

The Board is pleased to present their report together with the audited financial statements of the Company for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The Company is principally engaged in the manufacture and sale of acrylic fibre products.

SEGMENT INFORMATION

The Company is principally engaged in a single business segment. All of its operations and assets are located in the PRC and no sales were related to overseas customers.

RESULTS AND APPROPRIATIONS

The results of the Company for the year are set out in the income statement on page 30.

The dividend policy of the Company is to pay out by way of interim and final dividend not less than 25% of profits available for distribution in each financial year. Consistent with the above dividend policy and taking into consideration of the Company's performance and current financial position, the directors recommend, subject to approval by the shareholders of the Company at the forthcoming annual general meeting, the payment of a total dividend of RMB0.05 per share for the year ended 31 December 2006, representing 43.7% of the Company's profit attributable to the shareholders for the year ended 31 December 2006. Out of which, RMB0.035 per share would be the final dividend and RMB0.015 per share would be the special dividend.

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Company for the past four financial years is set out on page 3.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Company during the year are set out in note 7 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 14 to the financial statements.

RESERVES

Movements in the reserves of the Company during the year are set out in note 15 to the financial statements.

PRE-EMPTIVE RIGHTS

There are 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 2006, the Company had not purchased or redeemed any of its shares. Neither the Company nor its jointly controlled entity purchased or sold any of the listed securities of the Company during the year ended 31 December 2006.

DIRECTORS

The directors of the Company during the year and up to the date of this report are:

Executive Directors

Mr. Wang Jinjun (*Chairman*)

Mr. Ma Jun

Mr. Yang Dexin

Mr. Wang Changsheng

Non-executive Directors

Mr. Hao Peijun

Mr. Gong Jianzhong

Mr. Chen Jinkui

Mr. Chen Shuguo

Independent non-executive Directors

Mr. Ye Yongmao

Mr. Mao Fengge (Appointed on 9 June 2006)

Mr. Lee Ka Chung, J.P. (Appointed on 9 June 2006)

Mr. Yang Dexin and Mr. Chen Shuguo will retire from their offices at the forthcoming annual general meeting to be held on 28 June 2007 ("AGM"). At the forthcoming AGM, an ordinary resolution will be proposed to appoint Mr. Jiang Junzhou and Mr. Zhang Yuchen as non-executive Directors. Details of Mr. Jiang Junzhou and Mr. Zhang Yuchen are set out in the notice convening the AGM.

The term of office of each Director is for a period of three years.

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 Listing Rules and considers all the independent non-executive Directors are independent to the Company.

DIRECTORS' SERVICE CONTRACTS

None of the existing Directors and persons who are proposed for election at the forthcoming AGM has a service contract with the Company which is not determinable within one year without payment of compensation, other than the statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance in relation to the Company's business to which the Company, its holding company or its jointly controlled entity and fellow subsidiaries was a party and in which a director 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 page 12 under the Biography of Directors and Senior Management section in this report.

INTERESTS OF DIRECTORS AND SUPERVISORS

As at 31 December 2006, none of the Directors, supervisors and chief executive of the Company has any interests and short positions in the shares, the underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV 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 the SFO or which were notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (for this purpose, the relevant provisions of the SFO will be interpreted as if they applied to the Supervisors).

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2006, 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 2006, the following persons (not being director, supervisor or chief executive of the Company), so far as are known to any Director, has an interest or short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of shareholders	Number of Shares directly and indirectly held	Class of shares	Approximate percentage in relevant class of Shares (%)			Approximate percentage in total issued share capital (%)		
			Direct interests	Indirect interests	Aggregate interests	Direct interests	Indirect interests	Aggregate interests
吉林化纖集團有限責任公司 (Jilin Chemical Fiber Group Co., Ltd.)	433,229,558	Domestic Shares	99.13	—	99.13	50.45	—	50.45
吉林市國有資產 經營有限責任公司 (Jilin Municipal State-owned Assets Administration Company Limited)	433,229,558 ⁽¹⁾	Domestic Shares	—	99.13	99.13	—	50.45	50.45
中國信達資產管理公司 (China Cinda Asset Management Corporation)	433,229,558 ⁽¹⁾	Domestic Shares	—	99.13	99.13	—	50.45	50.45
Ronsace Company Limited	94,841,726	Non-H Foreign Shares	56.00	—	56.00	10.95	—	10.95

