Fuwei Films (Holdings), Co. Ltd.
Form 20-F
March 25, 2011

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

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

For the fiscal year ended December 31, 2010

OR

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

For the transition period from ________________ to ___________________

OR

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

OR

Date of event requiring this shell company report _______________

Commission file number: 001-33176

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

(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)

Amy Gao

Tel: +86 10-68522612

fuweiir@fuweifilms.com

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

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

Title of each class	Name of each exchange on which registered
Ordinary Shares	NASDAQ Global Market

Securities registered or to be registered pursuant to Section 12(g) of the Act. None

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

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

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

¨ Yes x 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 x 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.

x 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 x

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

U.S. GAAP	x	International Financial Reporting Standards as issued by the International Accounting Standards Board	¨	Other	o

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow:

¨ Item 17 ¨ Item 18

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

¨ Yes x No

TABLE OF CONTENTS

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 suc 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:

- competition in the BOPET film industry;
- growth of, and risks inherent in, the BOPET film industry in China;
- unpredictable impact on the company's revenue by price movements of crude oil in recent years;
- uncertainty in our export due to trade protectionism around the world;
- uncertainty as to future profitability and our ability to obtain adequate financing for our planned capital expenditure requirements;
-

uncertainty in our ability 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;
- uncertainty in acquiring raw materials on time and on acceptable terms;
- Adverse effect on our business caused by adjustment of economic structure regulations of the Chinese government;
- Adverse effect on our business caused by the uncertainty in economic recovery of major developed countries; and
- Adverse effect on our business caused by extreme climate changes.

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, 2009 and 2010 and for the years ended December 31, 2008, 2009 and 2010.

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

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

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

CURRENCIES AND EXCHANGE RATES

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

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

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

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

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

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

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

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

PART 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, 2008, 2009 and 2010 and the selected historical balance sheet data as of December 31, 2009 and 2010 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 year ended December 31, 2006 and 2007, and the selected historical balance sheet data as of December 31, 2006, 2007 and 2008 have been derived from the Company’s audited financial statements 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.

	As of December 31,					
	2006	2007	2008	2009	2010	
(in thousands, except per share data)	RMB	RMB	RMB	RMB	RMB	US$
Statement of Operations Data:						
Revenues	436,884	449,373	447,255	320,731	501,458	75,843
Gross profit	102,543	99,842	70,332	24,612	130,553	19,745
Operating income	78,017	64,266	24,604	(16,547)	59,630	9,019
Interest expense	(12,884)	(13,233)	(3,995)	(6,540)	(8,846)	(1,338)

Income before income taxes	68,422	51,941	21,124	(23,024)	50,754	7,676
Net income/(loss) attributable to the Company	67,665	47,260	18,157	(18,963)	40,783	6,168
Earnings per share						
Basic	61.46	3.62	1.39	(1.45)	3.12	0.47
Diluted	61.37	3.62	1.39	(1.45)	3.12	0.47
Weighted average number ordinary shares, Basic and diluted						
Basic	1,101,031	13,062,500	13,062,500	13,062,500	13,062,500	13,062,500
Diluted	1,102,488	13,062,500	13,062,500	13,062,500	13,062,500	13,062,500

	Year Ended December 31,					
	2006	2007	2008	2009	2010	
(in thousands)	RMB	RMB	RMB	RMB	RMB	US$
Balance Sheet Data:						
Cash	249,939	30,909	15,823	26,804	171,227	25,897
Accounts receivable, net	75,530	58,195	38,579	28,785	25,482	3,854
Inventories	23,783	41,670	30,589	45,039	52,577	7,952
Total current assets	372,001	211,842	104,105	119,282	263,458	39,847
Property, plant and equipment, net	317,690	493,562	578,643	318,600	284,891	43,088
Total assets	738,082	738,975	739,904	735,509	798,152	120,716
Short-term bank loans	239,678	188,027	164,764	153,179	142,000	21,477
Total current liabilities	272,175	226,445	204,305	198,666	216,402	32,730
Total shareholders' equity	465,907	512,530	530,599	511,567	552,544	83,570

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 year ended December 31, 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, 2009 and 2010 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 years 2006, 2007, 2008, 2009 and 2010:

	Year Ended December 31,					
(In thousands, except per share data)	2006	2007	2008	2009	2010	
	RMB	RMB	RMB	RMB	RMB	US$
Net income	(10,453)	(4,340)	(2,966)	-	(5,075)	(768)
Earnings per share						
- basic	(9.50)	(0.33)	(0.23)	-	(0.39)	(0.06)
- diluted	(9.48)	(0.33)	(0.23)	-	(0.39)	(0.06)

The 2010 RMB amounts included in the above selected financial data have been translated into U.S. dollars at the rate of US $1.00 = RMB 6.6118, which was the noon buying rate for U.S. dollars in effect on December 31, 2010 in the City of New York for cable transfer in RMB per U.S. dollar as certified for custom purposes by the Federal Reserve Bank. No representation is made that the RMB amounts could have been, or could be, converted into U.S. dollars at that rate or at any other certain rate on December 31, 2010, or on 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 31, 2010, this change in policy resulted in an approximately 18.5% 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 (loss).

