

Fuwei Films (Holdings), Co. Ltd.  
Form 20-F/A  
December 02, 2011

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 20-F/A  
(Amendment No. 1)

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2010

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

Date of event requiring this shell company report \_\_\_\_\_

Commission file number: 001-33176

Fuwei Films (Holdings) Co., Ltd.  
(Exact name of Registrant as specified in its charter)

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(Translation of Registrant's name into English)

Cayman Islands  
(Jurisdiction of incorporation or organization)

No. 387 Dongming Road  
Weifang Shandong  
People's Republic of China, Postal Code: 261061  
(Address of principal executive offices)



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Lysander Lee

Tel: +86 133 615 59266

fuweir@fuweifilms.com

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
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Ordinary Shares	NASDAQ Global Market
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Securities registered or to be registered pursuant to Section 12(g) of the Act. None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act. None

As of December 31, 2010, there were 13,062,500 ordinary shares outstanding.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes  No

Note - Checking the box will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP	<input checked="checked" type="checkbox"/>	International Financial Reporting Standards as issued by the International Accounting Standards Board	<input type="checkbox"/>	Other	<input type="checkbox"/>
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If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow:

Item 17    Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes    No

Explanatory Note

This Annual Report on Form 20-F/A (“Form 20-F/A”) is being filed as Amendment No. 1 to our Annual Report on Form 20-F for the year ended December 31, 2010 (“Form 20-F”), which was originally filed with the Securities and Exchange Commission (the “SEC”) on March 25, 2011. This Form 20-F/A amends and restates the following Items of the Form 20-F: Item 18. Financial Statements and Item 19. Exhibits.

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## INTRODUCTION

This annual report on Form 20-F/A includes our audited consolidated financial statements as of December 31, 2009 and 2010 and for the years ended December 31, 2008, 2009 and 2010.

Our ordinary shares are listed on the Nasdaq Global Market, or NASDAQ, under the symbol “FFHL.”

Except as otherwise required and for purposes of this Annual Report only:

- “Fuwei”, “Company”, “us” or “we” refer to Fuwei Films (Holding) Co., Ltd. The term “you” refers to holders of our ordinary shares.
- “China” or “PRC” and the “Chinese government” refer to the People’s Republic of China and its government.
- All references to “Renminbi,” or “RMB” are to the legal currency of China, all references to “U.S. dollars,” “dollars,” “\$” or “US” are to the legal currency of the United States and all references to “Hong Kong dollars” or “HK\$” are to the legal currency of Hong Kong. Any discrepancies in any table between totals and sums of the amounts listed are due to rounding.
- “BOPET” refers to the Biaxially Oriented Polyester Film.

## CURRENCIES AND EXCHANGE RATES

We publish our financial statements in Chinese Yuan (Renminbi). In this annual report on Form 20-F/A, references to “U.S. dollars” or “\$” are to the currency of the United States and references to “RMB” are to the currency of China.

Solely for your convenience, certain RMB amounts in this annual report have been translated into U.S. dollars. The rate of translation is based on the noon buying rate for Chinese Yuan in New York City as certified for custom purposes by the Federal Reserve Bank of New York on the various dates specified where the translations are set forth in this annual report. References to the “noon buying rate” in this annual report refer to this rate. These translations should not be taken as assurances that the RMB amounts actually represent these U.S. dollar amounts or that they were or could have been converted in U.S. dollars at the rate indicated or at any other rate. The noon buying rate was US \$1.00 = RMB 6.6118 as of December 31, 2010.

The following table sets forth various information concerning exchange rates between the Renminbi and the U.S. dollar for the periods indicated. These rates are provided solely for your convenience and are not necessarily the exchange rates that we used in this Annual Report or will use in the preparation of our other periodic reports or any other information to be provided to you. The source of these rates is the Federal Reserve Bank of New York.

	Average	High	Low	Period-end
		(Rmb per US\$1.00)		
2006(1)	7.9723	8.0702	7.8041	7.8041
2007(1)	7.6038	7.7881	7.2946	7.2946
2008(1)	6.9623	7.2941	6.7480	6.8542
2009(1)	6.8311	6.8368	6.8242	6.8270
2010(1)	6.7788	6.8336	6.5820	6.6118
September 2010(2)	6.7581	6.8055	6.6746	6.6981
October 2010(2)	6.6773	6.6905	6.6310	6.6718
November 2010(2)	6.6626	6.6862	6.6120	6.6714

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December 2010(2)	6.6610	6.6681	6.5820	6.6118
January 2011(2)	6.6046	6.6286	6.5483	6.5833
February 2011(2)	6.5811	6.5948	6.5397	6.5839
March 2011(2) (3)	6.5691	6.5755	6.5560	6.5560

(1) Annual averages are calculated by averaging the rates on the last business day of each month during the relevant period.

(2) Monthly average is calculated by averaging the daily rates during the relevant period.

(3) As of March 24, 2011, the exchange rate was 6.5560.



Part III

Item 18. Financial Statements

The following documents are filed as Attachment A hereto and are included as part of this Amendment No. 1 to Annual Report on Form 20-F/A.

Audited Consolidated Financial Statements of Fuwei Films (Holdings) Co., Ltd. and Subsidiaries

Report of Independent Registered Public Accounting Firm.

Consolidated Statements of Operation and Comprehensive Income (Loss) for the year ended December 31, 2010, 2009 and 2008.

Consolidated Balance Sheets as of December 31, 2010 and 2009.

Consolidated Statements of Cash Flows for the year ended December 31, 2010, 2009 and 2008.

Consolidated Statements of Equity for the year ended December 31, 2010, 2009 and 2008.

Notes to Consolidated Financial Statements.

Item 19. Exhibits.

The following exhibits are filed as part of this Amendment No. 1:

No.	Description
12.1	Certification of Chief Executive Officer required by Section 302 of the Sarbanes-Oxley Act of 2002.
12.2	Certification of Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act of 2002.
13.1	Certification of Chief Executive Officer and Chief Financial Officer required by Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing Form 20-F and has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

Fuwei Films (Holdings) Co., Ltd.

By: /s/ Xiaoan He  
Name: Xiaoan He  
Title: Chairman, Chief Executive Officer

By: /s/ Xiuyong Zhang  
Name: Xiuyong Zhang  
Title: Chief Financial Officer

Dated: December 2, 2011

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Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders of  
Fuwei Films (Holdings) Co., Ltd. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Fuwei Films (Holdings) Co., Ltd. and Subsidiaries (the "Company") as of December 31, 2010 and 2009, and the related consolidated statements of operations and comprehensive income (loss), shareholders' equity, and cash flows for the years ended December 31, 2010, 2009 and 2008, all expressed in Chinese Yuan (RMB), and US Dollar (USD) expressed only for the year ended December 31, 2010. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fuwei Films (Holdings) Co., Ltd. and Subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of operations and comprehensive income (loss) and cash flows for the years ended December 31, 2010, 2009 and 2008 in conformity with accounting principles generally accepted in the United States of America.

/s/ Kabani & Company, Inc.  
Certified Public Accountants  
Los Angeles, California

March 25, 2011

## FUWEI FILMS (HOLDINGS) CO., LTD and SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

As of December 31, 2010 and 2009

(amounts in thousands, except share and per share data)

	Notes	December 31, 2010		December 31, 2009
		RMB	US\$	RMB
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents		171,227	25,897	26,804
Restricted cash		1,314	199	12,541
Accounts and bills receivable, net	4	25,482	3,854	28,785
Inventories	5	52,577	7,952	45,039
Advance to suppliers		10,974	1,660	3,956
Prepayments and other receivables	6	540	82	957
Deferred tax assets – current		1,344	203	1,198
Total current assets		263,458	39,847	119,282
Plant, properties and equipment, net				
Plant, properties and equipment, net	7	284,891	43,088	318,600
Construction in progress	7	197,193	29,824	237,118
Lease prepayments, net	8	21,024	3,180	21,548
Advanced to suppliers - Long term		2,787	422	2,367
Goodwill	9	10,276	1,554	10,276
Long-term deposit	10	16,760	2,535	21,000
Deferred tax assets - non current	17	1,763	267	5,318
Total assets		798,152	120,716	735,509
<b>LIABILITIES AND EQUITY</b>				
Current liabilities				
Short-term borrowings	11	142,000	21,477	153,179
Accounts payables		14,296	2,162	25,898
Advance from customers		37,291	5,640	12,608
Accrued expenses and other payables	12	20,993	3,175	6,981
Deferred tax liabilities	17	1,822	276	-
		216,402	32,730	198,666
Long-term loans	11	30,000	4,537	25,000
Total liabilities		246,402	37,267	223,666
Commitments and contingencies				
Commitments and contingencies	22			
Equity				
Shareholders' equity				
Registered capital(of US\$0.129752 par value; 20,000,000 shares authorized; 13,062,500 issued and outstanding)		13,323	2,015	13,323
Additional paid-in capital		311,907	47,174	311,907

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Statutory reserve	35,195	5,323	29,338
Retained earnings	190,933	28,878	156,006
Cumulative translation adjustment	1,186	179	993
Total shareholders' equity	552,544	83,569	511,567
Non-controlling interest	(794 )	(120 )	276
Total equity	551,750	83,449	511,843
Total liabilities and equity	798,152	120,716	735,509

See accompanying notes to the consolidated financial statements.