Name of shareholders	Number of Shares directly and indirectly held	Class of shares	Approximate percentage in relevant class of Shares (%)			Approximate percentage in total issued share capital (%)		
			Direct interests	Indirect interests	Aggregate interests	Direct interests	Indirect interests	Aggregate interests
Bank of China Group Investment Limited	94,841,726 ⁽²⁾	Non-H Foreign Shares	—	56.00	56.00	—	10.95	10.95
Bank of China Limited	94,841,726 ⁽²⁾	Non-H Foreign Shares	—	56.00	56.00	—	10.95	10.95
Sanlink Investments Limited	44,029,105	Non-H Foreign Shares	26.00	—	26.00	5.08	—	5.08
China Insurance Group Investment Limited	44,029,105 ⁽³⁾	Non-H Foreign Shares	—	26.00	26.00	—	5.08	5.08
China Life Insurance Company Limited	44,029,105 ⁽³⁾	Non-H Foreign Shares	—	26.00	26.00	—	5.08	5.08
Halesfield Investment Limited	30,487,573	Non-H Foreign Shares	18.00	—	18.00	3.52	—	3.52
Huang Jia Lin	30,487,573 ⁽⁴⁾	Non-H Foreign Shares	—	18.00	18.00	—	3.52	3.52
Huang Jia Yuan	30,487,573 ⁽⁴⁾	Non-H Foreign Shares	—	18.00	18.00	—	3.52	3.52
全國社會保障基金理事會 (The National Social Security Fund of the PRC)	23,625,000	H Shares	9.09	—	9.09	2.73	—	2.73
Suen Lan Ying	13,446,000 ⁽⁵⁾	H Shares	5.17	—	5.17	1.55	—	1.55
Yu Chiu Wo	13,446,000 ⁽⁵⁾	H Shares	—	5.17	5.17	—	1.55	1.55

Notes:

- 433,229,558 Shares are deemed corporate interests indirectly held through Jilin Chemical Fiber Group Co., Ltd under the SFO.
- 94,841,726 Shares are deemed corporate interests indirectly held through Ronsace Company Limited under the SFO.
- 44,029,105 Shares are deemed corporate interests indirectly held through Sanlink Investments Limited under the SFO.
- 30,487,573 Shares are deemed corporate interests indirectly held through Halesfield Investment Limited under the SFO.
- 13,446,000 Shares are deemed interests jointly held by Ms. Suen Lan Ying and Mr. Yu Chiu Wo under the SFO.

MAJOR CUSTOMERS AND SUPPLIERS

During the year of 2006, sales to the Company's five largest customers accounted for approximately 57.4% of the total sales for the year, in which sales to the largest customer represented approximately 17.5% of the total sales for the year.

Purchases from the Company's five largest suppliers amounted to approximately 79.5% of the total cost of sales for the year while total purchases from the largest supplier represented approximately 63.0% of the total cost of sales for the year.

Out of the five largest customers, there are four sales agents where the Company's goods are sold without recourse. One of the sales agents, Shanghai Taiyi Textile Company Limited ("Taiyi"), is one of the Company's promoters and therefore a connected person of the Company. Save as disclosed above, none of the directors, their associates or any shareholder (which to the knowledge of the directors own more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

CONNECTED TRANSACTIONS

During the year, the Company had the following connected transactions that were subject to the Listing Rules' reporting requirements for disclosure in this report:

Sale and purchase of raw material, auxiliary materials and parts between the Company and the Remaining JCF Group

The Company purchased from the Remaining JCF Group, being the JCF GroupCo, the controlling shareholder of the Company, and its subsidiaries but excluding the Company, raw materials and auxiliary materials (including sulphuric acid, sodium hydroxide, lubricants, electrical appliances), while the Remaining JCF Group purchased from the Company auxiliary materials and parts (such as vehicle and equipment parts). Pursuant to the materials supply agreement entered into with JCF GroupCo (for and on behalf of the Remaining JCF Group) on 29 May 2006, the Company purchased raw materials and auxiliary materials from the Remaining JCF Group and the Company sold to the Remaining JCF Group auxiliary materials and parts for an initial term ending on 31 December 2008 and, subject to compliance with Listing Rules' requirements regarding connected transactions, automatically renewable for a term of three years thereafter. The transaction was negotiated on arm's length basis and the prices were determined with reference to the prevailing market prices and in line with normal commercial terms.

JCF GroupCo is a connected person of the Company as it is one of the Company's promoters and holds approximately 50.01% of the share capital of the Company. The Remaining JCF Group (other than JCF GroupCo), being associates (as defined under the Listing Rules, "Associates") of JCF GroupCo, are also the connected persons of the Company.

For the year ended 31 December 2006, purchase from and sale to the Remaining JCF Group amounted to RMB1.0 million and RMB0.1 million, which is within the approved cap of RMB1.3 million and RMB0.9 million as disclosed in the Company's prospectus dated 9 June 2006, respectively.