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 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

Our business may be adversely affected by the continued appreciation of RMB against US dollar and trade protection measures in place by several countries against exports of BOPET films from China.

With the increased demand of BOPET films in Chinese and foreign markets, our sales have increased. However, our business operation may be adversely affected due to continued appreciation of RMB against US dollar, and trade protection measures in place by several countries against exports of BOPET films from China. In addition, the uncertainty in the economic outlook of European countries caused by the slow economic recovery and the European sovereign debt crisis may also adversely affect our foreign market expansion.

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 78.6%, 73.3% and 77.2% of our cost of goods sold in 2008, 2009 and 2010, 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 75.3% and 24.7% 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. The international market prices for crude oil increased in 2010, which caused the price of raw materials to increase. In addition it is difficult to pass all the increase in cost of raw materials to customers, which consequently limits our profitability.

In 2011, 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 have an adverse impact in results of our 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 significantly limited. Currently, we have no hedging transactions in place with respect to PET resin or any other petroleum product.

Rising Competition may materially affect our operations and financial conditions.

We operate in a highly competitive and rapidly evolving field, and new developments are expected to continue at a rapid pace. Competitors may succeed by expanding their capacity or succeed in developing products that are more efficient, easier to use or less expensive than those which have been or are being developed by us or that would render our technology and products obsolete and non-competitive. Any of these actions by our competitors could adversely affect our sales.

In addition, several companies are developing similar and substitute products to address the same packaging field that we are targeting. These competitors may have a greater financial and technical resources, productivity and marketing capabilities and facilities, and human resources, or they may have a better quality of products, service, and production cycle. The competition from these competitors may adversely affect our business.

An increase in competition could result in material selling price reductions or loss of our market share, which could have an adverse material impact on our operations and financial condition.

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 films in the industry, and hence lead to a decline in our gross margins.

We believe that we are currently one of the few producers of BOPET films in the PRC with research and development capability. Due to easier access to the production technology of BOPET films, increased demand of BOPET films in the domestic market, the increased profitability of BOPET film industry in 2010, among other factors, the existing manufacturers and new entrants are expanding their production capacity of the BOPET film, which will result in substantial increase in production of BOPET films from 2011 to 2013. As a result, the market supply will increase more than demand. This will have an adverse impact on our sales and operation. In the event that we are unable to compete successfully or retain effective control over the pricing of our products, our profit margins might 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.

We maybe subject to inventory risks that would negatively impact our operating results.

The possible price decline of the inventory may adversely affect the Company's operation. To some extent, the price of raw materials and end-product of our inventories are affected by the price of crude oil and industry competition. If the price of crude oil continues to increase, it may lead to a higher cost of our raw material. In addition, the competition in the BOPET industry may cause a decrease in the price of the end-products, which will also adversely affect our operation.

A significant portion of our revenue is derived from the flexible packaging industry in the PRC; our revenue might be adversely impacted if the flexible packaging industry is adversely affected.

A significant portion of our revenue is currently derived from the production and sale of BOPET films. Our BOPET films are mainly used in the flexible packaging industry for the consumer products such as tobacco packaging, alcoholic beverages, food, cosmetics and so on. The demand for our BOPET films is therefore indirectly affected by the demand for flexible packaging.

Any decrease in the demand for our BOPET films will significantly affect our financial performance. In the past two years, we have suffered a slowdown in economic growth due to the global financial crisis, which caused reduction in the sales volume and the prices of our products. In 2010, the sales volume and the prices of our products moved up as a result of increased demand in domestic and foreign markets. If such situation changes in the future, such as the slowdown of the market demand or the increase of the demand is less than that of the supply, it could continue to have an adverse impact on our financial condition and operation of our business.

We rely on key managerial and technical personnel and failure to attract or retain such personnel may compromise our ability to perform our 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, with whom we have entered into service agreements. The loss of their services might impede the achievements of our strategies and 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. Xiaoan He, we do not currently maintain any other key man insurance for our directors or officers. Our future success will also depend on our continued ability to attract and retain highly motivated and qualified personnel. The rapid growth of the economy in China has caused intense competition to attract and retain qualified personnel. We cannot assure you that we will be able to retain our key personnel or that we will be able to attract, train or retain qualified personnel in the future.

If our R & D team cannot effectively develop new products, promote the market process, or we are unable to afford to continue to maintain this team or are not able to hire eligible and talented personnel, our ability to research and development, operation results and market competitiveness may be adversely affected.

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 competitive new products to address the requirements of our customers. If our new products are unable to gain market acceptance, we 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.

The new production line (thick film) with an expected investment totalling US$ 50 million is still under construction. To date, we have not reached an agreement with our equipment supplier regarding the new production line equipment. In the event we reach an agreement with the equipment suppliers, we may still not be able to start operation in a timely manner if the new production line cannot be delivered as stipulated by the contract due to unforeseen circumstances. This may have a material adverse impact on the Company's development in the thick films industry.