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FUWEI FILMS (HOLDINGS) CO., LTD and SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATION AND COMPREHENSIVE INCOME (LOSS)  
For the Years Ended December 31, 2010, 2009 and 2008  
(amounts in thousands, except share and per share data)

	Note	2010 RMB	2010 US\$	2009 RMB	2008 RMB
Revenues, net	13	501,458	75,843	320,731	447,255
Cost of goods sold	14,15	(370,905 )	(56,098 )	(296,118 )	(376,923 )
Gross profit		130,553	19,745	24,612	70,332
Operating expenses					
- Distribution expenses	14,15	(21,642 )	(3,273 )	(15,227 )	(15,604 )
- Administrative expenses	14	(49,281 )	(7,453 )	(25,932 )	(30,124 )
Total operating expenses		(70,922 )	(10,727 )	(41,159 )	(45,728 )
Operating income/(loss)		59,630	9,019	(16,547 )	24,604
Other income/(expense)					
- Interest income		544	82	154	688
- Interest expense	16	(8,846 )	(1,338 )	(6,540 )	(3,995 )
- Others income, net		(575 )	(87 )	(92 )	(174 )
Total other income/(expense)		(8,877 )	(1,343 )	(6,478 )	(3,481 )
Income before income tax benefit/(expense)		50,754	7,676	(23,024 )	21,123
Income tax benefit/(expense)	17	(11,059 )	(1,673 )	4,064	(2,966 )
Net income/(loss)		39,695	6,004	(18,960 )	18,157
Net income/(loss) attributable to non-controlling interest		(1,088 )	(165 )	3	-
Net income/(loss) attributable to the Company		40,783	6,168	(18,963 )	18,157
Other comprehensive income/(loss)					
- Foreign currency translation adjustments		211	32	(68 )	(87 )
Comprehensive income/(loss) attributable to non-controlling interest		(1,070 )	162	3	-
		40,976	6,197	(19,032 )	18,070

Comprehensive income/(loss)  
attributable to the Company

Earnings (loss) per share, Basic and  
diluted

23	3.12	0.47	(1.45 )	1.39
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Weighted average number ordinary  
shares,

Basic and diluted

23	13,062,500	13,062,500	13,062,500	13,062,500
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See accompanying notes to the consolidated financial statements.

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FUWEI FILMS (HOLDINGS) CO., LTD. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF EQUITY  
FOR THE YEAR ENDED DECEMBER 31, 2010, 2009 AND 2008  
(amounts in thousands except share and per share value)

	Ordinary Shares		Additional paid- in capital RMB	Statutory reserve RMB	Retained earnings RMB	Accumulated other comprehensive income RMB		Total shareholders' equity RMB	Non-controlling interest RMB	Total equity RMB
	Number of shares	Amount RMB								
Balance as of December 31, 2007	13,062,500	13,323	311,907	26,924	159,228	1,148	512,531	-	512,531	
Net income	-	-	-	-	18,157	-	18,157	-	18,157	
Transfer to statutory reserve	-	-	-	2,414	(2,414)	-	-	-	-	
Foreign currency translation adjustment	-	-	-	-	-	(87)	(87)	-	(87)	
Balance as of December 31, 2008	13,062,500	13,323	311,907	29,338	174,970	1,061	530,599	-	530,599	
Net income (loss)	-	-	-	-	(18,963)	-	(18,963)	3	(18,960)	
Capital contribution from non-controlling interest	-	-	-	-	-	-	-	273	273	
Foreign currency translation adjustment	-	-	-	-	-	(68)	(68)	-	(68)	
Balance as of December 31, 2009	13,062,500	13,323	311,907	29,338	156,006	993	511,567	276	511,843	
Net income (loss)	-	-	-	-	40,783	-	40,783	(1,088)	39,695	

Transfer to statutory reserve	-	-	-	5,857	(5,857 )	-	-	-	-
Foreign currency translation adjustment	-	-	-	-	-	193	193	18	211
Balance as of December 31, 2010	13,062,500	13,323	311,907	35,195	190,933	1,186	552,544	(794 )	551,750
Balance as of December 31, 2010 US\$	13,062,500	2,015	47,174	5,323	28,878	179	83,569	(120 )	83,449

See accompanying notes to the consolidated financial statements.

## FUWEI FILMS (HOLDINGS) CO., LTD and SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2010, 2009 and 2008

(amounts in thousands)

	2010		2009	2008
	RMB	US\$	RMB	RMB
<b>Cash flow from operating activities</b>				
Net income including non-controlling interest	39,695	6,004	(18,960 )	18,157
Adjustments to reconcile net income to net cash (used in)/provided by operating activities	-	-	-	-
- Depreciation of property, plant and equipment	36,731	5,555	35,464	25,168
- Amortization of intangible assets	454	69	889	490
- Deferred income taxes	5,231	791	(4,064 )	(1,748 )
- Bad debt expense/(recovery)	(266 )	(40 )	697	4,818
- Inventory provision	-	-	4,242	-
<b>Changes in operating assets and liabilities</b>				
- Accounts receivable	3,404	515	11,609	18,186
- Inventories	(7,538 )	(1,140 )	(18,693 )	11,080
- Advance to suppliers	(7,018 )	(1,061 )	2,890	2,384
- Prepaid expenses and other current assets	523	79	(4,929 )	89
- Accounts payable	(11,581 )	(1,752 )	(4,475 )	3,691
- Accrued expenses and other payables	8,341	1,262	1,902	(284 )
- Advance from customers	24,683	3,733	3,827	(2,176 )
- Tax payable	5,917	895	(2,411 )	172
Net cash provided by operating activities	98,575	14,909	7,988	80,027
<b>Cash flow from investing activities</b>				
Purchases of property, plant and equipment	(2,951 )	(446 )	(87,758 )	(56,093 )
Restricted cash related to trade finance	11,217	1,697	(2,130 )	54,498
Advanced to suppliers - non current	(420 )	(64 )	1,941	-
Amount decrease in construction in progress	39,926	6,039	82,290	(54,155 )
Amount decrease in deposit	4,240	641	-	(21,000 )
Net cash provided by (used in) investing activities	52,012	7,867	(5,657 )	(76,750 )
<b>Cash flow from financing activities</b>				
Principal payments of short-term bank loans	(11,179 )	(1,691 )	(11,585 )	(23,262 )
Proceeds from short-term bank loans	5,000	756	20,000	5,000
Net cash provided by (used in) financing activities	(6,179 )	(935 )	8,415	(18,262 )
Effect of foreign exchange rate changes	16	2	236	(104 )
Net increase /(decrease) in cash and cash equivalent	144,424	21,843	10,982	(15,086 )
<b>Cash and cash equivalents</b>				
At beginning of the year	26,804	4,054	15,823	30,909

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At end of the year	171,227	25,897	26,804	15,823
SUPPLEMENTARY DISCLOSURE:				
Interest paid	8,846	1,338	8,399	11,705
Income tax paid	3,658	553	-	2,966

SUPPLEMENTARY SCHEDULE OF NONCASH

INVESTING AND FINANCIAL ACTIVITIES:

During the years ended December 31, 2010, 2009 and 2008,  
the Company acquired equipment by incurring accounts  
payable in the amount of:

-	-	7,071	-
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See accompanying notes to the consolidated financial statements

FUWEI FILMS (HOLDINGS) CO., LTD and SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(amounts in thousands, except per share data)

(1) Principal Activities and Reorganization

Fuwei Films (Holdings) Co., Ltd (the “Company”) and its subsidiaries (the “Group”) are principally engaged in the production and distribution of BOPET film, a high quality plastic film widely used in packaging, imaging, electronics, electrical and magnetic products in the People’s Republic of China (the “PRC”). The Company is a holding company incorporated in the Cayman Islands, established on August 9, 2004 under the Cayman Islands Companies Law as an exempted company with limited liability. The Company was established for the purpose of acquiring shares in Fuwei (BVI) Co., Ltd (“Fuwei (BVI)”), an intermediate holding company established for the purpose of acquiring all of the ownership interest in Fuwei Films (Shandong) Co., Ltd.

(2) Basis of Presentation

The Group’s consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States of America (“US GAAP”).

This basis of accounting differs in certain material respects from that used in the preparation of the books of account of Shandong Fuwei, the Company’s principal subsidiary, which are prepared in accordance with the accounting principles and the relevant financial regulations applicable to enterprises limited by shares as established by the Ministry of Finance of the PRC (“PRC GAAP”), the accounting standards used in the country of its domicile. The accompanying consolidated financial statements reflect necessary adjustments not recorded in the books of account of the Company’s subsidiaries to present them in conformity with US GAAP.

(3) Summary of Significant Accounting Policies and Practices

(a) Principles of Consolidation

The consolidated financial statements include the financial statements of the Company and its three subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

(b) Foreign Currency Transactions

The Group’s reporting currency is the Renminbi (“RMB”).

