

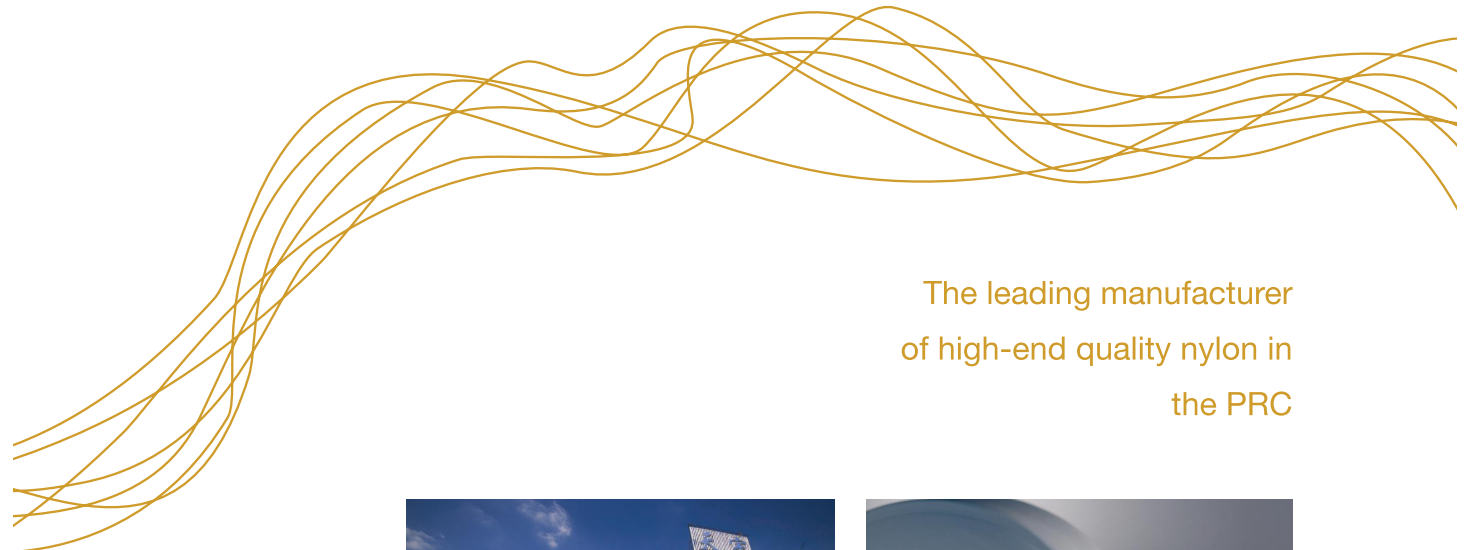


Corporate Profile

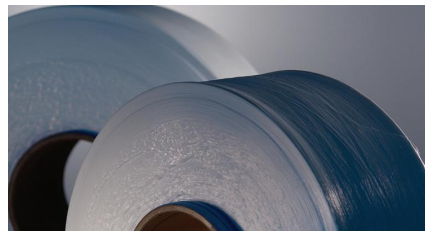
China Sky Chemical Fibre Co., Ltd. is the ultimate investment holding company for Quanzhou Tianyu Chemical Fiber & Weaving Industry Co., Ltd. ("Tianyu"), a company incorporated as a foreign investment enterprise in the PRC and principally engaged in the manufacture and sale of chemical fibres, mainly high-end nylon fibres.

We are one of the largest high quality nylon manufacturers in Fujian with more than 27,000 square metres of production facilities. Our production facilities are located in a region populated by many textile manufacturing companies. We currently manufacture four types of high-end chemical fibre (nylon) products, namely: Full Drawn Yarn (FDY), High Oriented Yarn (HOY), Air Textured Yarn (ATY) and Drawn Textured Yarn (DTY).

The Group places great emphasis on the control of the quality of its products and has established high standards and test procedures closely adhered to by its production staff. Products of the Group are distributed to most of the provinces and municipalities of the PRC, with our principal markets in Fujian, Guangdong, Jiangsu and Zhejiang provinces.



The leading manufacturer
of high-end quality nylon in
the PRC



Milestones

- 2010** Commenced production of SR products, which made us the only company in PRC to produce SR-FDY and SR-HOY
- 2009** Completed the installation of production equipment for new Super-Resilient nylon products
- 2008** Acquisition of Qingdao ZhongDa Chemical Fibre Company Limited, which enables the Group to extend its geographical reach to a wider market in the PRC
Commencement of production of ATY and DTY
- 2007** Incorporation of Tianjian Special Polyamide Fibre Technology Fujian, Co. Ltd. to engage in the production of SR-FDY and SR-HOY products
- 2006** Expansion of annual production capacity from 39,000 tonnes to 72,000 tonnes
Widened product range from 12D to 300D
- 2005** Incorporation of China Sky Chemical Fibre Co., Ltd.
Commencement of production of the lustrous range of FDY products
Listed on the Singapore Exchange – Mainboard
- 2004** Commencement of R&D activities on new products – ATY, DTY, SR-FDY and SR-HOY
Obtained various certifications:-
ISO9001:2000 Quality Management System
ISO 14001:1996 Environmental Management System
OHSAS 18001:1999 Occupational Health and Safety Management System
- 2003** Introduction of second product line – 40D and 70D nylon HOY
Collaboration with Dalian Research Institute of Synthetic Fibre and Tianjing Polytechnic University to supplement R&D efforts
- 2002** Incorporation of Quanzhou Tianyu Chemical Fiber & Weaving Industry Co., Ltd for manufacture and sale of high-end nylon fibre
Commencement of trial production of 40D, 70D and 100D nylon FDY



CONSTANT DEVELOPMENT

Equipped with our experience in the nylon yarn industry, we will continue to expand our R&D capabilities and improve on our cost efficiency measures as we capitalise on new opportunities.



Chairman's Statement

Dear Shareholders,

After a rather turbulent year 2009, I am pleased to report that China Sky Chemical Fibre has experienced a remarkable turnaround in 2010. Concurrent with a recovery in the PRC economy and our export markets, we saw a surge in demand for our superior high quality nylon products, along with a healthy rebound in our average selling prices and an expansion of our overall market share. Coupled with our continued focus on cost control, we were able to increase our gross profit margins considerably.

The extensive maintenance and recalibration works that we carried out on our existing production machinery and equipment during the sluggish period in 2009 also helped us to manage the spike in demand in 2010. The overhaul of our equipment has not only improved our production efficiency by minimising disruptions to our production lines and reducing spoilage, but has also allowed us to capitalise on opportunities that presented themselves when economies around the world picked up in 2010.

Financial Highlights

On the back of an increase in sales volumes for our Full Drawn Yarn (FDY), High Oriented Yarn (HOY), Drawn Textured Yarn (DTY) and Super Resilient (SR) products, total revenue for the financial year ended 31 December 2010 (FY10) more than doubled to RMB 2.5 billion, from RMB 1.2 billion a year ago (FY09).

Despite the higher costs of raw materials, namely polyamide chips, which was partly caused by anti-dumping tariffs imposed by the Chinese government since April 2010, our gross profit margins for FY10 improved significantly to 7.4% from 4.7% in FY09.

Taking the above into consideration, our Group reported a turnaround in net profit after tax to RMB 99.8 million for FY10, compared to a net loss after tax of RMB 198.9 million in FY09.

Following the profitable performance for FY10, our balance sheet was strengthened, as net



asset value per share rose to 365.00 RMB cents, from 351.49 RMB cents in the last financial year. At the close of FY10, cash and cash equivalents stood at RMB 222.9 million.

Business Update

Qingdao Zhongda

Following the completion of our acquisition of Qingdao Zhongda Chemical Fibre Limited ("QZ") in July 2008, we recorded QZ's second full-year contribution in 2010, which was mainly through the sale of Drawn Textured Yarn (DTY) products.

The production facilities of QZ will need to be relocated when the current lease period for the land on which the facilities are currently located expires in March 2011. Upon expiration, the land shall be reclaimed by the Qingdao provincial government. In view of this, QZ submitted a tender during 2010 and the local government authorities in Qingdao confirmed that they will offer QZ a 50-year lease on a new piece of land measuring approximately 133,333 sq m, located in the Huangdao area of Qingdao.



Chairman's Statement

On the back of an increase in sales volumes for our Full Drawn Yarn (FDY), High Oriented Yarn (HOY), Drawn Textured Yarn (DTY) and Super Resilient (SR) products, total revenue for the financial year ended 31 December 2010 (FY10) more than doubled to RMB 2.5 billion, from RMB 1.2 billion a year ago (FY09).

As to date, QZ's management team is still in the midst of obtaining the final approvals for the proposed acquisition of the new piece of land and construction of new production facilities from the local government authorities in Qingdao. The team continues to work closely with the local government to expedite the approval process. As a result of the delay in getting the appropriate approvals, the authorities have granted an extension to QZ to remain at its current location until the new site is ready for relocation.

Super Resilient Product Line

We commenced commercial production of Super Resilient (SR) nylon yarn in September 2009, and thereafter recorded our first sales in October 2009. We are the first SR nylon producer in PRC, and are one of only two producers in the world. SR nylon possesses unique characteristics of exceptional resilience, softness, high density and elasticity. It is used for manufacturing luxury apparels and garments used in extreme weather conditions, such as high-end fashion jackets, winter wear, ski wear and swimwear.

Having expended a considerable amount of time and resources into developing the market for our SR products back in 2009, we are pleased to report that our initial belief and vision that a market opportunity for such products exist, has proven to be on the mark as we are currently reaping the rewards from this breakthrough initiative. FY10 marked our first full-year revenue contribution from our new SR product line, and we are extremely encouraged by the RMB 525m revenue contribution from this range.

Outlook

We expect the global economy and demand for our superior nylon products to continue to grow. Similarly, we also expect to maintain the uptrend in sales volumes and selling prices into 2011, albeit at a slower rate of increase than that registered in 2010.

To this end, we are looking to upgrade and increase our current production capacity to cater to the expected increase in demand for our products. At the same time, we will remain prudent, and will continue to keep a tight rein on our cost and cash flow.

Appreciation

On behalf of the Board, I would like to thank all our valued shareholders, customers, bankers and business partners for their continued confidence and trust in us.

Underpinning our profitable operations is also the commitment and hard work of our management and all our employees. I am very grateful to all of them for their unwavering dedication to China Sky. To my fellow Board members, thank you for your guidance and wise counsel. Your insights have enriched the Board's deliberations and provided sound guidance to management.

In enhancing shareholder value and delivering long-term benefits to all stakeholders, we will continue to persevere in our efforts to enhance our service offerings, to emerge a stronger business entity in the years ahead.

Cheung Wing Lin
Chairman

Our Sales Presence



Our production facility is strategically located amongst clusters of textile and garment manufacturers and related supporting service industries in Quanzhou City.

These networks of textile-related services and manufacturers of products that support garment manufacturing are largely concentrated in the Southeastern coastal provinces of PRC, namely Fujian, Zhejiang, Jiangsu and Guangdong provinces.

Our proximity to our existing and potential customers places us in a good position to serve them efficiently and enables us to respond quickly to changes in our customers' requirements.

With China Sky's acquisition in July 2008 of Qingdao Zhongda Chemical Fibre Company Limited (an award-winning manufacturing facility in Qingdao), the Group has since extended its geographical reach to Northern PRC.



PRODUCTION BOOST

We have received positive customer feedback from our super-resilient products as demonstrated by our strong sales figures. We will increase our production capacities to allow our SR products to gain an even wider market share.



Awards & Certifications



We have obtained many
awards and certifications
since our incorporation
in recognition of our
achievements:

中国化纤新产品质量金牌 (Gold Medal of Quality New Chemical Fibre Product of China) from the China Chemical Fibre Association in January 2004.

省级重点企业 (Important Provincial Enterprise) from the Fujian Provincial Government in February 2004.

省级高新技术企业 (New High Technology Enterprise of Fujian Province) from the Fujian Technology Department in August 2004.

全民劳动用工规范管理先进企业 (Advanced Enterprise in Employment Management Standard) from the Quanzhou City Government in December 2004.

ISO9001:2000 Quality Management System Certificate in December 2004 certifying our successful implementation and maintenance of quality management system in accordance with the requirements of ISO9001 standard.

ISO14001:1996 Environmental Management System Certificate in December 2004 certifying our compliance with the requirements for an environmental management system.

OHSAS 18001:1999 Occupational Health and Safety Management System Certificate in December 2004 certifying our compliance with the Occupational Health and Safety Assessment Series 18000, a set of specifications for an occupational health and safety management system that enables us to control the occupational health and safety risks of our workers.

泉州市2005-2006年度工业重点企业 (2005 - 2006 Quanzhou City Important Industrial Enterprise) from the Quanzhou City Government in April 2005.



Products & Applications



Yarn Type

Full Drawn Yarn (FDY) / Super Resilient FDY (SR-FDY)

High Oriented Yarn (HOY) / Super Resilient HOY (SR-HOY)

Air Textured Yarn (ATY)

Drawn Textured Yarn (DTY)

Application Examples

Winter wear, ski jackets, high-end fashion jackets, handbags, suitcases
& umbrellas

Swimwear & socks

Home furnishings, socks & decorative trimmings on apparels

Financial Highlights

INCOME STATEMENT HIGHLIGHTS

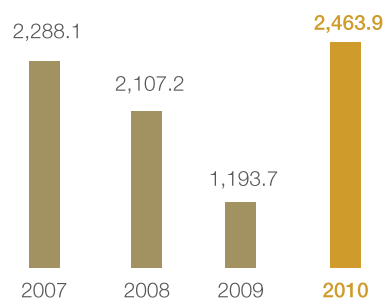
RMB million	FY2009	FY2010
Revenue	1,993.7	2,463.9
Cost of Sales	(1,138.1)	(2,280.6)
Gross Profit	55.5	183.3
Net Profit	(198.9)	99.7
Total Assets	3,040.8	3,107.4
Total Equity	2,863.2	2,973.2
Total Cash and Equivalents	414.0	222.9

KEY FINANCIAL RATIOS

	FY2009	FY2010
GP Margin	4.7	7.4
NP Margin	(16.67)	4.0
EPS (RMB cts)	(24.41)	12.25
NTA (RMB cts)	351.49	365.00
Gearing (times)	0	0
Return on Assets	(6.5)	3.2
Return on Equity	(6.92)	3.35

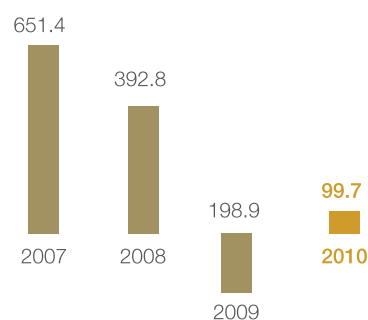
REVENUE

For the years ended 31 December RMB'm



NET PROFIT

For the years ended 31 December RMB'm





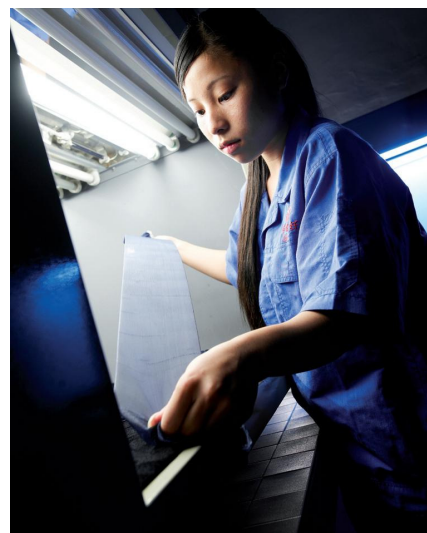
Operations Review



With signs of an industry recovery becoming more evident, the Group hopes to be able to reap more benefits from its enhanced level of productivity resulting from the recent equipment maintenance and overhaul.