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. However, 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 and this could materially affect our ability to continue our operation.

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 selling state-owned assets at low prices.

On November 12, 2009, the company announced that it had become aware of the final verdict issued by the Supreme People's Court of Shandong Province, concerning the Company's three major shareholders, Mr. Jun Yin, Mr. Tongju Zhou and Mr. Duo Wang. The Supreme People's Court upheld the initial verdict issued by the Intermediate court in March 2009. The March 2009 initial verdict sentenced Mr. Yin to death, with a stay of execution for two years; the other two defendants, Mr. Zhou and Mr. Wang, each received life imprisonment; all of the personal property of the three individuals will be confiscated. The three individuals appealed the initial verdict to the Supreme People's Court of Shandong Province in March 2009. In November 2009, the Supreme People's Court of Shandong Province issued the final verdict, upholding the initial verdict issued by the Intermediate Court in March 2009. None of these individuals is involved in Fuwei's day-to-day operations. We met with officials of the Wei-Fang State-owned Assets Supervision and Administration Commission in March 2011 and learned that there is also another civil verdict issued by the Second Intermediate People’s Court of Beijing that conflicts with the foregoing verdict, which conflict must be resolved prior to any enforcement of the verdict and any confiscation of the personal property of the individuals. The final judgment against the three shareholders may cause uncertainty to the Company’s operation due to the uncertain timeline associated with its enforcement.

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, 2010 was RMB 142.0 million (US$21.5 million), which excludes RMB 30.0 million (US$ 4.5 million) in long-term loans. We have pledged property, plant and equipment and lease prepayments as security for RMB 162.0 million (US$ 24.5 million) of the above outstanding indebtedness. In the event that we default on all expired 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. 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 new 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 back. The foregoing factors may have an adverse effect on our operation.

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.

As of December 31, 2010, we have received 9 patents from, and have 12 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 measure, 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 resigned 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 the 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 fail to defend 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 products mix and capacity 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 to 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;

12

- 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;
- limit our flexibility in planning for, or reacting to, changes in our business and our industry; and/or
- 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. 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. Our primary overseas customers are from Europe, Asia and North America. However, we have limited experience in operating outside mainland China, and limited experience with foreign regulatory environments and market practices. As a result, we 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 market may have an adverse effect on our business growth in the future.

We have encountered anti-dumping investigations in South Korea and the United State, 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 investigations 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. 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.

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 five exporters that received a duty, our export to the United States, to a certain extent, was still adversely affected by paying the ADD. In 2010, sales to the US market represented less than 1% of our annual total sales volume.

On January 23, 2010, the US Department of Commerce (“USDOC”) began a first round annual review of Chinese BOPET exporters. Fuwei received the lowest anti-dumping duty (ADD) rate of 30.91% in this administrative review conducted by the USDOC, while the ADD rate of other four Chinese companies reviewed by the USDOC is more than 36.93%. In accordance with relevant laws and regulations in the US, the ADD rate of final results will retroactively apply to those US companies which imported Chinese-exported BOPET films, including Fuwei Films USA, LLC, during the period of first review, so these US importers are obligated to pay a supplementary antidumping duty at this ADD rate. In March 2011, we submitted comments to the USDOC regarding perceived ministerial errors made in calculating the ADD applicable to us, although there can be no assurance that the USDOC will agree with our position.

In addition, if other countries or regions, such as the European Union, take trade protection measures against China's BOPET film or downstream industries, our business may be adversely affected.

Changes in Applicable PRC Taxes may be adversely affect the Company.

On October 18, 2010, the State Council issued a notice that the city maintenance and construction tax as well as educational surcharges shall be extended from Chinese companies to foreign-funded enterprises and citizens. Beginning December 1, 2010, Interim Regulations on City Maintenance and Construction Tax of the People’s Republic of China and Decision of the State Council on Amending the Interim Provisions on the Collection of Educational Surcharges shall be applicable to foreign-funded enterprises, foreign enterprises and foreign citizens, which mean they will no longer exempt from such taxes. In accordance with the regulations, since December 1, 2010, our subsidiary Shandong Fuwei became a taxpayer of city maintenance and construction tax as well as educational surcharges which shall be based on value-added tax, the consumption tax and business tax which currently stands at 12%. The new policy incurs additional tax expense. If the Chinese government changes its tax policy or adds new class of taxes in the future, our business may be adversely affected.

China’s actions to save energy and reduce emissions may adversely affect our business, by subjecting us to significant new costs and restrictions on our operations.

In 2010, the Chinese government tightened its control over energy saving and emission reduction. The Chinese government intends to reduce energy consumption for gross domestic products and water consumption for industrial added value as well as increasing the comprehensive usage rate of industrial solid waste. Certain of our manufacturing plants that use significant amounts of energy, including electricity and gas, are likely to be affected by this plan. Therefore, our operation might be influenced by the energy saving and emission reduction measures of the Chinese government. Regulations for restricting greenhouse gas emission may increase the prices of the electricity we purchase, increase costs for our use of natural gas, potentially restrict access to or the use of natural gas, require us to purchase allowances to offset our emissions or result in an overall increase in our costs of raw materials, any of which could increase costs and negatively affect our business operations or financial results.

