1. GENERAL INFORMATION

Jilin Qifeng Chemical Fiber Co., Ltd. (the "Company") is principally engaged in the production and sale of different types of acrylic fibre, namely acrylic top, acrylic tow and acrylic staple fibre.

The Company is a joint stock limited company incorporated in the People's Republic of China ("PRC"). 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, PRC.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited.

These financial statements are presented in thousands of units of RMB Yuan (RMB'000), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 19 April 2007.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

(a) Amendments to published standards and interpretations which are effective in 2006

The Company has adopted the following amendments to published standards and interpretation for the first time for the current year's financial statements. The adoption of these amendments to published standards and interpretation has had no material effect on these financial statements.

HKAS 39 & HKFRS 4 Amendment	Financial Guarantee Contracts
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

(b) New standards, amendment to published standard and interpretations that are not yet effective and have not been early adopted by the Company

The Company has not applied the following new standards, amendment to published standard and interpretations, that have been issued but are not yet effective, in these financial statements:

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 - Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Company's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Company's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of HKAS 32.

HK(IFRIC)-Int 7, HK(IFRIC)-Int 8, HK(IFRIC)-Int 9, HK(IFRIC)-Int 10, HK(IFRIC)-Int 11, HK(IFRIC)-Int 12 and HKFRS 8 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007, 1 January 2008 and 1 January 2009, respectively.

The Company is in the process of making an assessment of the impact of these new standards, amendment to published standard and interpretations upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment and HKFRS 7 may result in new or amended disclosures, these new standards, amendment to published standard and interpretations are unlikely to have a significant impact on the Company's results of operations and financial position.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

(c) New standard, amendments to published standards and interpretations effective in 2006 but not relevant to the Company's operations

The following new standard, amendments to published standards and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but which are not relevant to the Company's operations:

HKAS 19 Amendment	Employee Benefits
HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 1 and 6 Amendment	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment

2.2 Interest in a jointly controlled entity

Jointly controlled entities are entities with a contractual arrangement whereby the Company and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity. Investments in jointly controlled entities are accounted for using the equity method of accounting and are initially recognized at cost.

The Company's share of its jointly controlled entities' post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Company's share of losses in a jointly controlled entity equals or exceeds its interest in the jointly controlled entity, including any other unsecured receivables, the Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entity.

Unrealized gains on transactions between the Company and its jointly controlled entities are eliminated to the extent of the Company's interest in the jointly controlled entities. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of jointly controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates (the "functional currency"). The financial statements are presented in Renminbi ("RMB"), which is the Company's functional and presentation currency.

(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 recognized in the income statement.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary items such as equity instruments held at fair value through profit or loss are recognized in the income statement as part of the fair value gain or loss.

2.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. 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 recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.5 Property, plant and equipment – *continued*

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.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within other gains – net, in the income statement.

Construction in progress represents buildings, plant and machinery under construction and pending installation and is stated at cost. Cost, includes the costs of construction of buildings, the costs of plant and machinery, installation, testing and other direct costs. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

2.6 Land use rights

All land in the PRC is state-owned and no individual land ownership right exists. The Company leased certain land and the up-front payments paid for the operating lease are recorded as land use rights, which are expensed over the lease terms of 22 years and 50 years, where appropriate, using the straight-line method or when there is impairment the impact is expensed in the income statement.

2.7 Intangibles assets – Technical know-how and licenses

Expenditures on acquired technical know-how and licenses are capitalized on the basis of costs incurred to acquire and amortized using the straight-line method over their estimated useful lives of 8 to 15 years. Technical know-how and licenses are carried at its cost less any accumulated amortization and any accumulated impairment losses.

2.8 Impairment of non-financial assets

Assets that have an indefinite useful life or have not yet available for use are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized 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 impairment are reviewed for possible reversal of the impairment at each reporting date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.9 Financial assets

The Company classifies its financial assets in the following categories: at fair value through profit or loss and loans and receivables. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(b) Loans and receivables

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. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheet (Note 2.11).

Regular purchases and sales of financial asset are recognized on trade-date – the date on which the Company commits to purchase or sell the asset. Investments are initially recognized at fair value and transaction costs are expensed in the income statement. Investments are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

2.10 Inventories

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.11 Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade and other receivables are impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognized in the income statement within administrative expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the income statement.

2.12 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and bank overdrafts.

2.13 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.

2.14 Trade payables

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

2.15 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of that asset. All other borrowing costs are charged to the income statement in the period in which they are incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.16 Deferred income tax

Deferred income tax is provided in full, 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 liability in a transaction other than a business combination 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 realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investment in a jointly controlled entity, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will reverse in the foreseeable future.

2.17 Employee benefits

(a) Pension obligations

The Company contributes on a monthly basis to various defined contribution retirement benefit plans organized 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 Company has no further obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

(b) Profit-sharing and bonus plans

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

2.18 Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.19 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown net of value-added tax, returns, rebates and discounts. Revenue is recognized as follows:

(a) *Sales of goods*

Sale of goods is recognized when the Company has delivered products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

(b) *Interest income*

Interest income is recognized on a time-proportion basis using the effective interest method.

2.20 Government grants

A government grant is recognized at their fair value, when there is a reasonable assurance that the grant will be received and the Company will comply with all the attached conditions.

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.

2.21 Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. 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.