The Company and Fuwei (BVI) operate in Hong Kong as investment holding companies and their financial records are maintained in Hong Kong dollars, being the functional currency of these two entities. Fuwei US company, the wholly owned subsidiaries of the company, their financial records are maintained in US dollars. Assets and liabilities are translated into RMB at the exchange rates at the balance sheet date, equity accounts are translated at historical exchange rates and income, expenses, and cash flow items are translated using the average rate for the period. The translation adjustments are recorded in accumulated other comprehensive income in the statements of equity and comprehensive income.

Transactions denominated in currencies other than RMB are translated into RMB at the exchange rates quoted by the People’s Bank of China (the “PBOC”) prevailing at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies are translated into RMB using the applicable exchange rates quoted by the PBOC at the balance

sheet dates. The resulting exchange differences are recorded in the statements of income.

Commencing from July 21, 2005, the PRC government moved the RMB into a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies.

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For the convenience of the readers, the 2010 RMB amounts included in the accompanying consolidated financial statements in our annual report has been translated into U.S. dollars at the rate of US\$1.00 = RMB 6.6118, being the noon buy rate for U.S. dollars in effect on December 31, 2010 in the City of New York for cable transfer in RMB per U.S. dollar as certified for custom purposes by the Federal Reserve Bank. No representation is made that the RMB amounts could have been, or could be, converted into U.S. dollar at that rate or at any other certain rate on December 31, 2010, or at any other date.

RMB is not fully convertible into foreign currencies. All foreign exchange transactions involving RMB must take place either through the PBOC or other institutions authorized to buy and sell foreign currency. The exchange rate adopted for the foreign exchange transactions are the rates of exchange quoted by the PBOC which are determined largely by supply and demand.

(c) Cash and Restricted Cash

As of December 31, 2009 and 2010, there were cash and cash equivalents of RMB26,804 and RMB171,227 (US\$25,897), respectively.

As of December 31, 2009 and 2010, there were restricted cash of RMB12,541 and RMB1,314 (US\$199), respectively, as the balance held by bank as deposit for letters of credit.

(d) Trade Accounts Receivable

Trade accounts receivable are recorded at the invoiced amount after deduction of trade discounts, value added taxes and allowances, if any, and do not bear interest. The allowance for doubtful accounts is the Group's best estimate of the amount of probable credit losses in the Group's existing accounts receivable. The Group determines the allowance based on historical write-off experience, customer specific facts and economic conditions.

The Group reviews its allowance for doubtful accounts monthly. Past due balances over 90 days and over a specified amount are reviewed individually for collectibility. All other balances are reviewed on a pooled basis by aging of such balances. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

(e) Inventories

Inventories are stated at the lower of cost or market value. Cost is determined using Moving Weighted Average Method basis method. Cost of work in progress and finished goods comprises direct material, direct production cost and an allocated portion of production overheads based on normal operating capacity.

(f) Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment.

Depreciation on property, plant and equipment is calculated on the straight-line method (after taking into account their respective estimated residual values) over the estimated useful lives of the assets as follows:

	Years
Buildings and improvements	25 – 30
Plant and equipment	10 – 15
Computer equipment	5

Furniture and fixtures	5
Motor vehicles	5

Depreciation of property, plant and equipment attributable to manufacturing activities is capitalized as part of inventory, and expensed to cost of goods sold when inventory is sold. Depreciation related to abnormal amounts from idle capacity is charged to cost of goods sold for the period incurred. Total depreciation for the year ended December 31, 2008, 2009 and 2010 was RMB25,168, RMB 35,464 and RMB 36,731 (US\$5,555) respectively, of which 97%, 88% and 90% were recorded in cost of goods sold and 3%, 12% and 10% was recorded in administrative expenses, respectively.

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Construction in progress represented capital expenditure in respect of the BOPET productions line. No depreciation is provided in respect of construction in progress.

(g) Lease Prepayments

Lease prepayments represent the costs of land use rights in the PRC. Land use rights are carried at cost and charged to expense on a straight-line basis over the respective periods of rights of 30 years. The current portion of lease prepayments has been included in prepayments and other receivables in the balance sheet.

(h) Intangible Assets

The Group acquired a trademark for use in the production and distribution of plastic flexible packaging materials. The trademark is carried at cost less accumulated amortization. Amortization expense is recognized on the straight-line basis over the estimated useful life of 5 years of the trademark.

Given the environment in which the Group currently operates, it is reasonably possible that the estimated economic useful life of the asset or the Group's estimate that it will recover its carrying amount from future operations could change in the future.

(i) Goodwill

Goodwill represents the excess of purchase price and related costs over the value assigned to the net tangible and identifiable intangible assets of businesses acquired. Goodwill is not amortized but is tested for impairment annually, or when circumstances indicate a possible impairment may exist. Impairment testing is performed at a reporting unit level. An impairment loss generally would be recognized when the carrying amount of the reporting unit exceeds the fair value of the reporting unit, with the fair value of the reporting unit determined using a discounted cash flow (DCF) analysis. A number of significant assumptions and estimates are involved in the application of the DCF analysis to forecast operating cash flows, including the discount rate, the internal rate of return, and projections of realizations and costs to produce. Management considers historical experience and all available information at the time the fair values of its reporting units are estimated.

(j) Impairment of Long-lived Assets

Long-lived assets, other than goodwill, including property, plant, and equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount in which the carrying amount of the asset exceeds the fair value of the asset.

(k) Revenue Recognition

Sales of plastic flexible packaging materials are reported, net of value added taxes ("VAT"), sales returns, trade discounts. The standard terms and conditions under which the Group generally delivers allow a customer the right to return product for refund only if the product does not conform to product specifications; the non-conforming product is identified by the customer; and the customer rejects the non-conforming product and notifies the Group within 7 days and 30 days of receipt for sales to customers in the PRC and overseas respectively. The Group recognizes

revenue when products are delivered and the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sale price is fixed or determinable.

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In the PRC, VAT of 17% on invoice amount is collected in respect of the sales of goods on behalf of tax authorities. The VAT collected is not revenue of the Group; instead, the amount is recorded as a liability on the consolidated balance sheet until such VAT is paid to the authorities.

(l) Government Grants

Government grants are recognized in the consolidated balance sheet initially as deferred income when they have been received. Grants that compensate the Group for expenses incurred are recognized as a reduction of expenses in the consolidated statement of income in the same period in which the related expenses are incurred.

(m) Research and Development Costs

Research and development costs are expensed as incurred. Research and development costs amounted to RMB737, RMB 269 and RMB 8,058(US\$1,219) for the year ended December 31, 2008, 2009 and 2010 and such costs were recorded in administrative expenses.

(n) Retirement and Other Postretirement Benefits

Contributions to retirement schemes (which are defined contribution plans) are charged to expense as and when the related employee service is provided.

(o) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

In July 2006, the Financial Accounting Standards Board (“FASB”) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109 (“FIN 48”). FIN 48 seeks to reduce the diversity in practice associated with certain aspects of measuring and recognition in accounting for income taxes. The Company adopted FIN 48 beginning on January 1, 2007. The initial adoption of FIN 48 had no impact on the Company’s financial statements. The Company has elected to classify interest and penalties related to unrecognized tax benefits, if and when required, as part of interest expenses and administrative expenses in the statements of income, respectively. The additional disclosures required under FIN 48 are included in Note 17.

(p) Stock Option Plan

The fair value of stock options granted to Maxim Group LLC under the stock option plans is recognized as listing expenses deducted from IPO proceeds and recorded in additional paid-in capital.

On December 18, 2006, the Company granted 187,500 stock options to Maxim Group LLC as part of the compensation for the provision of services relating to the IPO of the Company. The stock option is exercisable at an exercise price equal to US\$10.35 per ordinary share commencing six months from December 18, 2006 and expiring five years from December 18, 2006. The stock option and ordinary shares underlying the stock option may not be sold, transferred, assigned, pledged or hypothecated, or be the subject of any hedging, short sale, derivative, put or call transaction that would result in the effective disposition thereof by any person for a period of six months.

The fair value of each option award is estimated on the date of grant using the Black-Scholes pricing model based on the following assumptions:

Fair value of shares on measurement date	US\$ 8.28 per share	
Expected volatility	57.26	%
Expected dividends	0.00	%
Expected term (in years)	5	
Risk-free rate	4.56	%

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The fair value of the Company's shares was estimated based on the IPO price of US\$8.28 per share. The expected volatility is estimated by reference to the historical volatility of comparable companies listed on the NASDAQ Global Market. The risk-free rate for periods within the contractual life of the options is based on the U.S. government bond in effect at the time of grant. Expected dividend yields are based on historical dividends. Changes in these subjective input assumptions could materially affect the fair value estimates.

All the stock options granted during the year ended December 31, 2006, were outstanding as of December 31, 2008, with a weighted-average remaining contractual term of 5 years. The grant-date fair value of options granted during the year ended December 31, 2006 is RMB5,643.

The Company recognized share-based compensation expenses of RMB5,643 for the year ended December 31, 2006, as listing expense deducted from IPO proceeds and recorded in additional paid-in capital. As of December 31, 2010, there was no unrecognized compensation costs related to unvested stock options.