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. Although dividends paid by foreign invested enterprises, such as wholly foreign-owned enterprises and Sino-foreign joint ventures, are not subject to any PRC corporate withholding tax, 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 are unable to issue an unqualified opinion on the adequacy of our internal controls over our financial reporting beginning as of December 31, 2010, 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, 2010. We have documented, tested, and evaluated our internal controls as required. Our management has concluded that our internal controls over financial reporting are effective as of December 31, 2010. If our Management reaches a different conclusion in the future, there could be 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.

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 most of our services are performed in China. In 2008, 2009 and 2010, sales to our customers in the PRC accounted for approximately 86.9%, 90.3% and 79.3%, 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.

With the recovery of the Chinese economy, increased prices in goods and inflation in 2010, the Chinese government altered its economic stimulus policy and gradually raised the Bank Reserve Ratio and Deposit and loan interest rates. These policy changes may adversely affect our business.

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%. Shandong Fuwei was designated 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 will not be 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. 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 designated 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.

In accordance with a notice issued by the PRC government in October, 2010, since December 1, 2010, Shandong Fuwei , our subsidiary, will become a taxpayer of city maintenance and construction tax as well as educational surcharges which shall be based on value-added tax, the consumption tax and business tax which currently stand at 12%. This policy change may have an adverse impact on our net profit.

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. The Chinese government may 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. 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 may not have adequate remedies. Such uncertainties or inability to enforce our contracts could materially and adversely affect our revenues and earnings.

Outbreak of viruses such as SARS, H1N1 or other epidemics could materially and adversely affect our overall operations and results of operations.

From March to July 2003, mainland China, Hong Kong, 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 H1N1 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 H1N1 has occurred in high frequency worldwide, which would have adverse effect on the consumption on 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.

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 in advance with respect to their overseas investments in offshore companies and must also file amendments to their registrations within 30 days upon the generation of material events 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 which are not involved with return investment. Our existing shareholders prior to our initial public offering have completed the relevant SAFE registration procedures as currently 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.

The uncertainty around the status of our major shareholders may eventually result in our delisting from the NASDAQ Global Market.

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

Although the management believes that the shares owned by the major shareholders, Jun Yin, Duo Wang and Tongju Zhou, will eventually be confiscated by the Chinese government, in accordance with the final verdict issued by the Supreme People's Court of Shandong Province, it has no knowledge of the timing and procedures involved in enforcing such a verdict. We have been informed by the Listing Qualification Department of the NASDAQ Stock Market LLC that they view the continuing uncertainty associated with the verdict as a matter of concern, and have contacted the relevant State agency to see if any further information regarding such procedures is available. We met with officials of the Wei-Fang State-owned Assets Supervision and Administration Commission in March 2011 and learned that there is also another civil verdict issued by the Second Intermediate People's Court of Beijing that conflicts with the foregoing verdict, which conflict must be resolved prior to any enforcement of the verdict and any confiscation of the personal property of the individuals. In the event that the verdict could not be enforced timely, we may ultimately be delisted from the Nasdaq Global Market.

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, 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 Europe, Asia and North America etc. Our main products are as below:

- Printing base film used in printing and lamination;
- Stamping foil base film and transfer base films used for packaging of luxury items of cigarettes and alcohol to increase the aesthetic presentation of the item and improving environmental performance ;

- Metallization film or aluminum plating base film used for vacuum aluminum plating for flexible plastic lamination;
- High-gloss film used for aesthetically enhanced packaging purposes;
- Heat-sealable film:used for construction, printing and making heat sealable bags;
- Laser holographic base film used as anti-counterfeit film for food, medicine, cosmetics, cigarettes and alcohol packaging;
- Dry film is generally used in circuit boards (PCB & FPC) production, and sometimes used for nameplate and crafts etching; and
- Heat shrinkage film is widely used for special-shaped packaging for alcohol, cans, mineral water and cleaning products.

Since our establishment, all of our revenues have been derived from the sales of BOPET film, particularly our printing film, stamping film, transfer film and chemical pretreated film, high-gloss film, heat sealable film, dry film, and heat shrinkage film and so on.

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 metric tons of BOPET film, the products of which ranged from 6 to 125μm. 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 metric tons of BOPET film. The third line is a Mitsubishi trial production line which has an annual designed production capacity of 1,500 metric tons. As of December 31, 2010, our manufacturing operations had a total annual designed production capacity of 30,600 metric tons based upon 7,200 production hours per annum. Currently, the company is designing a new BOPET thick films production line, the annual capacity of which is expected to be 23,000 metric tons. Its products, ranged from 38 to 250μm, could be widely used in many industrial products including electronics, electrical insulation and thin film transitor-liquid crystal display ("TFT-LCD").