Operations Review



Financial Review

For the financial year ended 31 December 2010, total revenue more than doubled to RMB 2.5 billion from RMB 1.2 billion a year ago, as the general economic recovery led to higher demand for the Group's Full Drawn Yarn ("FDY"), High Oriented Yarn ("HOY") and Drawn Textured Yarn ("DTY") products, as well as its new Super-Resilient (SR) range of products, which commenced sales in the fourth quarter of 2009. Sale of the new product line contributed about RMB 525 million to total revenue.

Despite higher raw material cost during the year, gross profit more than tripled to RMB 183.3 million, versus RMB 55.5 million in FY2009, on the back of higher average selling prices. Consequently, gross profit margin improved 2.7 percentage points to 7.4% in FY2010.

Other operating income fell 56% to RMB 3.5 million, compared to RMB 8.1 million in FY2009, as there was less scrap material sold during the year as a result of reduced spoilage in production, and lower interest income in FY2010.

Distribution expenses, comprising mainly the salaries and sales commission of sales staff, increased 60.1% to RMB 15.6 million, as the Group paid higher sales commission in FY2010, in line with the revenue growth. However, overall expenses for the year were substantially lower, due to the absence of an impairment loss of RMB 100.2 million that arose in FY2009 from the acquisition of Qingdao Zhongda Chemical Fibre Company Limited.

The lower expenses, coupled with the higher revenue, enabled the Group to achieve a turnaround in net profit of RMB 99.8 million in FY2010, compared to a net loss of RMB 198.9 million in FY2009.

Segmental Review

Revenue from the sales of FDY and HOY products, without taking into consideration the SR product line, increased 69% to RMB 1.5 billion for FY2010, from RMB 897 million recorded in FY2009. The combined sales volume and combined average selling price of FDY and HOY were 30.5% and 28.5% higher respectively in FY2010.



Operations Review



Revenue from the sales of DTY was also higher at RMB 425.8 million, representing a 49% increase from RMB 285.8 million the year before. The sales growth was achieved on the back of a 17.1% in sales volume and a 27.2% improvement in average selling price.

Outlook

The Group achieved a healthy growth of 51.3% in total sales volume of 89,116 tonnes for the year, as compared with 58,905 tonnes registered in FY2009. This was driven by sales of its high quality SR nylon products, which experienced a surge in demand on the back of the economic recovery during 2010. The SR product line contributed 14,199 tonnes or 15.9% of total sales volume in FY2010.

Overall average selling price increased 36.3% to RMB 27,250 per tonne in FY2010, versus RMB 19,992 per tonne in the previous year. This was similarly boosted by the strong performance of the SR range, which contributed 9.2 percentage points to the increase. Barring unforeseen circumstances, the Board expects the uptrend

in overall sales volume and selling prices to continue into FY2011, albeit at a slower rate.

Qingdao Zhongda Chemical Fibre Limited ("QZ"), the Group's wholly-owned subsidiary, is currently in the midst of obtaining the necessary approvals from the local government in Qingdao with regard to the proposed acquisition of land and construction of new production facilities. It had submitted the proposed drawings and construction plan for approval and the Management is working closely with the local government to expedite the process. In the meantime, QZ has been granted extension to remain at its current premises while it awaits the approval for the relocation.

As market conditions continue to improve, the Group will look into the possibility of revamping and increasing its current production facilities to cater to the rising demand for its products.





Board of Directors



Cheung Wing Lin

Chairman (Non-Executive Chairman)

Cheung Wing Lin is the Non-Executive Chairman of our Group, and first joined as a director of our Hong Kong subsidiary, Kam Wai, in 2003. Mr Cheung is responsible for developing the overall strategic directions of our Group, including our business strategies and policies. Since 1999, Mr Cheung has been the general manager of South Africa Pan-ocean Enterprise Limited company, overseeing its overall management and operations. Mr Cheung has also been the legal representative of Shishishi Xin Li Rubber Shoes Co., Ltd since 1996. From 1991 to 1995, he was the manager of Jiaming Development Co., Ltd.

In addition, Mr Cheung had also held honorary positions in various China-Africa associations.



Song Jian Sheng

Executive Director (Production, Research and Development)

Song Jian Sheng joined our Group as the Executive Director (Production, Research and Development) in 2002. Mr Song heads our Research and Development Department; and is also in charge of the technical and engineering aspects of our production facilities, quality control and assurance. As a class of 1984 graduate in high molecular science of the Taiyuan Polytechnic University, Mr Song has published various articles on chemical fibres and their production techniques in many leading Chinese journals. In January 2005, Mr Song was included in the "Who's Who of Chinese Experts". From 1998 to 2002, Mr Song was the plant director of Long Da Chemical Fibre Company, and was the chief engineer and manager of chemical fibre production at Xin Lun Chemical Fibre Engineering Company from 1993 to 1997.



Huang Zhong Xuan

Chief Executive Officer and Executive Director

Huang Zhong Xuan is the Chief Executive Officer and Executive Director of our Group. Besides formulating and implementing our business strategies and development plans, Mr Huang is also in charge of the overall management and operational aspects of our Group. Mr Huang has a Master's degree in Business Administration from the Hong Kong International Business College, and has over ten years of management and operational experience in the chemical fibre, garment and textile industries. From 1999 to 2001, Mr Huang was the general manager and sales director of Xiamen Tongrun Industrial Trading Limited Company. Mr Huang held a similar portfolio at Jinjiang Hengshun Umbrella Limited Company from 1995 to 1998.



Board of Directors



Wang Zhi Wei

Non-Executive Director

Wang Zhi Wei is our Non-Executive Director and joined as a director of our subsidiary, Tianyu, in 2002. At Tianyu, Mr Wang provides our Group with access to and strategic analysis of market trends and industry information. Prior to his appointment as a director of our Group, Mr Wang was the manager of Xiamen Shenjiang Trading Company, an import and export company, handling the sales and marketing of chemical raw materials for use in different industries. From 1993 to 1995, Mr Wang was the Deputy Plant Director of Xiamen Huihuang Machinery Company.



Er Kwong Wah

Independent Director

Er Kwong Wah was appointed as an Independent Director of our Company in 2005. Mr Er is currently an Executive Director of the EASB Institute of Management and had served in the Singapore civil service for 27 years. Mr Er was the Permanent Secretary of the Ministry of Education from 1987 to 1994 and later, Permanent Secretary of the Ministry of Community Development until he retired in 1998. Mr Er had also previously held many distinguished public sector appointments with various Singapore tertiary institutions, the sports council and government-linked companies. Mr Er graduated from the University of Toronto in 1970 with a first class honours degree in Electrical Engineering, and has an MBA from the Manchester Business School, University of Manchester.



Lai Seng Kwoon

Independent Director

Lai Seng Kwoon was appointed as an Independent Director of our Company in 2005. Mr Lai has more than 30 years of extensive and varied experience in accounting tax and financial matters; and currently manages his own accounting and financial advisory professional practice, SK Lai & Co. Prior to establishing SK Lai & Co., Mr Lai had worked for the accounting firm, KPMG, in both Singapore and United States from 1979 to 1994. Mr Lai is a fellow with the Association of Chartered Certified Accountants, United Kingdom and the Institute of Certified Public Accountants of Singapore and CPA Australia. He is also a director on a number of companies listed on SGX-ST. He is a member of the Audit committee of the Singapore Sports Council and Treasurer of the Singapore Scouts Association.

Key Management

Wu Yi

General Manager

Wu Yi is our Group's General Manager who joined in 2002. Mr Wu is primarily responsible for the day-to-day operations, administration and human resource management of our Group. Prior to his appointment with our Group, Mr Wu was the general manager of several foreign joint venture companies where he gained valuable market knowledge and experience in manufacturing, engineering and plant management of chemical fibre production. Mr Wu's started his career as a researcher in the Electronic Industry Department of the PRC government. Mr Wu has a Bachelor's degree in textile engineering from Fuzhou University, PRC.

Chen Xiang Dong

Deputy General Manager (Sales and Marketing)

Chen Xiang Dong joined our Group in 2002 and is currently our Deputy General Manager (Sales and Marketing). Aside from being responsible for the sales and marketing activities of our Group, Mr Chen also handles after-sales customer support and maintains customer relationships for our Group. A graduate of Beijing Chemical Fibre Polytechnic, Mr Chen joined Baling Chemical Petroleum Co. Ltd. in 1994 as its office manager, and was the deputy sales manager with Shijiajuan Chemical Fibre Company Limited from 1997 to 2002.

Huang Qing Fa

Deputy General Manager (Administration)

Huang Qing Fa is our Deputy General Manager (Administration) who joined our Group in 2002. He oversees all administration and personnel matters of our Group, including overall staff performance, recruitment and training, as well as administrative policy formulation and implementation. Mr Huang obtained his Bachelor's degree in Business Administration from Shenzhen University, PRC, in 1991. Mr Huang was the human resource manager with the Qipilang Group Company from 2000 to

2002, and he also headed the respective human resource departments at Fu Jian Yuan Group and Yayu Enterprise (Shenzhen) Co., Ltd from 1996 to 2000.

Hui San Wing

Group Financial Controller

Hui San Wing joined as our Group Financial Controller in 2006. Mr Hui is responsible for the financial administration and accounting functions of our Group, as well as the compliance and financial reporting requirements. Previously, Mr Hui had held various senior executive positions in Hong Kong, Swiss and American listed companies, and had accumulated more than 10 years of experience in financial planning and accounting functions. Mr Hui has a Degree in Chinese Law from Peking University. He also holds several professional qualifications, including as a member of the Hong Kong Institute of Certified Public Accountants and a Fellow with the Association of Chartered Certified Accountants, United Kingdom.

Hu Xiao Jin

Financial Controller

Hu Xiao Jin is our Financial Controller and joined our Group in 2002. Mr Hu is responsible for the finance, accounting and management reporting of our PRC subsidiary, Tianyu, and reports to our Group Financial Controller. Prior to joining our Group, Mr Hu was a tax auditor with Quanzhou Xingchen Tax Services in 2001, and was the manager of the accounting department at Shishi Dashixiong Group from 1997 to 2001. Mr Hu completed an Accountancy course at Fuzhou University in 1994 and is currently a qualified accountant in the PRC.

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Corporate Governance

China Sky Chemical Fibre Co., Ltd (the "Company") recognises the importance of corporate governance and is committed to maintaining a standard that is expected of us in order to commensurate with the requirements set out in the Code of Corporate Governance ("Code"). Good corporate governance provides the framework for an ethical and accountable corporate environment, which will protect the interests of the company's shareholders and promote investor confidence. This report outlines the Company's corporate governance practices and structures in the financial year ended 31 December 2010 ("FY2010"), with specific reference made to each of the principles of the Code. Deviations from the Code are explained. The Company has complied with the principles of the Code where appropriate.

(A) BOARD MATTERS

The Board's Conduct of its Affairs

Principle 1: Every company should be headed by an effective Board to lead and control the company. The Board is collectively responsible for the success of the Company. The Board works with Management to achieve this and the Management remains accountable to the Board.

The Board of Directors (the "Board") comprises two Executive Directors, two Non-Executive Directors and two Independent Directors, all having the relevant core competencies and diversity of experience to enable them to contribute effectively to the Company. Information on and profiles of the directors are set out in the "Board of Directors" section of this Annual Report.

The primary role of the Board is to protect and enhance long-term shareholders' value. The Board meets quarterly to oversee the business affairs of the Group. Besides carrying out its statutory responsibilities, the Board (i) approves the Group's strategic plans, key operational initiatives, major investments and funding decisions; (ii) identifies principal risks in the Group's business and ensures the implementation of appropriate systems to manage these risks; and (iii) reviews the financial performance of the Group. Ad-hoc meetings are convened as and when the circumstances require.

To facilitate the execution of the Board's responsibilities, the Board is assisted by three sub-committees namely the Nominating Committee ("NC"), the Remuneration Committee ("RC") and the Audit Committee ("AC"). These committees function within clearly defined terms of reference and operating procedures, which are reviewed on a regular basis. The effectiveness of each committee is also constantly monitored.

A newly appointed director will be given appropriate training. This should include an orientation program to ensure that incoming directors are familiar with the Company's business and governance practices. The Board is kept up-to-date on any relevant key changes in legislation and the listing rules of the Singapore Exchange Securities Trading Limited ("SGX-ST"). The directors are also updated on regulatory changes which have an important bearing on the Company and the directors' obligations to the Company.

The attendance of the directors at Board Meetings and meetings of various committees for FY2010 are as follows:

Directors	Board		Audit Committee		Nominating Committee		Remuneration Committee	
	Number of Meetings Held	Number of Meetings Attended	Number of Meetings Held	Number of Meetings Attended	Number of Meetings Held	Number of Meetings Attended	Number of Meetings Held	Number of Meetings Attended
Cheung Wing Lin	4	4**	5	5**	1	1**	–	–
Huang Zhong Xuan	4	4	–	–	–	–	–	–
Song Jian Sheng	4	4**	–	–	–	–	–	–
Wang Zhi Wei	4	4**	–	–	–	–	1	1
Er Kwong Wah	4	4	5	5	1	1	1	1
Lai Seng Kwoon	4	4	5	5	1	1	1	1

**Via teleconference

Corporate Governance

Board Composition and Balance

Principle 2: There should be a strong and independent element on the Board, which is able to exercise objective judgment on corporate affairs independently, in particular, from Management. No individual or small group of individual should be allowed to dominate the Board's decision making.