#### (q) Earnings per Share

Basic earnings per share are computed by dividing net earnings by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share is calculated by dividing net earnings by the weighted average number of ordinary and dilutive potential ordinary shares outstanding during the year. Diluted potential ordinary shares consist of shares issuable pursuant to stock option plan.

#### (r) Use of Estimates

The preparation of the consolidated financial statements in accordance with US GAAP requires management of the Group to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. On an ongoing basis, management reviews its estimates and assumptions including those related to the recoverability of the carrying amount and the estimated useful lives of long-lived assets, valuation allowances for accounts receivable and realizable values for inventories. Changes in facts and circumstances may result in revised estimates.

#### (s) Segment Reporting

The Group uses the "management approach" in determining reportable operating segments. The management approach considers the internal organization and reporting used by the Group's chief operating decision maker for making operating decisions and assessing performance as the source for determining the Group's reportable segments. Management, including the chief operating decision maker, reviews operating results solely by monthly revenue of BOPET film (but not by sub-product type or geographic area) and operating results of Shandong Fuwei, the operating subsidiary in the PRC. As such, the Group has determined that the Group has a single operating segment as defined by Statement of Financial Accounting Standard No. 131, Disclosures about Segments of an Enterprise and Related Information.

#### (t) Contingencies

In the normal course of business, the Group is subject to contingencies, including legal proceedings and claims arising out of the business that relate to a wide range of matters, including among others, product liability. The Group recognizes a liability for such contingency if it determines it is probable that a loss has occurred and a reasonable estimate of the loss can be made. The Group may consider many factors in making these assessments including past history and the specifics of each matter. As the Group has not become aware of any product liability claim since

operations commenced, the Group has not recognized a liability for any product liability claims.

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(u) Reclassification

Certain reclassifications have been made to the fiscal year 2010 and 2009 consolidated financial statements to conform to the fiscal 2010 consolidated financial statement presentation. These reclassifications had no effect on net loss or cash flows as previously reported.

(v) Recently Issued Accounting Standards

**Business Combinations:** In December 2010, the FASB issued amended guidance related to Business Combinations. The amendments affect any public entity that enters into business combinations that are material on an individual or aggregate basis. The amendments specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments also expand the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The amendments are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. Early adoption is permitted. The Company will assess the impact of these amendments on its consolidated financial statements if and when an acquisition occurs.

**Intangibles-Goodwill and Other:** In December 2010, the FASB issued amended guidance related to Intangibles-Goodwill and Other. The amendments modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that impairment may exist. The qualitative factors are consistent with the existing guidance and examples, which require that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. Early adoption is not permitted. The Company does not believe that this guidance will have a material impact on its consolidated financial statements.

**Subsequent Events:** The FASB has issued amended guidance for subsequent events. The amendment removes the requirement for an SEC filer to disclose a date through which subsequent events have been evaluated in both issued and revised financial statements. Revised financial statements include financial statements revised as a result of either correction of an error or retrospective application of U.S. GAAP. The FASB also clarified that if the financial statements have been revised, then an entity that is not an SEC filer should disclose both the date that the financial statements were issued or available to be issued and the date the revised financial statements were issued or available to be issued. The FASB believes these amendments remove potential conflicts with the SEC's literature. All of the amendments were effective upon issuance (February 24, 2010). The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

**Fair Value Measurements:** In January 2010, the FASB issued amended guidance for Fair Value Measurements and Disclosures. This update requires some new disclosures and clarifies existing disclosure requirements about fair value measurement. The FASB's objective is to improve these disclosures and, thus, increase the transparency in financial reporting. Specifically, this update requires that a reporting entity disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers; and in the reconciliation for fair value measurements using significant unobservable inputs, a reporting entity should present

separately information about purchases, sales, issuances, and settlements. In addition, this update clarifies the requirements of existing disclosures. For purposes of reporting fair value measurement for each class of assets and liabilities, a reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities; and a reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. This update was adopted on January 1, 2010, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Early application is permitted. The Company does not believe that this guidance will have a material impact on its consolidated financial statements.



Receivables: In July 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-20, “Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses.” ASU No. 2010-20 amends the guidance with ASC Topic 310, “Receivables” to facilitate financial statement users’ evaluation of (1) the nature of credit risk inherent in the entity’s portfolio of financing receivables; (2) how that risk is analyzed and assessed in arriving at the allowance for credit losses; and (3) the changes and reasons for those changes in the allowance for credit losses. The amendments in ASU No. 2010-20 also require an entity to provide additional disclosures such as a rollforward schedule of the allowance for credit losses on a portfolio segment basis, credit quality indicators of financing receivables and the aging of past due financing receivables. The Company is required to adopt ASU No. 2010-20 as of December 15, 2010 and is currently evaluating the impact the new disclosure requirements will have on its financial statements and notes.

#### (4) Accounts Receivable, net

Accounts receivable on December 31, 2010 and 2009 consist of the following:

	12-31-2010		12-31-2009
	RMB	US\$	RMB
Accounts receivable	7,097	1,073	22,289
Less: Allowance for doubtful accounts	(2,140 )	(324 )	(2,259 )
	4,957	750	20,030
Bills receivable	20,525	3,104	8,755
	25,482	3,854	28,785

An analysis of the allowance for doubtful accounts for 2010, 2009 and 2008 is as follows:

	12-31-2010		2009	2008
	RMB	US\$	RMB	RMB
Balance at beginning of year	2,259	342	4,074	2,644
Bad debt (recovery) expense	(119 )	(18 )	(1,713 )	1,430
Write-offs	-	-	(102 )	-
Balance at end of year	2,140	324	2,259	4,074

The Group has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. These receivables are due within 7 to 90 days from the date of billing. Normally, the Group does not obtain collateral from customers.

#### (5) Inventories

Inventories on December 31, 2010 and 2009 consist of the following:

	12-31-2010		12-31-2009
	RMB	US\$	RMB
Raw materials	25,254	3,820	28,756
Work-in-progress	1,419	215	2,274
Finished goods	27,634	4,179	16,752
Consumables and spare parts	849	128	633
Allowance for obsolescence	(2,578 )	(390 )	(3,377 )
	52,577	7,952	45,039

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## (6) Prepayments and Other Receivables

Prepayments and other receivables at December 31, 2010 and 2009 consist of the following:

	12-31-2010		12-31-2009
	RMB	US\$	RMB
<b>Current:</b>			
Purchase deposits of raw materials	10,974	1,662	3,956
Prepayments	477	72	741
Other receivables	63	10	216
	11,514	1,741	4,913
<b>Non-current:</b>			
Purchase deposits of equipment	2,787	422	2,367

## (7) Property, Plant and Equipment

Property, plant and equipment consist of the following:

	12-31-2010		12-31-2009
	RMB	US\$	RMB
Buildings	44,398	6,715	33,549
Plant and equipment	417,696	63,174	425,864
Computer equipment	1,602	242	1,424
Furniture and fixtures	6,958	1,052	5,929
Motor vehicles	1,905	288	1,739
	472,561	71,472	468,505
Less: accumulated depreciation	(187,670)	(28,384)	(149,905)
	284,891	43,088	318,600

All of the Group's buildings are located in the PRC. As of December 31, 2009 and 2010, property, plant and equipment with carrying value totaling RMB326,243 and RMB296,504(US\$44,845) respectively were pledged to banks as collateral for bank loans of RMB165,000 and RMB162,000 (US\$24,502), respectively (see Note 11).

Construction-in-progress represents capital expenditure in respect of the BOPET production line. Interest expense capitalized during the year ended December 31, 2008 and 2009 was RMB7,710 and RMB 1,739, and there was no interest capitalization ended December 31, 2010 (see Note 16).

## (8) Lease Prepayments

The balance represents the lease prepayments of land use rights of the Group as follows:

	12-31-2010		12-31-2009
	RMB	US\$	RMB
Land use rights prepayment	21,024	3,180	21,548

As of December 31, 2009 and 2010, prepaid land use rights were partly pledged to banks as collateral for short-term bank loans of RMB26,880 (US\$4,065) (Note 11).

Land use rights amortization for the year ended December 31, 2008, 2009 and 2010 were RMB741 (US\$112), respectively.

As of December 31, 2010, prepaid land use rights of the Group included certain parcels of land located in Weifang City, Shandong Province, the PRC, with a net book value of RMB21,024 (US\$3,180). The land use rights for land with area of approximately 43,878 square meters, 5,279 square meters and 25,094 square meters will expire in November 2050, May 2053 and February 2055, respectively.

## (9) Goodwill

Goodwill of RMB10,276 (US\$1,554) on December 31, 2009 and 2010, which is not deductible for tax purposes, pertains solely to the Company's acquisition of Shandong Fuwei in October 2004. The goodwill is attributable to the development potential of business acquired.

## (10) Long-term Deposit

On January 20, 2008, Shandong Fuwei signed a "Letter of Intent of Joyinn Capital Increase and Share Expansion" ("LOI") with Joyinn Hotel Investment & Management Co., Ltd. ("Joyinn") and the Shareholder of Joyinn. Joyinn is a legal company of limited liability that registered on May 19, 2006 in Beijing, with registered capital of RMB 50,000.