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, 2010 were Southeast Films Technology Co., Ltd., Transparent Paper Limited, Dongguan Klaser Technologies Co., Ltd., Jiaxing Hengli Trading Co., Ltd., and Danyang Advance Packaging Material Subsidiary Company of Dare Technical 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 electronics industries. In 2008, 2009 and 2010 our sales to our overseas customers constituted approximately 13.1%, 11.1% and 20.7%, respectively, of our total revenue.

On April 23, 2009, Fuwei Films USA, LLC was set up in South Carolina and co-invested by Fuwei Films (Holdings) Co., Ltd. and Newell Finance Management Co., Ltd.. Fuwei Films USA, LLC has a registered capital of US$10,000 and total investment amount of US$100,000. Fuwei Films (Holdings) Co., Ltd. and Newell Finance Management Co., Ltd. own 60% and 40% of the total shares of Fuwei Films USA, LLC, respectively. As of December 31, 2010, the sale revenue of the Fuwei Films USA, LLC was US$94,119.

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, and we have already developed a series of new products. Our R&D team comprises of 12 research personnel in total.

We have an established brand name and are recognized for our product quality 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 developed a special production process and we believe using these formulas will produce products that will meet our customers’ requirements in quality.

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. Our management team has extensive management experience and most of them have many years of experience in the manufacturing and R&D of 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 and the second was made by DMT in France. 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
July 2006(2)	ISO 14001 Certificate	SGS
December 2007 (3)	Key High-Tech Enterprise of the National Torch Program	Ministry of Science and Technology
December 2008 (4)	· Designated 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	Shandong Department of Science and Technology, National and Local Taxation Bureau of Shandong Province, and Shandong Province Financial Bureau
May 2009	· Designated as “Advanced Enterprise of Chinese plastic industry”	China Plastic and Packaging Association
August 2009	· Technological Innovation Award	Shandong Province enterprise technological innovation promotion association.
June 2010(5)	· Designated as an A-Category taxpayer by the National Taxation Bureau and the Local Taxation Bureau of Shandong Province.	The National Taxation Bureau and the Local Taxation Bureau of Shandong Province
October 2010 (6)	· Designated As Shandong Engineering Technology Research Center	Department of Science & Technology of Shandong Province
January 2011 (7), (8)	· Award for Cooperative and Innovative Manufacturing, Study and Research of SME	SME Productivity Promotion Center of Shandong Province
	· First Award of Private SME Innovation of Shandong Province	SME Innovative Committee of Technological Promotion of Shandong Province
January 2011	· Award of Tax Contribution of the Year of 2010	Weifang Municipal Finance Bureau
January 2011 (9)	· Fuwei Films was awarded as Famous Shandong Brand	Shandong Provincial Quality Supervision Bureau

February 2011 (10)	· Scientific Innovative Enterprise of Shandong Province	Department of Science & Technology of Shandong Province

(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) 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.

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

(4) In December 2008, Fuwei Films was awarded as 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 Finance Bureau.

(5) 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.

(6) This center is mainly engaged in the research and development of polyester new materials and high-tech products. Currently, it has made more than ten R&D achievements and plays a positive leading role in the development of BOPET industry.

(7) Fuwei starts technological cooperation with Chinese colleges and hires South Korean experts to research and develop new products, techniques and process.

(8) Fuwei has already developed and applied more than ten kinds of new products, including laser anti-counterfeit film, chemical pretreated film, heat-sealable film, dry film and heat shrinkage film. All these have been widely used in production.

(9) The brand of Fuwei has been honored as famous brand resulting in visibility, credibility, reputation and continued growth.

(10) Under the fierce competition, Fuwei is encouraged by the government to develop the new products.

Business Prospects

In 2010, the recovery of global economy and strong growth of Chinese economy leads to the rapid development of BOPET industries, such as the substantial rise of products price and the gross margin.

We have identified thick BOPET film, which is mainly used in the electrical and electronics industries, as a key market segment for potential growth. The thick BOPET film is mainly used in the electronics, electricity and solar energy industry. The thick film rapidly grows with the development of the above-mentioned industry. Currently, most of the high-end thick film products including thin film transistor-liquid crystal display (or TFT-LCD) screens are obtained from overseas.

Business Development Strategies

As a primary part of our business strategy, we will speed up the construction of production line for thick films. We believe that we have the ability to increase our sales and expand our markets. We will continue to improve our products by developing new functions and applications of the BOPET films and bettering our products mix. Meanwhile, we will continue to secure opportunities to develop new domestic and overseas customers. We believe that expanding the overseas business is a key part of our business strategy. So we will continue to focus on the development of the BOPET industry and look for the opportunities for merger and acquisition.

Our future plans include:

Continued construction of the new BOPET production line

We have commenced the construction of a new production line capable of producing BOPET film that is between 38 to 250μm in our current premises in Weifang City, PRC. The BOPET film production using this new production line is targeted at industrial use, including TFT-LCD screen films. We expect to penetrate into the electrical, electronics and solar energy industries with this new BOPET film. Such industries for high-end and special usage currently rely on expensive imports. The total investment amount of the new production line was about US$ 50 million.

Expansion into overseas markets

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 Europe, Asia and North America as our primary overseas markets.

