

Fuwei Films (Holdings), Co. Ltd.
Form 20-F
March 31, 2009

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

FORM 20-F

(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, 2008

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

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)

(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)

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
Ordinary Shares	NASDAQ Global Market

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

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

(Title of Class)

As of March 30, 2009, 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 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

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SPECIAL NOTE ON FORWARD-LOOKING STATEMENTS

This Annual Report contains many statements that are “forward-looking” and uses forward-looking terminology such as “anticipate,” “believe,” “expect,” “estimate,” “future,” “intend,” “may,” “ought to,” “plan,” “should,” “will,” negatives of such similar statements. You should not place undue reliance on any forward-looking statement due to its inherent risk and uncertainties, both general and specific. Although we believe the assumptions on which the forward-looking statements are based are reasonable and within the bounds of our knowledge of our business and operations as of the date of this annual report, any or all of those assumptions could prove to be inaccurate. As a result, the forward-looking statements based on those assumptions could also be incorrect. The forward-looking statements in this Annual Report include, without limitation, statements relating to:

- our goals and strategies;
- our future business development, results of operations and financial condition;
- our ability to protect our intellectual property rights;
- expected growth of and changes in the PRC BOPET film industry and in the demand for BOPET film products;
- projected revenues, profits, earnings and other estimated financial information;
- our ability to maintain and strengthen our position as a leading provider of BOPET film products in China;
- our ability to maintain strong relationships with our customers and suppliers;
- our planned use of proceeds;
- effect of competition in China and demand for and price of our products and services; and
- PRC governmental policies regarding our industry.

The forward-looking statements included in this Annual Report are subject to risks, uncertainties and assumptions about our businesses and business environments. These statements reflect our current views with respect to future events and are not a guarantee of our future performance. Actual results of our operations may differ materially from information contained in the forward-looking statements as a result of risk factors some of which are described under “Risk Factors” and elsewhere in this Annual Report. Risks, uncertainties and assumptions include, among other things:

- adverse effect on our business caused by the global financial crisis;
- competition in the BOPET film industry;
- growth of, and risks inherent in, the BOPET film industry in China;
- uncertainty as to future profitability and our ability to obtain adequate financing for our planned capital expenditure requirements;
- uncertainty in our ability to obtain additional funding in order to complete the construction of the new production line (thick film) project and begin production ;

- uncertainty as to our ability to continuously develop new BOPET film products and keep up with changes in BOPET film technology;
- risks associated with possible defects and errors in our products;

- uncertainty as to our ability to protect and enforce our intellectual property rights;
- uncertainty as to our ability to attract and retain qualified executives and personnel; and
- uncertainty in acquiring raw materials on time and on acceptable terms, particularly in view of the volatility in the prices of petroleum products in recent years.

These risks, uncertainties and assumptions are not exhaustive. Other sections of this Annual Report include additional factors which could adversely impact our business and financial performance. The forward-looking statements contained in this Annual Report speak only as of the date of this annual report or, if obtained from third-party studies or reports, the date of the corresponding study or report, and are expressly qualified in their entirety by the cautionary statements in this Annual Report. Since we operate in an emerging and evolving environment and new risk factors and uncertainties emerge from time to time, you should not rely upon forward-looking statements as predictions of future events. Except as otherwise required by the securities laws of the United States, we undertake no obligation to update or revise any forward-looking statements to reflect events or circumstances after the date of this Annual Report or to reflect the occurrence of unanticipated events.

Introduction

This annual report on Form 20-F includes our audited consolidated financial statements as of December 31, 2007 and 2008 and for the years ended December 31, 2006, 2007 and 2008.

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.

PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not Applicable.

Item 2. Offer Statistics and Expected Timetable

Not Applicable.

Item 3. Key Information

A. Selected financial data.

The following selected financial data should be read in conjunction with Item 5 - the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the Financial Statements and Notes thereto included elsewhere in this Annual Report.

The following selected historical statement of income data for the years ended December 31, 2006, 2007 and 2008 and the selected historical balance sheet data as of December 31, 2007 and 2008 have been derived from the Company’s audited consolidated financial statements included in this Annual Report beginning on page F-1. The following selected historical statement of income data for the period from August 9, 2004 through December 31, 2004 and the year ended December 31, 2005 and the selected historical balance sheet data as of December 31, 2004, 2005 and 2006 have been derived from the Company’s audited financial statements not included in this Annual Report. The following selected historical statement of income data for the period from January 1, 2004 to October 26, 2004 and the selected historical balance sheet data as of October 26, 2004 have been derived from the audited financial statements of Fuwei Films (Shandong) Co., Ltd. (the “Predecessor Company”) not included in this Annual Report. The audited financial statements are prepared and presented in accordance with United States generally accepted accounting principles, or U.S. GAAP.

Certain factors that affect the comparability of the information set forth in the following table are described in the “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and the Financial Statements and related notes thereto included elsewhere in this Annual Report.

	Predecessor Company		Fuwei Films (Holdings) Co., Ltd.				
	January 1 through October 26, 2004	August 9 through December 31, 2004	2005	2006	Year Ended December 31, 2007	2008	
(in thousands, except per share data)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(US\$)
Statement of Income Data:							
Revenues, net	286,114	81,364	346,205	436,884	449,373	447,255	65,253
Gross profit	78,950	17,326	87,115	102,543	99,842	70,332	10,261
	68,326	12,403	65,999	78,017	64,266	24,604	3,590

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Operating income							
Interest expense	(7,291)	(1,370)	(13,747)	(12,884)	(13,233)	(3,995)	(583)
Income before income tax							
	61,557	13,811	57,069	68,422	51,941	21,123	3,082
Net income							
	61,531	14,099	57,128	67,665	47,260	18,157	2,649
Earnings per share							
Basic		18,287	74,096	61.46	3.62	1.39	0.20
Diluted		18,287	74,096	61.37	3.62	1.39	0.20
Weighted average number ordinary shares, Basic and diluted							
Basic	-	771	771	1,101,031	13,062,500	13,062,500	13,062,500
Diluted	-	771	771	1,102,488	13,062,500	13,062,500	13,062,500

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(in thousands)	Predecessor Company		Fuwei Films (Holdings) Co., Ltd				
	As of October 26, 2004 (RMB)	As of December 31, 2004 (RMB)	2005 (RMB)	2006 (RMB)	As of December 31, 2007 (RMB)		2008 (US\$)
Balance Sheet Data:							
Cash	12,144	5,903	7,427	249,939	30,909	15,823	2,308
Accounts receivable, net	39,542	25,460	46,129	75,530	58,195	38,579	5,628
Inventories	26,365	18,032	24,887	23,783	41,670	30,589	4,463
Total current assets	163,446	72,288	93,349	372,001	211,842	104,105	15,188
Property, plant and equipment, net	204,804	304,600	303,596	317,690	493,562	578,643	84,421
Total assets	383,532	407,005	440,361	738,082	738,975	739,904	107,949
Short-term bank loans	199,600	200,590	248,046	239,678	188,027	164,764	24,038
Total current liabilities	264,533	392,905	367,401	272,175	226,445	204,305	29,807
Total shareholders' equity	118,514	14,100	72,960	465,907	512,530	530,599	77,412

If our subsidiary, Fuwei Films (Shandong) Co. Ltd., or Shandong Fuwei was not entitled to a reduced enterprise income tax, or EIT, rate of 0% for the period year ended December 31, 2004, 2005 and 2006, and rate of 7.5% for the year ended December 31, 2007, it would have had an EIT rate of 15% for both of those years. Shandong Fuwei was entitled to preferential tax treatment at an EIT rate of 15% for the year ended December 31, 2008 due to its status as a High-and-New Tech Enterprise since December 2008. If Shandong Fuwei was no longer designated as such, it would have been subject to a standard enterprise income tax at a rate of 25%. Net income and basic and diluted earnings per share would be reduced by the following amounts if Shandong Fuwei was not entitled to a reduced EIT rate for the period/years 2004, 2005, 2006, 2007 and 2008:

	Predecessor Company		Fuwei Films (Holdings) Co., Ltd					
	Jan. 1 through Oct. 26, 2004	Aug. 9 through December 31, 2004	2005	Year Ended December 31,				
	(RMB)	(RMB)	(RMB)	2006	2007	2008	2008	
(In thousands, except per share data)				(RMB)	(RMB)	(RMB)	(RMB)	(US\$)
Net income	(9,204)	(3,098)	(8,736)	(10,453)	(4,340)	(2,966)	(433)	
Earnings per share								
- basic	-	(4,019.00)	(11,331.00)	(9.50)	(0.33)	(0.23)	(0.03)	
- diluted	-	(4,019.00)	(11,331.00)	(9.48)	(0.33)	(0.23)	(0.03)	

The 2008 RMB amounts included in the above selected financial data have been translated into U.S. dollars at the rate of US \$1.00 = RMB 6.8542, which was the noon buying rate for U.S. dollars in effect on December 31, 2008 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. dollars at that rate or at any other certain rate on December 31, 2008, or at any other date.

Exchange Rate Information

On July 21, 2005 the Chinese government changed its policy of pegging the value of the Renminbi to the U.S. dollar. This revaluation of the Renminbi was based on a conversion of Renminbi into United States dollars at an exchange rate of US\$1.00=RMB8.11. Under the new policy, the Renminbi will be permitted to fluctuate within a band against a basket of certain foreign currencies. In December 2008, this change in policy resulted in an approximately 15.5% appreciation in the value of the Renminbi against the U.S. dollar compared to 2005. Although the Company generates its revenue in the PRC in Renminbi which has become more valuable in U.S. dollars, the Company's overseas sales and U.S. dollars cash deposits are subject to foreign currency translations which will impact net income.

We have calculated and presented our financial statements in Renminbi. Our business is primarily conducted in China and denominated in Renminbi. Reports will be made to shareholders and will be expressed in Renminbi. The conversion of Renminbi into U.S. dollars in this Annual Report is based on the noon buying rate in The City of New York for cable transfers of Renminbi as certified for customs purposes by the Federal Reserve Bank of New York. Unless otherwise noted, all translations from Renminbi to U.S. dollars in this annual report were made at the rate of US\$1.00 = RMB6.8542, being the noon buy rate for U.S. dollars in effect on December 31, 2008 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. We make no representation that any Renminbi or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or Renminbi, as the case may be, at any particular rate, the rates stated below, or at all.

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 (Rmb per U.S.\$1.00)	Low	Period-end
2004(1)	8.2768	8.2774	8.2764	8.2765
2005(1)	8.1472	8.2765	8.0702	8.0709
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
September 2008(2)	6.8500	6.8450	6.7926	6.8551
October 2008(2)	6.8504	6.8443	6.7480	6.8520
November 2008(2)	6.8413	6.8343	6.8028	6.8359
December 2008(2)	6.8676	6.8810	6.8045	6.8542
January 2009(2)	6.8471	6.8430	6.8030	6.8497
February 2009(2)	6.8465	6.8390	6.8147	6.8488
March 2009(2) (3)	6.8462	6.8354	6.8114	6.8419

(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 30, 2009, the exchange rate was 6.8419.

B. Capitalization and indebtedness.

Not Applicable.

C. Reasons for the offer and use of proceeds.

Not Applicable.

D. Risk factors.

The following matters and other additional risks not presently known to us or that we deem immaterial, may have a material adverse effect on our business, financial condition, liquidity, results of operations or prospects, financial or otherwise. Reference to a cautionary statement in the context of a forward-looking statement or statements shall be deemed to be a statement that any one or more of the following factors may cause actual results to differ materially from those in such forward-looking statement or statements.

(a) Risks Associated with Our Business

Risks Related to Our Business

Since the fourth quarter of 2008, the global financial crisis has adversely affected our business, including a heavy decline in customers' demands, sharp decrease in the sales prices and a decrease in the export of our products. If the economy does not recover, we will continue to face such declines.

Since the fourth quarter of 2008, our business has been significantly affected by the global financial crisis. The domestic market has experienced a drop in demand for our products, especially in the volume of high value-added special films, and our export markets have suffered as well. In addition, as a result of the significant decrease in the

price of our products, our results of operation encountered a significant decline beginning in the fourth quarter of 2008. We suspended the lease production line for about two months in the fourth quarter of 2008 and we decided to temporarily close the office in Japan at the end of 2008 as a result of insufficient demand. We have taken and will continuously take actions, such as reducing costs and decreasing expenses in order to strengthen our profitability and lessen the adverse effect on our business caused by the financial crisis. However, if the economy does not recover, we may continue to face such declines.

In addition, the financial crisis may affect our suppliers and customers. Such adverse affect on our supplies and customers may, in turn, adversely affect our business.

A sharp fluctuation in the demand for raw materials may have a negative impact on our operations if we are unable to pass on all increases in cost of raw materials to our customers on a timely basis

The total cost of raw materials made up approximately 80.9%, 76.0% and 78.6%, of our cost of goods sold in 2006, 2007 and 2008, respectively. The main raw materials used in our production of BOPET film are polyethylene terephthalate (or PET) resin and additives, which respectively made up approximately 76.1% and 23.9% of our total cost of raw materials in the past three years on average.

Currently the PET resin is mainly used as a raw material in China's textile industry. The market prices of PET resin may fluctuate due to changes in supply and demand conditions in that industry. Any sudden shortage of supply, or significant increase in demand, of PET resin and additives may result in higher market prices and thereby increase our cost of sales. The prices of PET resin and additives are, to a certain extent, affected by the price movement of crude oil.

International market prices for crude oil have been subject to wide swings in the last three years, especially in the first three quarters of 2008. There have been significant increases in the price of our raw materials for PET resin as a result of significant crude oil price spikes. However, since the global financial crisis began in October 2008, the international price of crude oil has declined heavily, with significant reduction in the price of raw materials and a significant decrease in our sale price. Despite the decline in raw material prices, however, our ability to make a profit has been limited due to the fact that it is difficult to pass the increase in costs of inventory to our customers within a short time frame. In addition, the anti-dumping policy towards the Chinese textile industry enforced by the United States and European countries has caused decreased demand for PET resin in the domestic textile industry, which further contributes to a decrease in the sales price of our products..

In 2009, if there is a significant increase in the cost of raw materials, we may not be able to pass the increase in costs of raw materials to our customers on a timely basis, which may continuously have an adverse effect on our results of operations. Our ability to hedge against these fluctuations by either entering into long-term supply contracts or otherwise offsetting our exposure to these commodity price variations has been extremely limited. Currently we have no hedging transactions in place with respect to PET resin or any other petroleum product.

Entry of new BOPET producers and continuously expanded production capacity of current BOPET film manufacturers in the industry in the PRC may increase the supply of, and decrease the prices of, BOPET film in the industry, and hence lead to a decline in our profit margins

We believe that we are currently one of the few producers of BOPET film in the PRC with research and development capability. Over time, there may be new investors into BOPET film industry, whether as a result of increased access to the production technology of BOPET film or otherwise. At the same time, the current BOPET film manufacturers may expand their productivity. Accordingly, we may experience increased competition and the entry of new BOPET producers will also lead to an increase in the industry supply of BOPET film resulting in more competitive pricing. We may have to price our products in response to competitive market conditions. In the event that we are unable to compete successfully or retain effective control over the pricing of our products, our profit margins will decrease and, our revenues and net income may also decrease.

In addition, China has gradually lowered import tariffs and relaxed foreign investment restrictions after its entry into the World Trade Organization in December 2001. This may lead to increased competition from foreign companies in our industry, some of which are significantly larger and financially stronger than us. If we fail to compete effectively

with these companies in the future, our current business and future growth potential would be adversely affected.

A significant portion of our revenue is derived from the flexible packaging industry in the PRC

A significant portion of our revenue is currently derived from the production and sale of BOPET film. Our BOPET film is largely used for the flexible packaging industry, such as relating to the processed food and tobacco packaging, cosmetics and alcohol. The demand for our BOPET film is therefore indirectly affected by the demand for flexible packaging.

Any decrease in the demand for our BOPET film will significantly affect our financial performance. The global financial crisis, which began in the fourth quarter of 2008, has caused a slowdown in the demand for growth in the PRC market and a decrease in demand in the overseas market for our products, which as a result, has led to the decline both in sales quantity or the sales price of our products. If the slowdown continues, it could continue to have an adverse impact on our financial condition, business and operation.

We rely on key managerial and technical personnel and failure to attract or retain such personnel may compromise our ability to perform our decided strategies and then to develop new products and to effectively carry on our research and development and other efforts

Our success to date has been largely attributable to the contributions of key management and experienced personnel, some with whom we have entered into service agreements. The loss of their services might impede the achievements of strategies and our development objectives and might damage the close business relationship we currently enjoy with some of our larger customers. Our continued success is dependent, to a large extent, on our ability to attract or retain the services of these key personnel. Except for Mr. Xiaohan He, we do not currently maintain any other key man insurance for our directors or officers.