2.22 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Company's accounts in the period in which the dividends are approved by the Company's shareholders.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest-rate risk.

(a) Market risk

(i) Foreign exchange risk

The Company mainly operates in the PRC with most of the transactions settle in Renminbi and does not have significant exposure to foreign exchange risk during the year. The conversion of Renminbi into foreign currencies is subject to the rules and regulation of the foreign exchange control promulgated by the PRC government.

(ii) Price risk

The Company is exposed to equity securities price risk because of investments held by the Company is classified as financial assets at fair value through profit or loss. The Company is not exposed to commodity price risk.

(b) Credit risk

The Company has no significant concentrations of credit risk. The carrying amounts of trade and other receivables represent the Company's maximum exposure to credit risk in relation to its financial assets. The Company has policy in place to ensure that sales of products and services are made to customers with an appropriate credit history and the Company performs periodic credit evaluations of its customers. The Company's historical experience in collection of trade and other receivables falls within the recorded allowances and the directors are of the opinion that adequate provision for uncollectible trade and other receivables has been made in the financial statements.

(c) Liquidity risk

The Company ensures that it maintains sufficient cash, which is available to meet its liquidity requirements.

(d) Interest rate risk

The Company's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. Borrowings issued at fixed rate expose the Company to fair value interest rate risk. As at 31 December 2006, all the Company's borrowings were at floating rates.

3. FINANCIAL RISK MANAGEMENT

3.2 Fair value estimation

The fair value of financial instruments traded in active markets (such as financial assets at fair value through profit or loss) is based on quoted market prices at the balance sheet date.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The Company uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The carrying value less impairment provision of trade and other receivables and trade and other payables are 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 Company for similar financial instruments.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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.

The Company 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 discussed below:

(a) Income taxes

The Company is subject to income taxes in the PRC. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that are initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS – *continued*

(b) Useful lives and impairment of property, plant and equipment

The Company's management determines the estimated useful lives of its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated lives, and will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

The impairment loss on property, plant and equipment is recognized for the amount by which the carrying amount exceeds its recoverable amount in accordance with the Company's accounting policy. The recoverable amounts have been determined based on fair value less costs to sell, which is based on the best information available to reflect the amount that obtainable at each of the balance sheet date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs to disposal.

5. REVENUE, OTHER GAINS AND SEGMENT INFORMATION

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Revenue		
Sale of goods	**2,290,748**	2,189,141
Other gains, net		
Gain on disposal of financial assets at fair value through profit or loss	**4,017**	—
Fair value loss on other financial assets at fair value through profit or loss	**(16)**	(678)
Amortization of deferred income on government grants *(Note 16)*	**6,024**	5,808
Others	**(1,148)**	(1,519)
	8,877	3,611

The Company is principally engaged in a single business segment, the production and sales of acrylic fibre and all of its operations and assets are located in the PRC. No sales were related to overseas customers. Therefore, no business segment or geographical segment is presented.

6. LAND USE RIGHTS

The Company's interests in land use rights represent prepaid operating lease payments and their net book value are analysed as follows:

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
In the PRC held on:		
Leases of between 10 to 50 years	**32,344**	42,446

As at 31 December 2006, the net book value of the land use rights pledged as security for the Company's bank loans amounted to RMB23,940,000 (2005: RMB25,650,000) (Note 18).

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Opening	**42,446**	27,360
Additions	**—**	16,876
Invested in a jointly controlled entity *(Note 27)*	**(8,300)**	—
Amortization *(Note 21)*	**(1,802)**	(1,790)
	32,344	42,446

7. PROPERTY, PLANT AND EQUIPMENT

	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 2005						
Cost	249,127	1,340,224	2,284	9,501	8,465	1,609,601
Accumulated depreciation	(48,006)	(241,944)	(1,216)	(8,976)	—	(300,142)
Net book amount	201,121	1,098,280	1,068	525	8,465	1,309,459
Year ended 31 December 2005						
Opening net book amount	201,121	1,098,280	1,068	525	8,465	1,309,459
Additions	—	6,235	237	5,160	139,181	150,813
Transfer upon completion	19,162	16,123	—	—	(35,285)	—
Disposals *(Note 27)*	—	(339)	—	(988)	—	(1,327)
Depreciation *(Note 21)*	(12,829)	(86,268)	(274)	(770)	—	(100,141)
Closing net book amount	207,454	1,034,031	1,031	3,927	112,361	1,358,804
At 31 December 2005						
Cost	268,289	1,361,756	2,521	11,383	112,361	1,756,310
Accumulated depreciation	(60,835)	(327,725)	(1,490)	(7,456)	—	(397,506)
Net book amount	207,454	1,034,031	1,031	3,927	112,361	1,358,804
Year ended 31 December 2006						
Opening net book amount	207,454	1,034,031	1,031	3,927	112,361	1,358,804
Additions	—	2,768	21	1,038	320,340	324,167
Transfer upon completion	2,925	—	—	—	(2,925)	—
Invested in a jointly controlled entity *(Note 27)*	—	—	—	—	(6,994)	(6,994)
Disposals *(Note 27)*	—	(2,704)	(6)	(311)	—	(3,021)
Depreciation *(Note 21)*	(12,829)	(95,098)	(364)	(935)	—	(109,226)
Closing net book amount	197,550	938,997	682	3,719	422,782	1,563,730
At 31 December 2006						
Cost	271,214	1,360,006	2,288	10,737	422,782	2,067,027
Accumulated depreciation	(73,664)	(421,009)	(1,606)	(7,018)	—	(503,297)
Net book amount	197,550	938,997	682	3,719	422,782	1,563,730

At 31 December 2006 and 2005, the net book amounts of the property, plant and equipment pledged as security for the Company's bank loans amounted to 768,052,000 and RMB1,187,894,000 respectively (Note 18).