Our overseas sales were significantly affected by the anti-dumping investigations conducted by South Korea and the United States against BOPET manufacturers originated from China, India and other countries and the appreciation of Renminbi. However, we still believe there is a great potential in overseas BOPET market. Therefore, we will continue to carry out the marketing in the overseas market to attract new clients. As a result of the significant increase in the overseas market demand in 2010, we saw significant increase in export volume, especially in Europe and Asia.

Investment in research and development

As one of our key strategies, we continue to invest substantially in R&D area. We have constructed a trial production line for research and development of new products, which also saves experimental cost. We also intend to expand our R&D team by hiring more senior research personnel from both China and foreign countries. We attach great importance to intellectual property. To date, 9 patents have been granted and 12 patents are pending.

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 30,600 metric tons with thicknesses varying between 6 - 125μm.

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, cosmetics, cigarettes, alcohol), imaging (such as printing plates and microfilms), and electronics and electrical (such as wire and cable wrap, capacitors and motor insulation). 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 Europe, Asia, and North America.

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 2008, 2009 and 2010:

Category	2008		2009		2010	
Printing film	12.6	%	11.0	%	15.3	%
Stamping foil film	31.2	%	54.5	%	56.2	%
Metallization film	10.1	%	10.9	%	5.6	%
Specialty film	24.0	%	10.6	%	17.5	%
Base film for other applications	22.0	%	13.1	%	5.4	%

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 flexible plastic lamination.

Specialty film

We mainly produce the following types of specialty 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 used in construction, 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.

- Dry film: Generally used in circuit boards (PCB & FPC) production, and sometimes used for nameplate and crafts etching.

- Heat shrinkage film is widely used for special-shaped packaging for alcohol, cans, mineral water and cleaning products.

Base film for other applications

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

Production

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 metric tons of BOPET film, the products of which ranged from 6 to 125μm. 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 metric tons of BOPET film. Another is a Mitsubishi trial production line which has an annual designed production capacity of 1,500 metric tons. As of December 31, 2010, our manufacturing operations had a total annual designed production capacity of 30,600 metric tons based upon 7,200 production hours per annum.

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 from 3.0 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 BOPET 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:

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, 2010, our total inventories amounted to approximately RMB 52.6 million and our raw materials, work-in-progress, finished goods and consumables and spare parts made up approximately 36.8%, 2.7%, 52.6% and 7.9% of our inventories, respectively.

To ensure an accurate inventory record and to monitor our inventory aging, we conduct monthly stock counts. We usually maintain raw materials which can be used for one or two weeks of production. Typically, we start manufacturing such goods upon our receipt of orders from our customers.

Our inventory turnover periods (in days) for 2008, 2009 and 2010 were 34.9, 45.9 and 47.2, respectively. Inventory turnover is calculated as 365 days times 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 2010.

Manufacturing Facilities and Utilization Rates

As of December 31, 2010, we have the following production lines:

Production Line	Designed Production Capacity	Estimated Remaining Life Span
Brückner Production Line	13,000 tons per annum	Approximately 8 years
DMT Production Line	16,100 tons per annum	Approximately 15 years
Trial Production Line	1,500 tons per annum	Approximately 9 years

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 and the trial production line have been in use since 1996, 2003 and 2009, 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 2008, 2009 and 2010, based on our estimated operational production capacities were as follows.

	Approximate Annual Production Volume (tons)			Average Annual Utilization Rate (%)		
Production Line	2008	2009	2010	2008	2009	2010
Brückner Production Line	12,092	11,823	12,141	93.0 %	90.9 %	91.1 %
DMT Production Line	13,769	13,822	15,995	85.5 %	85.8 %	99.1 %

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, 2010, our product inspection and quality control department comprised of 19 employees. We have one manager, 8 process inspectors and 8 end-product inspectors and 2 after-sale 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 20-35 days and this replacement process takes about six to eight hours. We believe that due to our stringent maintenance policies, our equipment is still in good condition. Our monthly average downtime for 2010 (primarily for maintenance) was less than 1.2% of our monthly production time.

For 2010, the rejection rates of our products were generally less than 0.8% of our total production volume. Defective or inferior products that do not fulfill our quality control standards are recycled.

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.
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.

27

Product	Achievement
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.
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 and others.
White film	To be used for print, composite, coating and others, such as advertising lamp house, release film and reflector film.
DFR base film	Generally used in circuit boards (PCB & FPC) production, sometimes used for nameplate and crafts etching.
Heat shrinkage film	To change the heat 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.

New Product Development

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

Product	Objectives and Applications	Commercialization Date Expected
Smooth heat-sealable film	To improve the static and kinetic friction by adding special additive, smooth heat-sealable film is widely used in the package of mosquito-repellent incense and so on.	April 2011
Flame retardant film	It has a property to reduce or delay the propagation of flame whereby the combustion is slowed, terminated or prevented if the heat source is removed.	September 2011
Metal-adhesion improved film	To improve the peel strength after be metalized sealing. Mainly used for liquid packages.	December 2011

We have applied for patents with respect to some of our new processes and technologies used in our business. Currently there 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 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 2008, 2009 and 2010 were as follows (in thousands):

28

	Year Ended December 31, 2008		Year Ended December 31, 2009 RMB		Year Ended December 31, 2010	
Research and Development Expenses	2,631	(1)	4,722	(2)	8,058	(3)

(1)& (2)& (3) In addition to the above-mentioned Expenses in 2008, 2009 and 2010 of RMB 2,631, RMB 4,722 and RMB8,058, respectively, the R&D capital expenditure was RMB 3,200, RMB 5,5 00 and RMB 4,434.