Our R&D center is managed by Mr. Hanyong Lee. If they do not effectively lead the R&D team to research and develop new products and facilitate the marketing process, or we are unable to receive their services continuously, or we are unable to recruit outstanding R&D personnel as a replacement, this may have an adverse affect on our ability to progress and develop new products, and may adversely affect our business results and market competitiveness.

Marketability of any of our new products is uncertain and low acceptance levels of any of our new products will adversely affect our revenue and profitability

The development of our products is based on complex technology, and requires significant time and expertise in order to meet industry standards and customers' specifications. Although we have developed some products that meet customers' requirements in the past, there is no assurance that any of our research and development efforts will necessarily lead to any new or enhanced products or generate sufficient market share to justify commercialization. We must continually improve our current products and develop and introduce new or enhanced products that address the requirements of our customers and are competitive in terms of functionality, performance, quality and price in order to maintain and increase our market share. If our new products are unable to gain market acceptance, we would be forced to write-off the related inventory and would not be able to generate future revenue from our investment in research and development. In such event, we would be unable to increase our market share and achieve and sustain profitability. Our failure to further refine our technology and develop and introduce new products attractive to the market could cause our products to become uncompetitive or obsolete, which could reduce our market share and cause our sales to decline.

We may not be able to complete our new production line (thick film) currently under construction and start production in the near future. This may have an adverse impact on us due to potential claims that may be raised by the supplier of equipments.

The new production line (thick film) project, which is currently under construction, still has a shortage of funds of US\$ 15 million to US\$ 20 million out of the total expected investment required for this new production line of approximately US\$ 35 million to US\$ 40 million. Although our management has made its best efforts to obtain additional financing, it has not been successful due to various adverse factors, such as due to the general weak economy and our inability to obtain financing through issuing shares or bonds caused by the continuous decline in our share price. As a result, we may fail to make payments to suppliers on equipment that we have ordered in connection with this production line and are near to being completed. In the event that we are unable to obtain additional

financing and pay our suppliers, we may encounter potential litigation from our suppliers. In the event that there is a claim for the breach of contract by our suppliers, we may endure a significant loss. In addition, although the plant has been completed and certain other equipment has been delivered, we cannot begin production without the main production line being completed. This may further have an adverse impact on us.

The circumstances under which we acquired ownership of our main productive assets may jeopardize our ability to continue as an operating business

Substantially all of our operating assets were acquired through two auction proceedings under relevant PRC law. We acquired the Brückner production line in 2003 as a result of a foreclosure proceeding enforcing an effective court judgment and the DMT production in 2004 as a result of a commercial auction from a consigner who obtained such assets through a bankruptcy proceeding. In the opinion of our PRC counsel, Concord & Partners, these proceedings are both valid under Chinese auction and bankruptcy law based on certain factual assumptions. Our PRC counsel's opinion solely relates to the legal procedure of the auctions and is based upon certain factual assumptions, our written representations and written reports of the auction company and other related parties. There can be no assurance that relevant authorities or creditors of the predecessor owner of these assets will not challenge the effectiveness of these asset transfers based upon the facts and circumstances of these transfers, despite the existence of independent appraisals, and other facts and circumstances of the auctions that cannot be verified by our PRC counsel. Taking into consideration the facts known by our PRC counsel related to the auction of the Brückner production line and the significant difference in the price paid for the DMT production line at the two bankruptcy auctions involved in our purchase of that asset and, assuming the representations and reports received by our PRC counsel are true and correct in all material respects, our PRC counsel is of the opinion that the auctions of the Brückner and DMT production lines were valid under PRC law and the possibility of the creditors of Shandong Neo-Luck successfully exercising recourse or claiming repayment with respect to our assets purchased in the bankruptcy proceeding should be remote. Certain of the assumptions relied upon in providing that opinion have, however, been called into question by the verdict referred to below. In addition, should any such challenge be brought in China (or elsewhere) and prevail, we may incur substantial liabilities and be required to pay substantial damages as a result of acquiring these assets. Although we believe any such challenge is unlikely to lead to the forfeiture of the related assets, it could materially affect our ability to continue operations.

On June 25, 2007, we announced the investigation of three controlling shareholders, Mr. Jun Yin, Mr. Duo Wang, and Mr. Tongju Zhou, and on September 28, 2007, the three shareholders have been arrested, relating to the suspicion of the Crime of Irregularities for Favoritism and to sell state-owned assets at low prices.

On March 10, 2009, we announced the Company became aware of the initial verdict issued by the Jinan Intermediate People's Court in the city of Jinan, Shandong Province, concerning the Company's three major shareholders, Mr. Jun Yin, Mr. Tongju Zhou and Mr. Duo Wang. The verdict finds the three major shareholders guilty of the crime of misappropriation of state-owned assets relating to tens of millions of RMBs' worth of assets during the reorganization of Shandong Neoluck Plastics Co., Ltd. The court 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. They own an aggregate of approximately 65% of the ordinary shares of Fuwei by their holdings of Apex Glory and Easebright Investments. None of these individuals is currently involved in Fuwei's day-to-day operations, however, the possibility of shareholder changes may adversely affect the operation of the Company.

We have, in the past, experienced and may, from time to time, experience negative working capital. We also face risks associated with debt financing (including exposure to variation in interest rates)

Our total short-term loan as of December 31, 2008 was RMB 164.8 million (US\$24.0 million), which excludes RMB 5 million (US\$ 0.7 million) in long-term loans. We have pledged property, plant and equipment and lease prepayments as security for RMB 167.6 million (US\$ 24.5 million) of the above outstanding indebtedness. In January 2009, we renegotiated the current loans with the bank. In the event that we default on all or any portion of this indebtedness, our lenders could foreclose on our assets. In the event that our assets are foreclosed upon, we will not be able to continue to operate our business.

Our obligations under our existing loans have been mainly met through the cash flow from our operations and our financing activities. We are subject to risks normally associated with debt financing, including the risk of significant increases in interest rates and the risk that our cash flow will be insufficient to meet required payment of principal and interest. In the past, cash flows from operations have been sufficient to meet payment obligations and/or we have been able to extend our borrowings. There is however, no assurance that we will be able to continue to do so in the future. We may also underestimate our capital requirements and other expenditures or overestimate our future cash flows. In such event, we may consider additional bank loans, issuing bonds, or other forms of financing to satisfy our capital requirements. If any of the aforesaid events occur and we are unable for any reason to raise additional capital, debt or other financing to meet our working capital requirements, our business, operating results, liquidity and financial position will be adversely affected. For example, if we fail to get appropriate financing, it will negatively impact the investment in and the production of our third production line. In addition, if we do not obtain financing or have negative working capital, there is a possibility that we may not be able to perform our contracts with our suppliers as a result of our inability to pay them. All these factors may cause a significant adverse effect on our operations.

We may lose our competitive advantage and our operations may suffer if we fail to prevent the loss or misappropriation of, or disputes over, our intellectual property

At December 31, 2008, we have received four patents from, and have seven patent applications pending with, the PRC authorities. All these patents are related to our products and production processes. We may not be able to successfully obtain the approvals of the PRC authorities for the pending patent applications. Furthermore, third parties may assert claims to our proprietary processes and technologies. These products, proprietary processes and technologies are important to our business as they allow us to maintain our competitive edge over our competitors.

Our ability to compete in our markets and to achieve future revenue growth will depend, in significant part, on our ability to protect our proprietary technology and operate without infringing upon the intellectual property rights of others. The legal regime in China for the protection of intellectual property rights is still at its early stage of development. Intellectual property protection became a national effort in China in 1979 when China adopted its first statute on the protection of trademarks. Since then, China has adopted its Patent Law, Trademark Law and Copyright Law and promulgated related regulations, such as the Regulation on Computer Software Protection, Regulation on the Protection of Layout Designs of Integrated Circuits and Regulation on Internet Domain Names. China has also acceded to various international treaties and conventions in this area, such as the Paris Convention for the Protection of Industrial Property, Patent Cooperation Treaty, Madrid Agreement and its Protocol Concerning the International Registration of Marks. In addition, when China became a party to the World Trade Organization in 2001, China amended many of its laws and regulations to comply with the Agreement on Trade-Related Aspects of Intellectual Property Rights. Despite many laws and regulations promulgated and other efforts made by China over the years with a view to tightening up its regulation and protection of intellectual property rights, private parties may not enjoy intellectual property rights in China to the same extent as they would in many Western countries, including the United States, and enforcement of such laws and regulations in China have not achieved the levels reached in those countries. Both the administrative agencies and the court system in China are not well-equipped to deal with violations or handle the nuances and complexities between compliant technological innovation and non-compliant infringement.

We rely on trade secrets and registered patents and trademarks to protect our intellectual property. We have also entered into confidentiality agreements with our management and employees relating to our confidential proprietary information. However, the protection of our intellectual properties may be compromised as a result of:

- departure of any of our management members or employees in possession of our confidential proprietary information;
- breach by such departing management member or employee of his or her confidentiality and non-disclosure undertaking to us;
 - expiration of the protection period of our registered patents or trademarks;
 - infringement by others of our proprietary technology and intellectual property rights; or
 - refusal by relevant regulatory authorities to approve our patent or trademark applications.

Any of these events or occurrences may reduce or eliminate any competitive advantage we have developed, causing us to lose sales or otherwise harm our business. There is no assurance that the measures that we have put into place to protect our intellectual property rights will be sufficient. As the number of patents, trademarks, copyrights and other intellectual property rights in our industry increases, and as the coverage of these rights and the functionality of the products in the market further overlap, we believe that business entities in our industry may face more frequent infringement claims. Litigation to enforce our intellectual property rights could result in substantial costs and may not

be successful. If we are not able to successfully defend our intellectual property rights, we might lose rights to technology that we need to conduct and develop our business. This may seriously harm our business, operating results and financial condition, and enable our competitors to use our intellectual property to compete against us.

Furthermore, if third parties claim that our products infringe their patents or other intellectual property rights, we might be required to devote substantial resources to defending against such claims. If we are unsuccessful in defending against such infringement claims, we may be required to pay damages, modify our products or suspend the production and sale of such products. We cannot guarantee that we will be able to modify our products on commercially reasonable terms.

We may incur capital expenditures in the future in connection with our growth plans and therefore may require additional financing

To expand our business, we will need to increase our production variety and productivity which will require substantial capital expenditures. Such expenditures are likely to be incurred in advance of any increase in sales. We cannot assure you that our revenue will increase after such capital expenditures are incurred as this will depend on, among other factors, our ability to maintain or achieve high capacity utilization rates. Any failure to increase our revenue after incurring capital expenditures to expand production capacity will reduce our profitability.

In addition, we may need to obtain additional debt or equity financing to fund our capital expenditures. Additional equity financing may result in dilution of existing shareholders' return. Additional debt financing may be required which, if obtained, may:

- limit our ability to pay dividends or require us to seek consents for the payment of dividends;
- increase our vulnerability to general adverse economic and industry conditions;
- limit our ability to pursue our growth plan;
- require us to dedicate a substantial portion of our cash flow from operations as payment for our debt, thereby reducing availability of our cash flow to fund capital expenditures, working capital and other general corporate purposes; and/or
- limit our flexibility in planning for, or reacting to, changes in our business and our industry.

We cannot assure you that we will be able to obtain the additional financing on terms that are acceptable to us, if at all.

A disruption in the supply of utilities, fire or other calamity at our manufacturing plant would disrupt production of our products and adversely affect our sales

Our BOPET films are manufactured solely at our production facility located in Weifang City in the PRC. While we have not in the past experienced any calamities which have disrupted production, any disruption in the supply of utilities, in particular, electricity or power supply or any outbreak of fire, flood or other calamity resulting in significant damage at our facilities would severely affect our production of BOPET film and, as a result, we could incur substantial liabilities that could reduce or eliminate the funds available for product development or result in a loss of equipment and properties.

While we maintain insurance policies covering losses in respect of damage to our properties, machinery and inventories of raw materials and products, we cannot assure you that our insurance would be sufficient to cover all of our potential losses.

We have limited experience in operating outside mainland China, and failure to achieve our overseas expansion strategy may have an adverse effect on our business growth in the future

Our future growth depends, to a considerable extent, on our ability to develop both the domestic and overseas markets. We are currently exploring new business opportunities outside mainland China for our BOPET film products. We have a limited number of customers outside China, mainly in South Korea, the United States and Europe and others. However, we have limited experience in operating outside mainland China, have limited experience with foreign regulatory environments and market practices, and cannot guarantee that we will be able to penetrate any overseas market. In connection with our initial efforts to expand overseas, we have encountered many obstacles, including cultural and linguistic differences, difficulties in keeping abreast of market, business and technical developments in foreign jurisdictions, and political and social disturbances. Failure in the development of overseas markets may have an adverse effect on our business growth in the future.

We have encountered anti-dumping investigations in South Korea and the United States. Although we received approvals for comparatively low anti-dumping tax rates in the final anti-dumping arbitration judgments in South Korea and the United States, our overseas expansion strategy in our future business growth may be adversely affected.

Since 2007, the manufacturers in China, India and other countries have encountered anti-dumping investigation conducted by South Korea and the United States. The Korean Trading Committee (KTC) announced the final results for anti-dumping investigations for enterprises in China and India on August 27, 2008. Although we finally received the anti-dumping duties (ADD) rate of 5.67% which is much lower than the average rate of 23.60% for other enterprises in China, our export to South Korea is still adversely affected by paying the ADD to a certain extent.

The US Department of Commerce conducted the anti-dumping investigation in October, 2007 covering exporters in China, Brazil, Thailand and the United Arab Emirates. 41 exporters in China were under investigation. In October 2008, the anti-dumping judgments were announced. Although we received the lowest ADD rate of 3.49% among the five exporters that received a duty, our export to the United States, to a certain extent, is still adversely affected by paying the ADD.

Our primary source of funds for dividends and other distributions from our operating subsidiary in China is subject to various legal and contractual restrictions and uncertainties, and our ability to pay dividends or make other distributions to our shareholders are negatively affected by those restrictions and uncertainties

We are a holding company established in the Cayman Islands and conduct our core business operations through our principal operating subsidiary, Shandong Fuwei, in China. As a result, our profits available for distribution to our shareholders are dependent on the profits available for distribution from Shandong Fuwei. If Shandong Fuwei incurs debt on its own behalf, the debt instruments may restrict its ability to pay dividends or make other distributions, which in turn would limit our ability to pay dividends on our ordinary shares. Under the current PRC laws, because we are incorporated in the Cayman Islands, our PRC subsidiary, Shandong Fuwei, is regarded as a wholly foreign-owned enterprise in China. The PRC laws permit payment of dividends only out of net income as determined in accordance with PRC accounting standards and regulations. Determination of net income under PRC accounting standards and regulations may differ from determination under U.S. GAAP in significant respects, such as the use of different principles for recognition of revenues and expenses. In addition, distribution of additional equity interests by our PRC subsidiary, Shandong Fuwei, to us (which is credited as fully paid through capitalizing its undistributed profits) requires additional approval of the PRC government due to an increase in our registered capital and total investment in Shandong Fuwei. Under the PRC laws, Shandong Fuwei, a wholly foreign-owned enterprise, is required to set aside a portion of its net income each year to fund designated statutory reserve funds. These reserves are not distributable as cash dividends. As a result, our primary internal source of funds of dividend payments from Shandong Fuwei is subject to these and other legal and contractual restrictions and uncertainties, which in turn may limit or impair our

ability to pay dividends to our shareholders. Moreover, any transfer of funds from us to Shandong Fuwei, either as a shareholder loan or as an increase in registered capital, is subject to registration with or approval by PRC governmental authorities. These limitations on the flow of funds between us and Shandong Fuwei could restrict our ability to act in response to changing market conditions.

Investor confidence and the market price of our shares may be adversely impacted if we or our independent registered public accountants are unable to issue an unqualified opinion on the adequacy of our internal controls over our financial reporting beginning as of December 31, 2009, as required by Section 404 of the U.S. Sarbanes-Oxley Act of 2002

As a public company, we are required by section 404 of the Sarbanes-Oxley Act 2002 to include a report by management on our internal controls over financial reporting that contains our management's assessment of the effectiveness of our internal controls in our annual report on Form 20-F beginning with the fiscal year ended December 31, 2008 and the report of our independent registered public accounting firm on our internal control over financial reporting in our annual report on Form 20-F beginning with the fiscal year ending December 31, 2009. We have documented, tested, and evaluated our internal controls as required. Our management has concluded that our internal controls over financial reporting are effective in 2008. Moreover, although our management does conclude that our internal controls over financial reporting are effective, if our independent registered public accountants are not satisfied with our internal control structure and procedures, the level at which our internal controls are documented, designed, operated or reviewed, or if the independent registered public accountants interpret the requirements, rules or regulations differently from us, they may conclude that our internal controls over financial reporting are not effective. Any of these possible outcomes could result in an adverse reaction in the financial marketplace due to a loss of investor confidence in the reliability of our financial statements, which could lead to a decline in the market price of our shares.

