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.
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.

2007: Commencement of production of ATY and DTY.

2006: Incorporation of Tianjian Special Polynamede Fibre Technology Fujian, Co. Ltd. to engage in the production of SR-FDY and SR-HOY products.

2005: Expansion of annual production capacity from 39,000 tonnes to 72,000 tonnes.

2004: Widened product range from 12D to 300D.


2002: Commencement of production of the lustrous range of FDY products.

Listing on the Singapore Exchange – Mainboard.

2000: Inception 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.

2001: 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.
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 apparel 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 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:

- Important Provincial Enterprise (Important Provincial Enterprise) from the Fujian Provincial Government in February 2004.
- New High Technology Enterprise of Fujian Province (New High Technology Enterprise of Fujian Province) from the Fujian Technology Department in August 2004.
- ISO14001:1996 Environmental Management System Certificate in December 2004 certifying our compliance with the requirements for an environmental management system.
- 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.
- Quanzhou City Important Industrial Enterprise (Quanzhou City Important Industrial Enterprise) from the Quanzhou City Government in April 2005.
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

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

KEY FINANCIAL RATIOS

<table>
<thead>
<tr>
<th></th>
<th>FY2009</th>
<th>FY2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>GP Margin</td>
<td>4.7</td>
<td>7.4</td>
</tr>
<tr>
<td>NP Margin</td>
<td>(16.67)</td>
<td>4.0</td>
</tr>
<tr>
<td>EPS (RMB cts)</td>
<td>(24.41)</td>
<td>12.25</td>
</tr>
<tr>
<td>NTA (RMB cts)</td>
<td>351.49</td>
<td>365.00</td>
</tr>
<tr>
<td>Gearing (times)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Return on Assets</td>
<td>(6.5)</td>
<td>3.2</td>
</tr>
<tr>
<td>Return on Equity</td>
<td>(6.92)</td>
<td>3.35</td>
</tr>
</tbody>
</table>

REVENUE

For the years ended 31 December RMB’m

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>2,288.1</td>
</tr>
<tr>
<td>2008</td>
<td>2,107.2</td>
</tr>
<tr>
<td>2009</td>
<td>1,193.7</td>
</tr>
<tr>
<td>2010</td>
<td>2,463.9</td>
</tr>
</tbody>
</table>

NET PROFIT

For the years ended 31 December RMB’m

<table>
<thead>
<tr>
<th>Year</th>
<th>Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>651.4</td>
</tr>
<tr>
<td>2008</td>
<td>392.8</td>
</tr>
<tr>
<td>2009</td>
<td>198.9</td>
</tr>
<tr>
<td>2010</td>
<td>99.7</td>
</tr>
</tbody>
</table>
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 83.3 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.
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 7.1% 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.
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 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 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 also 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.