8. INTANGIBLE ASSETS – TECHNICAL KNOW-HOW AND LICENSES

	RMB'000
At 1 January 2005	
Cost	102,624
Accumulated amortization	(28,767)
Net book amount	73,857
Year ended 31 December 2005	
Opening net book amount	73,857
Amortization *(Note 21)*	(8,128)
Closing net book amount	65,729
At 31 December 2005	
Cost	102,624
Accumulated amortization	(36,895)
Net book amount	65,729
Year ended 31 December 2006	
Opening net book amount	65,729
Amortization *(Note 21)*	(8,286)
Closing net book amount	57,443
At 31 December 2006	
Cost	102,624
Accumulated amortization	(45,181)
Net book amount	57,443

9. INTEREST IN A JOINTLY CONTROLLED ENTITY

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
At beginning of the year	**—**	—
Investment in a jointly controlled entity	**219,813**	—
Share of a jointly controlled entity's result		
– loss before taxation	**(1,810)**	—
At end of the year	**218,003**	—

The Company has 50% interest in a jointly controlled entity, Jilin Jimont Acrylic Fiber Co., Ltd. ("Jimont"), incorporated in the PRC and its principal activity is the manufacturing and selling of acrylic fibre. On 21 December 2005, the Jilin Provincial Administration for Industry and Commerce issued a business license and the jointly controlled entity was established.

Pursuant to the terms of the joint venture agreement entered into between the Company and Montefibre S.p.A. ("Montefibre"), the paid-in capital of Jimont is RMB450,000,000, equally owned by the Company and Montefibre.

9. INTEREST IN A JOINTLY CONTROLLED ENTITY – *continued*

The following is the extract of the balance sheet of Jimont as at 31 December 2006 and the amount attributable to the Company's 50% interest in the jointly controlled entity:

	As at 31 December			
	2006		2005	
Balance sheet	**Jimont RMB'000**	**50% share by the Company RMB'000**	Jimont RMB'000	50% share by the Company RMB'000
ASSETS				
Non-current assets				
Land use rights	**26,127**	**13,064**	—	—
Property, plant and equipment	**990,973**	**495,486**	156,534	78,267
Intangible assets	**34,964**	**17,482**	—	—
	1,052,064	**526,032**	156,534	78,267
Current assets				
Inventories	**202,360**	**101,180**	—	—
Trade and other receivables	**77,098**	**38,549**	—	—
Cash and cash equivalents	**87,131**	**43,565**	—	—
	366,589	**183,294**	—	—
Total assets	**1,418,653**	**709,326**	156,534	78,267
Equity				
Paid-in capital	**450,000**	**225,000**	—	—
Accumulated losses	**(3,619)**	**(1,810)**	—	—
Total equity	**446,381**	**223,190**	—	—
LIABILITIES				
Non-current liabilities				
Long-term bank loans	**650,000**	**325,000**	—	—
Current liabilities				
Trade and other payables (a)	**232,272**	**116,136**	156,534	78,267
Current portion of long – term bank loans	**90,000**	**45,000**	—	—
	322,272	**161,136**	156,534	78,267
Total liabilities	**972,272**	**486,136**	156,534	78,267
Total equity and liabilities	**1,418,653**	**709,326**	156,534	78,267
Jointly controlled entity's capital commitments	**76,446**	**38,223**	45,023	22,511

9. INTEREST IN A JOINTLY CONTROLLED ENTITY – *continued*

(a) As at 31 December 2005, the trade and other payables of Jimont represents the construction cost paid by the Company on behalf of Jimont (Note 10(c)).

(b) The jointly controlled entity did not have contingent liabilities as at 31 December 2006 and 2005.

	Year ended 31 December			
	2006		2005	
Income statement	**Jimont RMB'000**	**50% share by the Company RMB'000**	Jimont RMB'000	50% share by the Company RMB'000
Revenue	—	—	—	—
Cost of sales	—	—	—	—
Gross profit	—	—	—	—
Distribution costs	(300)	(150)	—	—
Administrative expenses	(7,757)	(3,879)	—	—
Operating loss	(8,057)	(4,029)	—	—
Finance income – net	4,438	2,219	—	—
Loss before income tax	(3,619)	(1,810)	—	—
Income tax expense	—	—	—	—
Loss for the year attributable to the equity holders of Jimont	(3,619)	(1,810)	—	—

10. TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Trade receivables	**86,736**	43,391
Less: provision for impairment of receivables	**(3,283)**	(1,490)
Trade receivables – net	**83,453**	41,901
Prepayments	**26,161**	13,823
Other receivables – net	**18,028**	16,453
Notes receivables	**133,879**	29,594
Due from ultimate holding company *((a) & Note 29)*	**—**	232
Due from fellow subsidiaries *((b) & Note 29)*	**3,953**	6,804
Due from a jointly controlled entity *((c) & Note 29)*	**55,797**	156,534
Prepaid expenses	**2,063**	2,832
	323,334	268,173

(a) As at 31 December 2005, the amount due from ultimate holding company is unsecured, interest free and has no fixed terms of repayment.