The Board consists of six members, two of whom are Independent Directors

Executive Directors

Huang Zhong Xuan	(Chief Executive Officer and Executive Director)
Song Jian Sheng	(Executive Director)

Non-Executive Directors

Wang Zhi Wei	(Non-Executive Director)
Cheung Wing Lin	(Non-Executive Chairman and Non-Executive Director)
Er Kwong Wah	(Independent Director)
Lai Seng Kwoon	(Independent Director)

The Company believes that the presence of Non-Executive and Independent Directors provides a robust and independent element in the Board's decision making process. The role of these Non-Executive and Independent Directors is particularly important in ensuring that the strategies proposed by the executive management are deliberated and examined. The Board has also examined its size and is of the view that it is of an appropriate size for decision-making, taking into account the scope and nature of operations of the Company.

The NC recommends all appointments and retirements of directors. The NC ensures the Board has the appropriate and relevant mix of expertise and experience, and collectively possesses the necessary core competencies for effective functioning, balanced and informed decision making. The NC is of the view that no individual or small group of individuals dominates the Board's decision making process currently. The Independent Directors have confirmed that they do not have any relationship with the Company or its related companies or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the Directors' independent business judgment with a view to the best interests of the Company. The NC has reviewed and determined that the said Directors are independent. The independence of each Directors has been and will be reviewed annually by the NC. Details of the Board members' qualifications and experiences are presented in this Annual Report under the heading "Board of Directors".

Chairman and Chief Executive Officer

Principle 3: There should be a clear division of responsibilities at the top of the company - the working of the Board and the executive responsibility of the company's business - which will ensure a balance of power and authority, such that no one individual represents a considerable concentration of power.

The Non-Executive Chairman and Chief Executive Officer are not related to each other. The duties of the Non Executive Chairman and the Chief Executive Officer are distinct to ensure an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision-making. The requirement of the Code that the roles of Chairman and Chief Executive Officer be separate is therefore met in the case of the Company.

The Non-Executive Chairman, Mr. Cheung Wing Lin is responsible for developing the overall strategic directions of our Group, including our business strategies and policies. He also takes an active role in facilitating board proceedings (such as preparing meeting agenda in consultation with the Chief Executive Officer) as well as assisting in compliance with the Company's guidelines on corporate governance.

The Chief Executive Officer, Mr. Huang Zhong Xuan, plays a significant role in formulating and implementing our business strategies and development plans. Mr. Huang is also in charge of the overall management and operational aspects our Group.

Corporate Governance

Board Membership

Principle 4: There should be a formal and transparent process for the appointment of new directors to the Board.

The NC comprises the following members, two of whom are Independent Directors:

Er Kwong Wah (Chairman)	Independent Director
Lai Seng Kwoon	Independent Director
Cheung Wing Lin	Non-Executive Director

The chairman of the NC is neither a substantial shareholder nor directly associated (within the meaning of the Code) with a substantial shareholder (with interest of 5% or more in the voting shares of the Company).

The principal functions of the NC are:

- 1) recommending to the Board on all board appointments and re-nominations having regard to each Director's contribution and performance to the Company.
- 2) ensuring all directors submit themselves for re-nomination and re-election at regular intervals and at least once every three years.
- 3) reviewing annually the independence of a director.
- 4) determining a director's ability and adequacy in carrying out his duties as a director.
- 5) determining how the Board's performance is to be evaluated and proposing objective performance criteria.
- 6) evaluating the overall effectiveness and performance of the Board.

When a director has multiple board representations, the NC also considers whether or not the director is able to and has adequately carried out his duties as a Director of the Company.

In its search and nomination process for new directors, the NC has, at its disposal, search companies, personal contacts and recommendations for the right candidates.

Information required in respect of the academic and professional qualifications of the directors is set out in the "Board of Directors" section of this Annual Report. In addition, information on shareholdings of the Company held by each director is set out in the "Directors' Report" section of this Annual Report.

The dates of initial appointment and last re-election of each director are set out below:

Name of Director	Appointment	Date of Initial Appointment	Date of Last Re-election
Cheung Wing Lin Age: 43	Non-Executive Chairman/ Non-Executive Director	25 May 2005	30 April 2009
Huang Zhong Xuan Age: 48	Chief Executive Officer/ Executive Director	15 April 2005	24 April 2008
Song Jian Sheng Age: 46	Executive Director	25 May 2005	30 April 2009
Wang Zhi Wei Age: 40	Non-Executive Director	25 May 2005	22 April 2010
Er Kwong Wah Age: 65	Independent Director	2 August 2005	22 April 2010
Lai Seng Kwoon Age: 53	Independent Director	2 August 2005	30 April 2009

*According to Article 86(1) of the Company's Articles of Association, Mr. Huang Zhong Xuan and Mr. Cheung Wing Lin will retire at the Company's forthcoming AGM and will be eligible for re-election.

Corporate Governance

Board Performance

Principle 5: There should be a formal assessment of the effectiveness of the Board as a whole and the contribution by each director to the effectiveness of the Board.

The NC will evaluate the effectiveness of the Board as a whole and the contribution of each director to the effectiveness of the Board. In selecting the performance criteria for such evaluation, the NC will consider a number of factors, including achievement of financial targets, performance of the Board in discharging its principal responsibilities, communication with the Management and performance of individual director in terms of attendance and contributions during Board meetings. Once the performance criteria for such process has been decided, the Board will adhere to the performance criteria unless such changes are deemed necessary for and in the interest of the Company. Each member of the NC shall abstain from voting on any resolution in respect of the assessment of his performance or re-nomination as a director.

The assessment process involves and includes input from Board members, applying the performance criteria of the NC and approved by the Board. These input are collated and reviewed by the Chairman of the NC, who presents a summary of the overall assessment to the NC for review. Areas where the Board's performance and effectiveness could be enhanced and recommendations for improvements are then submitted to the Board for discussion and, where appropriate, approval for implementation.

Access to Information

Principle 6: In order to fulfill their responsibilities, Board members should be provided with complete, adequate and timely information prior to Board meetings and an ongoing basis.

To facilitate the Board in the discharge of its responsibilities, the Management provides the Board members with complete, adequate and timely information for Board meetings and on an ongoing basis. Detailed board papers with relevant background information relating to matters to be discussed are sent to the directors prior to the scheduled meetings' so that the Board may better understand the issues prior to the meetings. All directors have unrestricted access to the Company's records and information. The Board has separate and independent access to the Company Secretary and to other senior management executives of the Group at all times in carrying out their duties.

At least one of the Company Secretaries attends all Board meetings to ensure that proper procedures at such meetings are followed and that applicable rules and regulations are complied with.

The Board is of the view that the directors should, in furtherance of their duties, take independent professional advice if necessary, at the Company's expense.

(B) REMUNERATION MATTERS

Procedures for Developing Remuneration Policies

Principle 7: There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his own remuneration.

The RC comprises the following members, two of whom are Independent Directors:

Er Kwong Wah (Chairman)	Independent Director
Lai Seng Kwoon	Independent Director
Wang Zhi Wei	Non-Executive Director

The RC will recommend to the Board a framework of remuneration for the directors and senior management to ensure that such remuneration framework is competitive and sufficient to attract, retain and motivate key executives. The recommendations of the RC on the remuneration of directors and senior management will be submitted for endorsement by the Board. All aspects of the remuneration, including but not limited to directors' fees, salaries, allowances, bonuses, options and benefits in kind will be reviewed by the RC. The written terms of reference of the RC provide a formal and transparent procedure for remuneration policies and for fixing the remuneration packages

Corporate Governance

of individual directors and no director is involved in determining his own remuneration. Each member of the RC shall abstain from voting on any resolution and making recommendations and/or participating in any deliberations of the RC in respect of his remuneration package. The RC members are familiar with executive compensation matters as they manage their own businesses and/or are holding directorships on the boards of other listed companies.

The RC also administers the China Sky Employees Share Option Scheme (the "Scheme"). The Scheme was approved by shareholders of the Company on 30 July 2005. The Scheme complies with the relevant rules as set out in Chapter 8 of the Listing Manual of the Singapore Exchange Securities Trading Limited ("SGX-ST") ("Listing Manual"). The Scheme will provide eligible participants with an opportunity to participate in the equity of the Company so as to motivate them to greater dedication, loyalty and higher standards of performance, and to give recognition to those who have contributed to the success and development of the Company and/or Group.

Level and Mix of Remuneration

Principle 8: The level of remuneration should be appropriate to attract, retain and motivate the directors needed to run the company successfully but companies should avoid paying more than is necessary for this purpose. A significant proportion of the executive directors' remuneration should be structured so as to link rewards to corporate and individual performance.

In setting remuneration packages, the RC takes into account pay and employment conditions within the same industry and in comparable companies, as well as the Group's financial performance and the individual director's performance. The Independent Directors receive directors' fee in accordance with their contributions (taking into consideration the effort and time spent), the responsibilities of the directors and the need to offer competitive fees to attract, motivate and retain the directors. Directors' fees are recommended by the Board for approval at the Company's Annual General Meeting ("AGM").

Each of the Executive Directors has a service agreement valid for a period of three years commencing from 1 August 2008. Under the service agreements, the remuneration of each of the Executive Directors is subject to review by the RC on 1 August in each year of service. The RC shall review the terms of the service agreements when they are renewed upon expiry. There are no excessively long or onerous removal clauses in these service agreements. Non-Executive Directors and Independent Directors do not have service agreements with the Company.

Disclosure on Remuneration

Principle 9: Each company should provide clear disclosure of its remuneration policy, level and mix of remuneration, and the procedure for setting remuneration, in the company's annual report. It should provide disclosure in relation to its remuneration policies to enable investors to understand the link between remuneration paid to directors and key executives, and performance.

The breakdown of each individual director's remuneration, in percentage terms showing the level and mix for FY2010, is as follows:

Name of Directors	Salary	*Directors' fee	**Other Benefits	Total
Below S\$250,000				
Cheung Wing Lin	—	—	100%	100%
Huang Zhong Xuan	99%	—	1%	100%
Song Jian Sheng	97%	—	3%	100%
Wang Zhi Wei	—	—	—	—
Er Kwong Wah	—	100%	—	100%
Lai Seng Kwoon	—	100%	—	100%

* These fees are subject to approval of the shareholders at the forthcoming Annual General Meeting.

** Other benefits are inclusive of sales bonus, commission and pension benefits.

Each of the two Executive Directors was entitled to performance bonuses as set out in their respective service agreements. None of the Executive Directors is entitled to bonuses for the financial year. There are no employees of the Group who are immediate family members of a director or substantial shareholder.

Corporate Governance

The details of remuneration paid to the top 5 executives of the Group (who are not directors) for FY2010, are set out below:

Name of Directors	Salary	*Directors' fee	**Other Benefits	Total
Below S\$250,000				
Chen Xiang Dong	23%	—	77%	100%
Wu Yi	16%	—	84%	100%
Huang Qing Fa	24%	—	76%	100%
Hu Xiao Jin	24%	—	76%	100%
Hui San Wing	97%	—	3%	100%

* Other benefits are inclusive of sales bonus, commission and pension benefits.

The Company granted share options in FY2009. No share options were granted in FY2010. The details of the China Sky Employees Share Option Scheme (the "Scheme") are disclosed in the Directors' Report and the Notes to the Financial Statements.

(C) ACCOUNTABILITY AND AUDIT ACCOUNTABILITY

Principle 10: The Board should present a balanced and understandable assessment of the Company's performance, position and prospects

In line with the continuing disclosure obligations of the Company under the Listing Manual, the Board's policy is that shareholders shall be informed of all major developments of the Company. Information is presented to shareholders on a timely basis through SGXNET and the press. In presenting the annual financial statements and quarterly result announcements to the shareholders, it is the objective of the Board to provide the shareholders with a reasonable understanding of the Group's financial position, performance and prospects.

Audit Committee

Principle 11: The Board should establish an Audit Committee with written terms of reference which clearly set out its authority and duties.

The AC comprises the following, two of whom are Independent Directors:

Lai Seng Kwoon (Chairman)	Independent Director
Er Kwong Wah	Independent Director
Cheung Wing Lin	Non-Executive Director

The principal functions of the AC include:

- 1) Reviewing the audit plan of the Company's external auditors, their evaluation of the system of internal accounting controls, their letter to management and the management's responses to the external auditors' findings and recommendations.
- 2) Reviewing the external auditors' reports.
- 3) Reviewing the co-operation given by the Company's officers to the external auditors to ensure co-ordination between the external auditors and the Management, discuss problems and concerns (if any) arising from the interim and final audits, and any matters which the external auditors may wish to discuss (in the absence of our management, where necessary).
- 4) Reviewing and ensuring the integrity of the financial statements before submission to the Board for approval, focusing in particular, on significant financial reporting issues, changes in accounting policies and practices, major risk areas, significant adjustments resulting from the audit, compliance with accounting standards and compliance with the Listing Manual and any other relevant statutory or regulatory requirements.
- 5) Reviewing the state of internal control procedures and supervising the implementation and conduct of the internal audit plan of the Company.

Corporate Governance

- 6) Reviewing and discussing with the external auditors any suspected fraud or irregularity, or suspected infringement of any relevant laws, rules or regulations, which has or is likely to have a material impact on the Group's operating results or financial position, and Management's response
- 7) Nominating external auditors for re-appointment.
- 8) Reviewing interested person transactions (if any) falling within the scope of Chapter 9 of the Listing Manual.
- 9) Reviewing potential conflicts of interest, if any.
- 10) Providing a channel of communication between the Board, the Management and our external auditors on matters relating to audit.
- 11) Undertaking such other reviews and projects as may be requested by the Board, and reporting to the Board its findings.
- 12) Undertaking such other functions and duties as may be lawfully required or as provided under the Listing Manual.

The Chairman of the AC has met with the external auditors in the absence of the Management to review matters that might be raised privately.

The Board is of the view that the AC members have accounting and related financial management expertise and experience and are appropriately qualified to discharge their responsibilities.