According to the LOI, Shandong Fuwei deposited RMB 26,000 (half of the would-be added register capital of RMB 52,000), to Joyinn as the prepayment as of June 30, 2008. The prepayment to Joyinn will be regarded as investment payment after all parties enter into the final capital increase and shares expansion agreement during the effective term of this LOI. A share pledging agreement was entered into subsequently on April 9, 2008 between Shandong Fuwei and Shandong Xinmeng Investment Co., Ltd ("Pledger"), which holds 97.6% shares of Joyinn. The Pledger agreed to pledge its 52% interest in Joyinn, as a guarantee to the prepayment on the newly increased register capital made by Shandong Fuwei to Joyinn. Based on the mutual supplementary agreement signed in June 2008, the prepayment was decreased by RMB 5,000 and returned to the Company on June 18, 2008.

On June 23, 2009, Shandong Fuwei and the Pledger, the major shareholder of Joyinn, agreed that the Pledger would pledge another 19% of its interest in Joyinn in addition to the previous pledge of 52% interest in Joyinn as a guarantee to the prepayment on the newly increased register capital made by Shandong Fuwei to Joyinn. As a result, the Pledger's percentage of pledged interest in Joyinn increased from 52% to 71%. In the current year, the Company impaired the deposit amount by RMB 4,240 (US\$641). The impairment was determined based on an independent appraisal study. As of December 31, 2010 the total amount of the deposit was RMB 16,760 (US\$2,535).

On July 14, 2009, Shandong Fuwei and Joyinn signed "Supplementary Agreement of Letter of Intent of Joyinn Capital Increase and Share Expansion" which extends the duration of former agreement to two (2) years that is, Fuwei has the option right to determine to continue or withdraw the investment prior to January 14, 2010, the expiration date of the agreement.

On January 14, 2010, when the agreement was expired Shandong Fuwei and the Pledger came to an agreement that the Pledger would transfer 71% of Joyinn's shares which it owns to Shandong Fuwei. This agreement is subject to the approval of the authority body of both parties.

## (11) Short-term and Long-term Bank Loans

Lender	12-31-2010		12-31-2009	
	RMB	US\$	RMB	
<b>SHORT-TERM LOANS</b>				
Bank of Communications Co., Ltd.				
- June 9, 2009 to June 8, 2010	5.84	%		70,000
- June 9, 2009 to June 8, 2010	5.84	%		70,000
- June 8, 2010 to June 7, 2011	6.116	%	67,000	10,133
- June 7, 2010 to June 6, 2011	6.116	%	70,000	10,587
Bank of Weifang				
- January 13, 2009 to January 12, 2010	0.00	%		10,000

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- December 2, 2008 to December 2, 2011	0.00	%	5,000	756	5,000
Bank of China					
- March 13, 2008 to March 13, 2009	5.45	%			(80 )
- June 4, 2009 to June 4, 2010	1.38	%			3,259
LONG-TERM LOANS					
Bank of Weifang					
- January 16, 2009 to January 12, 2012	0.00	%	10,000	1,512	10,000
- January 13, 2010 to January 12, 2012	0.00	%	10,000	1,512	
Weifang Dongfang State-owned Assets Management Co., Ltd.					
- October 19, 2009 to October 18, 2017	5.52	%	10,000	1,512	10,000
			172,000	26,014	178,179

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## Notes:

During the years ended December 31, 2009 and 2010, the Company entered into several loan agreements with commercial banks with terms ranging from one year to three years and eight years to finance its working capital, R&D investment and construction, and foreign trade. The weighted average interest rate of short-term bank loans outstanding as of December 31, 2009 and 2010 were 5.64% and 5.14% per annum, respectively.

The principal amounts of the above short-term loans are repayable at the end of the loan period.

The Company obtained two new short-term loans on June 7, 2010 and June 8, 2010, for RMB70,000 (US\$10,587) maturing on June 6, 2011, and for RMB67,000 (US\$10,133) maturing on June 7, 2011, respectively. The annual interest rate is up by 10% compared with the fixed benchmark interest rate 5.56% announced by the People's Bank of China. As of December 31, 2010, the effect interest rate was 6.116%.

The Company entered into three interests free Loan Contracts with Bank of Weifang (formerly known as Weifang City Commercial Bank) for the amount of (i) RMB10,000 (US\$1,512), effective January 13, 2010, with a maturity date of January 12, 2012; (ii) RMB10,000 (US\$1,512), effective January 16, 2009, with a maturity date of January 12, 2012; and (iii) RMB5,000 (US\$756), effective December 2, 2008, with a maturity date of December 2, 2011.

On June 4, 2009, the Company entered into a one-year foreign currency loan agreement with Bank of China Weifang Branch for US\$477 which was secured by a deposit of RMB 3,259 with an interest rate of 1.38375%, 0.2% down float by trading day's LIBOR interest, in order to reduce the currency translation cost. Proceed of the loan of US\$477 was paid off on June 4, 2010.

On November 20, 2009, the Company signed a long-term loan contracts of RMB10,000 (US\$1,512) with Weifang Dongfang State-owned Assets Management Co., Ltd., with eight years loan term which became effective on October 19, 2009 and will expire on October 18, 2017. From 2015 to 2016, we will make principal installment payments of RMB3,350 (US\$507) per year with the remaining principal balance of RMB3,300 (US\$499) paid in 2017. The annual interest rate is 5.52% which is down by 10% compared with the fixed benchmark of 5-year interest rate announced by the People's Bank of China. The loan is guaranteed by Shandong Deqin Investment & Guarantee Co., Ltd. and is used for our key projects.

Short-term loans outstanding, which are all denominated in Renminbi, are secured and guaranteed as follows:

	12-31-2010		12-31-2009	12-31-2008
	RMB	US\$	RMB	RMB
<b>Secured by:</b>				
- property, plant and equipment	135,120	20,436	138,120	107,580
- lease prepayments	26,880	4,065	26,880	60,000
- bills receivable	—	—	—	—
<b>Guaranteed by related parties (Note 22(a))</b>	<b>10,000</b>	<b>1,512</b>	<b>10,000</b>	<b>—</b>
Restricted cash	—	—	3,259	—
	<b>172,000</b>	<b>26,014</b>	<b>178,259</b>	<b>167,580</b>

Long-term bank loans maturity for the next three years after December 31, 2010 are as follows:

	RMB	US\$
1 year after	20,000	3,025
3 year after	10,000	1,512

#### (12) Accrued Expenses and Other Payables

Accrued expenses and other payables on December 31, 2010 and 2009 consist of the following:

	12-31-2010		12-31-2009
	RMB	US\$	RMB
Payables to contractors	-	-	-
Other payables	13,570	2,052	5,474
VAT payable and other taxes payable	7,422	1,123	1,507
Audit fee	-	-	546
	20,993	3,175	6,981

#### (13) Revenues

The Company's revenue is primarily derived from the manufacture and sale of plastic flexible packaging materials.

The following table shows the distribution of the Company's revenue by the geographical location of customers, whereas all the Company's assets are located in the PRC:

	12-31-2010		12-31-2009	12-31-2008
	RMB	US\$	RMB	RMB
Sales in China	397,781	60,162	285,120	388,823
Sales in other countries (principally Europe, Asia and North America)	103,677	15,681	35,611	58,432
	501,458	75,843	320,731	447,255

The Company's revenue by significant types of films for 2010, 2009 and 2008 was as follows:

	12-31-2010			12-31-2009		12-31-2008		
	RMB	US\$	% of Total	RMB	% of Total	RMB	% of Total	
Printing film	76,720	11,604	15.3 %	35,231	11.0 %	56,607	12.7 %	
Stamping film	282,033	42,656	56.2 %	174,356	54.4 %	139,571	31.2 %	
Metallization film	28,108	4,251	5.6 %	35,138	11.0 %	45,148	10.1 %	
Specialty film	87,956	13,303	17.5 %	34,004	10.6 %	107,404	24.0 %	
Base film for other applications	26,641	4,029	5.3 %	42,002	13.1 %	98,525	22.0 %	
	501,458	75,843	100.0 %	320,731	100.0 %	447,255	100.0 %	

#### (14) Depreciation and Amortization

Depreciation of property, plant and equipment and amortization of intangible asset is included in the following captions:

	12-31-2010		12-31-2009	12-31-2008
	RMB	US\$	RMB	RMB
Cost of goods sold	33,154	5,014	32,139	25,362



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Distribution expenses	51	8	55	42
Administrative expenses	3,526	533	2,976	614
		-		
	36,731	5,555	35,170	26,018

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## (15) Freight Costs

The Group records freight costs related to the transporting of the raw materials to the Group's warehouse in cost of goods sold and all other outbound freight costs in distribution expenses. For the year ended December 31, 2008, 2009 and 2010, freight costs included in cost of goods sold were RMB3,302, RMB2,765 and RMB1,985 (US\$300), respectively, and RMB10,843, RMB9,618 and RMB10,186 (US\$1,541), respectively, were included in distribution expenses.