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 2008 to 2010, 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, 2010, our sales department comprised of 13 employees in the domestic sales division and 4 employees in the over sales division. Our marketing department comprised of 2 employees. Our sales 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. Marketing department is responsible for market research, development and promotion. 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. In addition, we entered into dry films market and maintain good relationship with major dry films customers.

The majority of our domestic customers are located in the coastal region of the PRC. Our overseas customers are mostly based in Europe, Asia, North America and others. In 2010, sales from our domestic and overseas customers constituted approximately 79.3% and 20.7%, respectively, of our annual revenue.

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, 2008, 2009 and 2010:

	Percentage of Total Revenue (%)		
	2008	2009	2010
Southeast Films Technology Co., Ltd.	1.8	3.9	6.3
Transparent Paper Limited	-	0.9	4.9
Dongguan Klaser Technologies Co., Ltd.	4.9	7.2	4.7
Jiaxing Hengli Trading Co., Ltd.	-	0.3	4.2
Dare Technical Co., Ltd. Danyang Advance Packaging Material Subsidiary Company	3.4	5.0	3.3

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.

Sales

Because of our broad range of product offerings and customers, our sales and marketing efforts are generally specific to particular types of products, 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 our 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. However, since 2010, some transactions are performed in cash.

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, customer service rendered, 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 marketing 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, 2008, 2009 and 2010:

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

Note: To our knowledge, Jiangyin Huaxing Compound and Mahongany Joy Investment Company are related companies.

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 many 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:

	Percentage of Total Purchases (%)			
Raw Material	2008	2009	2010	Country
PET resin	77.2	76.0	75.5	PRC, Korea
Additives	22.8	24.0	24.5	PRC

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. In 2010, the oil price continued to increase, especially at the end of 2010, the price increased by 14.4% compared to the price at the end of 2009. Therefore, the price for raw materials continued to increase and at the end of 2010 it increased by 21.0% compared to the price at the end of 2009.

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 or two weeks. In 2010 along with the economy recovery and based on the orders from our customers we stored some raw materials. This way we saved some purchase costs. We may also adjust the prices of our end products, when appropriate, and pass portion of cost increases to our customers. Failure to transfer all the increase in cost to our customers may adversely affect our operating income.

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 Company did not notice updated technical specifications subsequently as of December 31, 2010.

The production of BOPET film requires a large capital investment. 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;
- industrial reputation; and
- production cost and sales prices.

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.	Weifang Shandong, China	100% wholly owned by Direct Parent	Fuwei Films (BVI) Co. Ltd.
Fuwei Films (BVI) Co., Ltd.	British Virgin Islands	100% wholly owned by Direct Parent	Fuwei Films (Holdings) Co. Ltd.
Fuwei Films USA LLC	South Carolina, USA	60% 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 46,196 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 162 million.

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 38 to 250μm. The BOPET film produced using this new production line is targeted at industrial use, including TFT-LCD. The construction of the plants has already been completed. We initially planned to complete the production line construction at the end of 2008. However, this production line was not constructed as planned, since we are unable to raise funds through issuing shares or bonds as a result of our major shareholder issues and global financial crisis. Currently, we are negotiating with the German equipment provider to reach an agreement so that we can continue working on the construction of the production line. It is estimated that the production line will be put into operation by the end of 2012.

Item 4A. Unresolved Staff Comments

None.

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 the Company, all of our revenues have been derived from the sales of BOPET film. We sell majority of our BOPET film products to domestic customers in China in the flexible packaging industry. We established an overseas sales division in June 2004 and have been selling our products into overseas markets. Currently, we sell our products to Europe, Asia, North America and other overseas markets.

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 and facilities (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.

Subsequent to the auction for several years, the PRC government conducted an investigation into the conduct of certain individuals in connection with such transactions. In March 2009, Messrs Yin, Wang and Zhou committed the crime of corruption by verdict of the Jinan Intermediate People's Court in the city of Jinan, Shandong Province. In November 2009, the Company became aware of the final verdict issued by the Supreme People's Court of Shandong Province. The Supreme People's Court upheld the initial verdict issued by the Intermediate court in March 2009. The March 2009 initial verdict sentenced Mr. Yin to death, with a stay of execution for two years, and 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.

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 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 2008, 2009 and 2010, the total cost of raw materials made up approximately 78.6%, 73.3% and 77.2% 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 74.3% and

25.7%, respectively, of our total cost of raw materials in 2010. 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 certain partial 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.

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 films, stamping films 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 high-gloss films and heat sealable film.