(b) The amounts represent prepayments for raw materials and utility charges to fellow subsidiaries. As at 31 December 2005 and 2006, the amounts are unsecured, interest free and have no fixed terms of repayment.

(c) As at 31 December 2005, the amount was unsecured, interest bearing at PRC prevailing market rates and was repayable within one year. The amount was fully settled in 2006. As at 31 December 2006, the amount due from a jointly controlled entity is unsecured, interest free and has no fixed terms of repayment.

The fair values of trade and other receivables are not materially different from their book values.

The Company normally offers credit terms to its customers ranging from cash on delivery to 30 days. Aging analysis of trade receivables at the respective balance sheet dates are as follows:

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
0-30 days	**56,283**	38,384
31-90 days	**23,642**	101
91-365 days	**2,297**	3,568
Over 365 days	**4,514**	1,338
	86,736	43,391

11. INVENTORIES

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Raw materials	**27,535**	28,436
Work in progress	**80,978**	106,342
Finished goods	**144,409**	94,356
	252,922	229,134
Write-down to net realizable values	**(4,587)**	(4,587)
	248,335	224,547

The cost of inventories recognized as expense and included in cost of sales amounted to RMB1,873,256,000 (2005: RMB1,725,391,000).

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Unlisted open investment funds	**—**	10,172

13. CASH AT BANK AND IN HAND

As at 31 December 2006 and 2005, the Company's cash at bank and in hand was denominated in Renminbi.

14. SHARE CAPITAL

	Paid-in Capital/ Share Capital RMB'000
At 1 January 2005	494,080
Converted from reserves and retained earnings (a)	135,920
At 31 December 2005	630,000
Issuance of new shares (b)	236,250
At 31 December 2006	**866,250**

(a) Pursuant to a board meeting on 16 December 2004, the Company converted its net assets of RMB630,000,000 (after deduction of the 2004 proposed interim dividend) reported under the PRC GAAP as at 30 September 2004 into 630,000,000 shares of RMB1.00 each. On 9 March 2005, the Company obtained an approval from the Ministry of Commerce, and the business license was issued on 23 May 2005. Upon the approval of the conversion to a joint stock company and as at 31 December 2005, the authorized, issued and fully paid capital of the Company amounted to RMB630,000,000, divided into 630,000,000 shares at a par value of RMB1.00 per share.

(b) On 21 June 2006, the Company successfully offered 236,250,000 H shares and listed on The Stock Exchange of Hong Kong Limited.

15. OTHER RESERVES

	Share premium RMB'000 *Note(a)*	Capital surplus RMB'000	Reserve fund RMB'000 *Note(b)*	Enterprise expansion fund RMB'000 *Note(b)*	Statutory reserve fund RMB'000 *Note(c)*	Statutory public welfare fund RMB'000 *Note(c)*	Total RMB'000
Balance at 1 January 2005	—	(9)	18,441	18,441	—	—	36,873
Converted into share capital	—	9	(18,441)	(18,441)	—	—	(36,873)
Reserve transferred from retained earnings	—	—	—	—	16,578	8,289	24,867
Balance at 31 December 2005	—	—	—	—	16,578	8,289	24,867
Balance at 1 January 2006	—	—	—	—	16,578	8,289	24,867
Reclassification (d)	—	—	—	—	8,289	(8,289)	—
Reserve transferred from retained earnings	—	—	—	—	9,306	—	9,306
Issuance of new shares upon initial public offering	142,477	—	—	—	—	—	142,477
Balance at 31 December 2006	**142,477**	—	**—**	**—**	**34,173**	**—**	**176,650**

(a) Share premium

Share premium represents the amount of funds contributed by shareholders in excess of the shareholders' shares of the registered capital during the initial public offering.

(b) Reserve Fund and Enterprise Expansion Fund

Prior to the transformation to a joint stock company, the Company was a sino-foreign equity joint venture. In accordance with the "Law of the PRC on Joint Ventures Using Chinese and Foreign Investment" and the requirement of the Company's Articles of Association, 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 of the Company. Upon approval, the Reserve Fund can be used to offset accumulated losses or be converted into capital, the Enterprise Expansion Fund can be converted into capital.

15. OTHER RESERVES – *continued*

(c) Statutory reserves

In accordance with the relevant laws and regulations in the PRC and Articles of Association of the Company, the Company is required to appropriate 10% of its net profit, after offsetting any prior years' losses as determined under the PRC GAAP, to the statutory reserves before distributing the net profit. When the balance of the statutory reserves reaches 50% of the Company's registered capital, any further appropriation is at the discretion of shareholders. The statutory reserves can be used to offset prior years' losses, if any, and may be converted into registered 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 remaining balance of the statutory reserves after such issue is not less than 25% of registered capital.

Pursuant to a resolution of the Board of Directors dated 3 April 2006, approximately RMB16,578,000 and RMB8,289,000 were appropriated to the statutory reserve fund and the statutory public welfare fund from the net profit for the year ended 31 December 2005.

Pursuant to a resolution of meeting of Board of Directors dated 19 April 2007, approximately RMB9,306 was appropriated to statutory reserves from the net profit for the year ended 31 December 2006.