Purchase of chemical materials from Lotus Factory

The Company purchased from Jilin City Lotus Chemical Factory ("Lotus Factory") raw materials (including sodium bisulfate and DTPA) as auxiliary materials for production. Pursuant to the materials supply agreement entered into with Lotus Factory on 1 June 2005 (as supplemented by a supplemental agreement dated 29 May 2006), the Company purchases chemical materials from Lotus Factory, for a term of three years ending on 31 December 2008 and, subject to compliance with Listing Rules' requirements regarding connected transactions, automatically renewable for a term of three years thereafter. The transaction was negotiated on arm's length basis and the prices were determined with reference to the prevailing market prices and in line with normal commercial terms.

Lotus Factory is wholly and beneficially owned by the controlling shareholder of Jilin Dalin Industry Company Limited ("Dalin"), being a connected person as it is one of the promoters of the Company. Lotus Factory, being an Associate of Dalin, is therefore a connected person of the Company.

For the year ended 31 December 2006, purchase of chemical materials from Lotus Factory amounted to RMB2.0 million which is within the approved cap of RMB3.6 million as disclosed in the Company's prospectus dated 9 June 2006.

Sale of finished goods to Taiyi

The company sold products to Taiyi with the understanding that Taiyi will sell the same to its customers (mainly small customers which may have higher credit risk) at prices fixed by the Company. The products are sold to Taiyi at prices less a discount. The Company has entered into a sales agreement with Taiyi on 29 May 2006, for an initial term ending on 31 December 2008 and, subject to compliance with the Listing Rules' requirements regarding connected transactions, automatically renewable for a term of three years thereafter. The transaction was negotiated on arm's length basis and the prices were determined in a term of line with normal commercial terms.

Taiyi is a connected person of the Company as Taiyi is one of the promoters of the Company.

For the year ended 31 December 2006, sales to Taiyi amounted to RMB401.9 million which is within the approved cap of RMB480.0 million as disclosed in the Company's prospectus dated 9 June 2006.

Mutual provision of composite services between the Company and the remaining JCF Group

The Remaining JCF Group and the Company mutually provided to each other composite services for their respective operation needs. For instance, the Remaining JCF Group provides telephone rental service, and engineering, maintenance and other services whereas the Company provides installation, repair and maintenance and other support services in relation to electrical instruments to the Remaining JCF Group. Pursuant to the composite services agreement entered into between JCF Groupco (for and on behalf of the Remaining JCF Group) and the Company on 29 May 2006, the Remaining JCF Group and the Company agreed to provide to one another the composite services for an initial term ending on 31 December 2008, and subject to compliance with the Listing Rules' requirements regarding connected transactions, automatically renewable for a term of three years thereafter. The transaction was negotiated on arm's length basis and the prices were determined in line with normal commercial terms.

The Remaining JCF Group (other than JCF Groupco) are the connected persons of the Company as mentioned above.

For the year ended 31 December 2006, the composite services that the Company received from and provided to the Remaining JCF Group amounted to RMB3.5 million and RMB0.2 million, respectively, which is within the approved cap of RMB10.0 million and RMB0.4 million as disclosed in the Company's prospectus dated 9 June 2006, respectively.

Mutual provision of utilities between the Company and JCFCL

Jilin Chemical Fiber Co., Ltd ("JCFCL") and the Company have mutually provided utilities to each other. For instance, JCFCL supplies water, electricity and steam to the Company whereas the Company supplies compressed air to JCFCL. Pursuant to the utilities supply agreement entered into between JCFCL and the Company on 29 May 2006, JCFCL and the Company shall provide to one another the above-mentioned utilities for an initial term ending on 31 December 2008 and, subject to compliance with the Listing Rules' requirements regarding connected transactions, automatically renewable for a term of three years thereafter. The transaction was negotiated on arm's length basis and the prices were determined in line with normal commercial terms.

JCFCL is a connected person of the Company as JCFCL is approximately 38.94% owned by JCF Groupco which is a substantial shareholder and one of the promoters of the Company. JCFCL is an Associate of JCF Groupco and is therefore a connected person of the Company.

For the year ended 31 December 2006, utilities that the Company received from and supplied to the Remaining JCF Group amounted to RMB147.8 million and RMB0.7 million, respectively, which is within the approved cap of RMB150.0 million and RMB0.8 million as disclosed in the Company's prospectus dated 9 June 2006, respectively.

Provision of loan by Bank of China, Jilin City Branch

The Company has entered into a loan agreement with Bank of China, Jilin City Branch, pursuant to which Bank of China, Jilin City Branch advanced a loan secured by a property mortgage over the Company's land use rights, building and machinery and equipment for a principal sum of US\$17.8 million to the Company on 1 November 2002 and such loan should be repaid by the Company on 30 November 2007. The transaction was negotiated on arm's length basis and the terms of the loan agreement are on normal commercial terms.