Also, there are certain controls that will not occur until close to the time of our annual filing. We have tested these controls during our quarterly filings and do not anticipate any deficiencies to be identified in these processes. However, it is possible that significant deficiencies or material weaknesses may be identified when we test certain financial reporting controls related to our annual filing.

Risks Relating to Business Operations in China

Changes in China's political and economic policies and conditions could cause a substantial decline in the demand for our products and services

Currently, we derive substantially most of our revenues from mainland China. We anticipate that mainland China will continue to be our primary production and sales base in the near future. In addition, currently, substantially all of our assets are located in China and all of our services are performed in China. In 2006, 2007 and 2008, sales to our customers in the PRC accounted for approximately 79.0%, 75.5% and 86.9%, respectively, of our total revenue. Accordingly, any significant slowdown in the PRC economy or decline in demand for our products from our customers in the PRC will have an adverse effect on our business, financial condition and results of our operations. Furthermore, any unfavorable changes in the social and political conditions of the PRC may also adversely affect our business and operations.

Since the adoption of the "open door policy" in 1978 and the "socialist market economy" in 1993, the PRC government has been reforming and is expected to continue to reform its economic and political systems. Any changes in the political and economic policy of the PRC government may lead to changes in the laws and regulations or the interpretation of the same, as well as changes in the foreign exchange regulations, taxation and import and export restrictions, which may in turn adversely affect our financial performance. While the current policy of the PRC government seems to be one of imposing economic reform policies to encourage foreign investments and greater economic decentralization, there is no assurance that such a policy will continue to prevail in the future. We cannot make any assurances that our operations would not be adversely affected should there be any policy changes.

Since 2007, the Chinese government has adjusted its macroeconomic-policies, and has increased bank loan interest rates and bank deposit reserve rates, to control the excess rapid investment growth, which results in an increase on

financial costs, and creates a decrease in loan availability from bank. Furthermore, these changes may slow down the growth of domestic market reliance on BOPET film, and make it more difficult to obtain financing and investments, and have an adverse effect on our corporate financial results. The Chinese government has changed its policies since October 2008 when the global economy began to dramatically worsen. It has, since then, encouraged investing, reduced deposit and loan interest rates, and promoted a policy in consumption spending in order to stimulate economic growth. However, we cannot make assurances as to whether these policies will not be changed or if these policies will stimulate the economic growth. If the Chinese government changes these policies or these policies do not bring on the intended results, our operations may be adversely affected.

The discontinuation of any preferential tax treatments or other incentives currently available to us in the PRC could materially and adversely affect our business, financial condition and results of operations

Our subsidiary Shandong Fuwei was converted into a wholly foreign owned enterprise in January 2005 and enjoys certain special or preferential tax treatments regarding enterprise income tax in accordance with the “Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises.” Accordingly, it is entitled to tax concessions whereby the profit for the first two financial years beginning with the first profit-making year (after setting off tax losses carried forward from prior years) is exempt from income tax in the PRC and the profit for each of the subsequent three financial years is taxed at 50% of the prevailing tax rates set by the relevant tax authorities. In addition, as a “High Technology Enterprise,” Shandong Fuwei currently enjoys enterprise income tax at an incentive rate of 15%. Although Shandong Fuwei was redesignated as a High-and-New Tech Enterprise in December, 2008 and enjoys the favorable income tax rate, if there are any future changes in PRC tax laws, rules and regulations or Shandong Fuwei is no longer designated as a High-and-New Tech Enterprise Shandong Fuwei will no longer enjoy the preferential tax treatment . If that were to occur, Shandong Fuwei would be subject to a 25% standard enterprise income tax rate which would significantly increase our effective tax rate and materially adversely affect our operating results.

On March 16, 2007, the National People’s Congress of the PRC passed the Enterprise Income Tax Law of the People’s Republic of China, which law took effect on January 1, 2008. In accordance with the new law, a unified enterprise income tax rate of 25% and unified tax deduction standards were applied equally to both domestic-invested enterprises and foreign-invested enterprises such as Shandong Fuwei. Enterprises established prior to March 16, 2007, eligible for preferential tax treatment in accordance with the currently prevailing tax laws and administrative regulations would, under the regulations of the State Council, gradually become subject to the new tax rate over a five-year transition period starting from the date of effectiveness of the new law. We expect details of the transitional arrangement for the five-year period from January 1, 2008 to December 31, 2012 applicable to enterprises approved for establishment prior to March 16, 2007, such as Shandong Fuwei, to be set out in more detailed implementing rules to be adopted in the future. In addition, certain qualifying “High Technology Enterprises” may still benefit from a preferential tax rate of 15% under the new tax law if they meet the definition of “Government Developing High Technology Enterprise” to be set forth in the more detailed implementing rules when they become adopted. Shandong Fuwei was redesignated as a High-and-New Tech Enterprise in December, 2008 and enjoys the favorable income tax rate of 15% pursuant to the Enterprise Income Tax Law.

We are subject to environmental laws and regulations in the PRC

We are subject to environmental laws and regulations in the PRC. Any failure by us to comply fully with such laws and regulations will result in us being subject to penalties and fines or being required to pay damages. Although we believe we are currently in compliance with the environmental regulations in all material respects, any change in the regulations may require us to acquire equipment or incur additional capital expenditure or costs in order to comply with such regulations. Our profits will be adversely affected if we are unable to pass on such additional costs to our customers.

Changes in foreign exchange regulations in China may affect our ability to pay dividends in foreign currencies

We currently receive most of our operating revenues in Renminbi. Currently, Renminbi is not a freely convertible currency and the restrictions on currency exchanges in China may limit our ability to use revenues generated in Renminbi to fund our business activities outside China or to make dividends or other payments in U.S. dollars. The PRC government strictly regulates conversion of Renminbi into foreign currencies. Over the years, the PRC government has significantly reduced its control over routine foreign exchange transactions under current accounts, including trade- and service-related foreign exchange transactions, foreign debt service and payment of dividends. In

accordance with the existing foreign exchange regulations in China, our PRC subsidiary, Shandong Fuwei, is able to pay dividends in foreign currencies, without prior approval from the PRC State Administration of Foreign Exchange, or SAFE, by complying with certain procedural requirements. The PRC government may, however, at its discretion, restrict access in the future to foreign currencies for current account transactions and prohibit us from converting our Renminbi-denominated earnings into foreign currencies. If this occurs, our PRC subsidiary may not be able to pay us dividends in foreign currency without prior approval from SAFE. In addition, conversion of Renminbi for most capital account items, including direct investments, is still subject to government approval in China and companies are required to open and maintain separate foreign exchange accounts for capital account items. This restriction may limit our ability to invest earnings of Shandong Fuwei.

Fluctuation in the value of Renminbi could adversely affect our overseas sales and import of raw materials and the value of, and dividends payable on, our shares in foreign currency terms

The value of Renminbi is subject to various factors and depends to a large extent on China's domestic and international economic, financial and political developments, as well as the currency's supply and demand in the local market. From 1994, the conversion of Renminbi into foreign currencies, including the U.S. dollar, was based on exchange rates set and published daily by the People's Bank of China, the PRC central bank, based on the previous day's interbank foreign exchange market rates in China and exchange rates on the world financial markets. The official exchange rate for the conversion of Renminbi into U.S. dollars remained stable until Renminbi was revalued in July 2005 and allowed to fluctuate by reference to a basket of foreign currencies, including the U.S. dollar. Under the new policy, Renminbi is permitted to fluctuate within a band against a basket of foreign currencies. This change in policy resulted initially in an approximately 2.0% appreciation in the value of Renminbi against the U.S. dollar. There remains significant international pressure on the PRC government to adopt a substantially more liberalized currency policy, which could result in a further and more significant appreciation in the value of Renminbi against the U.S. dollar. Further revaluations of Renminbi against the U.S. dollar may also occur in the future. Since our income and profits are denominated in Renminbi, fluctuation in the value of Renminbi could adversely affect our overseas sales and import of raw materials and further negatively affect our revenue and net income. Any appreciation of Renminbi would increase the value of, and any dividends payable on, our shares in foreign currency terms. Conversely, any depreciation of Renminbi would decrease the value of, and any dividends payable on, our shares in foreign currency terms.

The uncertain legal environment in China could limit the legal protections available to you

The PRC legal system is a civil law system based on written statutes. Unlike the common law system, the civil law system is a system in which decided legal cases have little precedential value. In the late 1970s, the PRC government began to promulgate a comprehensive system of laws and regulations to provide general guidance on economic and business practices in China and to regulate foreign investment. Our PRC subsidiary, Shandong Fuwei, is a wholly foreign-owned enterprise and is subject to laws and regulations applicable to foreign investment in China in general and laws and regulations applicable to wholly foreign-owned enterprises in particular. China has made significant progress in the promulgation of laws and regulations dealing with economic matters such as corporate organization and governance, foreign investment, commerce, taxation and trade. However, the promulgation of new laws, changes of existing laws and abrogation of local regulations by national laws may have a negative impact on our business and prospects. In addition, as these laws, regulations and legal requirements are relatively recent and because of the limited volume of published cases and their non-binding nature, the interpretation and enforcement of these laws, regulations and legal requirements involve significant uncertainties. These uncertainties could limit the legal protections available to foreign investors, including you. For example, it is not clear if a PRC court would enforce in China a foreign court decision brought by you against us in shareholders' derivative actions. Moreover, the enforceability of contracts in China, especially with the government, is relatively uncertain. If counterparties repudiated our contracts or defaulted on their obligations, we might not have adequate remedies. Such uncertainties or inability to enforce our contracts could materially and adversely affect our revenues and earnings.

Outbreak of SARS, Avian Influenza or other epidemics could materially and adversely affect our overall operations and results of operations

From March to July 2003, mainland China, Hong Kong, Singapore, Taiwan and some other areas in Asia experienced an outbreak of a new and contagious form of atypical pneumonia known as severe acute respiratory syndrome, or SARS. A recurrent outbreak, or an outbreak of a similarly contagious disease, such as the H5N1 avian flu, could potentially disrupt our operations to the extent that any one of our employees is suspected of having the infection or that any of our facilities is identified as a possible source of spreading the virus or disease. We may be required to quarantine employees who are suspected of having an infection. We may also be required to disinfect our facilities and therefore suffer a suspension of production of indefinite duration. Any quarantine or suspension of production at any of our facilities will adversely affect our overall operations. In the recent two years, infectious disease like Avian Influenza has occurred in high frequency worldwide, which would have adverse effect on the consumption on fowl packaged foods, and have influence on our products sales. In addition, any such outbreak will likely restrict the level of economic activities in the affected areas, which could lead to a substantial decrease in our revenues accompanied by an increase in our costs, resulting in lower levels of net income.

Regulations relating to offshore investment activities by PRC residents may limit our ability to acquire PRC companies and adversely affect our business and prospects

In October 2005, SAFE issued a circular (SAFE circular 75) concerning foreign exchange regulation on investments by PRC residents in China through special purpose companies incorporated overseas. The circular states that, if PRC residents use assets or equity interests in their domestic entities as capital contribution to establish offshore companies or inject assets or equity interests of their PRC entities into offshore companies to raise capital overseas, such PRC residents must register with local SAFE branches with respect to their overseas investments in offshore companies and must also file amendments to their registrations if their offshore companies experience material events, such as changes in share capital, share transfer, mergers and acquisitions, spin-off transactions or use of assets in China to guarantee offshore obligations. Our existing shareholders prior to our initial public offering have completed the relevant SAFE registration procedures as required by SAFE circular 75.

On May 29, 2007, SAFE issued the operative measures of SAFE circular 75 (SAFE circular 106), which specified the registration and approval procedures of SAFE circular 75.

As it is uncertain how these existing regulations, and any future legislation concerning offshore or cross-border transactions, will be interpreted, amended and implemented by the relevant government authorities, we cannot predict how this circular and other SAFE circulars will affect our business operations or future strategies. For example, we may be subject to a more stringent review and approval process with respect to our foreign exchange activities, such as remittance of dividends and foreign currency-denominated borrowings, which may adversely affect our ability to provide funds to us to pay dividends on our ordinary shares.

Item 4. Information on the Company

Overview

We were formed as a Cayman Islands corporation in August 2004 under the name “Fuwei Films (Holding) Co. Ltd.” Our corporate headquarters, principal place of business, production and ancillary facilities occupy an area of approximately 74,251 square meters at No. 387 Dongming Road, Weifang Shandong, People’s Republic of China, 261061. Our agent for service in the United States is CT Corporation System located at 111 Eighth Avenue, NY, NY 10011.

We develop, manufacture and distribute high quality plastic film using the biaxially oriented stretch technique, otherwise known as BOPET film (Biaxially oriented polyethylene terephthalate). The film is light-weight, non-toxic, odorless, transparent, glossy, high temperature and moisture-resistant, and retains high barrier resistance, making it suitable for many forms of flexible packaging, printing, laminating, aluminum-plating and other applications. In addition, it retains high dielectric strength and volume resistance even at high temperatures, which are essential qualities for electrical and electronic uses. Our BOPET film is widely used in consumer based packaging (such as the food, pharmaceutical, cosmetics, tobacco and alcohol industries), imaging (such as printing plates and microfilms), electronics and electrical industries (such as wire and cable wrap, capacitors and motor insulation), as well as in magnetic products (such as audio and video tapes). We market our products under our brand name "Fuwei Films." We export our products to packaging customers and distributors mainly in South Korea, the United States, and others. The principal products we produce are namely:

- Printing base film used in printing and lamination;
- Stamping foil base film used for packaging of luxury items to increase the aesthetic presentation of the item;
- Metallization film or aluminum plating base film used for vacuum aluminum plating for paper or flexible plastic lamination;
 - Transfer base film used for environmental friendly cigarettes and alcohol packaging;
 - High-gloss film used for aesthetically enhanced packaging purposes;
 - Heat-sealable film used for processed food packaging and other applications;
- Laser holographic base film used as anti-counterfeit film for food, medicine, cosmetics, cigarettes and alcohol packaging; and
 - Matte film used for printing, metallization, stamping and transfer metallization.

Since our establishment, all of our revenues have been derived from the sales of BOPET film, particularly our printing film, stamping film, metallization film, transfer film and high-gloss film.

We currently operate three production lines. The first line is a Brückner 6.3 m (in width) production line with an annual designed production capacity of 13,000 tons of BOPET film. The second line is a DMT production line which is three-layer co-extruded with 6.7 m (in width), and has an annual designed production capacity of 16,100 tons of BOPET film. The third line is a leased production line that has an annual designed production capacity of 8,000 tons with leasing period commencing from April 2007. As of December 31, 2008, our manufacturing operations had a total annual designed production capacity of 37,100 metric tons of BOPET/CBOPET film based upon 7,200 production hours per annum.

We sell most of our BOPET film products to customers in the flexible packaging industry in the PRC in the coastal region of China. Our top five customers over the three years ended December 31, 2008 were Dongguan Klaser Technologies Co., Ltd., Woo Sung Multi-film Co., Ltd., Dare Technical Co., Ltd. Danyang Advance Packaging Material Subsidiary Company, Cangnan Shuncheng Packaging Material Trade Co., Ltd. and Holotek Technology Co., Ltd. None of our customers accounted for more than 10% of our total revenues in any such year. In addition, we expect to continue to expand our product portfolio to exploit opportunities in different market sectors, such as the production of thick BOPET film products to be used in electrical and electronics industries. The BOPET products for high-end and special usage used by these industries are currently imported and are costly. We began marketing and selling our products overseas to customers and distributors mainly in South Korea, the United States and Europe and others. in the second half of 2004. In 2006, 2007 and 2008 our sales to our overseas customers constituted approximately 21.0%, 24.5% and 13.1%, respectively, of our total revenue.

Competitive Strengths

We believe that our competitive strengths have enabled us over the years to meet the needs of our customers and become a leading provider of BOPET film products in China. We also believe that our strengths will continue to help us grow in the BOPET film industry in both China and internationally. Our principal strengths include the following:

We have the capability to expand our product range and markets by introducing new products required by customers

We believe that our experience in the industry and personnel will enable us to continue to provide new BOPET film products required by customers. While other companies in our industry have also made significant advances in BOPET technology and production, we have introduced a variety of BOPET film products by developing and formulating our own blend of additives used in the production of BOPET film. Our research and development team has been headed by Mr. Hanyong Lee since January 2008, and comprised of fourteen research personnel in total.