Pursuant to a resolution of meeting of Board of Directors dated 19 April 2007, no voluntary reserves was appropriated from the net profit for the year ended 31 December 2006. The proposed voluntary reserves for the year are subject to the approval of the Company's shareholders of the forthcoming annual general meeting.

(d) Reclassification

Pursuant to the amendment to the Company Law of the PRC which was effective from to 1 January 2006, the Company decided not to accrue statutory public welfare fund from year 2006. In accordance with the "Circular on Accounting Treatment Following the Implementation of Company Law" issued by Ministry of Finance on 15 March 2006, the balance of statutory public welfare fund as at 31 December 2005 should be transferred to statutory reserve fund.

16. DEFERRED INCOME ON GOVERNMENT GRANTS

	Construction of new facilities (a)	Purchases of domestically manufactured equipment (b)	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2005	74,240	—	74,240
Addition	—	18,690	18,690
Amortization *(Note 5)*	(4,640)	(1,168)	(5,808)
At 31 December 2005	69,600	17,522	87,122
Addition	—	3,458	3,458
Amortization *(Note 5)*	(4,640)	(1,384)	(6,024)
At 31 December 2006	**64,960**	**19,596**	**84,556**

(a) In 2004, the Company received government grants for the construction of new facilities, which was approved as National Key Technological Reform Project Proposal by the former State Economic and Trade Commission and the former State Development Planning Commission.

(b) In 2005 and 2006, the Company has claimed enterprise income tax credit on 40% of the cost of certain qualified equipment manufactured in the PRC, which has been approved by the local tax bureau.

17. TRADE AND OTHER PAYABLES

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Trade payables	**51,151**	46,709
Advance from customers	**16,284**	15,623
Payables for purchase of property, plant and equipment	**37,483**	31,762
Other payables	**47,400**	37,104
Due to ultimate holding company *(Note 29)*	**3,529**	—
Due to fellow subsidiaries *(Note 29)*	**4,332**	6,898
Provision for staff welfare	**35,438**	35,463
	195,617	173,559

The fair values of trade and other payables are not materially different from their book values.

The amounts due to ultimate holding company and fellow subsidiaries are unsecured, interest free and have no fixed terms of repayment.

17. TRADE AND OTHER PAYABLES – *continued*

At 31 December 2006 and 2005, the aging analysis of the trade payables were as follows:

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
0-30 days	**39,955**	36,492
31-90 days	**5,037**	4,065
91-365 days	**3,696**	3,089
Over 365 days	**2,463**	3,063
	51,151	46,709

18. BANK LOANS

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Non-current		
Long-term loans	**962,645**	887,957
Less: Current portion of long-term loans	**(252,645)**	(309,053)
	710,000	578,904
Current		
Short-term loans	**240,000**	270,000
Current portion of long-term loans	**252,645**	309,053
	492,645	579,053
Total bank loans	**1,202,645**	1,157,957
Representing:		
– unsecured	**860,000**	435,500
– secured	**342,645**	722,457
	1,202,645	1,157,957

18. BANK LOANS – *continued*

The maturity of bank loans is as follows:

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Within 1 year	**492,645**	579,053
Between 1 and 2 years	**90,000**	328,904
Between 2 and 5 years	**620,000**	250,000
	1,202,645	1,157,957

The effective interest rate of the bank loans was 5.98% per annum for the year ended 31 December 2006 (2005: 5.95% per annum).

As at 31 December 2006, bank loans of approximately RMB342,645,000 (2005: RMB652,457,000) were secured by the Company's property, plant and equipment with the net book value amount of approximately RMB768,052,000 (2005: RMB1,187,894,000), and land use rights with the net book value of approximately RMB23,940,000 (2005: RMB25,650,000).

The exposure of the Company's bank loans to interest-rate changes and the contractual repricing dates are as follows:

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Within 6 months	**251,322**	172,457
6 -12 months	**951,323**	985,500
	1,202,645	1,157,957

All the Company's long-term bank loans are interest bearing at floating interest rates, and the fair values of bank loans are not materially different from their book values.

The carrying amounts of short-term bank loans approximate their fair values.

18. BANK LOANS – *continued*

The carrying amounts of the bank loans are denominated in the following currencies:

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
RMB	**1,180,000**	1,105,501
US dollar	**22,645**	52,456
	1,202,645	1,157,957

19. DEFERRED INCOME TAX ASSETS

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Deferred income tax assets:		
– Deferred tax asset to be recovered after more than 12 months	**10,433**	9,762

The movement on the deferred income tax assets is as follows:

	2006	2005
	RMB'000	RMB'000
At beginning of the year	**11,368**	10,640
Deferred income tax credited to income statement *(Note 24)*	**2,015**	728
At end of the year	**13,383**	11,368

19. DEFERRED INCOME TAX ASSETS – *continued*

Deferred income tax assets:

	Pre-operating expense RMB'000	Unrecognized gain due from investment RMB'000	Inventory write-down RMB'000	Provision for bad debts RMB'000	Depreciation RMB'000	Others RMB'000	Total RMB'000
At 1 January 2005	8,171	—	688	779	927	75	10,640
(Charged)/credited to the income statement	(511)	—	—	(89)	831	497	728
At 31 December 2005	7,660	—	688	690	1,758	572	11,368
(Charged)/credited to the income statement	(511)	1,220	—	486	816	4	2,015
At 31 December 2006	**7,149**	**1,220**	**688**	**1,176**	**2,574**	**576**	**13,383**