## (16) Interest Expense

The Group capitalizes interest expense as a component of the cost of construction in progress. The following is a summary of interest cost incurred during the year ended December 31, 2010, 2009 and 2008:

	12-31-2010		12-31-2009	12-31-2008
	RMB	US\$	RMB	RMB
Interest cost capitalized	-	-	1,739	7,710
Interest cost charged to expense	8,846	1,338	6,540	3,995
	8,846	1,338	8,279	11,705

## (17) Income Taxes

## Cayman Islands Tax

Under the current Cayman Island laws, the Company is not subject to tax on income or capital gain. In addition, upon payments of dividends by the Company to its shareholders, no Cayman Islands withholding tax is imposed.

## PRC Tax

Shandong Fuwei, being a Hi-Tech Enterprise in the Weifang Hi-Tech Industrial Zone in Shandong, the PRC, has been granted preferential tax treatments by the Tax Bureau of the PRC. According to the PRC Income Tax Law and various approval documents issued by the Tax Bureau, Shandong Fuwei's profit was taxed at a rate of 15%.

If our subsidiary Shandong Fuwei was not entitled to a reduced enterprise income tax, or EIT, rate of 15% for the year ended December 31, 2010, 2009 and 2008, it would have had an EIT rate of 25%, net income and basic and diluted earnings per share would be reduced by the following amounts:

	12-31-2010		12-31-2009	12-31-2008
	RMB	US\$	RMB	RMB
Net income	(5,075 )	(768 )	-	(2,966 )
Earnings per share				
- Basic	(0.39 )	(0.06 )	-	(0.23 )
- Diluted	(0.39 )	(0.06 )	-	(0.23 )

The Group had minimal operations in jurisdictions other than the PRC. Net income/(loss) before income taxes consists of:

	12-31-2010		12-31-2009	12-31-2008
	RMB	US\$	RMB	RMB
Cayman Islands	(14,423 )	(2,181 )	(4,989 )	(11,419 )
British Virgin Islands	(2 )	(0.3 )	(1 )	(1 )
PRC	67,900	10,269	(18,042 )	32,539

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U.S.A	(2,721 )	(412 )	8	-
	50,754	7,676	(23,024 )	21,119

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The Company has no material unrecognized tax benefit which would favorably affect the income taxes in future periods and does not believe there will be any significant increases or decreases within the next twelve months. No interest or penalties have been accrued at the date of adoption.

Shandong Fuwei was designated as a High-and-New Tech Enterprise in December 2008 and enjoys the favorable income tax rate pursuant to the income law Enterprise Income Tax Law. Accordingly, the deferred taxes as of December 31, 2010, have been calculated employing the statutory rate of Shandong Fuwei of 15%.

Income tax benefit/ (expense) consist of:

	Current RMB	Deferred RMB	Total RMB
PRC income tax			
Year ended December 31, 2008	(4,715 )	1,748	(2,966 )
Year ended December 31, 2009	–	4,064	4,064
Year ended December 31, 2010	(8,427 )	(2,632 )	(11,059 )
Year ended December 31, 2010 US\$	(1,275 )	(398 )	(1,673 )

Income tax benefit reported in the consolidated statements of income differs from the income tax expense amount computed by applying the PRC income tax rate of 15% (the statutory tax rate of the Company's principal subsidiary) for the year ended December 31, 2010, 2009 and 2008 for the following reasons:

	12-31-2010		12-31-2009	12-31-2008
	RMB	US\$	RMB	RMB
Income (loss) before income taxes	50,754	7,676	(23,024 )	21,123
Computed "expected" tax expense (benefit)	(13,275 )	(2,008 )	(3,453 )	(5,280 )
Non-deductible expenses	4,425	669	1,693	1,022
Non-taxable income	(1965 )	(297 )	(1,324 )	(3,030 )
Tax holiday	8,850	1,339	5,388	3,385
Tax rate differential of other tax jurisdictions	(9,094 )	(1,375 )	1,760	937
Actual income tax (expense) benefit	(11,059 )	(1,673 )	4,064	(2,966 )

Tax effects of temporary differences that give rise to significant portions of the deferred tax assets/(liabilities) as of December 31, 2010 and 2009, are presented below.

Deferred income tax assets/(liabilities):

	12-31-2010		12-31-2009
	RMB	US\$	RMB
<b>Current</b>			
Accounts receivable	321	49	(353 )
Other receivables	636	96	914
Inventory impairment	387	58	636
	1,344	203	1,198
<b>Non-current</b>			
	1,763	267	2,134

Property, plant and equipment, principally due to differences in depreciation			
Construction in progress, principally due to capitalized interest	(1,417 )	(214 )	161
Lease prepayments, principally due to differences in charges	(404 )	(61 )	(431 )
Net loss carryforward	-	-	3,454
	(58 )	(9 )	5,318
Net deferred income tax assets	1,285	194	6,516

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In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. In order to fully realize the deferred tax asset, Shandong Fuwei will need to generate future taxable income of approximately RMB12,544 prior to 2031. Shandong Fuwei was under tax concession period for the period from January 28, 2003 to December 31, 2007. The net income before taxation for Shandong Fuwei for the year ended December 31, 2008 was RMB21,124, net loss was RMB23,308 ended December 31, 2009, and net income was RMB 40,783 (US\$6,168) ended of December 31, 2010, respectively. Based upon the level of historical performance of Shandong Fuwei, management believes the deferred tax assets are realizable.

(18) Related Party Transactions

Name of party	Relationship
Shandong Baorui Investment Co., Ltd (“Shandong Baorui”)	Former shareholder (10%) of Shandong Fuwei. Shandong Baorui is 22.1% owned by the Group Founders.
Shenghong Group Co., Ltd (“Shenghong Group”)	Former shareholder (90%) of Shandong Fuwei.
Shandong Neo-Luck Plastic Co., Ltd (“Shandong Neo-Luck”)	The Group Founders’ former employer previously engaged in the business of BOPET film production.
Weifang Neo-Luck (Group) Co., Ltd (“Weifang Neo-Luck Group”)	Major shareholder (59%) of Shandong Neo-Luck. One of the directors of the Company was the general manager of Weifang Neo-Luck Group prior to joining the Company in April 2005.
Easebright Investments Limited (“Easebright Investments”)	Shareholder of the Company 12.5%
Apex Glory Holdings Limited (“Apex Glory Holdings”)	Shareholder of the Company 52.9%
Everise Investment Management Co., Ltd.	Owned by the Management of the Company

(19) Pension Plan

Pursuant to the relevant PRC regulations, the Group is required to make contributions at a rate of 20% of employees’ salaries and wages to a defined contribution retirement scheme organized by the local Social Bureau in respect of the retirement benefits for the Group’s employees in the PRC. The total amount of contributions of RMB710, RMB991 and RMB 1,057(US\$160) for the year ended December 31, 2008, 2009 and 2010, respectively, was charged to administrative expenses in the accompanying consolidated statements of income. The Group has no other obligation to make payments in respect of retirement benefits of the employees.

(20) Fair Value of Financial Instruments

The carrying amount of cash and cash equivalents, trade accounts receivable, prepayments and other receivables, amounts due from related parties, amounts due to related parties, and accrued liabilities and other payables, approximate their fair values because of the short maturity of these instruments.

The carrying amount of bank loans approximate the fair value based on the borrowing rates currently available for bank loans with similar terms and maturity.

(21) Business and Credit Concentrations

(a) Almost all of the Group's customers are located in the PRC. There is no individual customer with gross revenue more than 10% of total gross revenue during the year ended December 31, 2008, 2009 and 2010.

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There were no amounts due from customers representing more than 10% of the outstanding accounts receivable at December 31, 2009 and 2010.

(b) The Group purchased a significant portion of PET resin required for the production of BOPET film from Sinopec Yizheng Chemical Fibre Company Limited (“Sinopec Yizheng”) during the year ended December 31, 2008, 2009 and 2010. The Group believes that there are a limited number of suppliers in the PRC with the ability to consistently supply PET resin that meets the Group’s quality standards and requirements. Currently, the Group has an annual supply agreement with Sinopec Yizheng pursuant to which Sinopec Yizheng has agreed to supply fixed quantities of PET resin to the Group on a monthly basis at the prevailing market prices. The terms of such supply agreement are reviewed annually. Although the Group believes that it maintains a good relationship with its major suppliers, there can be no assurance that Sinopec Yizheng will continue to sell to the Group under normal commercial terms as and when needed.

The following are the vendors that supplied 5% or more of our raw materials for each of the year ended December 31, 2010, 2009 and 2008:

Supply	Percentage of total purchases (%)			
	2010	2009	2008	
Sinopec Yizhang Chemical Fibre Company Limited	PET resin and Additives	42.4	45.8	44.8
Jiangyin Huaxin Compound Co., Ltd.	PET resin	11.6	12.5	9.7
Mahogany Joy Investment Ltd	PET resin	11.1	-	-

Note: To our knowledge, Jiangying Huaxin Compound and Mahogany Joy Investments are related companies.

## (22) Commitments and Contingencies

### (a) Operating lease commitments

Future minimum lease payments under non-cancelable operating leases as of December 31, 2010 are as follows:

	RMB
2010	401

The Company leases warehouses, staff quarters and offices under operating leases. The leases typically run for an initial period of one to three years, with an option to renew the lease after that date at which time all terms are renegotiated. None of the leases includes contingent rentals.