The AC has reviewed the scope and result of the audit, and the independence and objectivity of the external auditors (including the nature and extent of their non-audit services to the Company). Having done so, the AC is satisfied that the nature and extent of such services do not affect the independence of the external auditors. The AC will continue to review the independence of the external auditors on an annual basis.

The AC has the authority to investigate any matter within its terms of reference, and has full access to and the co-operation of the Management and unfettered discretion to invite any director or officer to attend its meetings.

The AC has reviewed arrangements by which the staff of the Company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters, with the objective of ensuring that arrangements are in place for the independent investigation of such matters for appropriate follow-up action.

Internal Controls

Principle 12: The Board should ensure that the Management maintains a sound system of internal controls to safeguard the shareholders' investments and the company's assets.

The Board acknowledges that it is responsible for the overall internal control framework, but recognises that no cost effective internal control system will preclude all errors and irregularities, as such a system is designed to manage (rather than eliminate the risk of failure) and achieve its business objectives. Such a system can only provide reasonable and not absolute assurance against material misstatement or loss. The Board believes that in the absence of any evidence to the contrary and from due enquiries, the system of internal control that has been maintained by the Company's management throughout FY2010 is adequate to meet the needs of the Company in its current business environment.

Corporate Governance

Internal Audit

Principle 13: The Company should establish an internal audit function that is independent of the activities it audits.

A firm of internal auditors had been engaged by the Company to perform the internal audit function and they report primarily to the Audit committee. The internal auditors plan their internal audit schedules in consultation with, but independent of, the Management. The internal audit plan is submitted to the Audit Committee for approval prior to the commencement of the internal audit. The Audit Committee will review the activities of the internal auditors, including overseeing and monitoring of the implementation of improvements required on internal control weaknesses identified.

The Audit Committee had reviewed the annual internal audit plan and the audit report for FY2010. The Audit Committee is satisfied that the internal audit functions have been adequately carried out.

(D) COMMUNICATION WITH SHAREHOLDERS

Communication with shareholders

Principle 14: Companies should engage in regular, effective and fair communication with shareholders.

Principle 15: Companies should encourage greater shareholder participation at AGMs, and allow shareholders the opportunity to communicate their views on various matters affecting the company.

The Company is committed to regular and proactive communication with its shareholders in line with continuous disclosure obligations of the Company under the Listing Manual. Pertinent information will be disclosed to shareholders in a timely, fair and equitable manner. The Company does not practise selective disclosure. Price sensitive information is first publicly released before the Company meets with any group of investors or analysts.

Pertinent information is communicated to shareholders through:

- 1) quarterly results announcements which are published on the SGXNET and in news releases;
- 2) the Company's annual reports that are prepared and issued to all shareholders;
- 3) notices of and explanatory memoranda, for AGMs and extraordinary general meetings; and
- 4) press releases on major developments of the Group.

AGMs are the main forum for communication with shareholders. Annual reports and notices of the AGMs are sent to all shareholders. The Chairman of the Committees and the external auditors will be present at AGMs to assist in addressing any relevant queries from the shareholders. The Board welcomes the views of shareholders on matters affecting the Company, whether at shareholders' meetings or on an ad hoc basis.

(E) DEALING IN SECURITIES

The Group has adopted and implemented its policies in line with the rules of the Listing Manual in relation to dealing of shares of the Company. The directors and executives of the Group are not allowed to deal in the Company's shares during the window periods or if they are in possession of unpublished material price-sensitive information of the Group.

Corporate Governance

(F) INTERESTED PERSON TRANSACTION

The Company has established procedures to ensure that all transactions with interested persons are reported in a timely manner to the AC and that these transactions are conducted at arm's length.

The aggregate value of interested person transactions entered into for the financial year 2009 and 2010 are as follows:

Name of interested person	2010	2009
Fees paid and payable for provision of professional services to a firm which a director has an interest in.	RMB866,000.00	RMB1,500,000.00

(G) MATERIAL CONTRACTS

Other than the service agreements between the Executive Directors and the Company, there are no material contracts entered by the Company or its subsidiaries with or for the benefit of the directors or controlling shareholder during FY2010.

(H) RISK MANAGEMENT

Management reviews, on an ongoing basis the Group's business and operational activities to identify areas of significant business risks as well as appropriate measures to control and minimise these risks within the Group's policies and strategies. The Group has also considered the various financial risks, details of which are disclosed in the notes to the accompanying audited financial statements.

Report of the Directors

The directors present their report together with the audited consolidated financial statements of the group and statement of financial position and statement of changes in equity of the company for the financial year ended December 31, 2010.

1 DIRECTORS

The directors of the company in office at the date of this report are:

Mr Huang Zhong Xuan

Mr Song Jian Sheng

Mr Cheung Wing Lin

Mr Wang Zhi Wei

Mr Er Kwong Wah

Mr Lai Seng Kwoon

2 ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE BENEFITS BY MEANS OF THE ACQUISITION OF SHARES AND DEBENTURES

Neither at the end of the financial year nor at any time during the financial year did there subsist any arrangement whose object is to enable the directors of the company to acquire benefits by means of the acquisition of shares or debentures in the company or any other body corporate, except for the options mentioned in paragraph 5 of this report.

3 DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

The directors of the company holding office at the end of the financial year had no interests in the share capital and debentures of the company and related corporations except as follows:

Names of directors and company in which interests are held	Shareholdings registered in the names of directors		Shareholdings in which directors are deemed to have interests	
	At beginning of year	At end of year	At beginning of year	At end of year
<u>China Sky Chemical Fibre Co., Ltd.</u>			<u>Ordinary shares of HK\$0.50 each</u>	
Mr Cheung Wing Lin	–	–	307,516,000	307,516,000
Mr Huang Zhong Xuan	–	–	308,316,000	308,316,000
Mr Wang Zhi Wei	24,457,000	24,457,000	–	–
Mr Lai Seng Kwoon	–	–	50,000	50,000

The directors' interests in the shares and options of the company as at January 21, 2011 were the same at December 31, 2010.

4 DIRECTORS' RECEIPT AND ENTITLEMENT TO CONTRACTUAL BENEFITS

Since the beginning of the financial year, no director has received or become entitled to receive a benefit by reason of a contract made by the company or a related corporation with the director or with a firm of which he is a member, or with a company in which he has a substantial financial interest except for salaries, bonuses and other benefits as disclosed in the financial statements. Certain directors received remuneration from related corporations in their capacity as directors and/or executives of those related corporations.

Report of the Directors

5 OPTION TO TAKE UP UNISSUED SHARES

Share Option Scheme

The China Sky Share Option Scheme (the "China Sky ESOS") was approved at an Extraordinary General Meeting held on July 30, 2005.

The members of the committee administering the China Sky ESOS are Mr Er Kwong Wah, Mr Lai Seng Kwoon and Mr Wang Zhi Wei.

The China Sky ESOS applies to non-directors of the company and group employees which include employees and directors of associated companies.

The exercise price payable for each share in respect of which an option is exercisable shall be either a price equal to the average of the last dealt price for the share for five consecutive market days immediately preceding the offer date of the option ("Market Price") or at a price at a maximum discount of up to 20 per cent of the Market Price.

Under the China Sky ESOS, options with exercise prices which are equal to the Market Price may only be exercised one year after the relevant offer date; and options with exercise prices which are at a discount to the Market Price may only be exercised two years after the relevant offer date. In addition, options granted to employees of the company and its subsidiaries shall cease to be exercisable after the tenth anniversary of the relevant offer date; and options granted to Non-Executive Directors of the group, employees and directors of associated companies, shall cease to be exercisable after the fifth anniversary of the relevant offer date.

- a) In respect of the options granted to employees of related corporations, a total of 26,045,000 options were granted in 2009, making it a total of 26,045,000 options granted to employees of related corporations from the commencement of the Scheme to the end of the financial year.
- b) Options granted to directors are as follows:

	Options granted during 2010	Aggregate options granted since commencement of the Scheme to December 31, 2010	Aggregate options exercised since commencement of the Scheme to December 31, 2010	Aggregate options lapsed since commencement of the Scheme to December 31, 2010	Aggregate options renounced since commencement of the Scheme to December 31, 2010	Aggregate options outstanding at December 31, 2010
	'000	'000	'000	'000	'000	'000
Lai Seng Kwoon	–	2,000	–	–	(1,000)	1,000
Er Kwong Wah	–	2,000	–	–	(1,000)	1,000
Song Jian Sheng	–	7,500	–	–	–	7,500

- c) There are no options granted to any of the company's controlling shareholders or their associates during the financial year.
- d) During the financial year, no employee has received 5% or more the total number of options available under the China Sky ESOS.

Report of the Directors

- e) Under the China Sky ESOS share options granted, renounced, exercised and lapsed during the financial year and outstanding as at December 31, 2010 were as follows:

Date granted	At date of grant	Balance at January 1, 2010	Renounced	Exercised	Lapsed	Balance at December 31, 2010	Exercise price	Expiry date
		'000				'000		
September 1, 2009	35,545	35,545	–	–	–	35,545	S\$0.32	August 31, 2019

6 AUDIT COMMITTEE

The Audit Committee of the company is chaired by Mr Lai Seng Kwoon, an Independent Director, and includes Mr Er Kwong Wah, an Independent Director and Mr Cheung Wing Lin, a Non-Executive Director. During the financial year, the Audit Committee held 4 meetings and reviewed the following, where relevant, with the executive directors and external auditors of the company:

- the group's financial and operating results and accounting policies;
- the financial statements of the company and the consolidated financial statements of the group before their submission to the directors of the company and external auditors' report on those financial statements;
- the quarterly, half-yearly and annual announcements as well as the related press releases on the results and financial position of the company and the group;
- the co-operation and assistance given by management to the group's external auditors; and
- the re-appointment of the external auditors of the group.

The Audit Committee has full access to and has the co-operation of management and has been given the resources required for it to discharge its function properly. It also has full discretion to invite any director and executive officer to attend its meetings. The external auditors have unrestricted access to the Audit Committee.

The Audit Committee has recommended to the Board of Directors the re-appointment of Deloitte & Touche LLP as the company's external auditors at the forthcoming annual general meeting.

Report of the Directors

7 AUDITORS

The auditors, Deloitte & Touche LLP, have expressed their willingness to accept re-appointment.

ON BEHALF OF THE DIRECTORS

Mr Huang Zhong Xuan

Mr Song Jian Sheng

March 21, 2011

Statement of Directors

In the opinion of the directors, the consolidated financial statements of the group and the statement of financial position and statement of changes in equity of the company as set out on pages 33 to 65 are drawn up so as to present fairly the state of affairs of the group and of the company as at December 31, 2010, and of the results, changes in equity and cash flows of the group and changes in equity of the company for the financial year then ended and at the date of this statement there are reasonable grounds to believe that the company will be able to pay its debts when they fall due.

ON BEHALF OF THE DIRECTORS

Mr Huang Zhong Xuan

Mr Song Jian Sheng

March 21, 2011

Independent Auditor's Report

To the Members of China Sky Chemical Fibre Co., Ltd.

We have audited the accompanying financial statements of China Sky Chemical Fibre Co., Ltd. (the "company") and its subsidiaries (the "group"), which comprise the statements of financial position of the group and the company as at December 31, 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the group and the statement of changes in equity of the company for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on page 33 to 65.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements of the group and the statement of financial position and statement of changes in equity of the company give a true and fair view of the state of affairs of the group and of the company as at December 31, 2010, and of the results, changes in equity and cash flows of the group and changes in equity of the company for the financial year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche LLP
Public Accountants and
Certified Public Accountants

Singapore
March 21, 2011

Statement of Financial Position

December 31, 2010

	Note	GROUP		COMPANY	
		2010	2009	2010	2009
		RMB'000	RMB'000	RMB'000	RMB'000
ASSETS					
Current assets					
Cash and cash equivalents	6	222,873	414,046	53	57
Trade and other receivables	7	484,278	178,635	911,587	913,336
Inventories	8	153,581	104,017	—	—
Total current assets		860,732	696,698	911,640	913,393
Non-current assets					
Investment in subsidiaries	9	—	—	491,127	483,832
Property, plant and equipment	10	1,790,626	1,885,478	—	—
Land use rights	11	22,445	23,505	—	—
Intangible assets	12	69,357	87,936	—	—
Goodwill	13	—	—	—	—
Deferred tax assets	14	21,417	10,024	—	—
Deposits made for acquisition of property, plant and equipment	15	194,000	188,300	—	—
Deposits made for land use rights	16	148,829	148,829	—	—
Total non-current assets		2,246,674	2,344,072	491,127	483,832
Total assets		3,107,406	3,040,770	1,402,767	1,397,225
LIABILITIES AND EQUITY					
Current liabilities					
Trade and other payables	17	96,724	92,847	38,959	37,714
Short-term bank loans	18	—	50,000	—	—
Income tax payable		14,210	7,786	—	—
Total current liabilities		110,934	150,633	38,959	37,714
Non-current liability					
Deferred tax liability	14	23,283	26,951	—	—
Capital and reserves					
Issued capital	19	429,132	429,132	429,132	429,132
Share premium		768,145	768,145	768,145	768,145
Contribution surplus		117,747	117,747	117,747	117,747
Legal reserve		216,381	205,963	—	—
Share-based payments reserve		58,675	48,420	58,675	48,420
Accumulated profits (losses)		1,383,109	1,293,779	(9,891)	(3,933)
Total equity		2,973,189	2,863,186	1,363,808	1,359,511
Total liabilities and equity		3,107,406	3,040,770	1,402,767	1,397,225

See accompanying notes to financial statements.

Consolidated Statement of Comprehensive Income

Year ended December 31, 2010

	Note	2010 RMB'000	2009 RMB'000
Revenue	20	2,463,891	1,193,664
Cost of sales		(2,280,640)	(1,138,143)
Gross profit		183,251	55,521
Other operating income	21	3,546	8,059
Distribution expenses		(15,599)	(9,742)
Administrative expenses		(39,973)	(35,671)
Impairment loss recognised in respect of goodwill	13	–	(100,138)
Impairment loss recognised in respect of intangible assets	12	(6,961)	(11,037)
Finance cost		(3,049)	(3,688)
Other operating expenses	22	(678)	(99,781)
Profit (Loss) before tax	23	120,537	(196,477)
Income tax expense	24	(20,789)	(2,392)
Profit (Loss)/Total comprehensive income for the year attributable to owners of the company		<u>99,748</u>	<u>(198,869)</u>
Earnings (Loss) per share			
Basic (cents per share)	25	<u>12.25</u>	<u>(24.41)</u>
Diluted (cents per share)	25	<u>12.25</u>	<u>(24.41)</u>

See accompanying notes to financial statements.