We have an established brand name and are recognized for our product quality in the PRC

Although our operating history is relatively short and our market presence is primarily in the PRC, our products are marketed under our brand name, “Fuwei Films.” We believe that this brand name is well known in the BOPET film market in the PRC and, although our selling prices sometimes exceed those of our competitors, our products have achieved significant market acceptance because of its high quality and our superior customer service.

We manufacture high quality products that can be customized for our clients

We implement and enforce stringent quality controls on our production process and products. As part of our production process, we formulate different blends of PET resins and additives to produce film with specific properties for our customers based on their requirements. In addition, we have improved on our own formulations, which we believe have resulted in quality products that meet our customers’ requirements.

We have an experienced management team with extensive industry experience

Our management team is led by our Chairman and Chief Executive Officer, Mr. Xiaoan He who has more than ten years of related experience in the plastics and packaging industries. He has been instrumental in our operations and strategies, contributing his knowledge and experience in the industry. Each member of our management team has many years of experience in industries related to the manufacturing and development of products.

Since January, 2008, our R&D center has been managed by Mr. Hanyong Lee. Mr. Hanyong Lee has more than 20 years management and research experience in the BOPET industry.

Our technical expertise and production facilities are advanced in the PRC

We consider our technical expertise and production facilities to be highly advanced with respect to the BOPET film industry in the PRC. Our first production line was German made and manufactured by Brückner. It is a 6.3 m (in width) production line with an annual designed production capacity of 13,000 tons of BOPET film. Our second production line was manufactured in France by DMT. It is a 6.7 m (in width) production line that has an annual designed production capacity of 16,100 tons of BOPET film. We believe that both of our production lines are able to provide high quality products and to compete effectively with our competitors.

Awards and Certifications

Our subsidiary, Shandong Fuwei, has received the following awards and certificates, each of which, we believe, is an indication of our achievements, the quality of our products and makes us more attractive to our potential customers and therefore a more competitive company both in the local and international markets:

Date	Award/Certificate	Issuing Authority
September 2004(1)	ISO 9001:2000 Certificate	China Certification Center for Quality Mark
January 2005(2)	Top 50 Industrial Enterprises in 2004	Weifang City local government
July 2006(3)	ISO 14001 Certificate	International Organization for Standardization

December 2007 (4)

Key High-Tech Enterprise of
the National Torch Program

Ministry of Science and
Technology

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January 2008 (5)	<ul style="list-style-type: none"> · Advanced Enterprise of Foreign Export; · Advanced Enterprise in Promoting Foreign Investment; · Advanced Enterprise for Tax Payment · 2007 Advanced Enterprise in Safety 	<p>Management Committee of Weifang High-and-new technological and industrial development zone</p>
July 2008 (6)	<ul style="list-style-type: none"> · Designated as an A-Category taxpayer by the National Taxation Bureau and the Local Taxation Bureau of Shandong Province. 	<p>the National Taxation Bureau and the Local Taxation Bureau of Shandong Province</p>
December 2008 (7)	<ul style="list-style-type: none"> · Redesignated as a High-and-New Tech Enterprise by Shandong Department of Science and Technology, National and Local Taxation Bureau of Shandong Province, as well as from the Shandong Province Financial Bureau 	<p>Shandong Department of Science and Technology, National and Local Taxation Bureau of Shandong Province, and Shandong Province Financial Bureau</p>

(1)ISO 9000 certification has become an international reference for quality management requirements in business-to-business dealings. This certification enables us to compete on many more markets around the world and provides our customers with assurances about our quality, safety and reliability.

(2)& (5) This citation generates goodwill with the government officials in Weifang city.

(3)After strict examination and approval by China Environment United (Beijing) Certification Center Co., Ltd (Environment Conformity Assessment Center of State Environment Protection Bureau), Fuwei Films (Shandong) Co., Ltd. has successfully passed the ISO14001 Environmental Administration System in July 2006

(4)Fuwei Films (Shandong) Co., Ltd. was awarded as Key High-Tech Enterprise of the National Torch Program in December 2007.

(6)The A-Category is the top of the four ratings for corporate taxpayers in China. Candidates eligible for the category are reviewed and designated by the authorities every two years.

(7)Because of China's new Enterprise Income Tax Law which became effective on January 1, 2008, the status Fuwei Shandong as an HNTE had to be renewed. On December 2008, Fuwei Films was re-designated High-and-New Tech Enterprises by Shandong Department of Science and Technology, National and Local Taxation Bureau of Shandong Province, as well as from the Shandong Province Financial Bureau.

Business Prospects

Since the second half year of 2008, the global financial crisis has had a significant adverse impact on the global economy, including China. We believe that the slowdown in the global economic growth will, in turn, cause a slowdown in the growth of the BOPET film market, including in developed countries, such as the United States. We believe that the slowdown of the economic growth will be much more acute in China.

We have identified thick BOPET film (typically with a thickness of between 50 to 250 microns), which is mainly used in the electrical and electronics industries, as a key market segment for potential growth. With the expansion of the electrical and electronics industries in China, the market for thick BOPET film, used particularly in the manufacturing of thin film transistor-liquid crystal display (or TFT-LCD) screens, is also anticipated to increase significantly. Although there are BOPET manufacturers in the PRC that are able to produce BOPET film of such thickness, we believe that generally their product quality is not able to meet requirements for high-end usage such as TFT-LCD screens. As a result, manufacturers of TFT-LCD screens requiring thick BOPET film generally obtain their supply from overseas.

Business Development Strategies

We believe we have the ability to increase our sales and expand our markets. To strengthen our market position, we intend to improve our product offerings. As manufacturers based in the PRC strive to reduce their costs in the face of competition, we believe that there will be greater demand for locally-produced BOPET film products. We will also explore suitable opportunities to look for new customers and markets in the PRC and overseas.

Our future plans include:

Continue construction of the new BOPET production line

We have commenced construction of a new production line capable of producing BOPET film that is between 50 to 250 microns thick in our current premises at Weifang City, PRC. The BOPET film production using this new production line is targeted at industrial use, such as TFT-LCD screen films. We expect to penetrate into the electrical and electronics industry with such new product offerings. Such industries for high-end and special usage currently rely on expensive imports. The construction of the new BOPET production line has been postponed due to a shortage of funds. However, we will continue to make efforts to obtain the required funds to complete the new BOPET production line. The total investment for this new production line is expected to be approximately US\$35 million to US\$ 40 million.

Expansion into overseas markets and promotion of our products in the PRC

We believe that the overseas markets hold significant potential for future growth. We believe that our venture into the overseas markets which began in 2004 has been successful. Although we are not focused on any particular overseas market, we have identified North America as an area of potential growth. We would also like to expand our European and Japanese market. In 2008, our overseas sales were significantly affected by the anti-dumping investigations conducted by South Korea and the United States against BOPET exporters in China, India and other countries and the appreciation of Renminbi. Although we have overcome many difficulties and received the lowest rates in the anti-dumping investigations, we experienced a significant decrease in our overseas market demand, such as in the United States, Europe and South Korea, due to the global financial crisis and, as a result, our overseas sales significantly decreased in 2008. With our low manufacturing and labor costs compared to overseas manufacturers and with high quality products and competitive prices, we believe that we can capture certain market share in the overseas market. As we believe that the domestic market for BOPET products has significant potential for growth, we also intend to engage in promotional activities in this area and further develop our customer relationships. In 2006, 2007 and 2008, sales to our customers in the PRC accounted for approximately 79.0%, 75.5% and 86.9%, respectively, of our total revenue, while the remainder was sold overseas in US dollars.

Investment in research and development

As we have a strong focus on research and development, we plan to continue to invest substantially in this area. We are constructing a small-scale production line for the purpose of conducting research and development. Such a production line may also produce small batches of high value-added products. This trial production line will enable us to save experimental costs and reduce waste during the process of development, particularly during test production. We also intend to expand our research and development team by hiring additional research personnel.

In 2006, the Weifang government established the Hi & New Technology Project Industrial Development Fund (“IDF”) for the purpose of enhancing independent innovation and technical R&D ability of local enterprises in order to support the development of local Hi & New Technology enterprises. On January 31, 2007, we obtained the first installment of a loan from the industrial development fund from our local government. Our subsidiary, Shandong Fuwei, used these

funds for the construction of the Fuwei technology center trial production line project mentioned above. In 2008, Shandong Fuwei received a second IDF loan to continue supporting our R&D. These funds have made a significant contribution to the development of our R&D for new products.

Our Products and Services

We are principally engaged in the manufacture and distribution of BOPET film. We currently produce BOPET films from the three production lines, with an aggregate annual designed production capacity of 37,100 metric tons with thicknesses varying between 8 - 125 microns.

BOPET is a high quality plastic film manufactured using the Biaxially oriented stretch (transverse and machine direction) technique. Our advanced production process improves the physical properties of the plastic film such as its tensile strength, resistance to impact, resistance to tearing and malleability. The high dimensional stability of the film over a wide range of humidity and temperature fulfills the basic requirements for flexible packaging. The film is light-weight, non-toxic, odorless, transparent, glossy, moisture-resistant, and retains high barrier resistance, making it suitable for many forms of flexible packaging, printing, laminating, aluminum-plating and other processes. In addition, it retains high dielectric strength and volume resistance even at high temperatures, which are essential qualities for electrical and electronic uses. The three-layer co-extruded structure enables us to develop high quality BOPET products.

BOPET film has been widely used in the packaging (such as food, pharmaceutical and cosmetics), imaging (such as printing plates and microfilms), electronics and electrical (such as wire and cable wrap, capacitors and motor insulation) and industries. Due to its unique qualities, it has become a popular choice as a flexible packaging material in these industries in recent years.

We market our products under our brand name “Fuwei Films.” Our operations are based primarily in Shandong Province, PRC, where we manufacture our products for sale to customers engaged in flexible packaging businesses in the PRC, in particular the coastal region. We also export our products to packaging customers and distributors mainly in South Korea, the United States, Europe and others.

Our BOPET film is mainly used in the flexible packaging industry for consumer products such as those relating to processed foods, pharmaceutical products, cosmetics, tobacco and alcohol. Our products may be sub-divided into five main categories constituting the following percentages of our total revenue for each of the twelve months ended 2006, 2007 and 2008.

Category	2006	2007	2008
Printing film	21.8%	18.6%	12.6%
Stamping foil film	22.9%	21.0%	31.2%
Metallization film	8.0%	6.8%	10.1%
Special film	36.7%	37.8%	24.0%
Base film for other applications	10.7%	15.8%	22.0%

The above categorizes BOPET film products by application.

Printing film

This is a high transparency film that is corona treated on one side to provide excellent adhesion to ink. This is primarily used in printing and lamination.

Stamping foil film

This is a film that displays excellent thermal stability and tensile strength and is used in metallized film and laser stamping foil and transfer.

Metallization film

This is an aluminum plating base film that displays good thermal stability and tensile strength and provides good adhesion between film and aluminum layer. This is mainly used for vacuum aluminum plating for paper or flexible plastic lamination.

Special film

We mainly produce the following types of special film:

- **High-gloss film:** Film with high levels of reflection approaching a mirror-like surface, used for aesthetically-enhanced packaging purposes.
- **Heat-sealable film:** Film with a three layer structure. The heat-sealable film is primarily sold for use in printing and making heat sealable bags.
- **Laser holographic base film:** A directly embossable film with high transparency, used as anti-counterfeit film and for aesthetics for food, medicine, cosmetics, cigarette and alcoholic packaging.
- **Matte film:** Film with single or double matte surface, achieved by adding special additive to the base polymer, used for printing, metallization, stamping and transfer metallization.

Base films for other applications

Base films for other application are ordinary commodity polyester films with applications other than for the usages mentioned above.

Production

Our operating subsidiary, Shandong Fuwei, currently operates three production lines. The first is a Brückner 6.3 m (in width) production line with an annual designed production capacity of 13,000 tons of BOPET film. The second is a DMT 6.7 m (in width) production line, which could produce three layers co-extruded production with annual designed production capacity of 16,100 tons of BOPET film. In addition, we leased a production line in April 2007 with an annual designed production capacity of 8,000 tons. As of December 31, 2008, Shandong Fuwei has a total annual designed production capacity of 37,100 metric tons of BOPET film.

BOPET film is manufactured from polyethylene terephthalate (PET) resin, which is a petrochemical product. BOPET film is produced by melting the granulated PET resin and extruding it into a flat sheet. This sheet is stretched to 3.0 to 3.6 times its original length, and then horizontally to 3.6 times its width, before being heat-set and finally wound into reels. The orientation process (stretching during the application of heat) gives the film its mechanical strength, barrier and optical properties (clarity and gloss). Our Brückner production line comprises a single extruder which can produce single-layer BOPET film, whereas our DMT production line comprises one main extruder and two co-extruders which can produce CBOPET film comprising three layers, of which the core layer and the outer co-polymer layers are made of different materials. Depending on the additives used, the films produced have varying physical and chemical

properties. The main steps of our manufacturing process involve:

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Dosing and Mixing

PET resin is dosed and mixed with relevant additives to give it its desired characteristics. In the case of the production three-layer co-extruded BOPET film, the materials are dosed and mixed separately for each of the core and outer layers.

Extrusion/Co-extrusion

The mixed material is melted and plasticized to achieve the required homogenous state with the requisite characteristics and then it is filtered and transported to the die unit. Our DMT production line has one main extruder and two auxiliary extruders to allow us to produce multiple-layer co-extruded BOPET film.

Die Casting

The respective mixed materials are extruded from the die unit which produces a flat layered cast sheet and casted on the chill roll which is cooled by the pinning system.

Machine Direction Orientation (vertical stretching)

The cast sheet is then heated and stretched by machine direction before annealing the cast sheet, which is a process of heat-setting so as to control the shrinkage of the sheet after the vertical stretching.

Transversal Direction Orientation (horizontal stretching)

After the machine direction stretching, the cast sheet is horizontally stretched before annealing again.

Pull Roll Station

The stretched sheet is trimmed and measured for thickness. For the production of base film for printing, the surface is treated by corona treatment. Corona treatment is the process which enables the BOPET film to become receptive to printing. At the pull roll station, continuous feedback on the thickness of the BOPET film is also relayed back to the die unit which therefore ensures consistency in the thickness of the BOPET film.

Winder

The final BOPET film is then wound up into metal rolls in the mill roll by the winder.

Slitter

The wound BOPET film is then unwound from the metal rolls, divided to the requisite width and length, and wound again into paper core for delivery to customers.

Inventory Management

Our warehousing facilities are located in the Shandong Province, PRC. Our warehouses are guarded by security personnel and loss of our inventory is covered under our insurance policies. As of December 31, 2008, our total inventories amounted to approximately RMB 56.6 million and our raw materials, work-in-progress, finished goods and consumables and spare parts made up approximately 14.7%, 4.8%, 55.4% and 25.1% of our inventories, respectively.

To ensure an accurate inventory record and to monitor our inventory aging, we conduct monthly stock counts. We typically maintain sufficient raw materials for one weeks' production. For our finished goods, we typically manufacture such goods upon our receipt of orders.

Our inventory turnover periods (in days) for 2006, 2007 and 2008 were 26.0, 34.2 and 34.9, respectively. Inventory turnover is calculated as 365 days time average inventory at period/year end date divided by cost of sales in respect of the financial period/year.

There were no provisions for inventory obsolescence, inventory written off or inventory written down to net realizable value in 2007 and 2008.

Manufacturing Facilities and Utilization Rates

As of December 31, 2008, we have the following production lines:

Production Line	Designed Production Capacity	Estimated Remaining Life Span
Brückner Production Line	13,000 tons per annum	Approximately 9 years
DMT Production Line	16,100 tons per annum	Approximately 16 years
Leased Production Line	8,000 tons per annum	N/A

The designed production capacity as given by the manufacturer is determined based on the assumption of the production of a specific mix of BOPET films of varying thicknesses. Our Brückner and DMT production lines have been in use since 1996 and 2003, respectively. The production lines are depreciated on the straight-line method over their respective estimated useful lives.

Our approximate annual production volumes and the average annual utilization rates for our facilities for 2006, 2007 and 2008, based on our estimated operational production capacities were as follows.

Production Line	Approximate Annual Production Volume (tons)			Average Annual Utilization Rate (%)		
	2006	2007	2008	2006	2007	2008
Brückner Production Line	12,945	12,299	12,092	99.6%	94.6%	93.0%
DMT Production Line	14,669	12,378	13,769	91.1%	76.9%	85.5%
Leased Production Line	N/A	2,849	5,174	N/A	35.6%	64.7%

There are currently no regulatory requirements that may materially affect the utilization rates of our property, plant and equipment. However, certain of the fixed assets relating to our production lines have been mortgaged in respect of certain of our bank loans as described under “Properties” for further details.

