through effective cost control and developing new products to consolidate its leadership in the acrylic fibre industry in the PRC. Such endeavours plus the New Joint Venture and the thermal power plant in operation will enable the Company to bring maximum returns to shareholders.

FINANCIAL ANALYSIS

Operation results

For the year ended 31 December 2006, the Company's revenue amounted to approximately RM2.29 billion, representing an increase of approximately 4.6% as compared with approximately RMB2.19 billion for the year of 2005. The increase was mainly due to a 2.5% increase in average selling price and a 1.6% increase in sales volume of acrylic fibre products brought by the booming PRC acrylic fibre market in 2006. The Company's total production volume and sales volume were 141,999 tons and 140,050 tons respectively for the year. Sales-to-production ratio at 98.6% was similar to that of 2005.

Profit attributable to the shareholders of the Company for the year was approximately RMB99.1 million, decreased by approximately 35.2% as compared with approximately RMB152.9 million in 2005. The decrease was mainly attributable to the decrease in the overall gross profit margin from 16.1% in 2005 to 12.5% in 2006 due to rising raw material cost. The price of acrylonitrile, the major raw material, increased significantly by 28.8% in 2006 as a result of increase in price of crude oil in 2006 and tight acrylonitrile supply in the PRC. Nevertheless, the increase in purchase price of acrylonitrile was only partly offset by the increase in selling price of acrylic fibre products. The price differential between the average selling price of the Company's acrylic fibre products and the average purchase price of acrylonitrile for the year of 2006 was approximately RMB3,967/ton, representing a decrease of approximately 18.4% against approximately RMB4,860 /ton for the year of 2005.

Operating expenses

To ease rising material cost pressure, the Company strived to control cost. Operating expenses increased from approximately RMB111.2 million for year of 2005 to approximately RMB120.9 million in 2006, mainly attributable to the increase in administrative expenses including increase in staff related costs and provision for impairment of trade and other receivables.

Finance costs

Net finance costs decreased moderately from approximately RMB64.3 million for the year of 2005 to approximately RMB64.2 million for 2006, the decrease in interest expenses was mainly due to the fact that repayment of short-term bank loans by the listing proceeds outweighed the increase in interest expenses arising from the overall increase in borrowing interest rate in 2006.

Share of loss of a jointly controlled entity

The New Joint Venture commenced trial operation in November 2006. The share of loss of RMB1.8 million mainly represents the 50% share of interest of the Company under the equity method on pre-operating and administrative expenses of the New Joint Venture in 2006.

Financial resources, liquidity and liability position

During the year ended 31 December 2006, the Company adopted prudent financial policies and maintained a healthy financial position.

As at 31 December 2006, the Company's total assets and total liabilities were approximately RMB2.67 billion and RMB1.48 billion, respectively. As at 31 December 2006, the Company's net current assets amounted to approximately RMB101.1 million, and its current ratio, calculated by dividing current assets by current liabilities, was approximately 1.15 (31 December 2005: 0.93). In addition, as at 31 December 2006, the Company had cash at bank and in hand of approximately RMB216.5 million. The improvement in current ratio was mainly due to the increase in cash from the listing proceeds.

Total bank loans of the Company as at 31 December 2006 amounted to approximately RMB1.20 billion, of which short-term bank loans were approximately RMB492.6 million and long-term bank loans were approximately RMB710.0 million. The bank loans were mainly used for the expansion of production facilities in previous years and construction of the thermal power plant which commenced trial production in late 2006.

All bank loans of the Company were arranged on a floating interest rate basis. Except for a bank loan of approximately RMB22.6 million which is denominated in United States dollar, all of the Company's bank loans are denominated in RMB, therefore, the management believes the Company is exposed to minimal foreign exchange risks and has not made any foreign currency hedging arrangement.

As at 31 December 2006, the Company's gearing ratio, calculated by dividing total liabilities by total assets, was approximately 55.5% (31 December 2005: 65.7%). The improved gearing ratio was mainly due to the receipt of proceeds from the listing.

Investment status

New Joint Venture

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

The total investment in phase one of the acrylic fibre project with annual production capacity reaching 100,000 tons was approximately RMB1.15 billion which was mainly financed by bank loans and capital contribution from the joint venture partners. As at 31 December 2006, all the joint venture partners had fully paid their capital contributions according to their respective proportion of equity interest in the New Joint Venture.

The New Joint Venture is principally engaged in the manufacture and sale of acrylic fibre products. Its annual production capacity has reached 100,000 tons upon the completion of phase one of the acrylic fibre project in November 2006. Currently, the Company does not have any concrete timetable for implementing phase two of the project, which is expected to further increase the total annual production capacity of the New Joint Venture to 150,000 tons. The timetable for implementing phase two of the project will depend on future market conditions.

The management expects the New Joint Venture, which commenced trial production in November 2006, to assume a crucial role in fostering the continuous development of the Company in the future.

Thermal power plant

The total investment in the construction of the new thermal power plant is estimated to be approximately RMB492.6 million. It is located next to the production facilities to provide the electricity and steam required for the production activities by the Company and the New Joint Venture. The project was completed as scheduled and commenced trial production together with the New Joint Venture in late 2006. The thermal power plant will enable the Company to satisfy its own needs for electricity and steam required for its production. The resulting savings in electricity and steam costs will translate into lower production cost and profit enhancement.

Use of listing proceeds

The Company was listed on the Stock Exchange on 21 June 2006 and the net listing proceeds amounted to approximately RMB378.7 million was applied according to the plans as disclosed in the prospectus on 9 June 2006. Approximately RMB157.5 million had been injected into the New Joint Venture as capital contribution by the Company. In addition, approximately RMB190.0 million was used to repay the Company's short-term bank loans which fall due in August and November 2006 to improve the Company's capital structure and reduce interest expenses. The remaining listing proceeds of approximately RMB31.2 million will be used as general working capital purposes.

Entrusted deposits and matured time deposits

As at 31 December 2006, the Company did not hold deposits under trusts in any financial institutions in the PRC. All of the Company's cash was held in commercial banks in the PRC in accordance with applicable laws and regulations. The Company had no bank deposits that cannot be withdrawn upon maturity.

Pledged assets

As at 31 December 2006, certain property, plant and equipment and land use rights of net book value amounted to approximately RMB768.1 million and RMB23.9 million respectively (31 December 2005: RMB1.19 billion and RMB25.7 million respectively) were pledged as securities for bank loans of approximately RMB342.6 million (31 December 2005: RMB652.5 million).

Contingent liabilities

The Company had no material contingent liabilities as at 31 December 2006.

Dividend

The Board has resolved to declare, subject to approval by the shareholders of the Company at the forthcoming annual general meeting, a total dividend of RMB0.05 per share for the year of 2006 which is expected to be paid in August 2007. Out of the total dividend of RMB0.05 per share, RMB0.035 per share would be the final dividend whereas RMB0.015 per share would be the special dividend. The Board considered that the special dividend was paid to the shareholders as a gratitude for their continuous support to the Company, especially since the Company's listing on 21 June 2006, and the Board anticipates that the Company would not have significant capital expenditures in 2007.