20. OTHER INCOME

	Year ended 31 December 2006 RMB'000	2005 RMB'000
Rental income	**119**	28
Gain attributable to equity interests of the joint venture	**5,733**	—
	5,852	28

21. EXPENSES BY NATURE

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Changes in inventories of finished goods and work in progress	**(24,690)**	(3,958)
Raw materials and consumables used	**1,897,946**	1,729,349
Depreciation *(Note 7)*	**109,226**	100,141
Amortization of land use rights *(Note 6)*	**1,802**	1,790
Amortization of intangible assets (included in administrative expenses) *(Note 8)*	**8,286**	8,128
Employee benefit expense *(Note 22)*	**40,803**	33,687
Auditors' remuneration	**1,600**	1,310
Provision for/(reversal of provision for) impairments of trade and other receivables	**3,234**	(594)
Legal and professional fee	**4,045**	957
Stamp duty	**2,969**	2,732
Transportation expenses	**57,991**	57,795
Other expenses	**21,646**	17,543
Total cost of sales, distribution costs and administrative expenses	**2,124,858**	1,948,880

22. EMPLOYEE BENEFIT EXPENSE

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Wages and salaries	**28,805**	24,503
Pension costs – defined contribution plans	**5,653**	5,370
Social security costs	**6,345**	3,814
	40,803	33,687

22. EMPLOYEE BENEFIT EXPENSE – *continued*

Directors', supervisors' and senior management's emoluments

Details of emoluments paid and payable to the directors and supervisors of the Company for the year ended 31 December 2006 are as follows:

Name of Director and supervisor	Fees	Salary	Employer's contribution to pension scheme	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Director				
Mr. WANG Jinjun	450	—	—	450
Mr. MA Jun	400	53	26	479
Mr. YANG Dexin	350	39	20	409
Mr. WANG Changsheng	350	47	23	420
Non-executive Director				
Mr. HAO Peijun	20	—	—	20
Mr. GONG Jianzhong	20	—	—	20
Mr. CHEN Jinkui	20	—	—	20
Mr. CHEN Shuguo	20	—	—	20
Independent non-executive Director				
Mr. YE Yongmao	50	—	—	50
Mr. MAO Fengge (a)	25	—	—	25
Mr. LEE Ka Chung (a)	149	—	—	149
	1,854	139	69	2,062
Supervisor				
Mr. JIANG Yanfeng	50	—	—	50
Ms. SUN Yujing	20	—	—	20
Mr. LIU Mingzhe	20	37	18	75
Mr. MENG Xiangui (a)	15	—	—	15
Mr. FENG Shuhua (a)	15	—	—	15
	120	37	18	175

22. EMPLOYEE BENEFIT EXPENSE – *continued*

Directors', supervisors' and senior management's emoluments – *continued*

Details of emoluments paid and payable to the directors and supervisors of the Company for the year ended 31 December 2005 are as follows:

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	107	70	14	191
Mr. MA Jun	122	32	6	160
Mr. YANG Dexin	92	43	9	144
Mr. WANG Changsheng	91	45	9	145
Non-executive Director				
Mr. HAO Peijun	7	—	—	7
Mr. GONG Jianzhong	7	—	—	7
Mr. CHEN Jinkui	7	—	—	7
Mr. CHEN Shuguo	7	—	–	7
Independent non-executive Director				
Mr. YE Yongmao	17	—	—	17
	457	190	38	685
Supervisor				
Mr. JIANG Yanfeng	33	—	—	33
Ms. SUN Yujing	13	—	—	13
Mr. LIU Mingzhe	13	25	5	43
	59	25	5	89

Note:

(a) Appointed on 26 May 2005 and took effect on 9 June 2006.

In addition to the directors' and supervisors' emoluments disclosed above, certain directors of the Company received emoluments from the ultimate holding company, Jilin Chemical Fiber Group Co., Ltd. ("JCF Groupco"), and its fellow subsidiaries during the year, amounted to RMB263,000 for the year ended 31 December 2006 (2005: RMB106,000) part of which is in respect of their services to the Company. No apportionment has been made as the directors consider that it is impracticable to apportion this amount between their services to the Company and their services to the Company's ultimate holding company and fellow subsidiaries.

No directors waived or agreed to waive any emoluments during the year.

22. EMPLOYEE BENEFIT EXPENSE – *continued*

Five highest paid individuals

The five individuals whose emoluments were the highest in the Company included four and three directors for the years ended 31 December 2006 and 2005 respectively and their emoluments are reflected in the analysis presented above. The aggregate amounts of emoluments paid and payable to the remaining one (2005: two) individuals for the years ended 31 December 2006 and 2005 are as follows:

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Basic salaries and allowances	**1,190**	549
Bonuses	**—**	122
Housing benefits	**—**	2
Social security costs	**—**	4
Pension costs – defined contribution plans	**—**	10
	1,190	687

The emoluments fell within the following bands:

	Number of individuals	
	2006	2005
Emolument bands (in HK dollar)		
Nil – HK$500,000 (equivalent to Nil – RMB502,350)	**—**	2
HK$1,000,001 – HK$1,500,000 (equivalent to RMB1,004,701 – RMB1,507,050)	**1**	—

During the year, no emoluments had been paid by the Company to the directors or the five highest paid individuals as an inducement to join or upon joining the Company or as compensation for loss of office.