Quality Control

The quality and reliability of our products are essential for our continued success. We adopt strict measures for quality control in the entire production process of all our products, from the purchase and selection of raw materials, to each stage of the manufacturing processes and to the final inspection of the end products. Our quality control procedures were certified for ISO 9001:2000 compliance in September 2004.

As of December 31, 2008, our product inspection and quality control department comprised of 20 employees. We have one manager, one deputy manager, one inspection supervisor, one quality control engineer, 13 end-product inspection technicians, one raw materials inspector and two sales personnel. Members of our quality control departments have had relevant training in the area of quality control in accordance with ISO 9001:2000 procedures. Our product inspection and quality control department ensures that our production process, raw materials and end products are of the quality to our customers’ satisfaction. Only products which have been endorsed with our certified quality marks are delivered to our customers.

Raw Materials

We adopt and adhere to a set of quality inspection procedures and internal controls for the procurement, selection and quality checks of raw materials. Different types of checks are utilized for different categories of raw materials. Our suppliers are also required to meet our internal qualification criteria such as the quality and pricing of their suppliers, their ability to meet our requirements and timely delivery. We conduct batch inspections for raw materials delivered to us before they are accepted and stored in our warehouses. Defective materials are returned to our suppliers for necessary corrective action to ensure that such defects are not repeated. The raw materials are inspected again prior to selection for use in the production process.

Production Process

We have established standard operational procedures and implementation rules for each stage of the production process to ensure that our products comply with and adhere to our stringent quality control standards and that our productivity is optimized. We only permit employees who have undergone and completed the relevant training to work on our production lines. At each stage of the production process, our inspectors check and ensure that our production process complies with our quality standards, while our quality control department monitors and ensures that our products-in-process and final products comply with our internal and international standards of quality control by carrying out random sampling of the products.

End Products

To ensure that our products fulfill our quality criteria established by our product inspection and quality control department, our products undergo final quality inspection upon production, labeling and packaging. Our product inspection and quality control department continues to monitor and ensure that our products are properly handled and stored in our warehouses. Prior to delivery to our customers, our products are inspected one final time to ensure that they are in good condition and not damaged.

Maintenance

Our maintenance engineers regularly maintain and repair our machinery and equipment to ensure that they are in good working order and functioning properly. We also conduct periodic maintenance of all our machinery on a rotation basis. On an average basis, we replace our filters every 25-35 days and this replacement process takes about six to eight hours. We believe that because of our stringent maintenance policies, we have not faced any major disruptions in our production processes due to a breakdown or malfunction of our machinery and equipment. Our monthly average downtime for 2008 (primarily for maintenance) was less than 1.2% of our monthly production time.

For 2008, the rejection rates of our products were generally less than 0.85% of our total production volume. Defective or inferior products that do not fulfill our quality control standards are recycled. We ensure that these recycled products meet our customers' quality standards and requirements before selling them to our customers.

New Products

Through years of R&D endeavors, we have introduced a variety of BOPET film products. The following are some of the new products for which commercial production has begun:

Product	Achievement
Laser holographic base film	Our laser holographic base film is a directly embossable BOPET film, ideal for holographic applications. This film eliminates the need to coat and prepare substrates for holographic embossing, thus reducing costs for our customers. It can be used for anti-counterfeit purposes and in packaging to help enhance the aesthetic perception of food, medicine, cosmetics, cigarettes and alcohol.
Single/double surface matte film	Our matte film is mainly used for aesthetically-enhanced packaging purposes. Our ability to produce single-sided matte films offers significant cost savings for our customers as the non-matte side of the film may be used for other applications without further processing.

Anti-counterfeit film

Our anti-counterfeit film changes color under ultraviolet rays. Accordingly, it is used for packaging branded products for anti-counterfeit purposes.

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Product	Achievement
Chemical pretreated film	Our film is pretreated in-line and coated, which results in a strong adhesion to ink and aluminum.
Heat-sealable film	Heat-sealable film is a three layers co-extruded Biaxially oriented polyester film with an amorphous polyester heat seal layer. Available with corona treatment on the non-seal side to give improved adhesion to typical packaging inks and metallizing. It cannot only provide permanent seals to itself for package bag, but also to APET, CPET, PETG and others. Heat-sealable film can be aluminized, printed and composite with other films. It is microwave ovenable film for packaging refrigerated and frozen foods.
High-gloss film	By using special raw chips and process, provides very high gloss, uniform thickness, good mechanical properties, and surface smoothness. It can be used under -70~200°C for packaging food, cigarettes, alcohol and laser embossing, holographic anti-fake and, metallic yarn..

New Product Development

We have also begun working on the following projects which are currently in the test production phase:

Product	Objectives	Commercialization Date Expected
Heat sealable film for steel	To improve the heat-sealable strength between the film and steel and adjust the stretchable capability so as to be more suitable for steel's heat sealing. Mainly used for protection and decoration of colorful armor plate for home appliances.	July 2009
White film	To be used for print, composite, coating, and others. such as advertising lamp house, release film and reflector film.	August 2009
DFR base film	To be used for dry film photo resist.	August 2009
Hot shrink film	To change the hot shrinkage rate by enlarging the draw ratio. It is mainly used for PET beverage bottle shrinkable tags. Hot shrink film uses PET structure which is the substitute of PVC shrinkable tags, which is also in line with the requirements of environmental protection and recyclable.	September 2009

We have applied for patents in respect of some of our new processes and technologies used in our business and, as of December 31, 2008, these are pending approvals from the relevant PRC authorities. We do not believe that the denial of any of these applications will affect our ability to continue to manufacture our products on a competitive basis. As our operations expand internationally, we plan to evaluate the benefits of seeking international protection of our

intellectual property in relevant markets. In addition to our patent applications, we seek to protect our proprietary know-how by subjecting our employees to confidentiality, non-compete and non-solicitation obligations through our labor contracts with them and restricting access to our research and development center and access to technology know-how to authorized personnel.

Our expenditure on research and development, excluding staff salaries and related expenses, in 2006, 2007 and 2008 were as follows (in thousands):

	Year Ended Dec. 31, 2006	Year Ended Dec. 31, 2007	Year Ended Dec. 31, 2008
	RMB		
Research and Development Expenses	3,650	1,596(1)	2,631(2)

(1)&(2) In addition to the above-mentioned expenses in 2007 and 2008 RMB of 1.6 million and 2.6 million respectively, the R&D capital expenditure is RMB 48.8 million and 3.2 million respectively.

We view research and development as an essential part of our business. In the face of increasing competition, we increased our expenditure on research and development from 2006 to 2008, as we believe that higher investment in the equipment of our R&D center and in the development of new products and upgrading of existing products will enhance our ability to compete.

Sales, Marketing and Key Customers

As of December 31, 2008, our sales and marketing department comprised of 16 employees in the domestic sales division and 6 employees in the international sales division. Our sales and marketing department is responsible for our market penetration, such as cultivating new customers and businesses, and market development such as developing existing accounts through better service support and customer relationship. In addition, we also conduct market research of the flexible packaging industry. Our management is actively involved in overseeing and supervising our sales and marketing activities and often visits our clients together with our sales personnel. They have established and maintained close business relationship with our key customers.

Customers and Markets

Over the past years, we have established good working relationships with our customers in the flexible packaging industry. Our products are mainly used in the packaging of consumer products such as those relating to processed foods, pharmaceutical products, cosmetics, tobacco and alcohol.

The majority of our domestic customers are located in the coastal region of the PRC. Our overseas customers are mostly based in South Korea, the United States, Europe and others. In 2007, sales from our domestic and overseas customers constituted approximately 86.9% and 13.1%, respectively, of our annual revenue. Although we are continuing to expand to international markets, as substantially most of our business is currently conducted in mainland China and we have not taken any action outside mainland China to protect our intellectual property. Please see the section entitled "Research and development, patents and licenses" on page 50 for an explanation of the extent to which our products are dependent on intellectual property protection.

The following are our top five customers and their respective percentages of contribution to our total revenue for each of the years ended December 31, 2006, 2007 and 2008:

Name of Customer	Percentage of Total Revenue (%)		
	2006	2007	2008
Dongguan Klaser Technologies Co.,Ltd.	0.3	0.9	4.9
Woo Sung Multi -film Co. Ltd.	0.9	8.5	3.5
Dare Technical Co., Ltd. Danyang Advance Packaging Material Subsidiary Company	2.4	3.1	3.4

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Cangnan Shuncheng packaging material trade Co., Ltd.	1.1	2.2	3.2
Holotek Technology Co., Ltd.	-	0.9	2.7

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None of our customers accounted for more than 10% of our total revenue in any of the previous three years.

None of our directors or principal shareholders or any of their affiliates has any interest, direct or indirect, in any of our customers listed above.

Since the second half of 2004, we have begun the sale of specialized BOPET products. These products represented approximately 24.0% of our total revenue during the year ended December 31, 2008.

Sales

Because of our broad range of product offerings and customers, our sales and marketing efforts are generally specific to a particular product, customer or geographic region. Most of our products are sold by our own direct sales force. These salespeople, including our management, maintain close relationships with customers by paying visits to our customers from time to time to understand their needs, and to obtain their feedback and suggestions. Our sales personnel provide technical support to our customers when required. We also regularly invite our existing and potential customers to our manufacturing facilities for visits as we believe that such visits enable our customers to better understand our production processes and operations and also enhance our customers' confidence in us.

We adopt a risk assessment model to our customer credit management system, and we offer different credit terms to our customers based on criteria such as working relationship, payment history, creditworthiness and their financial position. We offer our domestic customers credit terms of up to 30 - 45 days. Our international sales are settled through telegraphic transfer and letters of credit, which generally have payment terms of between 30 and 60 days.

We offer a basic salary and commission package for our sales personnel. The scale for the commission payable is dependent on a number of factors such as sales completion targets, debt collection, and credit rating of our customers, customer service rendered, customer feedback and development of new customers.

Customer Service

We place great emphasis on good, fast and effective pre-sales and after-sales customer support services. As such, all our sales personnel have undergone stringent training and have sufficient knowledge and understanding of our products. Our sales personnel are responsible for coordinating and providing after-sales services which include following through with our customers' orders, maintaining relationships with our customers, handling complaints effectively, ensuring that our customers' needs are met and understanding the future needs of our customers. Our quality department gives support to our customer service, and is responsible for explaining questions related to our products usage from customers. If there are complaints as to our product quality, they are responsible for receiving and settling complaints on our customers' site.

Marketing

We have the following marketing channels:

- we regularly attend trade fairs and exhibitions as we believe that they serve as a good platform for us to exhibit our new products and expand our sales network. In addition, participation in seminars, fairs and exhibitions provides us with opportunities to network with our potential and existing customers and allows us to obtain up-to-date information on new products, market trends and consumer demand;
- referrals from existing customers as well as business associates to generate sales opportunities; and

- promotion through our corporate website. Information on our products and services are also found on our corporate website, which allows us to reach out to potential domestic and overseas customers.

Our sales personnel also conduct PRC domestic and overseas market surveys and research. The statistics, findings and information obtained from such surveys and research are then passed on to our management and production department for their analysis on the demand for and supply of our products, which allows them to make adjustments to our production and sales targets, as well as our marketing strategies.

Suppliers and Raw Materials

Suppliers

We purchase raw materials according to the relevant technical specifications and production requirements. We select our suppliers based on the following considerations and/or methods:

- the consistency of the quality of raw materials supplied and any relevant certifications;
 - our inspection of the supplier's quality control system;
 - positive feedback from the supplier's other customers;
 - pricing of raw materials;
 - timely delivery of raw materials;
 - the supplier's financial position and viability;
 - the service provided by the supplier;
- qualifying suppliers by sample testing and batch purchasing of their raw materials; and
 - annual evaluation and review of our suppliers.

The following are the suppliers that supplied 5% or more of our purchases of raw materials for each of the years ended December 31, 2006, 2007 and 2008:

Name of Supplier	Supply	Percentage of total purchases (%)		
		2006	2007	2008
Sinopec Yizheng	PET resin	58.5	46.4	44.8
Hyosung Corporation	PET resin	2.1	18.0	5.0
Yizheng Tianbao Polyester Co., Ltd.	Additives	23.9	16.6	10.3
Jiangyin Xingtai New Material Co., Ltd.	PET resin	6.7	12.3	9.7

We purchase the majority of our PET resin from Sinopec Yizheng as the quality of its supply of PET resin consistently meets our requirements. We currently have an annual supply agreement with Sinopec Yizheng pursuant to which Sinopec Yizheng has agreed to supply us fixed quantities of PET resin monthly at the prevailing market prices. Such supply agreement is renewable annually. We have not entered into any long-term supply contracts with any other supplier. Our purchases of raw materials are on a cash basis. While we believe that there are only a limited number of suppliers of PET resin that can consistently meet our quality and quantity requirements on a timely basis, there are numerous PET resin suppliers in the PRC or overseas market from whom we may easily obtain PET resin, on a short-term basis, if necessary.

None of our directors or principal shareholders or any of their affiliates has any interest, direct or indirect, in any of our major suppliers mentioned above.

Raw Materials

The main raw materials that we purchase from our suppliers are as follows:

Raw Material	Percentage of Total Purchases (%)			Country
	2006	2007	2008	
PET resin	68.0	59.8	70.6	PRC
Additives	27.1	22.1	22.8	PRC
PET resin	4.9	18.2	6.6	Korea

The market prices of PET resin and additives may fluctuate due to changes in supply and demand conditions. Any sudden shortage of supply, or significant increase in demand, of PET resin and additives may result in higher market prices and thereby increase our costs of sales. The prices of PET resin and additives are, to a certain extent, affected by the price movement of crude oil. Since September 2008, the intense fluctuation of the crude oil price has significantly affected the price of raw materials. Prior to August 2008, the crude oil price had maintained a higher price which kept the price of PET resin and additives at a high level. However, since September 2008, the crude oil price has significantly decreased which has led to a significant decline of the price of PET resin and additives.

As we are unable to predict the price movements of such raw materials and to minimize the impact of such price fluctuations on our cost, we generally purchase such raw materials in quantities sufficient for our production process for approximately one week. We may also adjust the prices of our end products, when appropriate, and pass portion of cost increases to our customers.

Competition

We face intense competition in the PRC plastic film industry. We believe that there are currently many plastic film manufacturers in the PRC and we expect further entrants into this market in the future. Among the flexible packaging industries, in particular those involving packaging of processed food and pharmaceutical products, the primary types of plastic films in the packaging products include BOPET, Biaxially oriented polyester (BOPP); and Biaxially oriented polyamide (BOPA).

The following table gives a general comparison of the key differences in the technical specifications and usage of the above types of plastic films.

Comparison of BOPP Film, BOPET Film and BOPA Film(1)

Features	BOPP	BOPET	BOPA
Water vapor barrier	Excellent	Fair	Poor
Gas barrier properties	Poor	Excellent	Excellent
Break down voltage	Poor	Excellent	Excellent
Machine-ability	Fair	Excellent	Excellent
Print-ability	Fair	Excellent	Fair
Suitability for Metallizing	Poor	Excellent	Fair
Density (gm/cc)	Low (0.91)	High (1.39)	Medium (1.15)
Tensile strength	Poor	Excellent	Excellent

(1) This comparison is based on the book of Biaxially Oriented Plastics Film, edited by Yanping Yin and published by China Chemical Press in August 1999.

The production of BOPET film in the PRC presents high barriers to entry, such as requiring a large capital investment to acquire or manufacture a production line and to support productive research and development of new products, and the need for the services of experienced management and personnel with technical expertise. We believe that we are

one of the few BOPET film manufacturers in the PRC with research and development capabilities.

We believe that the major competitive factors in our industry include:

- research and development capability;
- quality and reliability of products;
- technical/manufacturing capability; and

- industrial reputation.

We believe that our major competitors in BOPET manufacturing are currently:

- Dupont Hongji Films Foshan Co., Ltd;
- Yihua Toray Polyester Film Co., Ltd.; and
- Ningbo Shunsu Film Co., Ltd.

We believe that we have established a good reputation and management track record as a manufacturer of BOPET film and are able to offer quality products.

C. Organizational structure.

The following table set forth the details of our subsidiaries as at the date of this Annual Report:

Name	Country of Incorporation	Ownerships Interests	Direct Parent
Fuwei Films (Shandong) Co., Ltd.	China	100% wholly owned by Direct Parent	Fuwei Films (BVI) Co. Ltd.
Fuwei (BVI) Co., Ltd.	British Virgin Islands	100% wholly owned by Direct Parent	Fuwei Films (Holdings) Co. Ltd.