Bank of China, Jilin City Branch is a connected person of the Company as Ronsace Company Limited ("Ronsace"), which holds approximately 10.95% of the share capital of the Company, it is therefore the substantial shareholder of the Company. Ronsace is wholly and beneficially owned by Bank of China Group Investment Limited, a wholly-owned subsidiary of Bank of China Limited. As Bank of China, Jilin City Branch is an Associate of Bank of China Limited, it is therefore a connected person of the Company.

As at 31 December 2006, the outstanding loan balance amounted to RMB25.9 million which is within the approved cap of RMB30.0 million as disclosed in the Company's prospectus dated 9 June 2006.

Placing of deposits with Bank of China, Jilin City Branch

The Company has placed deposits with Bank of China, Jilin City Branch in the ordinary and usual course of the business of the Company.

The transaction was negotiated on arm's length basis and the interest receivable by the Company from Bank of China, Jilin City Branch for deposits being placed with it was determined on arm's length basis, in line with normal commercial terms.

Bank of China, Jilin City Branch is a connected person of the Company as mentioned above.

As at 31 December 2006, the balance of deposits amounted to RMB34.8 million which is within the approved cap of RMB61.0 million as disclosed in the Company's prospectus dated 9 June 2006.

Provision of utilities by JCFCL to the New Joint Venture

JCFCL provides utilities (including water, electricity and steam) to the New Joint Venture since its commencement of production in late 2006. The New Joint Venture has entered into an utilities supply agreement with JCFCL on 1 June 2006. Pursuant to such agreement, JCFCL will provide the above utilities to the New Joint Venture for an initial term ending on 31 December 2008, subject to the compliance with the Listing Rules' requirements regarding connected transactions, automatically renewable for a term of three years thereafter. The transaction was negotiated on arm's length basis and the terms of the loan agreement are on normal commercial terms.

JCFCL is a connected person of the Company as mentioned above. The New Joint Venture is considered as part of the Company for the purposes of applying the connected transactions requirements under the Listing Rules as the Company holds 50% interest in the New Joint Venture. The continuing provision of utilities by JCFCL to the New Joint Venture, therefore, constitutes continuing connected transactions under rule 14A.14 of the Listing Rules.

For the year ended 31 December 2006, the utilities that the New Joint Venture received from JCFCL amounted to RMB7.4 million which is within the approved cap of RMB8.0 million as disclosed in the Company's prospectus dated 9 June 2006.

Licensing of patented technology and know-how by Montefibre to the New Joint Venture

Montefibre has granted a licence to the New Joint Venture to use certain patented technology and know-how. The New Joint Venture has entered into a technology licence contract with Montefibre on 16 October 2005. Pursuant to such contract, Montefibre will, among other things, license patented technology and know-how to the New Joint Venture for a term of ten years commencing on 21 December 2005, automatically renewable for another ten-year term thereafter at no additional fee.

Montefibre is a connected person of the Company as Montefibre is a substantial shareholder of the New Joint Venture, which is considered as a subsidiary of the Company for the purpose of applying the connected transactions requirements under the Listing Rules.

For the year ended 31 December 2006, the expenditures in respect of the licencing of patented technology and know-how from Montefibre to the New Joint Venture amounted to RMB36.6 million which is within the approved cap of RMB40.0 million as disclosed in the Company's prospectus dated 9 June 2006.

Pursuant to the waiver letter issued by the Stock Exchange in respect of the above transaction, these connected transactions could be exempted from the reporting, announcement and independent shareholder's approval requirements if certain conditions are fulfilled based on the confirmation from independent non-executive Directors that these transactions satisfy the following conditions:

- (a) the continuing connected transaction disclosed above is entered into by the Company in the ordinary and usual course of business;
- (b) the continuing connected transaction has been entered into on an arm's length basis and conducted either on normal commercial terms, or where there is no available comparison, on terms no less favourable to the Company than those available to or from independent third parties; and
- (c) the continuing connected transaction has been entered into in accordance with the agreements governing such transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The independent non-executive Directors of the Company are satisfied that the above conditions had been met in 2006. In accordance with section 14A.38 of the Listing Rules, the Board of Directors engaged the auditors of the Company to perform certain procedures on the above continuing connected transactions on a sample basis in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have reported their factual findings to the Board of Directors. Based on the work performed, the auditors of the Company have reported that the aforesaid continuing connected transactions (a) have been approved by the Board of the Company; (b) have been entered into in accordance with the terms of the relevant agreement governing the transaction, based on the sample selected; and (c) have not exceeded the caps allowed by the Stock Exchange in respect of the waiver.

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 26 under the Corporate Governance Report section in this report.

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 as required under the Listing Rules during the year and up to the date of this report.

AUDITORS

The financial statements have been audited by the Company's auditors, PricewaterhouseCoopers, who will retire and, being eligible, will offer themselves for re-appointment at the forthcoming annual general meeting.

On behalf of the Board

Wang Jinjun
Chairman

Jilin, The PRC
19 April 2007