23. FINANCE INCOME AND COSTS

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Interest expense:		
– Bank borrowings wholly repayable within five years	**71,690**	69,051
Less: Interest expense capitalized in construction in progress with capitalization rate of 6.06% (2005:Nil) per annum	**(5,579)**	—
Finance costs	**66,111**	69,051
Finance income – Interest income	**(1,882)**	(4,748)
Finance costs – net	**64,229**	64,303

24. INCOME TAX EXPENSE

(i) No provision for Hong Kong profits tax has been made as the Company did not carry out any business or generate any assessable profits in Hong Kong for the year ended 31 December 2006 (2005: Nil).

(ii) The applicable enterprise income tax rate is 30% and the local tax rate is 3%, resulting in an aggregate tax rate of 33%. The Company is not subject to local income tax prior to 2010. The Company is requalified as an advanced technology company on 1 February 2005, and was entitled to an additional three years 50% tax reduction commencing from 1 January 2005. The effective tax rate applied to the Company for the year ended 31 December 2006 was 15%.

(iii) The amount of income tax charged to the income statement represents:

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Current income tax		
– PRC enterprise income tax	**18,684**	27,415
Overprovision in prior years	**(1,205)**	—
Deferred income tax *(Note 19)*	**(2,015)**	(728)
	15,464	26,687

24. INCOME TAX EXPENSE – *continued*

(iii) The amount of taxation charged to the income statement represents: – *continued*

The reconciliation between the Company's effective tax charges and the amount which is calculated based on the applicable tax rate of 15% in the PRC is as follows:

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Profit before tax	**114,580**	179,597
Tax calculated at a tax rate of 15% (2005: 15%)	**17,187**	26,940
Income not subject to tax	**(904)**	(871)
Expenses not deductible for taxation purposes	**386**	618
Overprovision in prior years	**(1,205)**	—
Tax charge	**15,464**	26,687

25. EARNINGS PER SHARE

Basic earnings per share for the years ended 31 December 2006 and 2005 have been computed by dividing the profit for the year attributable to the shareholders of the Company by the weighted average number of ordinary shares in issue of 754,031,000 and 630,000,000 for 2006 and 2005 respectively.

The Company has no dilutive potential ordinary shares as at 31 December 2006 and 2005, and therefore the diluted earnings per share is equal to the basic earnings per share.

26. DIVIDENDS

At a board meeting held on 3 April 2006, the directors of the Company proposed a final dividend for the year ended 31 December 2005 amounted to RMB44,100,000, which was fully paid in May 2006.

At a board meeting held on 19 April 2007, the directors of the Company proposed a final dividend and a special dividend for the year ended 31 December 2006 amounted to RMB30,319,000 and RMB12,994,000, respectively.

These proposed dividends are reflected as appropriations of retained earnings and these financial statements do not reflect this dividend payable.

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Proposed final dividend of RMB0.035 (2005: RMB0.07) per ordinary share	**30,319**	44,100
Proposed special dividend of RMB0.015 (2005: Nil) per ordinary share	**12,994**	—
	43,313	44,100

The proposed final dividend and special dividend for the year are subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

27. CASH GENERATED FROM OPERATIONS

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Profit before income tax	**114,580**	179,597
Adjustments for:		
– Depreciation *(Note 7)*	**109,226**	100,141
– Amortization of land use rights *(Note 6)*	**1,802**	1,790
– Amortization of deferred income on government grants *(Note 5)*	**(6,024)**	(5,808)
– Amortization of intangible assets *(Note 8)*	**8,286**	8,128
– Provision for/(reversal of provision for) impairment of trade and other receivables *(Note 21)*	**3,234**	(594)
– Loss/(gain) on disposals of property, plant and equipment (see below)	**2,806**	(679)
– Interest income *(Note 23)*	**(1,882)**	(4,748)
– Interest expenses *(Note 23)*	**66,111**	69,051
– Gain on disposal of financial assets at fair value through profit or loss *(Note 5)*	**(4,017)**	—
– Gain from investment in a jointly controlled entity	**(3,923)**	—
– Fair value losses on other financial assets at fair value through profit or loss *(Note 5)*	**16**	678
Operating profit before working capital changes	**290,215**	347,556
Changes in working capital:		
– Increase in inventories	**(23,788)**	(6,666)
– Increase in trade and other receivables	**(214,929)**	(6,057)
– Decrease/(increase) in other financial assets at fair value through profit or loss	**14,145**	(992)
– Increase in trade and other payables and accruals	**9,048**	7,178
Net cash generated from operations	**74,691**	341,019

27. CASH GENERATED FROM OPERATIONS – *continued*

In the cash flow statement, proceeds from disposal of property, plant and equipment comprise:

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Net book amount *(Note 7)*	**3,021**	1,327
(Loss)/gain on disposal of property, plant and equipment	**(2,806)**	679
Proceeds from disposal of property, plant and equipment	**215**	2,006

Non-cash transactions

The Company's major non-cash transactions are the land use right and related construction in progress invested in a jointly controlled entity discussed in Notes 6, 7 and 9.