D. Property, plant and equipment.

Our corporate headquarters and production and ancillary facilities occupy an area of approximately 74,251 square meters in Weifang City, Shandong Province. The land at our facilities is covered by land use rights held by us. The land use rights for the land upon which our buildings and facilities are located have terms of 50 years, the earliest of which expires in November 2050. All of our research and development, manufacturing, warehousing and administrative functions are conducted at our corporate headquarters. The total gross floor area of production and other facilities owned by us is approximately 29,808 square meters. We own all the buildings and facilities on the premises. Most of our land use rights, office buildings and two facilities in operation have been mortgaged to a bank in the PRC for loans totaling RMB 167.6million. Additionally, the workshop area of the leased production line is 9,310 square meters (including the warehouse).

We are in the process of constructing our new production line located in Weifang Hi & New Technology Development Zone. We anticipate that this new production line will produce BOPET film that is between 50 to 250 microns thick. The BOPET film produced using this new production line is targeted at industrial use, such as the TFT-LCD screen films. The construction of the plants has already been completed. We initially planned to obtain additional funding during the first half of 2008 and complete the production line construction at the end of 2008. Due to various reasons, such as the general weakened economy and our inability to obtain financing through issuing shares or bonds caused by the continuous decline in our share price, we could not fulfill the financing plan as expected. However we are still making great efforts to obtain additional funding to complete the project. If the project becomes further postponed, there may be contract disputes between us and the suppliers of the project, which will significantly impact our operations.

Item 4 A. Unsolved Staff Comments

None.

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Item 5. Operating and Financial Review and Prospects

MANAGEMENT'S DISCUSSION AND
ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our consolidated financial statements included in this Annual Report beginning on page F-1. The consolidated financial statements have been prepared in accordance with U.S. GAAP. The following discussion and analysis contain forward-looking statements that involve risks and uncertainties.

Overview

We develop, manufacture and distribute high quality plastic film using the Biaxially oriented stretch technique, otherwise known as BOPET film. Since the establishment of our predecessor company in 2003, all of our revenues have been derived from the sales of BOPET film. We sell most of our BOPET film products to domestic customers in China in the flexible packaging industry. We established an international sales division in June 2004 and have been selling our products into overseas markets, most notably South Korea the United States, Europe and others.

Our Operating History and Corporate Structure

The diagram below illustrates our corporate structure:

Shandong Fuwei, our PRC operating subsidiary, was formed on January 28, 2003, as a Sino-foreign equity joint venture under the name Weifang Fuwei Plastic Co., Ltd. In July 2003, this company began production of BOPET film, initially renting the necessary fixed assets from Shandong Neo-Luck, a company involved in BOPET film production for which Mr. Xiaoming Wang, our current executive officer, served as executive officer at the time.

Shandong Fuwei subsequently acquired these fixed assets through two auction proceedings, the first in October of 2003 and the second in December 2004. At the first auction proceeding in October 2003, Shandong Fuwei acquired assets related to the Brückner production line that it had been renting from Shandong Neo-Luck. This line had been previously mortgaged by Shandong Neo-Luck to the Bank of China, Weifang city branch as security for several loans extended to Shandong Neo-Luck's affiliates. When these loans went into default, the Bank of China brought a series of legal actions in Weifang Municipal People's Court that resulted in the assets securing the loans being sold at a public auction. Following its successful bid at an auction on October 9, 2003, Shandong Fuwei acquired the Brückner production line (with an appraised value of approximately RMB 169 million) for RMB 156 million.

In November 2003, Shandong Fuwei's shares were sold to Shenghong Group Co., Ltd. ("Shenghong Group") and Shandong Baorui for an aggregate consideration of RMB 98.2 million. Tongju Zhou, a former director of the Company, and Duo Wang each indirectly own 50% of Easebright Investments Limited ("Easebright"), one of our principal shareholders, and are both officers and directors of Shandong Baorui. Jun Yin and Duo Wang own 17.5% and 4.6%, respectively, of Shandong Baorui. In 2004, Messrs. Zhou and Wang, along with Jun Yin established several offshore holding companies in the British Virgin Islands and the Cayman Islands to acquire and hold these shares. In October 2004, Fuwei (BVI) entered into a sale and purchase agreement with Shenghong Group and Shandong Baorui pursuant to which Fuwei (BVI) acquired the respective equity interest of Shenghong Group and Shandong Baorui in Shandong Fuwei for an aggregate consideration of RMB 91 million. Shandong Fuwei thereafter became a wholly-owned subsidiary of Fuwei (BVI) and was converted into a wholly-foreign owned enterprise pursuant to PRC law.

As a result of its ongoing financial difficulties, Shandong Neo-Luck was declared bankrupt by the Weifang Municipal People's Court in the PRC on September 24, 2004. Prior to the bankruptcy, Shandong Neo-Luck's then major operating asset, the DMT production line, had been pledged by Shandong Neo-Luck to Weifang City Commercial Bank. When Shandong Neo-Luck was declared bankrupt, the Shandong Branch of the Bank of China seized the production line by order of the Qingdao Intermediate People's Court and the Qingdao Southern District People's Court while the Weifang Branch of Bank of Communications did so through Weifang Intermediate People's Court. As such, the effectiveness of the pledge in favor of Weifang City Commercial Bank was under dispute. Subsequently, pursuant to the decision from Weifang Intermediate People's Court, Weifang City Commercial Bank ranked senior in terms of the right of claims.

The pledged DMT production line was put up for public auction by the Shandong Neo-Luck liquidation committee on October 22, 2004. In view of the above complexities, the auction was deemed to be tremendously risky at that time, and therefore, our PRC operating subsidiary did not directly participate in the first auction, which began with a bid price of approximately RMB 53 million by reference to an independent valuation performed on a forced sale basis. However, due to the potential tremendous risk involved, the auction had been withdrawn twice and the starting bid price had been further reduced to approximately RMB 34 million and was finally purchased by Beijing Baorui, a company indirectly controlled by Shandong Baorui. When the DMT production line was put for public auction by Beijing Baorui three months later, our PRC operating subsidiary purchased it for approximately RMB 119 million, which was supported by an independent valuation performed on a going concern basis. We understood that acquiring the DMT production line from Beijing Baorui through the first auction would be an effective way to minimize the risk associated with the uncertainties arising from the bankruptcy of Shandong Neo-Luck. The price difference of approximately RMB 85 million represented a risk premium paid to Beijing Baorui, which bore the ultimate risks of recourse from creditors of Shandong Neo-Luck..

A few years subsequent to the auction, the PRC government conducted an investigation into the conduct of certain individuals in connection with such transactions and has determined that Messrs Yin, Wang and Zhou committed the crime of misappropriation of state owned assets by verdict of the Jinan Intermediate People's Court in the city of Jinan, Shandong Province. At the time of the Company's initial public offering, we had obtained an opinion of PRC counsel with respect to the validity of the auction proceedings under PRC law, although you should read the description of the opinion and the subsequent development in March 2009 described set forth under the title "Risk Factors — The circumstances under which we acquired ownership of our main productive assets may jeopardize our ability to continue as an operating business." Certain of the assumptions relied upon in providing that opinion have been called into question by the verdict referred to above.

Key Factors Affecting Our Results of Operations

The following are key factors that affect our financial condition and results of operations and we believe them to be important to the understanding of our business:

Raw Material Prices

During the period for the years ended 2006, 2007 and 2008, the total cost of raw materials made up approximately 80.9%, 76.0% and 78.6% of our cost of goods sold, respectively. The primary raw materials used in our production of BOPET film are polyethylene terephthalate (or PET) resin and additives, which made up approximately 76.1%, and 23.9%, respectively, of our total cost of raw materials in 2008. PET resin trades as a commodity and its market price is influenced significantly by global energy prices, including the price of crude oil. In addition, PET resin is also largely used in the textile industry and accordingly the demand from that industry will also affect the price of PET resin.

Although we try to pass on all increases in our raw material costs to our customers, and have generally been able to pass partial certain increases in recent years on to them, we are occasionally constrained partially in this regard by industry practice and preexisting obligations. We obtain a significant amount of the PET resin used at our facilities from one supplier, who has agreed to supply us fixed quantities of PET resin monthly at the prevailing market price. We have not engaged in any hedging transactions to limit our exposure to fluctuations in the market prices of these raw materials or their components. We believe that there are sufficient alternative suppliers of PET resin if our existing suppliers are unable to supply us PET resin in the amounts or in the time frame we may require.

Prices of Our Products

Our BOPET film products generally fall into two categories: commodity products and specialty products. The price of commodity products, such as our printing, stamping foil and metallization films, is typically driven by supply and demand conditions in the market. We have more control over setting the prices for our specialty products, such as our laser holographic based film, and our matte and high-gloss films.

As selling prices are generally higher for those types of BOPET film products which require higher technical expertise, our revenue will be affected, to certain extent, by our product mix. Our product mix is dependent on, among other things, our production facilities. Presently, our Brückner production line is capable of producing single-layer BOPET film while our DMT production line is capable of producing both single-layer and three-layer BOPET films.

Demand for Our Products

We have been able to expand our product range and markets by introducing new products required by customers. We believe that our technical expertise is important in introducing products that are in demand.

Our BOPET film products are mostly sold to customers in the flexible packaging industry for consumer products such as processed foods, pharmaceutical products, cosmetics, tobacco and alcohol. In the fiscal years ended December 31, 2006, 2007 and 2008, approximately 79.0%, 75.5% and 86.9%, respectively, of our total revenue was derived from the PRC. The demand for our products is therefore, to a large extent, affected by the general economic conditions in the PRC. A significant improvement in the economic environment in the PRC will likely improve consumer spending, increase the demand for our customers' products and consequently increase the demand for our BOPET film. However, the economic downturn of the PRC market will impact our customers' demand and will decrease of the demand for our products. For example, since the global financial crisis, which began in the fourth quarter of 2008, our operation has been adversely affected as a result of the insufficient demand of our products in the global market.

Production Capacity and Utilization Rates

Our sales volume is limited by our operational annual production capacity.

As we grow our business in the future, our ability to fulfill more and larger orders will be dependent on our ability to increase our production capacity. As our business is capital-intensive, our ability to expand our production capacity will depend on, inter alia, the availability of capital to meet our needs of expansion or upgrading of production lines.

Competition

We believe that we are currently one of the few producers of BOPET film in the PRC with research and development capability. Our past financial performance is attributable to our market position in the industry. Over time, there may be new investors into our industry, and the current BOPET film manufacturers may expand their production capacity. We believe that currently our major competitors in the BOPET manufacturing market in the PRC include Dupont

Our ability to enhance existing products, introduce new products to meet customers' demand, deliver quality products to our customers and maintain our established industry reputation will affect our competitiveness and our market position.

Our ability to compete against new and existing competitors to maintain or improve our market position and secure orders will affect our revenue and financial performance.

Description of Certain Statements of Income Line Items

Revenues

Revenue from the sale of our domestic BOPET film products is recognized when significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognized if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods, or when the amount of revenue and costs incurred or to be incurred in respect of the transaction cannot be measured reliably. In respect of our overseas sales, we ship directly to the destinations of our overseas customers and our revenue is recognized at the time when we receive customs clearance of our exports. Most of our overseas sales were conducted on a Cost, Insurance and Freight (or "CIF") basis, meaning that we pay the costs and freight necessary to get the products to the port of destination, and the risk of loss is transferred from us to the buyer when the goods pass the ship's rail at the port of destination. In addition, we have to procure marine insurance against the buyer's risk of loss of damage to the goods during the carriage. Most of our sales invoices are denominated in the Renminbi Yuan, although certain of our overseas sales are denominated in US dollars.

Cost of Goods Sold

Our cost of goods sold comprises mainly of materials costs, factory overheads, packaging materials and direct labor. The breakdown of our cost of goods sold in percentage is as follows:

	Year Ended Dec. 31, 2006	Year Ended Dec. 31, 2007	Year Ended Dec. 31, 2008
Materials costs	80.9%	80.9%	78.6%
Factory overhead	15.9%	15.5%	17.2%
Packaging materials	2.6%	2.7%	2.9%
Direct labor	0.6%	0.9%	1.3%

Material Costs

As noted above, the raw materials used in our BOPET film production are PET resin and additives, which made up approximately 76.1% and 23.9%, respectively, of our total materials costs in 2008.

Factory Overhead

Factory overhead comprises primarily of depreciation, electricity and water charges, and repair and maintenance of our machinery and equipment. In 2008, the repair and maintenance of our machinery and equipment were RMB 5.1 million, accounting for 1.4% of Cost of Goods Production.

Packaging Materials

Our packaging materials comprise of, among other things, packaging pallets and carton boxes, used for the packaging of our BOPET film products for delivery to customers. Generally, our unit cost of packaging materials does not fluctuate significantly and our total costs for packaging materials typically vary in line with our sales volume.

Direct Labor

Direct labor cost includes salaries, wages, bonuses and other payments to our employees in the PRC who are involved in the production of our products. The main factors affecting our direct labor cost are the demands and supplies of semi-skilled labor and the implementation or changes of any new government policies or laws relating to employment, such as defined contribution plans stipulated by the PRC municipal government.

Operating Expenses

Our operating expenses comprise of administrative expenses, distribution expenses and other operating expense.

Our administrative expenses comprise mainly of allowance for doubtful trade receivables, administrative staff salaries and related welfare costs, entertainment expenses, depreciation charges of office equipment, furniture and fixtures, amortization charges relating to our trademark and land use rights, professional fees, government duties and fees, insurance expenses, rental expenses, travel expenses, office expenses, research and development expenses, and other miscellaneous expenses.

Our distribution expenses comprise mainly of freight costs, travel expenses, selling and promotion expenses as well as salaries, allowances and welfare benefits paid to our sales and marketing personnel.

Our gross margins may not be comparable to those of other entities, since some entities include all of the costs related to their distribution network in cost of goods sold.

Other operating expenses comprise mainly of loss on disposal of property, plant and equipment and other miscellaneous expenses.

Finance Costs

Finance costs comprise mainly of interest expense relating to our loans, exchange deficit, bank charge and interest paid on discounting outstanding accounts receivable.

Income Tax Expense

For the period from January 28, 2003 to December 31, 2004, Shandong Fuwei was granted certain tax relief under which it was exempted from PRC income tax. As of January 2005, Shandong Fuwei has been a wholly foreign-owned enterprise under the laws of the PRC. Accordingly, Shandong Fuwei is entitled to tax concessions whereby the profit for the first two financial years beginning with the first profit-making year (after setting off tax losses carried forward from prior years) is exempt from income tax in the PRC and the profit for each of the subsequent three financial years is taxed at 50% of the prevailing tax rates set by the relevant tax authorities.

On March 16, 2007, the National People's Congress of the PRC passed the Enterprise Income Tax Law of the People's Republic of China, which law will take effect on January 1, 2008 (the "New Tax Law"). Under the New Tax Law, domestic enterprises and foreign-invested enterprises will generally become subject to a unified enterprise income tax rate of 25%, except that enterprises incorporated prior to March 16, 2007 may continue to enjoy existing preferential tax treatments until January 1, 2013. In addition, certain qualifying "High Technology Enterprises" may still benefit from a preferential tax rate of 15% under the New Tax Law if they meet the definition of "Government Developing High Technology Enterprise" to be set forth in the more detailed implementing rules when they become adopted. Shandong Fuwei was redesignated as a High-and-New Tech Enterprise in December, 2008 and enjoyed the favorable income tax rate of 15% pursuant to the New Tax Law in 2008.

Inflation

According to the National Bureau of Statistics of China, the change in the consumer price index in China was 1.5% and 4.8%, 5.9% in 2006, 2007 and 2008, respectively. Inflation in the PRC has not had any material impact on our business in 2006, 2007 and 2008. But since 2008, the increase in raw materials and energy in China has resulted in the increase of our costs, such as raw materials costs, freight costs and packaging costs. Meanwhile, the Chinese government has required increasing the salaries and welfare (such as increase pensions) of the employees, resulting in the increase of our labor costs in 2007.

Critical Accounting Policies

We prepare our financial statements in accordance with the U.S. GAAP, which requires us to make estimates and assumptions that affect the reported amounts of our assets and liabilities, to disclose contingent assets and liabilities on the date of the financial statements, and to disclose the reported amounts of revenues and expenses incurred during the financial reporting period. We continue to evaluate these estimates and assumptions based on the most recently available information, our own historical experience and various other assumptions that we believe to be reasonable under the circumstances. We rely on these evaluations as the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Since the use of estimates is an integral component of the financial reporting process, actual results could differ from those estimates. Some of our accounting policies require higher degrees of judgment than others in their application. We consider the policies discussed below to be critical to an understanding of our financial statements as their application assists management in making their business decisions.