Statements of Changes in Equity

Year ended December 31, 2010

	Issued capital	Share premium	Contribution surplus	Legal reserve	Share- based payments reserve	Accumulated profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<u>GROUP</u>							
Balance at January 1, 2009	429,132	768,145	117,747	204,545	43,587	1,494,066	3,057,222
Total comprehensive income for the year	—	—	—	—	—	(198,869)	(198,869)
Recognition of share-based payments (Note 28)	—	—	—	—	4,833	—	4,833
Transfer	—	—	—	1,418	—	(1,418)	—
Balance at December 31, 2009	429,132	768,145	117,747	205,963	48,420	1,293,779	2,863,186
Total comprehensive income for the year	—	—	—	—	—	99,748	99,748
Recognition of share-based payments (Note 28)	—	—	—	—	10,255	—	10,255
Transfer	—	—	—	10,418	—	(10,418)	—
Balance at December 31, 2010	429,132	768,145	117,747	216,381	58,675	1,383,109	2,973,189

	Issued capital	Share premium	Contribution surplus	Share – based payments reserve	Accumulated profits (losses)	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<u>COMPANY</u>						
Balance at January 1, 2009	429,132	768,145	117,747	43,587	1,895	1,360,506
Total comprehensive income for the year	—	—	—	—	(5,828)	(5,828)
Recognition of share-based payments (Note 28)	—	—	—	4,833	—	4,833
Balance at December 31, 2009	429,132	768,145	117,747	48,420	(3,933)	1,359,511
Total comprehensive income for the year	—	—	—	—	(5,958)	(5,958)
Recognition of share-based payments (Note 28)	—	—	—	10,255	—	10,255
Balance at December 31, 2010	429,132	768,145	117,747	58,675	(9,891)	1,363,808

See accompanying notes to financial statements.

Consolidated Cash Flow Statement

Year ended December 31, 2010

	2010 RMB'000	2009 RMB'000
Operating activities		
Profit (Loss) before tax	120,537	(196,477)
Adjustments for:		
Depreciation expense	125,252	111,257
Amortisation of intangible assets	11,618	11,618
Share-based payments expense	10,255	4,833
Interest income	(3,105)	(4,132)
Interest expense	3,049	3,688
Amortisation of land use rights	1,060	1,060
Overhaul cost written-off	–	72,293
Impairment loss in respect of goodwill	–	100,138
Impairment loss recognised in respect of intangible assets	6,961	11,037
Operating cash flows before movements in working capital	275,627	115,315
Trade and other receivables	(305,643)	(19,699)
Inventories	(49,564)	(16,368)
Trade and other payables	7,240	(36,817)
Cash (used in) generated from operations	(72,340)	42,431
Income tax paid	(29,426)	(9,328)
Net cash (used in) from operating activities	(101,766)	33,103
Investing activities		
Purchase of property, plant and equipment (Note)	(6,100)	(282,293)
Deposits paid on acquisition of property, plant and equipment	(30,000)	(224,330)
Interest received	3,105	4,132
Net cash used in investing activities	(32,995)	(502,491)
Financing activities		
Interest paid	(3,049)	(3,688)
New bank loans raised	–	50,000
Repayment of bank loans	(50,000)	(64,151)
(Repayment to) Advance from director	(3,363)	21,246
Net cash (used in) from financing activities	(56,412)	3,407
Net decrease in cash and cash equivalents	(191,173)	(465,981)
Cash and cash equivalents at beginning of year	414,046	880,027
Cash and cash equivalents at end of year (Note 6)	222,873	414,046

Note

During the year, the group acquired to property, plant and equipment with an aggregate cost of RMB30,400,000 (2009 : RMB571,323,000) of which a deposit of RMB24,300,000 (2009 : RMB289,030,000) has been paid in the prior years. During the year, cash payment of RMB6,100,000 (2009 : RMB282,293,000) were made to purchase property, plant and equipment.

See accompanying notes to financial statements.

Notes to Financial Statements

Year ended December 31, 2010

1 GENERAL

The company (Registration number CT-146759) was incorporated in the Cayman Islands on March 29, 2005 with its principal place of business and registered address at the offices of Codan Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, P.O. Box 268I, Grand Cayman, KYI-1111 Cayman Islands. The company is listed on the Singapore Exchange Securities Trading Limited. The financial statements are expressed in Chinese Renminbi.

The principal activity of the company is that of an investment holding company.

The principal activities of its subsidiaries are described in Note 9 to the financial statements.

The group's principal operations are conducted in People's Republic of China (excluding Hong Kong for the purpose of this report) (the "PRC").

The consolidated financial statements of the group and statement of financial position and statement of changes in equity of the company for the year ended December 31, 2010 were authorised for issue by the Board of Directors on March 21, 2011.

2 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES

BASIS OF ACCOUNTING - The financial statements have been prepared in accordance with the historical cost convention, except as disclosed in the accounting policies below, and are drawn up in accordance with the International Financial Reporting Standards ("IFRS").

The group's principal operations are conducted in People's Republic of China (excluding Hong Kong for the purpose of this report) (the "PRC"). The financial statements set out in this report have been prepared in Chinese Renminbi ("RMB"), being the functional currency of the company and the presentation currency of the group.

ADOPTION OF NEW AND REVISED STANDARDS - In the current financial year, the group has adopted all the new and revised Standards, Amendments and Interpretations issued by the International Accounting Standards Board (the "IASB") and IFRSs Interpretation Committee (formally known as the International Financing Reporting Interpretations Committee) ("IFRIC") of the IASB that are relevant to its operations and effective for annual periods beginning on or after January 1, 2010. The adoption of these new/revised Standards, Amendments and Interpretations does not result in changes to the group's and company's accounting policies and has no material effect on the amounts reported for the current or prior years except as disclosed below.

New and revised IFRSs affecting presentation and disclosure

IFRS 3 (revised in 2008) Business Combinations

IFRS 3 (2008) has been applied in the current year prospectively to business combinations for which the acquisition date is on or after 1 January 2010 in accordance with the relevant transitional provisions. The main impact of the adoption of IFRS 3 (2008) Business Combinations on the group has been:

- to allow a choice on a transaction-by-transaction basis for the measurement of non-controlling interests (previously referred to as 'minority' interests) either at fair value or at the non-controlling interests' share of the fair value of the identifiable net assets of the acquiree;
- to change the recognition and subsequent accounting requirements for contingent consideration. Under the previous version of the Standard, contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably; any subsequent adjustments to the contingent consideration were recognised against goodwill. Under the revised Standard, contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to the consideration are recognised against goodwill only to the extent that they arise from better information about the fair value at the acquisition date, and they occur within the 'measurement period' (a maximum of 12 months from the acquisition date). All other subsequent adjustments are recognised in profit or loss;

Notes to Financial Statements

Year ended December 31, 2010

2 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Cont'd)

- to require the recognition of a settlement gain or loss when the business combination in effect settles a pre-existing relationship between the group and the acquiree; and
- to require that acquisition-related costs be accounted for separately from the business combination, generally leading to those costs being recognised as an expense in consolidated profit or loss as incurred, whereas previously they were accounted for as part of the cost of the acquisition.

IAS 27 (revised in 2008) Consolidated and Separate Financial Statements

The application of IAS 27(2008) has resulted in changes in the group's accounting policies for changes in ownership interests in subsidiaries.

Specifically, the revised Standard has affected the group's accounting policies regarding changes in ownership interests in its subsidiaries that do not result in loss of control. In prior years, in the absence of specific requirements in IFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised, when appropriate; for decreases in interests in existing subsidiaries that did not involve a loss of control, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss. Under IAS 27(2008), all such increases or decreases are dealt with in equity, with no impact on goodwill or profit or loss.

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised Standard requires the group to derecognise all assets, liabilities and non-controlling interests at their carrying amount and to recognise the fair value of the consideration received. Any retained interest in the former subsidiary is recognised at its fair value at the date control is lost. The resulting difference is recognised as a gain or loss in profit or loss.

These changes in accounting policies have been applied prospectively from 1 January 2010 in accordance with the relevant transitional provisions.

Standards and Interpretations in issue but not yet effective

The group has not early applied the following new and revised Standards and Interpretations that have been issued but not yet effective.

IFRSs (Amendments)	Improvements to IFRSs issued in 2010 except for the amendments to IFRSs 3 (as revised in 2008), IAS 1 and IAS 28 ¹
IFRS 7 (Amendments)	Disclosures – Transfers of financial assets ³
IFRS 9	Financial instruments ⁴
IAS 12 (Amendments)	Deferred tax : Recovery of underlying assets ⁵
IAS 24 (as revised in 2009)	Related party disclosures ⁶
IAS 32 (Amendments)	Classification of rights issues ⁷
IFRIC 14 (Amendments)	Prepayments of a minimum funding requirement ⁶
IFRIC 19	Extinguishing financial liabilities with equity instruments ²

¹ Effective for annual periods beginning on or after July 1, 2010 or January 1, 2011, as appropriate.

² Effective for annual periods beginning on or after July 1, 2010.

³ Effective for annual periods beginning on or after January 1, 2011.

⁴ Effective for annual periods beginning on or after January 1, 2013.

⁵ Effective for annual periods beginning on or after January 1, 2012.

⁶ Effective for annual periods beginning on or after January 1, 2011.

⁷ Effective for annual periods beginning on or after February 1, 2010.

The directors of the company anticipate that the application of the other new and revised Standards, Amendments or Interpretations will have no material impact on the consolidated financial statements.

BASIS OF CONSOLIDATION - The consolidated financial statements incorporate the financial statements of the company and entities (including special purpose entities) controlled by the company (its subsidiaries). Control is achieved where the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activity.

Notes to Financial Statements

Year ended December 31, 2010

2 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Cont'd)

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

In the company's financial statements, investment in subsidiaries are carried at cost less impairment in net recoverable value that has been recognised in profit or loss.

Changes in the group's ownership interests in subsidiaries that do not result in the group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the company.

When the group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the company had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

BUSINESS COMBINATIONS - Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the group, liabilities incurred by the group to the former owners of the acquiree and the equity interests issued by the group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the group entered into to replace *share-based payment* arrangements of the acquiree are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Notes to Financial Statements

Year ended December 31, 2010

2 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Cont'd)

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Business combinations that took place prior to January 1, 2010 were accounted for in accordance with the previous version of IFRS 3.

GOODWILL - Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

INTANGIBLE ASSETS ACQUIRED IN A BUSINESS COMBINATION - Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date.

Notes to Financial Statements

Year ended December 31, 2010

2 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Cont'd)

Subsequent to initial recognition, intangible assets with finite useful lives are carried at cost less subsequent accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses below).

FINANCIAL INSTRUMENT - Financial assets and financial liabilities are recognised on the group's statement of financial position when the group becomes a party to the contractual provisions of the instrument.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial instrument and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument, or where appropriate, a shorter period. Interest income and expense is recognised on an effective interest rate basis for debt instruments other than those financial instruments "at fair value through profit or loss".

Financial assets

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as "loans and receivables". Loans and receivables are measured at amortised cost using the effective interest method less impairment losses. Interest is recognised by applying the effective interest method, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted. The amount of the impairment 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 objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade and other receivables, assets that are not assessed for impairment individually are assessed for impairment on a collective basis.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables where the carrying amount is reduced through the use of an allowance account. When a trade or other receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss. Changes in the carrying amount of the allowance account are recognised in profit or loss.

Notes to Financial Statements

Year ended December 31, 2010

2 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Cont'd)

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of financial assets

The group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the group retains substantially all the risks and rewards of ownership of a transferred financial asset, the group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities and equity instruments

Classification as debt or equity

Financial liabilities and equity instruments issued by the group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

Other financial liabilities

Trade and other payables are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost, using the effective interest method, except for short-term payables where the recognition of interest would be immaterial.

Interest-bearing bank loans are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the group's accounting policy for borrowing costs (see below).

Derecognition of financial liabilities

The group derecognises financial liabilities when, and only when, the group's obligations are discharged, cancelled or they expire.

INVENTORIES - Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

PROPERTY, PLANT AND EQUIPMENT - Property, plant and equipment are carried at cost, less accumulated depreciation and accumulated impairment loss.

The gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss in the period in which the item is derecognised.

Notes to Financial Statements

Year ended December 31, 2010

2 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Cont'd)

Overhaul costs incurred in replacing an existing component part of an item of property, plant and equipment is capitalised and depreciated over the estimated useful life of the overhaul component part using the straight line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

The cost of buildings is depreciated over the remaining unexpired terms of the leases or their estimated useful lives of 20 or 25 years, whichever is shorter, using the straight line method.

Depreciation is charged so as to write off the cost of other item of property, plant and equipment over their estimated useful lives, using the straight-line method, as follows:

Furniture, fixtures and equipment	-	20%
Motor vehicles	-	20% to 33 ¹ / ₃ %
Plant and machinery	-	5% to 10%

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimates accounted for on a prospective basis.

Fully depreciated assets are retained in the financial statements until they are no longer in use.

LAND USE RIGHTS - Land use rights represents prepaid rental for rights of the usage of land. The land use right is stated at cost of acquisition, less amortisation using the straight-line basis over its term of rights of 20 or 50 years.

IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS EXCLUDING GOODWILL - At end of each reporting period, the group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Notes to Financial Statements

Year ended December 31, 2010

2 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Cont'd)

RESEARCH AND DEVELOPMENT EXPENDITURE - Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

PROVISIONS - Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that the group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

SHARE-BASED PAYMENTS - The group issues equity-settled share-based payments to certain employees.

Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions. Fair value is measured using the Binomial model pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural conditions.

For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at end of each reporting period.

SHARE PREMIUM - Share premium represents the difference between the par value of the share capital of the company and the issue price of the share capital. Share premium is not distributable.

CONTRIBUTION SURPLUS - Contribution surplus represents the difference between the aggregate net book value of the consolidated net assets of the subsidiaries at the date on which they were acquired by the group and the nominal amount of the share capital issued as consideration for the acquisition. Contribution surplus is distributable.

Notes to Financial Statements

Year ended December 31, 2010

2 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Cont'd)

REVENUE RECOGNITION - Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Sub-contracting services

Revenue from sub-contracting services is recognised when services are rendered.

Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

BORROWING COSTS - Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

RETIREMENT BENEFIT COSTS - Payments to defined contribution retirement benefit plans are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution plans where the group's obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan.

EMPLOYEE LEAVE ENTITLEMENT - Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period.

INCOME TAX - Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or tax deductible. The group's liability for current tax is calculated using tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Notes to Financial Statements

Year ended December 31, 2010

2 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Cont'd)

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the combined financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investment in subsidiaries and associate, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised based on the tax rates that have been enacted or substantively enacted by the end of reporting period. Deferred tax is charged or credited to profit or loss, except when it relates to items recognised in other comprehensive income or that are directly to equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items that are recognised outside profit or loss (whether in other comprehensive income or directly to equity), in which case the tax is also recognised outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

FOREIGN CURRENCY TRANSACTIONS - The individual financial statements of each group entity are measured in the currency of the primary economic environment in which the entity operates (its functional currency). The consolidated financial statements of the group and the statement of financial position and statement of changes in equity of the company are presented in Chinese Renminbi, which is the functional currency of the company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency are recorded at the rates of exchange prevailing on the date of the transaction. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on retranslation of monetary items are included in profit or loss for the period.

LEGAL RESERVE - Legal reserve represents the amount transferred from profit after taxation of the subsidiaries incorporated in PRC in accordance with the PRC laws and regulations. The legal reserve cannot be reduced except where approval is obtained from the relevant PRC authority to apply the amount either in setting off the accumulated losses or increasing capital.

Notes to Financial Statements

Year ended December 31, 2010

3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Critical judgements in applying the entity's accounting policies

In the application of the group's accounting policies, which are described in Note 2, management is required to make judgements, estimations and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, 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.

Impairment and depreciation of property, plant and equipment and intangible assets

The carrying amounts of the intangible assets and property, plant and equipment are reviewed at end of each reporting period to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

Management has determined that there are no indicators of impairment on the property, plant and equipment. Intangible assets are evaluated for possible impairment based on the cash generating unit of which these assets belong. This process requires management's estimation of the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate the present value. If the recoverable amounts of the cash generating unit are less than the carrying amounts of the intangible assets, the relevant asset's carrying amount is written down to the recoverable amount. At December 31, 2010, the carrying amount of property, plant and equipment and intangible assets are RMB1,790,626,000 (2009 : RMB1,885,478,000) and RMB69,357,000 (2009 : RMB87,936,000) respectively as disclosed in Notes 10 and 12.

Note 2 describes that depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives, using the straight line method. Management exercise their judgement in estimating the useful lives of the depreciable assets.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The goodwill had been fully impaired in 2009.

Allowance for doubtful debts

Trade and other receivables are assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 to 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

The allowances and carrying amount of doubtful receivables are disclosed in Note 7 to the financial statements.

Notes to Financial Statements

Year ended December 31, 2010

3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Cont'd)

Allowance for inventories

The group reviews the carrying value of its inventories to ensure that they are stated at the lower of cost and net realisable value. In assessing the net realisable value and making appropriate allowances, the group identifies inventories that are slow-moving or obsolete, considering their physical conditions, market condition and market price for similar items.

The allowance and carrying amount of inventories are disclosed in Note 8 to the financial statements.

4 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT

(a) Categories of financial instruments

The following table sets out the financial instruments as at the end of the reporting period:

	GROUP		COMPANY	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Financial Assets				
Loans and receivables (including cash and cash equivalents)	707,151	592,681	911,640	913,393
Financial Liabilities				
Trade and other payables	95,178	91,026	38,959	37,714
Short-term bank loans	–	50,000	–	–

(b) Financial risk management objectives and policies

i) Foreign currency risk management

Certain subsidiaries of the group have sales denominated in foreign currencies, which expose the group to foreign currency risk. The group currently does not have a foreign hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

At the reporting date, the carrying amounts of monetary assets and monetary liabilities denominated in currencies other than the respective group entities' functional currencies are as follows:

	GROUP				COMPANY			
	Liabilities		Assets		Liabilities		Assets	
	2010	2009	2010	2009	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
United States Dollars	–	–	16,849	15,516	–	–	–	–
Singapore Dollars	1,403	1,005	58	76	1,403	1,005	53	57

The group is mainly exposed to exchange rate fluctuation of United States Dollars (USD) and Singapore Dollars (SGD). The following table details the group's sensitivity to a 5% (2009 : 5%) increase in RMB against the relevant currencies. 5% (2009 : 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management assessment of the reasonably possible change in foreign exchange rates.

Notes to Financial Statements

Year ended December 31, 2010

4 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (Cont'd)

(b) Financial risk management objectives and policies (Cont'd)

i) Foreign currency risk management (Cont'd)

The sensitivity analysis includes monetary items where the denomination of the balances is in a currency other than the functional currency of the respective group entities. A negative number below indicates an increase in profit for the year or decrease in loss for the year where RMB strengthen 5% (2009 : 5%) against the relevant currencies. For a 5% (2009 : 5%) weakening of RMB against the relevant currencies, there would be an equal and opposite impact on profit or loss for the year.

	GROUP		COMPANY	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
United States Dollars	842	776	—	—
Singapore Dollars	(67)	(46)	(67)	(47)

ii) Interest rate risk management

At December 31, 2009, the group was exposed to fair value interest rate risk in relation to fixed rate short-term bank loans (Note 18) which were subject to negotiation at each renewal date. The group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the management will consider hedging significant interest rate risk should the need arise. The directors consider the group's exposure of the fixed rate short-term bank loans to interest rate risk was not significant. The group is not exposed to interest rate risk in the current year as the bank loans are repaid during the year ended December 31, 2010.

iii) Credit risk management

The group's maximum exposure to credit risk which will cause a financial loss to the group due to failure to discharge an obligation by the counterparties or debtors which the group has provided financial guarantees is arising from the carrying amount of the respective recognised financial assets as stated in the statement of financial position.

In order to minimise the credit risk, the management of the group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that the follow-up action is taken to recover overdue debts. In addition, the group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management consider that the group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

The group has concentration of credit risk on its deposits made for acquisition of land use right (Note 16) as the amount was made to a single third party independent to the group. The group has no other significant concentration of credit risk, with exposure spread over a number of counterparties and customers. The group's concentration of credit risk by geographical locations is mainly at the PRC, which account for 96% (2009 : 91%) of the total trade receivables as at year end.

The company has significant other receivable due from subsidiaries (Note 7).

Notes to Financial Statements

Year ended December 31, 2010

4 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (Cont'd)

(b) *Financial risk management objectives and policies (Cont'd)*

iv) Liquidity risk management

In the management of the liquidity risk, the group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the group's operations and mitigate the effects of fluctuations in cash flows.

All financial assets and liabilities of the group and company in both 2009 and 2010 are repayable on demand or due within 1 year from the end of the reporting period.

v) Fair values of financial assets and financial liabilities

The carrying amounts of cash and bank balances, trade and other current receivables and payables, other liabilities and amounts payable approximate their respective fair values due to the relatively short-term maturity of these financial instruments.

(c) *Capital risk management*

The group manages its capital to ensure that entities in the group will be able to continue as going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The group's overall strategy remains unchanged from prior year.

The capital structure of the group consists of bank borrowings (Note 18), cash and cash equivalents and equity attributable to equity holders of the company, comprising issued share capital, reserves and accumulated profits. There are no externally imposed capital requirements.

The directors of the company review the capital structure on an annual basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of management, the group will balance its overall capital structure through the payment of dividends and net share issues.

5 RELATED PARTY TRANSACTIONS

Related parties are entities with common direct or indirect shareholders and/or directors. Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

Some of the group's transactions and arrangements are with related parties and the effect of these on the basis determined between the parties are reflected in these financial statements. The balances are unsecured, interest-free and repayable on demand unless otherwise stated.

	GROUP	
	2010	2009
	RMB'000	RMB'000
Professional fee paid to a firm which a director has interest in	866	1,500

Notes to Financial Statements

Year ended December 31, 2010

6 CASH AND CASH EQUIVALENTS

	GROUP		COMPANY	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Cash at bank and on hand	222,873	414,046	53	57

Cash and bank balances comprise cash held by the group and short-term bank deposits with an original maturity of three months or less. The carrying amounts of these assets approximate their fair values.

The cash at bank bore interest at an average rate of 0.25% to 0.5% (2009 : 0.25% to 0.5%) per annum.

The group and company's cash and bank balances that are not denominated in the functional currencies of the respective entities are as follows:

	GROUP		COMPANY	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Singapore dollars	58	76	53	57
United States dollars	27	417	–	–
Hong Kong dollars	–	57	–	–

7 TRADE AND OTHER RECEIVABLES

	GROUP		COMPANY	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	389,966	177,308	–	–
Other receivables due from outside parties	94,312	1,327	–	–
Other receivables due from subsidiaries (Note 9)	–	–	911,587	913,336
	484,278	178,635	911,587	913,336

The group allows an average credit period of 60 to 90 days (2009 : 60 to 90 days) to its trade customers.

The table below is an analysis of trade receivables as at December 31:

	GROUP		COMPANY	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Not past due and not impaired	384,400	174,748	–	–
Past due but not impaired	5,566	2,560	–	–
Total trade receivables, net	389,966	177,308	–	–

Included in the group's trade receivables balance are debtors with aggregate carrying amount of RMB5,566,000 (2009 : RMB2,560,000) which are past due as at the end of the reporting period for which the group has not provided for impairment loss. The group does not hold any collateral over these balances. The average age of these receivables is 90 days overdue (2009 : 90 days overdue).

Notes to Financial Statements

Year ended December 31, 2010

7 TRADE AND OTHER RECEIVABLES (Cont'd)

Before accepting any new customers, the group has an internal credit grading system to assess the potential customers' credit quality and the Board of Directors has delegated to management the responsibility for determination of credit limits and credit approval for any customers. The group has provided fully for all receivables that are past due beyond 360 days because historical experience is such that these receivables are generally not recoverable.

In determining the recoverability of the trade receivables, the group monitors any change in credit quality of the trade receivables since the credit was granted and up to the reporting date. Management considered that the group has no significant concentration of credit risk of trade and other receivables, with exposure spread over a number of counterparties and customers.

Movement in the allowance for doubtful debts

	2010 RMB'000	2009 RMB'000
Balance at the beginning of the year	–	6,112
Amounts written off as uncollectible	–	(6,112)
Balance at the end of the year	–	–

The other receivables due from subsidiary is unsecured, interest-free and repayable on demand.

The group's trade and other receivables are denominated in currency other than the functional currencies of the respective entities, are set out below:

	GROUP	
	2010 RMB'000	2009 RMB'000
United States dollars	16,822	15,099

8 INVENTORIES

	GROUP	
	2010 RMB'000	2009 RMB'000
Raw materials	71,070	66,947
Finished goods	82,511	37,070
	153,581	104,017

9 INVESTMENT IN SUBSIDIARIES

	COMPANY	
	2010 RMB'000	2009 RMB'000
Unquoted equity shares at cost	449,645	449,645
Deemed investment	41,482	34,187
	491,127	483,832

Notes to Financial Statements

Year ended December 31, 2010

9 INVESTMENT IN SUBSIDIARIES (Cont'd)

Name of subsidiary	Country of incorporation (or registration) and operation	Proportion of ownership interest/ voting power held		Principal activity
		2010	2009	
		%	%	
<u>Held by company</u>				
Winburg Company Ltd.	British Virgin Islands	100	100	Investment holding
<u>Held by Winburg Company Ltd</u>				
Kam Wai Chemical Fibre Industrial Limited	Hong Kong	100	100	Investment holding
Way Big Holdings Limited	British Virgin Islands	100	100	Investment holding
Mega Force Investments Limited	British Virgin Islands	100	100	Investment holding
Deluxe Dragon International Limited	British Virgin Islands	100	100	Investment holding
<u>Held by Kam Wai Chemical Fibre Industrial Limited</u>				
Quanzhou Tianyu Chemical Fiber & Weaving Industry Co., Ltd.	People's Republic of China	100	100	Manufacture and sale of chemical fibres
<u>Held by Way Big Holdings Limited</u>				
Tianjian Special Polymede Fibre Technology Fujian, Co., Ltd.	People's Republic of China	100	100	Manufacture and sale of chemical fibres
<u>Held by Deluxe Dragon International Limited</u>				
Qingdao Zhongda Chemical Fibre Company Limited	People's Republic of China	100	100	Manufacture and sale of chemical fibres

The above subsidiaries are audited by Deloitte Touche Tohmatsu, Hong Kong for consolidation purposes.

Notes to Financial Statements

Year ended December 31, 2010

10 PROPERTY, PLANT AND EQUIPMENT

	Leasehold buildings	Furniture, fixtures and equipment	Motor vehicles	Plant and machinery	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (Note A)	RMB'000
<u>GROUP</u>						
Cost:						
At January 1, 2009	201,502	2,190	1,174	1,440,834	4,373	1,650,073
Additions	—	—	—	571,323	—	571,323
At December 31, 2009	201,502	2,190	1,174	2,012,157	4,373	2,221,396
Additions	—	—	—	30,400	—	30,400
At December 31, 2010	201,502	2,190	1,174	2,042,557	4,373	2,251,796
Accumulated depreciation:						
At January 1, 2009	21,592	1,198	912	128,666	—	152,368
Depreciation for the year	11,574	459	129	99,095	—	111,257
Overhaul cost charge to profit or loss (Note B)	—	—	—	72,293	—	72,293
At December 31, 2009	33,166	1,657	1,041	300,054	—	335,918
Depreciation for the year	11,574	276	102	113,300	—	125,252
At December 31, 2010	44,740	1,933	1,143	413,354	—	461,170
Carrying amount:						
At December 31, 2010	156,762	257	31	1,629,203	4,373	1,790,626
At December 31, 2009	168,336	533	133	1,712,103	4,373	1,885,478

Note A: Construction in progress represents technical improvement work for a factory (leasehold building) in Fujian, PRC and has been transferred to leasehold building in January 2011 upon completion.

Note B: The amount represents write-off of overhaul component cost upon replacement of certain parts and components of the group's plant and machinery.

11 LAND USE RIGHTS

	GROUP	
	2010	2009
	RMB'000	RMB'000
Carrying value:		
At the beginning of the year	23,505	24,565
Amortisation during the year	(1,060)	(1,060)
At the end of the year	22,445	23,505

The land use rights represent prepaid rental for the use of land situated in the PRC for a period of 20 years or 50 years commencing 1991 and 2003 respectively. As this land use right will expire in 2011, the local government has allocated a new site for the group to re-allocate to. The group has obtained consent from local government to continue use of the present land until the relocation is completed.