28. COMMITMENTS

Capital commitments

Capital expenditure at the balance sheet date but not yet incurred is as follows:

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Property, plant and equipment		
Contracted but not provided for	**63,220**	49,616
Authorized but not contracted for	**—**	266,845
	63,220	316,461
Investment commitment in a jointly controlled entity	**—**	225,000

28. COMMITMENTS – *continued*

Future operating lease arrangements

The future aggregate minimum lease receivables under non-cancellable operating leases are as follows:

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
No later than 1 year	**119**	28
Later than 1 year and no later than 5 years	**474**	112
Later than 5 years	**657**	323
	1,250	463

29 SIGNIFICANT RELATED-PARTY TRANSACTIONS

The Company is controlled by JCF Groupco, which owns 50.01% of the Company's shares.

The ultimate holding company itself is a state-owned enterprise controlled by the PRC government. In accordance with HKAS 24, "Related Party Disclosures", state-owned enterprises and their subsidiaries directly or indirectly controlled by the PRC government are also defined as related parties of the Company.

The directors are of the view that the following is a summary of significant related party transactions entered into in the ordinary course of business between the Company and its related parties during the year and balances arising from related party transactions at the end of the year indicated below:

(a) Related party transactions

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Sales of goods to:		
– A promoter of the Company ("A promoter")	**401,891**	425,892
– Other state-owned enterprises	**125,976**	121,756
Sales of raw materials to:		
– Fellow subsidiaries	**73**	—
– A jointly controlled entity	**28,537**	—
Provision of utility to:		
– Fellow subsidiaries	**653**	706
– A jointly controlled entity	**15,334**	—
Interest income:		
– Bank of China	**173**	384
– Other state-owned banks	**1,464**	1,055
Rental Income:		
– Fellow subsidiaries	**28**	28
Purchases of raw materials from:		
– Fellow subsidiaries	**1,554**	9,346
– Other state-owned enterprises	**1,493,037**	1,369,451
Agency fee paid to:		
– A promoter	**—**	86
Utility charges paid to:		
– Fellow subsidiaries	**147,762**	132,027
Project designing fee paid to:		
– Other state-owned enterprises	**150**	4,980
Engineering maintenance fee paid to:		
– Fellow subsidiaries	**3,430**	8,634
Other composite service fee paid to:		
– Ultimate holding company	**11**	52
– Fellow subsidiaries	**1,363**	4,723
– Other state-owned enterprises	**1,289**	—
Interest expense:		
– Bank of China	**3,295**	4,197
– Other state-owned banks	**68,373**	58,957
Drawdown of loans from:		
– Other state-owned banks	**670,000**	643,000
Purchases of property, plant and equipment from:		
– Other state-owned enterprises	**2,546**	36,489

JCF Groupco allowed the Company to use the trademark of "白山" (Baishan) at nil consideration during the year.

The Company allowed JCF Groupco to use the Company's premises at nil consideration to operate its staff canteen. The Company is not required to bear the operating cost of the canteen.

29 SIGNIFICANT RELATED-PARTY TRANSACTIONS – *continued*

(b) Related party balances

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Bank deposits		
– Bank of China	**34,598**	34,639
– Other state-owned banks	**123,359**	154,027
Trade receivables		
– A promoter	**—**	3,657
– Other state-owned enterprises	**1,696**	5,093
Other receivable and prepayments		
– Due from ultimate holding company	**—**	232
– Due from fellow subsidiaries	**3,953**	6,804
– Due from a jointly controlled entity	**55,797**	156,534
– Other state-owned enterprises	**9,918**	6,679
Trade payables		
– A promoter	**3,173**	—
– Other state-owned enterprises	**3,179**	11,996
Other payables and accruals		
– Due to ultimate holding company	**3,529**	—
– Due to fellow subsidiaries	**4,332**	6,898
– Other state-owned enterprises	**3,715**	2,206
Short-term bank loans		
– Other state-owned banks	**140,000**	170,000
Long-term bank loans		
– Bank of China	**—**	52,456
– Other state-owned banks	**710,000**	835,500
Current portion of long-term bank loans		
– Bank of China	**22,645**	29,053
– Other state-owned banks	**230,000**	280,000

Apart from bank deposits and bank loans, the receivables and payables are unsecured, interest free and have no fixed terms of repayment as at 31 December 2006 and 2005. As at 31 December 2006, the balance of the Company's provision for impairment of receivables from related parties is RMB16,000 (2005: RMB35,000). The Company's reversal of provision for impairment of receivables from related parties charged to the income statement is RMB19,000 for the year ended 31 December 2006 (2005: provision of RMB417,000).

29 SIGNIFICANT RELATED-PARTY TRANSACTIONS – *continued*

(c) Key management compensation

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Salaries and other short-term employee benefits	**3,812**	1,485
Post-employment benefits	**68**	67
	3,880	1,552

30. EVENTS AFTER THE BALANCE SHEET DATE

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the new "CIT Law"). The new CIT Law changes the corporate income tax rate to 25% with effect from 1 January 2008. The new CIT Law also provides for preferential tax rates, tax incentives for prescribed industries and activities, grandfathering provisions as well as determination of taxable profit. As at the date that these financial statements are approved for issue, detailed measures concerning these items has yet to be issued by the State Council. Consequently, the Company is not in a position to assess the impact, if any, to the carrying value of deferred tax assets and liabilities as at 31 December 2006. The Company will continue to evaluate the impact as more detailed regulations are announced.