Goodwill Impairment Goodwill is tested for impairment at least annually based on a two-step approach. The first step is conducted by comparing the fair value of each reporting unit to its carrying amount, including goodwill. If the fair value of a reporting unit is less than its carrying amount, the second step requires a comparison of the implied fair value of goodwill to its carrying value. The excess of the fair value of the reporting unit over the amounts assigned to the assets and liabilities is the implied fair value of goodwill. This allocation process is only performed for purposes of evaluating goodwill impairment and does not result in an entry to adjust the value of any assets or liabilities. An impairment loss is recognized for any excess in the carrying value of goodwill over its implied fair value.

We have determined that Shandong Fuwei, our operating subsidiary in the PRC, is the reporting unit for goodwill impairment testing. The fair value of Shandong Fuwei is determined based on the discounted expected cash flow method. The discount rate was based on the subsidiary's weighted average cost of capital. The use of discounted cash flow methodology requires significant judgments including estimation of future revenues and costs, industry economic factors, future profitability, determination of Shandong Fuwei's weighted average cost of capital and other variables. Although we believe that the assumptions adopted in our discounted cash flow model are reasonable, those assumptions are inherently unpredictable and uncertain.

We had goodwill of RMB 10.3 million, as of December 31, 2006, 2007 and 2008. The estimated fair value of the reporting unit significantly exceeded its carrying value at December 31, 2008. Consequently, no goodwill impairment has been recognized.

Collectibility of Accounts Receivable Our management 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. Generally, we offer our customers in the PRC credit terms of up to 30-45 days. Our international sales are settled through telegraphic transfer and letters of credit, which generally have payment terms of between 30 and 60 days.

We adopt a risk assessment model to our customer credit management system, and we offer different credit terms to our customers based on criteria such as working relationship, payment history, creditworthiness and their financial position. All credit terms are to be approved by our finance department, in consultation with our sales and marketing department. For extension of larger credit limits, approvals have to be sought from our credit committee which is made up of members from our finance department, sales department and the General Manager. Our finance department and sales and marketing department review our outstanding debtor balances on a monthly basis and follow up with customers when payments are due. We do not impose interest charges on overdue account receivable.

As of December 31, 2008, our largest trade debtor was Dongguan Klaser Technologies Co., Ltd, a company based in PRC. The trade receivables from Dongguan Klaser Technologies Co., Ltd amounted to approximately RMB6.6 million as of December 31 2008, of which RMB 0.5 million exceeded the credit term granted. We collected the excess amount in January 2009.

We make specific allowance for doubtful trade receivables when our management takes the view (taking into account the aging of trade receivables and in consultation with our sales and marketing department) that we will not be able to collect the amounts due. Our customers pay by installments, creating long accounts receivable cycles. We provide for an allowance for doubtful accounts based on our best estimate of the amount of losses that could result from the inability or intention of our existing customers not to make the required payments. We generally review the allowance by taking into account factors such as historical experience, age of the accounts receivable balances and economic conditions.

Specific write-off of trade receivables is made when the outstanding trade receivables have been due for more than two years.

The analysis of the allowance for doubtful amounts for 2006, 2007 and 2008 is as follows (in thousands):

	2006 RMB	2007 RMB	2008 RMB	2008 US\$
Balance at beginning of year	2,015	872	2,644	386
Bad debt (recovery) / expense	(1,143)	1,772	1,430	209
Write-offs	–	–		
Balance at end of year	872	2,644	4,074	594

Impairment of Long-lived Assets We review periodically the carrying amounts of long-lived assets, including property, plant and equipment and intangible assets, to assess whether they are impaired. We test these assets for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable, such as a change of business plan, technical obsolescence, or a period of continuous losses. When we determine an asset or asset group is not recoverable, we adjust the carrying amount to fair value. We measure the recoverability of assets by comparing the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset, or, for identifiable intangibles with finite useful lives, by determining whether the amortization of the intangible asset balance in the remaining life can be recovered through undiscounted future cash flows. In determining estimates of future cash flows, significant judgment in terms of projection of future cash flows and assumptions is required. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the excess of the carrying amount of the asset over its fair value. Fair value is determined by discounting forecasted cash flow or utilizing an observed market value if readily determinable. There has been no impairment charges recognized for the year through December 31, 2006, December 31, 2007 and December 31, 2008.

Results of Operations

The following discussion of our results of operations is based upon our audited consolidated financial statements beginning on page F-1 of this Annual Report.

The table below sets forth certain line items from our Statement of Income as a percentage of revenues:

Year Ended Dec. 31, 2006	Year Ended Dec. 31, 2007	Year Ended Dec. 31, 2008
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	(% of Total Revenue)		
Gross Profit	23.5	22.2	15.7
Operating expenses	5.6	7.9	10.2
Other expense	(2.2)	(2.7)	(0.8)
Income tax expense	(0.2)	(1.0)	(0.7)
Net income	15.5	10.6	4.1

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Fiscal year ended 2008 compared to fiscal year ended 2007

Revenues

Our revenue can be analyzed as follows:

	December 31, 2007		December 31, 2008	
	(RMB in thousands)	% of Total	(RMB in thousands)	% of Total
Printing film	83,453	18.6	56,607	12.7
Stamping film	94,366	21	139,571	31.2
Metallization film	30,668	6.8	45,148	10.1
Base film for other applications	70,925	15.8	98,526	22.0
Special film	169,961	37.8	107,404	24.0
	449,373	100	447,255	100

During the fiscal year ended December 31, 2008, our revenues were RMB 447.3 million, which is a decrease of, RMB 2.1 million, or 0.5%, as compared to the same period for 2007. In 2008, sales of special films were RMB 107.4 million and 24.0% of our total revenues as compared to RMB 170.0 million and 37.8% in 2007, which is a decrease of RMB 62.6 million, or 36.8%, as compared to the same period in 2007. The decrease, in the first three quarters of 2008, was largely attributable to the change in demand for luxurious packaging caused by the change in regulations in the packaging design of tobaccos, which require a large quantity of our laser holographic base film and matter film, as well as others. In addition, the global financial crisis, which began in the second half of 2008, has caused a further decline in the demand for specialty film.

Cost of Goods Sold

Our cost of goods sold was RMB376.9 million for the year ended December 31, 2008, which is an increase of RMB 27.4 million or 7.8%, as compared to the same period for 2007. The increase resulted from the increased sales quantity in 2008 by 3,508 ton, or 12.7 %.

Gross Profit

Our gross profit during the year ended December 31, 2008 was RMB 70.3 million representing a gross margin of 15.7%, compared to 22.2% for the year ended December 31, 2007. The decrease in gross profit margin was mainly due to the decline in sales quantity of specialty films and a sharp decline in sale prices as a result of the global financial crisis.

Operating Expenses

Our operating expenses during the year ended December 31, 2008 was RMB 45.7 million, which is an increase of RMB 10.2 million or 28.5%, as compared to the same period for 2007. The increase was mainly a result of increases in the costs of professional service fees related to being a public company and increased delivery fees caused by expanded sales quantity and the allowances for doubtful account receivable and other receivables.

Other Expense

Our other expenses during the year ended December 31, 2008 was RMB 3.5 million, which is a decrease of RMB 8.8 million, or 71.8%, as compared to the same period for 2007. The decrease was mainly due to the decreased expenditure of interest by RMB 1.1 million and capitalized expenditure of interest by RMB 7.7 million.

Income Tax Expense

The effective tax rate was 14.0% in 2008 and 8.7% in 2007. The higher effective tax rates were primarily attributable to the fact that our operating subsidiary, Shandong Fuwei, was subject to the 15.0% income tax rate in 2008 pursuant to the prevailing PRC income Tax Law, while such rate was 7.5% in 2007.

Fiscal year ended 2007 compared to fiscal year ended 2006

Revenues

Our revenue can be analyzed as follows:

	December 31, 2006		December 31, 2007	
	(RMB in thousands)	% of Total	(RMB in thousands)	% of Total
Printing film	95,315	21.8	83,453	18.6
Stamping film	99,856	22.9	94,366	21.0
Metallization film	34,772	8.0	30,668	6.8
Base film for other applications	46,784	10.7	70,925	15.8
Special film	160,157	36.6	169,961	37.8
	436,884	100.0	449,373	100.0

During the fiscal year ended December 31, 2007, our revenues were RMB 449.4 million, which is an increase of RMB 12.5 million, or 2.9%, as compared to the same period for 2006. In 2007, sales of special films were RMB 170.0 million and 37.8% of our total revenues as compared to RMB 160.2 million and 36.7% in 2006, which is an increase of RMB 9.8 million, or 6.1%, as compared to 2006. The increase was largely attributable to an increase in the sales of heat-sealable films, high-gloss films, and other special films as more customers shifted to use high-end special films for packaging to enhance their product image, and continued growth in export sales to South Korea, the United States, Europe and others. The increase was also due to increased sales from the rental production.

Cost of Goods Sold

Our cost of goods sold amounted to RMB 349.5 million for the year ended December 31, 2007, which is an increase of and was RMB 15.2 million, or 4.5%, as compared to 2006. The increase resulted from the increase of raw material costs, packaging costs, and labor costs. In addition, since the second half of 2007, the decrease of export tax rebates rate from 11% to 5% has also largely increased our cost of goods sold by RMB 2.5 million.

Gross Profit

Our gross profit during the year ended December 31, 2007 was RMB 99.8 million representing a gross margin of 22.2%. Gross margin decreased 1.3% from 23.5% for the year ended December 31, 2006 to 22.2% in 2007 mainly due to increased raw material consumption on the rental production line. In addition, since the second half of 2007, the decrease of export tax rebates rate from 11% to 5% has also decreased our gross profit.

Operating Expenses

Our operating expenses during the year ended December 31, 2007 was RMB 35.6 million, which is an increase of RMB 11.1 million, or 45.1%, as compared to 2006. This increase was mainly as a result of increases in the costs of professional service fees related to being a public company and administrative expenses, such as wage increases. During 2007, our operating expenses as a percentage of revenue was 7.9% which was comparable to that in 2006, which was 5.6%.

Other Expense

Our other expenses during the year ended December 31, 2007 was RMB 12.3 million, which is an increase of RMB 2.7 million, or 28.1% as compared to 2006. The increase was mainly due to the decrease in other income by RMB 2.8 million.

Income Tax Expense

The effective tax rate was 8.7% in 2007 and 1.1% in 2006. The higher effective tax rates were primarily attributable to the fact that our operating subsidiary, Shandong Fuwei was subject to the 7.5% income tax rate in 2007 pursuant to the prevailing PRC income Tax Law, while such rate was 0% in 2006.

Liquidity and Capital Resources

Since inception, our sources of cash were mainly from cash generated from our operations and borrowings from financial institutions and capital contributed by our shareholders.

Our capital expenditures in 2008 have been primarily financed through short-term borrowings from financial institutions and from our initial public offering funds. The interest rates of short-term borrowings from financial institutions during the three year period from 2006 to 2008 ranged from 0% to 6.73%, and these borrowings may not be prepaid prior to maturity. We believe that our principal banker in Shandong Province had been granting short-term loans to its customers as a result of the efforts of the bank branch to reduce the level of its long-term loans.

Since our inception, we have utilized significant amounts of secured short-term financing to fund our acquisition of the Brückner and DMT production lines and our working capital needs. At December 31, 2008, we had borrowings of RMB 169.8 million including several different loan agreements with three financial institutions in the PRC. In January 2009, we received an extension for our RMB20 million loan agreement, of which RMB10 million was extended for a term of one year and the remaining RMB10 million was extended for a term of three years. During 2008, we received an interest-free loan of RMB 25 million from the Weifang City Commercial Bank entrusted by the Weifang City Hi & New Technology Project Industrial Development Fund. Each of the related loan agreements contains provisions regarding collateral, covenants prohibiting us from engaging in certain activities (including selling, mortgaging or otherwise disposing of or encumbering all or substantially all of our assets or before any merger, acquisition, spin-off, or other transaction resulting in a change in our corporate structure) without the lenders consent and acceleration (and setoff) provisions in the event of default in payment or failure to comply with such covenants. Because of appreciation in the exchange rate of RMB compared to the US dollar, the estimated total investment of our thick film project is US\$35 million to US\$ 40 million. As a result, we will need an additional US \$15 million to \$20 million to complete this project. The management is currently seeking sources of financing in order to recommence this project soon.

We are of the opinion that, after taking into consideration our present banking facilities, existing cash and the expected cash flows to be generated from our operations, we have adequate sources of liquidity to meet our short-term obligations, and our working capital.

A summary of our cash flows for 2006, 2007 and 2008 is as follows:

	Year Ended Dec. 31, 2006	Year Ended Dec. 31, 2007	Year Ended Dec. 31, 2008
	(RMB in thousands)		
Net cash generated from operating activities	58,492	82,856	80,027
Net cash used in investing activities	(43,479)	(246,787)	(76,750)
Net cash (used in)/generated from financing activities	227,499	(51,651)	(18,262)
Effect of foreign exchange rate change	–	(3,448)	(104)
Net increase/(decrease) in cash and cash equivalents	242,512	(219,030)	(15,086)
Cash at the beginning of the year	7,427	249,939	30,909
Cash at the end of the year	249,939	30,909	15,823

Operating Activities

Net cash from operating activities was RMB 80.0 million (US\$11.7 million) for the year ended December 31, 2008 as compared to RMB 82.9 million for the year ended December 31, 2007. The decrease was mainly due to the decline of net income which resulted from the financial crisis in the fourth quarter that caused the inventory cost to be higher than the sales price.

Net cash from operating activities was RMB 82.9 million for the year ended December 31, 2007. We implemented better controls over the collection of accounts receivable from customers and resulted in a smaller balance of accounts receivable as of December 31, 2007. In addition, we had more inventories stored at the end of 2007.

Net cash from operating activities was RMB 58.5 million for the year ended December 31, 2006. During this period, we experienced an increase in bills receivables of RMB 29.5 million as a result of an increase in new customers who were required to pay by bills with maturity period from one to six months.

Investing Activities

Net cash used in investing activities was RMB (76.8 million) (US\$11.2 million) in 2008, which is mainly used in rebuilding the equipment of the second production line, expenditures related to the third production line and the equipment for trial production line.

Net cash used in investing activities was RMB (246.8 million) in 2007, which was mainly used for construction of the plant and purchase equipment for the third production line as well as the expenditures related to the trial production line.

Net cash used in investing activities was RMB (43.4 million) in 2006 mainly due to the increase in expenditures for purchasing property, plant and equipment.

Financing Activities

Net cash generated from financing activities was RMB (18.3 million) (US\$2.7 million) for the year ended December 31, 2008, which was mainly used to repay short-term loans to banks and pay the interest.

Net cash generated from financing activities was RMB 51.7 million for the year ended December 31, 2007, which was mainly used to repay loans.

Net cash generated from financing activities was RMB 227.5 million for the year ended December 31, 2006 as compared to RMB 10.6 million used in financing activities for the year ended December 31, 2005. In December 2006, we successfully listed on the NASDAQ Global Market and received net proceeds of RMB235.9 million as a result of the initial public offering.

Foreign Exchange Exposure

Translations

Our reporting currency is RMB. The functional currency of our operating subsidiary in the PRC is RMB and our operating subsidiary also maintains its books and records in RMB. Accordingly, we are not exposed to any material foreign currency translation effects.

Transactions

We are, to a certain extent, exposed to transaction foreign currency exposure arising from our operations in the PRC.

We began conducting part of our sales in foreign currency in 2004 with the commencement of our overseas sales business. During 2006, 2007 and 2008, approximately 79.0%, 75.5% and 86.9%, respectively, of our revenue was denominated in RMB and the remainder was in US dollars. The proportion of raw materials we procured within the PRC during 2006, 2007 and 2008 were 100.0%, 81.9%, 93.4%, respectively. The remainder was purchased in US dollars.

Our foreign currency exchange risk arises mainly from this mismatch between the currency of our sales, purchases and operating expenses. We may, therefore, be susceptible to foreign exchange exposure.

In addition, we also maintain US dollar accounts with financial institutions for our US dollar receipts and US dollar payments. We may also incur foreign exchange gains or losses when we convert the US dollar balances into RMB.

Currently, we do not have a formal foreign currency hedging policy as our foreign exchange gains and losses in 2006, 2007 and 2008 were insignificant. Our management believes that it is more efficient for us to assess the hedging need of each transaction on a case-by-case basis. We will continue to monitor our foreign exchange exposure in the future and will consider hedging any material foreign exchange exposure should such need arise.