For the year ended December 31, 2008, 2009 and 2010, total rental expenses for non-cancelable operating leases were RMB2,792, RMB1,182 and RMB 728 (US\$110), respectively.

### (b) Capital commitments

Capital commitments for purchase of property, plant and equipment as of December 31, 2010 were RMB134,830 (US\$20,392).

### (c) Outstanding bills receivable discounted

As of December 31, 2010, the Company had not retained any recourse obligation in respect of bills receivable discounted with and sold to banks.



(d) Legal Proceedings

DMT Arbitration

In 2006, Shandong Fuwei received correspondence relating to an arbitration proceeding initiated by DMT S. A. (“DMT”) against Shandong Neo-Luck in the ICC International Court of Arbitration (the “ICC”). In that proceedings DMT sought monetary damages against Shandong Neo-Luck for approximately US \$1,250 plus interest relating to a claim of partial non-payment for the DMT production line, which Shandong Fuwei acquired from Beijing Baorui in 2005. In early 2007, the ICC determined that despite arguments made to the ICC that Shandong Fuwei should not be a party to the proceeding; the arbitration should proceed with Shandong Fuwei as the respondent pending adjudication of issues relating to jurisdiction and liability.

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A hearing was held by the ICC in November 2007. Subsequent to the hearing, at the invitation of Weifang Neoluck (Group) Co., Ltd (“Neoluck Group”), the original majority shareholder of Shandong Neo-Luck, the Neoluck Group and DMT engaged in efforts to achieve a settlement of the pending arbitration on January 18, 2008. Shandong Fuwei joined these discussions later as an interested party and in order to support a resolution of the pending dispute and to achieve resolution of certain outstanding service and spare part issues.

After several weeks of negotiations among the parties, in March 2008, the parties entered into two agreements, a Service and Technical Assistance Agreement (the “Service Agreement”), between DMT and Shandong Fuwei, and a Settlement Agreement (the “Settlement Agreement”) between DMT and the Neoluck Group. Under the Service Agreement, Shandong Fuwei would pay an amount of US\$180 in two installments with respect to service and spare parts. The Company made its first payment in April 2008. As of December 31, 2010, Shandong Fuwei has paid US\$135 and still US\$45 left unpaid.

Under the Settlement Agreement, the Neoluck Group was obligated to pay an amount equal to US\$900 in RMB by delivery of a bank draft to DMT. In April 2008, the Neoluck Group had not performed its obligation under the Settlement Agreement, and, the Neoluck Group and DMT entered into a Supplemental Agreement pursuant to which the Neoluck Group would pay the amount owed to DMT in two installments. The Neoluck Group paid the first installment equal to US\$ 450 in April 2008. As agreed between Neoluck Group and DMT, the remaining US\$450 was to be paid in installments by the end of December 2008. As of December 31, 2010, Neoluck Group has paid US\$ 320 and still has US\$130 outstanding to DMT.

In the event the arbitration proceedings continue as a result of non-performance of the payment obligation, it is possible for the arbitral tribunal for the ICC International Court of Arbitration to rule in favor of DMT, which might result in a liability for Shandong Fuwei for the amount claimed plus interest. However, any possible liability regarding DMT’s claim should be reduced by the amount previously paid to DMT in connection with the above-described settlement. It should be noted further that in such event Fuwei might have sustainable claims for damages against the Neoluck Group for its failure to perform its obligations under the Settlement Agreement.

On January 18, 2010 the Company was advised by the Secretary of The International Court of Arbitration of International Chamber of Commerce (ICC) the arbitration was withdrawn due to DMT’s failure to pay the balance of the advance on costs.

#### Class Action

On October 19, 2007, the Company became aware that a class action lawsuit had been filed in the United States District Court for the Southern District of New York, on behalf of all persons who purchased the Company’s stock from the date of the Company’s IPO on December 19, 2006 through October 16, 2007. The complaint alleged that the Company and certain of its present and former officers, directors and shareholders violated the Securities Act of 1933.

On November 21, 2007, the Company was given notice that a second class action lawsuit had been filed in the United States District Court for the Southern District of New York, commenced on behalf of all persons who purchased the Company’s stock pursuant or traceable to the Registration Statement and Prospectus issued in connection with the Company’s IPO during the period from December 19, 2006 through November 12, 2007. The complaint alleged that the Company, its underwriters and certain of its executives (collectively, the “defendants”) violated Sections 11, 12(2) and 15 of the Securities Act of 1933. The complaint also alleged the defendants by misrepresenting or omitting material information regarding the Company and its business operations.



On January 24, 2008, the Court consolidated into a single action the putative securities class actions pending against the Company and certain of its officers, directors and shareholders. The Court also appointed Ninyat Tonyaz as lead plaintiff, appointed the Rosen Law Firm, P.A. as lead counsel, and granted plaintiffs leave to file a consolidated amended class action complaint. The consolidated action is styled In re Fuwei Films Securities Litigation, Case No. 07-CV-9416 (RJS).

On March 14, 2008, plaintiffs filed a consolidated amended class action complaint (the "Amended Complaint") naming as defendants the Company, Xiaoan He, Mark Stulga, Jun Yin, Tongju Zhou, Duo Wang, and the Company's IPO underwriters (the "Underwriter Defendants") — Maxim Group LLC, WR Hambrecht + Co. and Chardan Capital Markets, LLC. The Amended Complaint asserts claims for violation of Sections 11, 12(a)(2), and 15 of the Securities Act of 1933. The Company, Messrs. He and Stulga, and the Underwriter Defendants were served with the Amended Complaint and, as described below, moved to dismiss the claims asserted against them.

On May 14, 2008, the Company and Messrs. He and Stulga filed a motion to dismiss the Amended Complaint in its entirety. The Underwriter Defendants separately moved to dismiss the Amended Complaint.

On November 3, 2008, Plaintiffs filed proofs of service with the Court, indicating that Messrs. Yin, Wang, and Zhou had been served with the Amended Complaint on or about August 14, 2008, and that they had 90 days after such date to serve an answer to the Amended Complaint or a motion pursuant to Rule 12 of the Federal Rules of Civil Procedure.

By letter dated March 17, 2009, Plaintiffs apprised the Court of Fuwei's March 10, 2009 Press Release disclosing the initial verdict against Messrs. Yin, Wang, and Zhou, and requested that the Court take judicial notice of this press release in adjudicating the pending motions to dismiss.

By the Court's Memorandum and Order dated July 10, 2009, the motions to dismiss of the Company, Messrs. He and Stulga, and the Underwriter Defendants were granted in part and denied in part. In ruling on the motion to dismiss, the Court was required to assume that the facts alleged by the plaintiffs are true and to draw all reasonable inferences in the plaintiffs' favor. Applying that standard, the motions to dismiss of the defendants were granted in part and denied in part by the court. The Court dismissed plaintiffs' claims to the extent they were based upon Fuwei's alleged failure to disclose the DMT arbitration proceeding. The Court also dismissed certain of plaintiffs' claims to the extent they were brought on behalf of shareholders who did not purchase their shares directly in the IPO.

The Court sustained plaintiffs' remaining claims. However, the Court noted that defendants may be able to assert affirmative defenses provided by the federal securities laws in a motion for summary judgment, which could resolve the case before trial.

On September 9, 2009, the Company and Messrs. He and Stulga filed their answer to the Amended Complaint. On October 2, 2009, the Court entered a case management plan and scheduling order, which set deadlines relating to pre-trial discovery, mediation, and dispositive motions. Discovery thereafter proceeded.

On March 26, 2010, Fuwei, Messrs. He and Stulga, the Underwriter Defendants, and Plaintiffs, through their respective attorneys, engaged in mediation aimed at resolving the litigation. On June 24, 2010, the parties reached a settlement in principle. Subject to the Court's approval, Plaintiffs have agreed to accept US\$2.15 million in full and final settlement of all claims they have or may have against the Company, certain of its present and former officers, directors, and shareholders, and the underwriters. Fuwei Films has agreed to contribute US\$1.0 million towards the settlement. The signed settlement agreement was submitted to the Court for approval on September 9, 2010. The Court has preliminarily approved the settlement, directed that notice be given to the class, and set a fairness hearing for April 27, 2011.

In September 2010, pursuant to the settlement agreement and subject to the Court's approval, Plaintiffs have agreed to accept US\$2.15 million in full and final settlement of all claims they have or may have against the Company, certain of its present and former officers, directors, and shareholders, and the underwriters. Fuwei Films has agreed to contribute US\$1.0 million towards the settlement. The signed settlement agreement has been submitted to the Court for approval.

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The Company's management continues to believe that the plaintiffs' allegations are without merit. However, in recognition of the attendant risks and costs of continued litigation, and the benefits of resolving the same, the Board of Directors has unanimously consented to settle this case.

As of December 31, 2010, the Company accrued US\$1.0 million liability in connection with this litigation excluding defense costs. In accordance with the settlement agreement, the Company has deposit US\$0.8 million in the Securities Litigation Settlement Fund account in January 2011.