The land use rights are not freely transferrable.

Notes to Financial Statements

Year ended December 31, 2010

12 INTANGIBLE ASSETS

	GROUP		
	Technical know-how	Trademark	Total
	RMB'000	RMB'000	RMB'000
Cost:			
Acquired on acquisition of subsidiaries in 2009 and balance at December 31, 2009 and December 31, 2010	53,000	63,400	116,400
Amortisation:			
At January 1, 2009	2,790	3,019	5,809
Amortisation for the year	5,580	6,038	11,618
At December 31, 2009	8,370	9,057	17,427
Amortisation for the year	5,580	6,038	11,618
At December 31, 2010	13,950	15,095	29,045
Impairment loss:			
Impairment loss for 2009 and balance at December 31, 2009	5,025	6,012	11,037
Impairment loss for the year	3,170	3,791	6,961
	8,195	9,803	17,998
Carrying amount:			
At December 31, 2010	30,855	38,502	69,357
At December 31, 2009	39,605	48,331	87,936

The intangible assets were purchased as part of a business combination of acquisition of Deluxe Dragon International Limited ("Deluxe Dragon") in 2008 and have finite useful lives which are amortised on a straight line basis over the following periods:

Technical know-how	9 ^{1/2} years
Trademark	10 ^{1/2} years

During the year ended December 31, 2010, the directors of the company had conducted a review of the cash-generating unit ("CGU") of Deluxe Dragon, and the impairment loss was allocated to reduce the carrying amount of intangible assets after the goodwill has been fully impaired.

The recoverable amount of the CGU is determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5 year period, and a discount rate of 17.6% (2009 : 17.3%). The cash flows beyond the 5 year period are extrapolated for another 5 year period using a steady growth rate of 3% (2009 : 3%). This growth rate is based on the industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculations related to the estimation of cash inflow/outflows which include budgeted sales and expected gross margin, such estimation is based on the unit's past performance and management's expectations for the market development.

The results of the CGU did not meet the management's expectations and an impairment was identified. During the year, the group has recognised an impairment loss of RMB6,961,000 (2009 : RMB11,037,000) in relation to intangible assets.

Notes to Financial Statements

Year ended December 31, 2010

12 INTANGIBLE ASSETS (Cont'd)

Sensitivity analysis

The sensitivity analysis below details the group's sensitivity to the discount rates used by management. A 1% increase in discount rate is used and is considered reasonable by management of the possible change in market conditions.

If the discount rate had been 1% higher, additional impairment loss of RMB30,670,000 (2009 : RMB48,087,0000) would be recognised.

13 GOODWILL

	GROUP RMB'000
At January 1, 2009	100,138
Impairment loss in 2009	(100,138)
At December 31, 2009 and December 31, 2010	—

In year 2009, the group acquired 100% of the issued capital of Deluxe Dragon, a company which acts as an investment holding and its subsidiary is engaged in the manufacture and distribution of chemical fibre. The goodwill was attributable to the CGU at Deluxe Dragon. The goodwill had fully impaired in 2009.

14 DEFERRED TAX ASSETS (LIABILITIES)

	GROUP	
	2010 RMB'000	2009 RMB'000
Deferred tax assets	21,417	10,024
Deferred tax liabilities	(23,283)	(26,951)
	(1,866)	(16,927)

The following is the deferred tax assets (liabilities) recognised by the group and movements thereon during the year:

	Excess of tax written down value over book value RMB'000	Intangible assets RMB'000	Tax on undistributed earnings RMB'000	Total RMB'000
At January 1, 2009	10,734	(27,648)	(4,747)	(21,661)
(Charge) Credit to profit or loss (Note 24)	(710)	5,663	(219)	4,734
At December 31, 2009	10,024	(21,985)	(4,966)	(16,927)
Credit (Charge) to profit or loss (Note 24)	11,393	4,645	(977)	15,061
At December 31, 2010	21,417	(17,340)	(5,943)	(1,866)

At the end of the reporting period, the group has unused tax losses of RMB24,204,000 (2009 : RMB90,956,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

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Year ended December 31, 2010

14 DEFERRED TAX ASSETS (LIABILITIES) (Cont'd)

Under the EIT Law of PRC withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from January 1, 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to RMB501,084,000 as at December 31, 2010 (2009 : RMB388,477,000) as the group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

15 DEPOSITS MADE FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

	GROUP	
	2010	2009
	RMB'000	RMB'000
Deposit for acquisition of machineries	30,000	24,300
Deposit for a construction contract for leasehold building improvement	50,000	50,000
Deposit for construction work on a piece of land to be acquired (Note 16)	114,000	114,000
	<u>194,000</u>	<u>188,300</u>

16 DEPOSITS MADE FOR ACQUISITION OF LAND USE RIGHT

The amount represents a deposit made for acquisition of a land use right by the group through an independent third party (the "Third Party"). In 2006, the group has entered into an agreement with the Third Party, whereby the group made an advance to the Third Party for acquiring a piece of land situated in the PRC for a total consideration of RMB168,725,000 and the Third Party has agreed that it will, after its acquisition of the land use right, transfer the land use right certificate in respect of that piece of land to the group by making the appropriate application with the relevant PRC authority. In the opinion of the directors of the group, the advance made to the Third Party in substance represents a deposit made for acquisition of a land use right. As at December 31, 2009 and 2010, the application of the land use right certificate is still in progress and the Third Party has not yet obtained the land use right certificate in respect of the land.

At December 31, 2010, the directors of the company have carried out a review of the deposits made for acquisition of land use right and determined that no impairment is required as the fair value of the land is greater than the carrying amount of the deposits paid by the group.

17 TRADE AND OTHER PAYABLES

	GROUP		COMPANY	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	28,052	33,359	—	—
Receipt in advance from customers	1,546	1,821	—	—
Due to subsidiary:				
- Non-trade (Note 9)	—	—	37,139	35,031
Amount due to director	17,883	23,053	—	—
Accrued expenses	17,612	8,614	1,820	2,683
Other payables	31,631	26,000	—	—
	<u>96,724</u>	<u>92,847</u>	<u>38,959</u>	<u>37,714</u>

The average credit period on purchase of goods is 60 days (2009 : 60 days).

Trade payable and accruals principally comprise amounts outstanding for trade purchases and ongoing costs.

Notes to Financial Statements

Year ended December 31, 2010

17 TRADE AND OTHER PAYABLES (Cont'd)

The amount due to a director is unsecured, non-interest bearing and repayable on demand.

The amount due to subsidiary is unsecured, interest-free and repayable on demand.

The group and company's trade and other payables that are not denominated in functional currencies of the respective entities are as follows:

	GROUP		COMPANY	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Singapore dollars	1,403	1,005	1,403	1,005

18 SHORT-TERM BANK LOANS

At December 31, 2009, the short-term bank loans were denominated in RMB and was secured by certain property, plant and equipment with carrying value of RMB101,903,000. These bank loans carried fixed interest at 6.37% per annum which were arranged at benchmark interest rate as stipulated by the People's Bank of China that is re-priced upon renewal. The amounts due were based on scheduled repayment dates set out in the loan agreements.

The short-term bank loans have been repaid during the year.

19 ISSUED CAPITAL

	GROUP AND COMPANY			
	2010	2009	2010	2009
	Number of ordinary shares of HK\$0.50 each		HK'000	HK'000
Authorised	1,000,000,000	1,000,000,000	500,000	500,000
Issued and fully paid:				
At beginning and end of year	814,576,470	814,576,470	429,132	429,132

Fully paid ordinary shares carry one vote per share and carry a right to dividends as and when they are declared by the company.

20 REVENUE

	GROUP	
	2010	2009
	RMB'000	RMB'000
Sale of goods	2,428,440	1,177,629
Subcontracting services	35,451	16,035
	2,463,891	1,193,664

Notes to Financial Statements

Year ended December 31, 2010

21 OTHER OPERATING INCOME

	GROUP	
	2010	2009
	RMB'000	RMB'000
Interest income	3,105	4,132
Sale of scrap materials	437	3,927
Foreign exchange gain	4	—
Total	3,546	8,059

22 OTHER OPERATING EXPENSES

	GROUP	
	2010	2009
	RMB'000	RMB'000
Trial run wastage expenses	—	19,865
Research and development costs	678	624
Overhaul cost (Note 10)	—	72,293
Foreign exchange loss	—	6,999
Total	678	99,781

Notes to Financial Statements

Year ended December 31, 2010

23 PROFIT (LOSS) BEFORE TAX

Profit (Loss) before tax is arrived at after charging (crediting) the following:

	GROUP	
	2010	2009
	RMB'000	RMB'000
Cost of inventories included in cost of sales	2,260,812	1,128,084
Directors' remuneration:		
Fees	800	800
Retirement benefits scheme contributions	11	11
Other emoluments	1,171	932
Share-based payments expense	2,741	1,292
	4,723	3,035
Remuneration of other key management personnel:		
Retirement benefits scheme contributions	36	36
Other emoluments	3,614	5,197
Share-based payments expense	1,698	800
Total key management personnel remuneration	10,071	9,068
Other staff's retirement benefit scheme contributions	1,022	1,077
Other staff costs (including share-based payments)	50,836	37,950
Total staff costs	61,929	48,271
Less: Staff costs included in research and development costs	(678)	(624)
	61,251	47,647
Amortisation of intangible assets (included in cost of sales)	11,618	11,618
Depreciation of property, plant and equipment	125,252	111,257
Operating leases relating to land use rights	1,060	1,060
Interest on:		
Short-term bank loans	3,049	3,406
Discounted notes	—	282
	3,049	3,688

24 INCOME TAX EXPENSE

	GROUP	
	2010	2009
	RMB'000	RMB'000
PRC income tax	35,006	7,126
Underprovision of current tax in prior years	844	—
Deferred tax (Note 14)	(15,061)	(4,734)
	20,789	2,392

Notes to Financial Statements

Year ended December 31, 2010

24 INCOME TAX EXPENSE (Cont'd)

The income tax varied from the amount of income tax determined by applying the PRC income tax rate of 25% (2009 : 25%) to profit (loss) before tax as a result of the following differences:

	GROUP	
	2010	2009
	RMB'000	RMB'000
Profit (Loss) before tax	120,537	(196,477)
PRC tax at the applicable income tax rate of 25%	30,134	(49,119)
Effect of different tax rate of subsidiaries operating in other jurisdictions	220	818
Underprovision in prior years	844	—
Tax effect of:		
Expenses not deductible for tax purpose	5,302	29,829
Tax losses not recognised	—	20,645
Tax losses previously not recognised	(16,688)	—
Withholding tax on undistributed earnings	977	219
Total tax charge	20,789	2,392

All the major subsidiaries of the company were incorporated in PRC, accordingly, PRC income tax rate is used as the benchmark.

The PRC income tax is calculated at the applicable tax rates in accordance with the relevant laws and regulations in the PRC.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from January 1, 2008 onwards.

25 EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the company is based on the following data:

	GROUP	
	2010	2009
	RMB'000	RMB'000
Earnings (Loss) for the purposes of basic earnings per share	99,748	(198,869)
	'000	'000
<u>Number of shares</u>		
Weighted average number of ordinary shares for the purposes of basic earnings per share	814,576	814,576
Weighted average number of ordinary shares for the purposes of diluted earnings per share	814,576	814,576
Earnings (Loss) per share (RMB cents) - Basic	12.25	(24.41)
Earnings (Loss) per share (RMB cents) - Diluted	12.25	(24.41)

The basic and diluted earnings per share are similar as the exercise price of the share option is above the market value and the share options have no dilutive impact.

Notes to Financial Statements

Year ended December 31, 2010

26 CAPITAL COMMITMENTS

	GROUP	
	2010	2009
	RMB'000	RMB'000
Capital expenditure contracted for but not provided in the financial statements in respect of:		
- Acquisition of property, plant and equipment	12,800	10,900
- Acquisition of land use rights	19,896	19,896

27 SEGMENT INFORMATION

Products and services from which reportable segments derive their revenues

In prior years, the group principally engaged in manufacture and sale of a variety of chemical fibre products in the PRC and all of its customers are based in the PRC. In addition, substantially all identifiable assets of the group are principally located in the PRC. Accordingly, no segment analysis is presented. However, information reported to the group's chief operating decision maker for the purposes of resource allocation and assessment of segment performance is more specifically focussed on the category of location of the production plant. For the purposes of monitoring segment performance and allocating resources between segments, the chief operation decision maker monitors the tangible, intangible and financial assets attributable to each segment.

The group is principally engaged in manufacture and sale of a variety of chemical fibre products in the PRC and all of its customers are based in the PRC. The group's reportable segments are as follows:

- (i) Full Drawn Yarn ("FDY")/High Oriented Yarn ("HOY") segment (includes SR-FDY and SR-HOY).
- (ii) Drawn Textured Yarn ("DTY") segment.

Notes to Financial Statements

Year ended December 31, 2010

27 SEGMENT INFORMATION (Cont'd)

Products and services from which reportable segments derive their revenues (Cont'd)

The group's principal operating segments all operates in the PRC and there are no inter-segment sales. The segment information provided to the chief operating decision maker for the reportable segments for the year ended December 31, 2010 is as follows:

	FDY/HOY segment	DTY segment	Total
	RMB'000	RMB'000	RMB'000
<u>2010</u>			
<u>REVENUE</u>			
Revenue	2,038,052	425,839	2,463,891
<u>RESULTS</u>			
Segment results	109,410	9,009	118,419
Unallocated administrative expenses			(18,671)
Profit after income tax			99,748
<u>SEGMENT ASSETS AND LIABILITIES</u>			
<u>ASSETS</u>			
Segment assets	2,388,563	455,824	2,844,387
Unallocated corporate assets			263,019
Total assets			3,107,406
<u>LIABILITIES</u>			
Segment liabilities	67,484	28,127	95,611
Unallocated corporate liabilities			38,606
Total liabilities			134,217
<u>OTHER INFORMATION</u>			
Depreciation and amortisation	91,767	46,163	137,930
Additions for deposits made for acquisition of property, plant and equipment	36,100	—	36,100
Additions of property, plant and equipment	30,400	—	30,400

Notes to Financial Statements

Year ended December 31, 2010

27 SEGMENT INFORMATION (Cont'd)

Products and services from which reportable segments derive their revenues (Cont'd)

	FDY/HOY segment	DTY segment	Total
	RMB'000	RMB'000	RMB'000
<u>2009</u>			
REVENUE			
Revenue	907,912	285,752	1,193,664
RESULTS			
Segment results	(41,334)	(134,651)	(175,985)
Unallocated administrative expenses			(22,884)
Loss after income tax			(198,869)
SEGMENT ASSETS AND LIABILITIES			
ASSETS			
Segment assets	2,276,393	501,339	2,777,732
Unallocated corporate assets			263,038
Total assets			3,040,770
LIABILITIES			
Segment liabilities	39,890	100,817	140,707
Unallocated corporate liabilities			36,877
Total liabilities			177,584
OTHER INFORMATION			
Depreciation and amortisation	76,630	47,305	123,935
Additions of property, plant and equipment	357,791	213,532	571,323
Additions to deposits made for acquisition of property, plant and equipment	109,930	53,400	163,330

The accounting policies of the reportable segments are the same as the group's accounting policies described in Note 2.