Capital Expenditures and Contractual Commitments

Capital Expenditures

Our capital expenditures in 2006, 2007 and 2008 were as follows:

	Year Ended Dec. 31, 2006	Year Ended Dec. 31, 2007	Year Ended Dec. 31, 2008
	(RMB in thousands)		
Buildings	—	—	—
Plant and equipment	37,051	1,685	50,553
Motor vehicles	—	184	466
Assets under construction	—	181,308	4,645
Others (computer and furniture fittings)	422	114	4,134
Total	37,473	183,291	59,798

The following table summarizes our contractual commitments as of December 31, 2008 and the effect those commitments are expected to have on our liquidity and cash flow in future periods:

Payments Due by Period

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Contractual Commitments	Total	Less than	1-3 Years	3-5 Years	More than
		1 Total Year			5 Years
(RMB in thousands)					
Equipment Purchase Contract(i)	155,058	155,058	—	—	—
Bank loans(ii)					
Principal	169,764	164,764	5,000	—	—
Interest(iii)	11,705	11,705	—	—	—
Operating leases(iv)	4,448	3,448	1,000	—	—
Total	340,975	334,975	6,000	—	—

- (i) The purchase of equipment has been financed by the sale of our ordinary shares and in the future would be financed by bank borrowings, bond issuing and other financing funds and internally generated funds from operations.
- (ii) We had short-term and long-term bank loans of RMB 169.8 million at December 31, 2008 that are due at various times in 2009. We renegotiated substantially all of our outstanding indebtedness resulting in approximately RMB 167.6 million of secured indebtedness of the total outstanding. Our obligations under our existing loans have been mainly met through the cash flow from our operations and our financing activities. In the past, cash flow from operations has been sufficient to meet payment obligations and/or we have been able to extend our borrowings. In the event that our cash flows are insufficient to satisfy these obligations, we may consider additional bank loans, issuing bonds, or other forms of financing to satisfy our capital requirements.
- (iii) The interest expenses are estimated based on the interest rate of short-term borrowings adopted by People Bank of China on December 31, 2008 plus an estimated risk premium on borrowing.
- (iv) The operating leases mainly relate to our rental of production line, warehouse and staff quarters. The term of these leases typically ranges from 1 to 5 years, and are renewable, subject to renegotiation of terms, upon expiration. We intend to finance these operating leases from our cash flows from operations.

Off-Balance Sheet Arrangements and Contingent Liabilities

We do not have any off-balance sheet guarantees, any outstanding derivative financial instruments, interest rate swap transactions or foreign currency forward contracts.

Inflation

Inflation in China has not had a material impact on our results of operations in recent years. According to the National Bureau of Statistics of China, the change in the consumer price index in China was 1.5%, 4.8 % and 5.9% in 2006, 2007 and 2008, respectively.

Recent Accounting Pronouncements

FASB Interpretation No. 48. In July 2006, FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109" ("FIN 48"), which clarifies the accounting for uncertainty in income taxes recognized in the Company's consolidated financial statements in accordance with SFAS No.109, Accounting from Income Taxes. FIN 48 provides guidance on the measurement, recognition, classification and disclosure of tax positions, along with accounting for the related interest and penalties. FIN 48 is effective for fiscal years beginning after December 15, 2006, and is to be applied to all open tax years as of the date of effectiveness. The Company has no material unrecognized tax benefit which would favorably affect the effective income tax rate in future periods and do not believe there will be any significant increases or decreases within the next twelve months. 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. No Interest or penalties have been accrued at the date of adoption.

In February 2007, FASB issued FASB Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. FAS 159 is effective for fiscal years beginning after November 15, 2007. Early adoption is permitted subject to specific requirements outlined in the new Statement. Therefore, calendar-year companies may be able to adopt FAS 159 for their first quarter 2007 financial statements.

The new Statement allows entities to choose, at specified election dates, to measure eligible financial assets and liabilities at fair value that are not otherwise required to be measured at fair value. If a company elects the fair value option for an eligible item, changes in that item's fair value in subsequent reporting periods must be recognized in current earnings. FAS 159 also establishes presentation and disclosure requirements designed to draw comparison between entities that elect different measurement attributes for similar assets and liabilities. On January 1, 2008, the Company elected not to adopt the option statement.

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements”. This Statement amends ARB 51 to establish accounting and reporting standards for the noncontrolling (minority) interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS No. 160 will be effective for the Company’s fiscal year beginning October 1, 2009. Management is currently evaluating the effect of this pronouncement on financial statements.

In December 2007, the FASB issued SFAS No. 141(R), “Business Combinations”. This Statement replaces SFAS No. 141, Business Combinations. This Statement retains the fundamental requirements in Statement 141 that the acquisition method of accounting (which Statement 141 called the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. This Statement also establishes principles and requirements for how the acquirer: a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquire; b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) will apply prospectively to business combinations for which the acquisition date is on or after Company’s fiscal year beginning January 1, 2009. While the Company has not yet evaluated this statement for the impact, if any, that SFAS No. 141(R) will have on its consolidated financial statements, the Company will be required to expense costs related to any acquisitions after September 30, 2009.

On March 19, 2008, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities. The new standard is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity’s financial position, financial performance, and cash flows. It is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. “Use and complexity of derivative instruments and hedging activities have increased significantly over the past several years. This has led to concerns among investors that the existing disclosure requirements in FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, do not provide enough information about how these instruments and activities affect the entity’s financial position and performance,” explained Kevin Stoklosa, project manager. “By requiring additional information about how and why derivative instruments are being used, the new standard gives investors better information upon which to base their decisions.” The new standard also improves transparency about the location and amounts of derivative instruments in an entity’s financial statements; how derivative instruments and related hedged items are accounted for under Statement 133; and how derivative instruments and related hedged items affect its financial position, financial performance, and cash flows. FASB Statement No. 161 achieves these improvements by requiring disclosure of the fair values of derivative instruments and their gains and losses in a tabular format. It also provides more information about an entity’s liquidity by requiring disclosure of derivative features that are credit risk-related. Finally, it requires cross-referencing within footnotes to enable financial statement users to locate important information about derivative instruments. Management is currently evaluating the effect of this pronouncement on financial statements.

In May of 2008, FASB issued SFASB No.162, “The Hierarchy of Generally Accepted Accounting Principles”. The pronouncement mandates that the GAAP hierarchy reside in the accounting literature as opposed to the audit literature. This has the practical impact of elevating FASB Statements of Financial Accounting Concepts in the GAAP hierarchy. This pronouncement will become effective 60 days following SEC approval. The Company does not believe this pronouncement will impact its financial statements.

In May of 2008, FASB issued SFASB No. 163, “Accounting for Financial Guarantee Insurance Contracts-an interpretation of FASB Statement No. 60”. The scope of the statement is limited to financial guarantee insurance (and reinsurance) contracts. The pronouncement is effective for fiscal years beginning after December 31, 2008. The

Company does not believe this pronouncement will impact its financial statements.

On December 30, 2008 FASB issued FIN 48-3, “Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises”. This FSP defers the effective date of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, for certain non-public enterprises as defined in paragraph 289, as amended, of FASB Statement No. 109, Accounting for Income Taxes, including non-public not-for-profit organizations. However, non-public consolidated entities of public enterprises that apply U.S. GAAP are not eligible for the deferral. Nonpublic enterprises that have applied the recognition, measurement, and disclosure provisions of Interpretation 48 in a full set of annual financial statements issued prior to the issuance of this FSP also are not eligible for the deferral. This FSP will be effective upon issuance. The Company does not believe this pronouncement will impact its financial statements.

On January 12, 2009 FASB issued FSP EITF 99-20-01, "Amendment to the Impairment Guidance of EITF Issue No. 99-20". This FSP amends the impairment guidance in EITF Issue No. 99-20, "Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to be Held by a Transferor in Securitized Financial Assets," to achieve more consistent determination of whether an other-than-temporary impairment has occurred. The FSP also retains and emphasizes the objective of an other-than-temporary impairment assessment and the related disclosure requirements in FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities, and other related guidance. The FSP will be effective for interim and annual reporting periods ending after December 15, 2008, and will be applied prospectively. Retrospective application to a prior interim or annual reporting period is not permitted. The Company does not believe this pronouncement will impact its financial statements.

Research and Development, Patents and Licenses

We rely on copyright, patent, trademark and other intellectual property law, nondisclosure agreement and technical know-how to protect our intellectual property and proprietary rights. We enter into confidentiality and licensing agreements with our employees. Our senior employees and employees who work in our research and development department and other technical departments have signed agreements acknowledging that we own the rights to all technology, inventions, trade secrets, works of authorship, developments and other processes generated in connection with their employment with us or their use of our resources or relating to our business or our property and that they must assign any ownership rights that they may claim in those works to us. As most of our business is currently conducted in mainland China, we have not taken any action outside mainland China to protect our intellectual property.

As of the date of this Annual Report, we have received four patents from, and have seven patent applications pending with, the Patent Office of the National Intellectual Property Office of China with respect to our BOPET film technology. Two of these applications are not being used in our production process as they require expensive imported raw materials and, most importantly, they have been replaced by the films used in LCD and electronic products in the market.

We currently sell our products in the PRC under our brand "Fuwei Films." We have a pending application for the registration of the trademark "Fuwei Films" with the Trademark Bureau of the State Administration of Industry and Commerce in the PRC. Our ability to compete in our markets and to achieve future revenue growth will depend, in significant part, on our ability to protect our proprietary technology and operate without infringing upon the intellectual property rights of others. An infringement upon these rights may reduce or eliminate any competitive advantage we have developed, causing us to lose sales or otherwise harm our business. We are not aware of any infringement or unauthorized use of our intellectual property rights. We will take appropriate legal actions to protect our rights if there is any unauthorized use or infringement of our rights in the future. To date, we have not been sued for infringement of intellectual property rights by any third party.

Trend Information

Other than as disclosed elsewhere in this Annual Report, we are not aware of any trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on our net sales, profitability, liquidity or capital resources, or that caused the disclosed financial information to not necessarily be indicative of future operating results or financial conditions.

Item 6. Directors, Senior Management and Employees

A. Directors and senior management.

Our directors and executive officers and their present positions with us, as at March 30, 2009, are as follows:

Directors and Executive Officers

Name	Age	Position
Xiaoan He	47	Chairman and Chief Executive Officer
Xiuyong Zhang(1)	39	Chief Financial Officer and Director
Tee Chuang Khoo	63	Independent Director
Changrong Ji	63	Independent Director
Yudong Huang	44	Independent Director
Bo Xu(2)	46	Secretary
Zhibing Qian	44	Senior Vice President
Bin Sun(3)	54	President of Shandong Fuwei
Xiaoming Wang	49	Vice President (Production) of Shandong Fuwei
Hanyong Lee(4)	53	Vice President (Research & Development) of Shandong Fuwei

(1) Mr. Zhang was appointed to serve as the Chief Financial Officer of the Company on April 11, 2008 replacing Ms. Cindy Lu who resigned as a director and Chief Financial Officer of the Company effective March 31, 2008.

(2) Mr. Xu tendered his resignation as the Secretary of the Board of Directors, effective April 1, 2009. Mr. Zhibing Qian will assume Mr. Xu's responsibility as the Secretary of the Board of Directors of the Company from April 1, 2009, in addition to keeping his current position as our Senior Vice President.

(3) The term of Mr. Sun's service agreement will end at the end of April, 2009. Mr. Xiaoan He will assume Mr. Sun's position as President of Shandong Fuwei and take over Mr. Sun's responsibility for the general management of our business operation from that time, in addition to keeping his current responsibility as our Chairman and Chief Executive Officer.

(4) Mr. Hanyong Lee has been the Vice President of Research and Development of Shandong Fuwei since January 8, 2008.

Information about Directors and Officers

Set forth below is certain information with respect to each director and officer as of December 31, 2008:

Xiaoan He has been the Chairman of the Board of Directors and Chief Executive Officer of our Company since 2005 and is responsible for the formulation and implementation of our business strategies and management of our business operations. Mr. He has more than ten years of management experience in the plastics and packaging industries in the PRC. From June 2004 to January 2005, Mr. He was our General Manager responsible for our daily operation and management. Prior to joining us as the General Manager in June 2004, Mr. He was the general manager of Suzhou Broadway Plastic Packaging Co., Ltd from 1996 to 2003. From 1990 to 1996, he was the vice general manager at Suzhou Xiangxuehai Freezer Co., Ltd and from 1983 to 1990, he was the vice general manager at Suzhou Marine Machinery Co., Ltd. Mr. He obtained his EMBA from the China Europe International Business School in 2003 and Bachelor in Engineering from the Shanghai Jiaotong University in 1983.

Xiuyong Zhang has been a director of our Company since November 2007. He began serving as our Chief Financial Officer on April 11, 2008. He had accumulated more than 10 years of experience in investment, accounting and financial fields. He is responsible for the day-to-day management of our investment, financing, accounting and auditing matters in the Company and financing, financial and taxation matters for its subsidiary. Prior to join us as a director of the Company, Mr. Zhang has also been the director of Shandong Fuwei since July 2004, and its Vice President since January 2005. Mr. Zhang was the vice-head of an audit firm, Shandong Zhengyuan Hexin Auditors, Weifang branch from 1999 to 2004. From 1991 to 1999, he was an accounting supervisor at the main office of the Weifang City Local Products Company. Mr. Zhang was jointly certified as a Public Valuer by the Ministry of Personnel and Ministry of Finance in the PRC in 2004. He was certified as the Chinese Certified Public Accountant by the Ministry of Finance of the PRC in 1997. He received the Professional Certification in Law from China University of Political Science and Law and China Central Radio and TV University in 2005. He received the Certification of Financial Accounting from the Shandong Television University in 1996.

Tee Chuang Khoo has been a director of our Company since November 2007. Mr. Khoo was a Senior Partner in Management Consulting at DENEC Management Consulting Co. Ltd. (“DENEC”) in Shanghai from October 2005 to October 2007. From November 2000 to September 2005, Mr. Khoo was a Senior Partner at Improve Management Consulting Services in Malaysia where he was responsible for reducing manufacturing costs and process improvement. Mr. Khoo was an Executive Director at JPK (M) Sdn Bhd, a Malaysian-listed company, from October 1998 to September 2000, where he assisted the Managing Director with the entire operation of the company. From November 1996 to August 1998, he was the General Manager of Broadway Group’s (a Singapore-listed company) product factories in Johor Baru, Malaysia, and in China. He also held managerial positions at the Malaysian conglomerate, The Lion Group, and he was a Human Resources Manager at Metal Box Singapore Ltd, a Singapore-listed company owned by the British Metal Box Group. Mr. Khoo received a Bachelor of Arts in Finance & Management from the University of Oregon (USA), a Masters in Business Administration (MBA) from University of Southern California (USA) and a diploma in Accounting from the Association of International Accountants from the United Kingdom.

Changrong Ji has been a director of our Company since March 2007. Mr. Ji is currently the Investigation Officer of the People’s Bank of China, Weifang city central branch and has been since 2004. Mr. Ji was the president of People’s Bank of China, Weifang City central branch from 2001 to 2004 and was the president of People’s Bank of China, Weihai City central branch from 1999 to 2001. From 1989 to 1997, Mr. Ji was the vice-president of People’s Bank of China, Weifang city central branch. He joined the State Administration of Foreign Exchange, Weifang branch as its deputy director from 1989 to 1997 and was appointed as the director of the State Administration of Foreign Exchange, Weihai branch from 1999 to 2001. Mr. Ji was the director of the State Administration of Foreign Exchange, Weifang branch from 2001 to 2004. Mr. Ji obtained his Master’s degree in Economics in 1999 from Shanghai Fudan University and his bachelor’s degree in international economics in 1993 from East China Normal University.

Yudong Huang has been a director of our Company since November 2007. Professor Huang is a Professor and Director of the Department of Applied Chemistry of Harbin Institute of Technology. His research coverage includes PET films. Since 1992, Professor Huang has performed more than 20 research projects, out of which 3 projects have won science and technology awards at the provincial and ministerial levels. He has published more than 60 papers in the national and international levels. He was awarded the “Excellent Scientist Prize” of Heilongjiang Province in 1998. Professor Huang graduated from Department of Applied Chemistry of Harbin Institute of Technology with doctor’s degree.

Bo Xu joined the Company in October 2006 and was appointed as the Board Secretary of the Company in December 2006. From 2002 to September 2006, he was the director of finance for Beijing Platinum Investment Co., Ltd. where he was in charge of accounting and finance. Prior to that, he was a finance manager at Weifang Wanyou Enterprise Co., Ltd. from 1993 to 2002. Mr. Xu received his bachelor’s degree in finance from Weifang Staff and Worker’s

University in 1989.

Zhibing Qian has been appointed as the Senior Vice President of the Company since April 2007. From 2003 to March 2007, he was the general manager of Beijing Capital Jindian Technology Limited. From 2000 to 2003, Mr. Qian was appointed as the general manager of Beijing Zhongguancun International Incubator Limited, comprehensively responsible for the company's set up and operations. Mr. Qian also worked at senior management level at other state-owned and joint venture companies in China. Mr. Qian received his Doctor's and Master's degrees from University of Idaho in 1995 and 1993, respectively.