(e) Contingencies

On November 12, 2009, the Supreme People's Court of Shandong Province issued the final verdict of three individuals who indirectly constitute our major shareholders, Mr Jun Yin, Mr Tongju Zhou and Mr. Duo Wang. Mr Yin was sentenced to death with a stay of execution for two years, the other two defendants, Mr Zhou and Mr Wang, each received life imprisonment, all of their personal property will be confiscated.

Although the management believes that the shares owned by the major shareholders, Jun Yin, Duo Wang and Tongju Zhou will eventually be confiscated by the Chinese government in accordance with the final verdict issued by the Supreme People's Court of Shandong Province, it has no knowledge of the timing and procedures involved in enforcing such a verdict. We have been informed by the Listing Qualification Department of the NASDAQ Stock Market LLC that they knew the continuing uncertainty associated with the verdict as a matter of concern, and have contacted the relevant State agency to see if any further information regarding such procedures is available.

On November 12, 2009, the company announced that it had become aware of the final verdict issued by the Supreme People's Court of Shandong Province, concerning the Company's three major shareholders, Mr. Jun Yin, Mr. Tongju Zhou and Mr. Duo Wang. The Supreme People's Court upheld the initial verdict issued by the Intermediate court in March 2009. The March 2009 initial verdict sentenced Mr. Yin to death, with a stay of execution for two years; the other two defendants, Mr. Zhou and Mr. Wang, each received life imprisonment; all of the personal property of the three individuals will be confiscated. The three individuals appealed the initial verdict to the Supreme People's Court of Shandong Province in March 2009. In November 2009, the Supreme People's Court of Shandong Province issued the final verdict, upholding the initial verdict issued by the Intermediate Court in March 2009. None of these individuals is involved in Fuwei's day-to-day operations. We met with officials of the Wei-Fang State-owned Assets Supervision and Administration Commission in March 2011 and learned that there is also another civil verdict issued by the Second Intermediate People's Court of Beijing that conflicts with the foregoing verdict, which conflict must be resolved prior to any enforcement of the verdict and any confiscation of the personal property of the individuals. The final judgment against the three shareholders may cause uncertainty to the Company's operation due to the uncertain timeline associated with its enforcement. In the event that the verdict could not be enforced timely, we may ultimately be delisted from the Nasdaq Global Market.

(23) Earnings/(Net Loss) Per Share

Basic and diluted earnings per share for the period/year ended December 31, 2010, 2009 and 2008 have been calculated as follows:

	2010		2009	2008
	RMB	US\$	RMB	RMB
Net income (loss) available to ordinary shareholders	40,783	6,168	(18,963 )	18,157
Denominator for basic net income (loss) available to ordinary shareholders:				

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Weighted average number of ordinary shares outstanding	13,062,500	13,062,500	13,062,500	13,062,500
Basic earnings (loss) per share	3.12	0.47	(1.45 )	1.39
Net income (loss) available to ordinary shareholders	40,783	6,168	(18,963 )	18,157
Denominator for diluted net income (loss) available to ordinary shareholders:				
Weighted average number of ordinary shares outstanding	13,062,500	13,062,500	13,062,500	13,062,500
Weighted average number of share options				
	13,062,500	13,062,500	13,062,500	13,062,500
Diluted earnings (loss) per share	3.12	0.47	(1.45 )	1.39

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## (24) Fuwei Films (Holdings) Co., Ltd (Parent Company)

Under PRC regulations, the Company's operating subsidiary, Shandong Fuwei may pay dividends only out of its accumulated profits, if any, determined in accordance with the accounting standards and regulations prevailing in the PRC ("PRC GAAP"). In addition, Shandong Fuwei is required to set aside at least 10% of its accumulated profits each year, if any, to fund the statutory general reserve until the balance of the reserve reaches 50% of its registered capital. The statutory general reserve is not distributable in the form of cash dividends to the Company and can be used to make up cumulative prior year losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings, or by increasing the par value of the shares currently held by them, provided that the reserve balance after such issue is not less than 25% of the registered capital. Further, Shandong Fuwei is also required to allocate 5% of the profit after tax, determined in accordance with PRC GAAP, to the statutory public welfare fund which is restricted to be used for capital expenditures for staff welfare facilities owned by the Company. The statutory public welfare fund is not available for distribution to equity owners (except in liquidation) and may not be transferred in the form of loans, advances, or cash dividends. As of December 31, 2010, an aggregate amount of RMB 47,020 (US\$7,112) has been appropriated from retained earnings and set aside for statutory general reserve and public welfare fund, by Shandong Fuwei.

As of December 31, 2010, the amount of restricted net assets of Shandong Fuwei, which may not be transferred to the Company in the form of loans, advances or cash dividends by the subsidiaries without the consent of a third party, was approximately 70% of the Company's consolidated net assets as discussed above. In addition, the current foreign exchange control policies applicable in the PRC also restrict the transfer of assets or dividends outside the PRC.

The following presents condensed unaudited unconsolidated financial information of the Parent Company only.

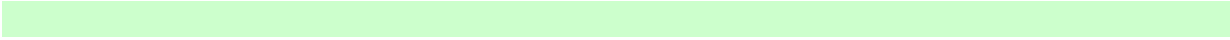
## Condensed unaudited Balance Sheet as of December 31, 2010 and 2009

	2010		2009
	RMB	US\$	RMB
Cash and cash equivalents	92	14	28
Other current assets	282,893	42,786	293,179
Investments in subsidiaries	395	60	409
<b>Total assets</b>	<b>283,380</b>	<b>42,860</b>	<b>293,617</b>
<b>Current liabilities</b>	<b>49,315</b>	<b>7,459</b>	<b>34,657</b>
Total shareholders' equity	234,065	35,401	258,960
<b>Total liabilities and shareholders' equity</b>	<b>283,380</b>	<b>42,860</b>	<b>293,617</b>

## Condensed unaudited Statements of Operations (For the years ended December 31, 2010, 2009 and 2008)

	2010		2009	2008
	RMB	US\$	RMB	RMB
Interest expense	(12 )	(2 )	-	(15 )
General and administrative expenses	(14,411 )	(2,180 )	(4,974 )	(11,404 )
<b>Loss before equity in undistributed</b>				
Earnings of subsidiaries	(14,423 )	(2,181 )	(4,974 )	(11,419 )
Equity in earnings of subsidiaries	58,478	8,844	(13,989 )	31,668





Net income (loss)	44,055	6,663	(18,963 )	(20,248 )
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	2010		2009	2008
	RMB	US\$	RMB	RMB
Interest income/ (expenses)	(12 )	(2 )	-	(15 )
General and administrative expenses	(14,411 )	(2,180 )	(4,974 )	(11,404 )
Loss before equity in undistributed	-	-		
Earnings of subsidiaries	(14,423 )	(2,181 )	(4,974 )	(11,419 )
Equity in earnings of subsidiaries	58,478	8,844	(13,989 )	31,668
Net income	44,055	6,663	(18,963 )	(20,248 )

## Condensed unaudited Statement of Cash Flows (For the year ended December 31, 2010, 2009 and 2008)

	2010		2009
	RMB	US\$	RMB
<b>Cash flow from operating activities</b>			
Net income (loss)	40,783	6,168	(18,963 )
Adjustment to reconcile net income (loss) to net cash from operating activities:			
- Equity in earnings of subsidiaries	(55,206 )	(8,350 )	13,975
- Foreign exchange gain	-	-	-
Changes in operating assets and liabilities:			
- Other current assets	-	-	(41 )
- Other current liabilities	6,139	929	1,153
Net cash used in operating activities	(8,284 )	(1,253 )	(3,876 )
<b>Cash flow from financing activities</b>			
Payments to related parties	8,321	1,258	4,306
Proceeds from related parties	(10 )	(2 )	(412 )
Effect of foreign exchange	38	6	0.1
Net cash provided by financing activities	8,348	1,263	3,893
Net increase in cash	64	10	16
Cash and cash equivalents:			
At beginning of year	28	4	12
At end of year	92	14	28

## (25) Subsequent Events

Fuwei Shandong and Dornier had entered an equipment purchase contract for the third production line in January 2007. Fuwei Shandong made the prepayment to Dornier for 3.1 million Euros, Due to the fund shortage of Fuwei Shandong at that time, Dornier terminated the initial contract with Fuwei Shandong. The two parties have been in discussion on a renewed equipment purchase contract. The prepayment made will be considered in the renewed contract together with additional cost of 4.2 million Euros incurred by Dornier, which includes financial cost, storage cost, and equipment modification cost. As of March 24, 2011, we have not entered into the renewed contract because of pending provisions of the renewed contract.

## (26) Unaudited Quarterly Data

Quarter Ended	March 31, 2010		June 30, 2010		September 30, 2010		December 31, 2010		Total	
	RMB	US\$	RMB	US\$	RMB	US\$	RMB	US\$	RMB	US\$
Revenue	88,455	12,956	110,319	16,163	129,174	18,950	173,511	26,243	501,458	75,843
Gross profit	12,767	1,870	19,670	2,882	40,515	5,944	57,601	8,712	130,553	19,745
Net income	300	44	(3 )	(0.4 )	15,043	2,210	25,443	3,848	40,783	6,168
Basic and diluted earnings per share	0.02	0.003	(0.00 )	(0.00 )	1.15	0.17	1.95	0.29	3.12	0.47

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