Geographical information

All of group's customers are based in the PRC. Accordingly, no geographical segment information is presented.

Major customers information

For the year ended December 31, 2010 and 2009, there are no revenues from transactions with a single external customer amounting to 10 per cent or more of the group's revenues.

Notes to Financial Statements

Year ended December 31, 2010

28 SHARE OPTION SCHEME

The company has a China Sky ESOS which applies to the Non-Executive Directors of the company, the group employees which include employees and directors of associated companies.

The exercise price payable for each share in respect of which an option is exercisable shall be either a price equal to the average of the last dealt price for the share for five consecutive market days immediately preceding the offer date of the option ("Market Price") or at a price at a maximum discount of up to 20 per cent of the Market Price.

Under the China Sky ESOS, options with exercise prices which are equal to the Market Price may only be exercised one year after the relevant offer date; and options with exercise prices which are at a discount to the Market Price may only be exercised two years after the relevant offer date. In addition, options granted to employees of the company and its subsidiaries shall cease to be exercisable after the tenth anniversary of the relevant offer date; and options granted to Non-Executive Directors of the group, employees and directors of associated companies, shall cease to be exercisable after the fifth anniversary of the relevant offer date.

Details of the options granted to directors of the company under China Sky ESOS and details of share options granted, exercised and lapsed during the financial year and outstanding as at December 31, 2010, are disclosed in Paragraph 5 of the Directors' Report.

Details of the share options outstanding during the year are as follows:

	2010		2009	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
	'000	S\$	'000	S\$
Outstanding at beginning of the year	35,545	0.32	—	—
Granted during the year	—	—	35,545	0.32
Outstanding at end of the year	35,545	0.32	35,545	0.32
Exercisable at the end of the year	—	—	—	—

The options outstanding at the end of the year in 2010 have a weighted average remaining contractual life of 8.7 years.

In 2009, the estimated fair values of the options granted on September 1, 2009 was S\$3,017,560 (equivalent to RMB15,087,800).

The fair values were calculated using the Binomial pricing model. The inputs into the model were as follows:

Weighted average share price	S\$0.32
Exercise price	S\$0.32
Expected volatility	71.70%
Exercisable period	August 28, 2010 to August 27, 2019
Risk-free rate	2.46%
Exercise multiple	1.5
Expected dividend yield	7.55%

Expected volatility was determined by using the historical volatility of the company's share price over the 1 year preceding the granting of the share options.

The group and company recognised total expenses of RMB10,255,000 and RMB2,960,000 (2009 : RMB4,833,000 and RMB1,072,000) respectively related to equity-settled share-based payment transactions during the year.

Statistics of Shareholdings

As at 10 March 2011

Authorised share capital	:	1,000,000,000
Issued and fully paid-up capital	:	HK\$407,288,235
Number of shares	:	814,576,470
Class of shares	:	Ordinary shares of HK\$0.50
Voting rights	:	One vote per ordinary share

DISTRIBUTION OF SHAREHOLDINGS

SIZE OF SHAREHOLDINGS	NO. OF SHAREHOLDERS	%	NO. OF SHARES	%
1 - 999	4	0.13	1,329	—
1,000 - 10,000	1,200	39.27	7,467,834	0.92
10,001 - 1,000,000	1,815	59.39	128,037,000	15.72
1,000,001 AND ABOVE	37	1.21	679,070,307	83.36
	3,056	100.00	814,576,470	100.00

SUBSTANTIAL SHAREHOLDERS

(As recorded in the Register of Substantial Shareholders as at 14 March 2011)

	Direct Interest		Deemed Interest	
	Number of Shares	%	Number of Shares	%
Asia Fountain Investment Company Limited	83,791,000	10.29	—	—
Hong Leong Investment Holdings Pte. Ltd. ⁽¹⁾	—	—	83,791,000	10.29
Quek Leng Chan ⁽¹⁾	—	—	83,791,000	10.29
Guoline Capital Assets Limited ⁽¹⁾	—	—	83,791,000	10.29
Guoline Overseas Limited ⁽¹⁾	—	—	83,791,000	10.29
Hong Leong Company (Malaysia) Berhad ⁽¹⁾	—	—	83,791,000	10.29
HL Holdings Sdn Bhd ⁽¹⁾	—	—	83,791,000	10.29
Dao Heng Enterprises Limited ⁽¹⁾	—	—	83,791,000	10.29
Guoco Group Limited ⁽¹⁾	—	—	83,791,000	10.29
Rock Mart Equities Ltd.	307,516,000	37.75	—	—
Cheung Wing Lin ⁽²⁾	—	—	307,516,000	37.75
Huang Zhong Xuan ⁽³⁾	—	—	308,316,000	37.81

Note:

- (1) Hong Leong Investment Holdings Pte. Ltd., Quek Leng Chan, Guoline Capital Assets Limited, Guoline Overseas Limited, Hong Leong Company (Malaysia) Berhad, HL Holdings Sdn Bhd, Dao Heng Enterprises Limited, Guoco Group Limited are deemed to be interested in 83,791,000 shares held by Asia Fountain Investment Company Limited in the capital of the Company, by virtue of Section 7 of the Companies Act, Cap. 50.
- (2) Cheung Wing Lin is deemed to be interested in 307,516,000 shares held by Rock Mart Equities Ltd. in the capital of the Company by virtue of Section 7 of the Companies Act, Cap. 50.
- (3) The deemed interest of Huang Zhong Xuan comprises 800,000 shares held by HL Bank Nominees (S) Pte Ltd and 307,516,000 shares held by Rock Mart Equities Ltd. in the capital of the Company, by virtue of Section 7 of the Companies Act, Cap. 50.

Statistics of Shareholdings

As at 10 March 2011

TWENTY LARGEST SHAREHOLDERS

	NAME	NO. OF SHARES	%
1	HL BANK NOMINEES (SINGAPORE) PTE LTD	333,151,600	40.90
2	RAFFLES NOMINEES (PTE) LTD	85,719,000	10.52
3	CITIBANK NOMINEES SINGAPORE PTE LTD	37,176,200	4.56
4	PHILLIP SECURITIES PTE LTD	28,509,000	3.50
5	HSBC (SINGAPORE) NOMINEES PTE LTD	25,662,100	3.15
6	MORGAN STANLEY ASIA (SINGAPORE) SECURITIES PTE LTD	25,004,000	3.07
7	UOB KAY HIAN PTE LTD	24,262,407	2.98
8	DBS VICKERS SECURITIES (SINGAPORE) PTE LTD	15,973,000	1.96
9	OCBC SECURITIES PRIVATE LTD	11,930,000	1.46
10	ANG KONG MENG	10,721,000	1.32
11	NOMURA SINGAPORE LIMITED	9,827,000	1.21
12	DBS NOMINEES PTE LTD	8,648,000	1.06
13	CIMB SECURITIES (SINGAPORE) PTE LTD	6,283,000	0.77
14	HONG LEONG FINANCE NOMINEES PTE LTD	6,124,000	0.75
15	KIM ENG SECURITIES PTE. LTD.	5,990,000	0.74
16	DBSN SERVICES PTE LTD	5,851,000	0.72
17	NEE LUNG-YUAN	4,702,000	0.58
18	KOH PANG KIN	3,000,000	0.37
19	LO KAI LEONG @ LOH KAI LEONG	2,654,000	0.33
20	NANYANG GUM BENJAMIN MANUFACTURING (PTE) LTD	2,200,000	0.27
	TOTAL:	653,387,307	80.22

FREE FLOAT

Based on the information provided to the Company as at 14 March 2011, approximately 48.86 % of the issued ordinary shares of the Company was held by the public. Accordingly, Rule 723 of the Listing Manual has been complied with.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Sixth Annual General Meeting of CHINA SKY CHEMICAL FIBRE CO., LTD. will be held at Room 308, Level 3, Suntec Singapore, International Convention & Exhibition Centre, 1 Raffles Boulevard, Suntec City, Singapore 039593, on Tuesday, 26 April 2010 at 9.30 a.m. for the following purposes:-

AS ORDINARY BUSINESS:-

1. To receive and adopt the Directors' Report and the Audited Accounts for the year ended 31 December 2010 together with the Auditors' Report. **(Resolution 1)**
2. To re-elect the following Directors retiring pursuant to Article 86(1) of the Company's Articles of Association:-
 - (a) Mr Huang Zhong Xuan **(Resolution 2)**
 - (b) Mr Cheung Wing Lin **(Resolution 3)**
3. To approve the payment of Directors' fees of SGD160,000.00 for the year ending 31 December 2011. **(Resolution 4)**
4. To re-appoint Deloitte & Touche LLP as Auditors of the Company and to authorise the Directors to fix their remuneration. **(Resolution 5)**
5. To transact any other ordinary business that may be properly transacted at an Annual General Meeting.

AS SPECIAL BUSINESS:-

To consider and if thought fit, to pass the following resolutions as Ordinary Resolutions, with or without any modifications:-

6. Authority to issue shares

That pursuant to the Articles of Association and Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited ("SGX-ST"), authority be and is hereby given to the Directors of the Company to allot and issue shares or convertible securities or exercise of any share option or vesting of any share award outstanding or subsisting from time to time (whether by way of rights, bonus or otherwise) and upon such terms and conditions and for such purposes and to such persons as the Directors may in their absolute discretion deem fit, provided that the aggregate number of shares and convertible securities which may be issued pursuant to such authority shall not exceed 50% of the issued share capital of the Company, of which the aggregate number of shares and convertible securities which may be issued other than on a pro-rata basis to the existing Shareholders of the Company shall not exceed 20% of the issued share capital of the Company (the percentage of issued share capital being based on the issued share capital at the time such authority is given after adjusting for new shares arising from the conversion or exercise of any convertible securities or employee share options on issue at the time such authority is given and any subsequent consolidation or subdivision of shares) and, unless revoked or varied by the Company in a general meeting, such authority shall continue in force until the conclusion of the Company's next Annual General Meeting, or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is the earlier.

[See Explanatory Note (i)]

(Resolution 6)

Notice of Annual General Meeting

7. Authority to allot and issue shares under the China Sky Employees Share Option Scheme

"That the Directors be authorised and empowered to allot and issue shares in the capital of the Company to all the holders of options granted by the Company, whether granted during the subsistence of this authority or otherwise, under the China Sky Employees Share Option Scheme ("the Scheme") upon the exercise of such options and in accordance with the terms and conditions of the Scheme, provided always that the aggregate number of additional ordinary shares to be allotted and issued pursuant to the Scheme shall not exceed fifteen per centum (15%) of the issued share capital of the Company from time to time and that such authority shall, unless revoked or varied by the Company in a general meeting, continue in force until the conclusion of the Company's next Annual General Meeting or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier."

[See Explanatory Note (ii)]

(Resolution 7)

BY ORDER OF THE BOARD

HUI SAN WING
TAO LI
Company Secretaries
Singapore
7 April 2011

EXPLANATORY NOTES:

- (i) The Ordinary Resolution 6 proposed in item 6 above, if passed, will empower the Directors of the Company from the date of the above Meeting until the next Annual General Meeting or the date by which the next Annual General Meeting is required by law to be held, whichever is earlier, to allot and issue shares and convertible securities in the Company up to an amount not exceeding in total fifty per cent (50%) of the total number of issued shares excluding treasury shares of the Company for such purposes as they consider would be in the interest of the Company, provided that the aggregate number of shares to be issued other than on a pro-rata basis to existing shareholders pursuant to this Resolution shall not exceed twenty per cent (20%) of the total number of issued shares excluding treasury shares of the Company. The percentage of the total number of issued shares excluding treasury shares is based on the Company's total number of issued shares excluding treasury shares at the time the proposed Ordinary Resolution is passed after adjusting for (a) new shares arising from the conversion or exercise of convertible securities or exercise of share options or vesting of awards outstanding or subsisting at the time the proposed Ordinary Resolution is passed and (b) any subsequent bonus issue, consolidation or subdivision of shares. This authority will, unless previously revoked or varied at a General Meeting, expire at the next Annual General Meeting of the Company.
- (ii) The Ordinary Resolution 7 proposed in item 7 above, if passed, will empower the Directors of the Company, from the date of this Meeting until the next Annual General Meeting, or the date by which the next Annual General Meeting is required by law to be held or when varied or revoke by the Company in a general meeting, whichever is the earlier, to allot and issue shares in the Company of up to a number not exceeding in total fifteen per centum (15%) of the issued share capital of the Company from time to time pursuant to the exercise of the options under the Scheme.

NOTES:

1. If a Shareholder being a Depositor whose name appears in the Depository Register (as defined in the Company's Articles of Association) wishes to attend and vote at the Annual General Meeting (the "Meeting"), then he/she/it should complete the Proxy Form and deposit the duly completed Proxy Form at the office of the Singapore Share Transfer Agent, Tricor Barbinder Share Registration Services (A division of Tricor Singapore Pte. Ltd.) at 8 Cross Street #11-00 PWC Building Singapore 048424, at least forty-eight (48) hours before the time of the Meeting.
2. If a Depositor wishes to appoint a proxy/proxies, then the Proxy Form must be deposited at the office of the Singapore Share Transfer Agent, Tricor Barbinder Share Registration Services (A division of Tricor Singapore Pte. Ltd.) at 8 Cross Street #11-00 PWC Building Singapore 048424, at least forty-eight (48) hours before the time of the Meeting.

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