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, R&D abilities and new products commercialization. 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, alcohol and beverage. Recently, the sales of the light-resistant dry film which is used in printed circuit board also significantly increased. In the fiscal years ended December 31, 2008, 2009 and 2010, approximately 86.9%, 88.9% and 79.3%, 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 the demand for our products.

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

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 are 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 December 31, 2008		Year Ended December 31, 2009		Year Ended December 31, 2010	
Materials costs	78.6	%	73.3	%	77.2	%
Energy expense	8.2	%	9.0	%	7.4	%
Factory overhead	9.0	%	13.1	%	11.3	%
Packaging materials	2.9	%	3.0	%	2.8	%
Direct labor	1.3	%	1.6	%	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 74.3% and 25.7%, respectively of our total materials costs in 2010.

Energy expense

Energy expense includes water, electricity and gas costs, in which electricity is the main energy consumed.

Factory Overhead

Factory overhead comprises primarily of depreciation, electricity and water charges, and repair and maintenance of our machinery and equipment, etc. In 2010, the repair and maintenance of our machinery and equipment were RMB 12.2 million, accounting for 26.5% of Cost of Goods Sold, including overhaul repairs of the two production lines equipments in 2010 and maintenance fees of the trial production lines.

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 supply of 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.

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 and bank charge.

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 took 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 designated 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, 2009 and 2010.

The US entity, Fuwei Films USA, LLC, is headquartered in South Carolina. As of December 31, 2010, the income tax rate is 39%, including 34% of federal income tax rate and 5% of state income tax rate.

Inflation

According to the National Bureau of Statistics of China, the change in the consumer price index in China was 4.8%, 1.9% and 3.3% in 2008, 2009 and 2010, respectively.

Critical Accounting Policies

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

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 CFO. Our finance department and sales department review our outstanding debt account 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, 2010, our largest trade debtor was Yangzhou Haikesaier Co., Ltd., a company based in China. The trade receivables from Yangzhou Haikesaier Co., Ltd. amounted to approximately RMB1.2 million as of December 31 2010.

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 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 2008, 2009 and 2010 is as follows (in thousands):

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

39

Impairment of Long-lived Assets We assess the impairment of long-lived assets when events or changes in circumstances indicate that the carrying value of the assets or the asset grouping may not be recoverable. Factors that we consider in deciding when to perform an impairment review include significant under-performance of a business or product line in relation to expectations, significant negative industry or economic trends, and significant changes or planned changes in our use of the assets. We measure the recoverability of assets that will continue to be used in our operations by comparing the carrying value of the asset grouping to our estimate of the related total future undiscounted net cash flows. If an asset grouping's carrying value is not recoverable through the related undiscounted cash flows, the asset grouping is considered to be impaired. The impairment is measured by comparing the difference between the asset grouping's carrying value and its fair value. We estimate the fair value of an asset group based on market prices (i.e., the amount for which the asset could be bought by or sold to a third party), when available. When market prices are not available, we estimate the fair value of the asset group using the income approach and/or the market approach. The income approach uses cash flow projections. Inherent in our development of cash flow projections are assumptions and estimates derived from a review of our operating results, approved business plans, expected growth rates and cost of capital, among others. We also make certain assumptions about the level of demand for our products in the marketplace, our cost levels, future economic conditions, interest rates, and other market data. Many of the factors used in assessing fair value are outside the control of management, and these assumptions and estimates can change in future periods.

Impairments of long-lived assets are determined for groups of assets related to the lowest level of identifiable independent cash flows. Our operating subsidiary, Shandong Fuwei, currently operates three production lines. Since our products are capable of being produced, and are produced, on multiple lines, each production line cannot produce cash flow separately resulting from the combined administrative expense, R&D, market and sales, etc. Therefore, the Company considers whole assets as an asset group. The estimated undiscounted net cash flow was higher than the net carrying amount of asset as of December 31, 2008, 2009 and 2010, hence there was no impairment of long-lived assets recognized for the year ended December 31, 2008, 2009 and 2010.

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 December 31, 2008	Year Ended December 31, 2009	Year Ended December 31, 2010
		(% of Total Revenue)	
Gross profit	15.7	7.7	26.0
Operating expenses	(10.2)	(12.8)	(14.1)
Other expense	(0.8)	(2.0)	(1.8)
Income tax benefit / (loss)	(0.7)	1.3	(2.2)
Net income / (loss)	4.1	(5.9)	8.1

Fiscal year ended 2010 compared to fiscal year ended 2009

Revenues

Our revenue can be analyzed as follows (in thousands):

	December 31, 2010				December 31, 2009		
	RMB	US$	% of Total		RMB	% of Total	
Printing film	76,720	11,604	15.3	%	35,231	11.0	%
Stamping film	282,033	42,656	56.2	%	174,356	54.4	%
Metallization film	28,108	4,251	5.6	%	35,138	10.9	%
Specialty film	87,956	13,303	17.5	%	34,004	10.6	%
Base film for other applications	26,641	4,029	5.4	%	42,002	13.1	%
Total	501,458	75,843	100	%	320,731	100.0	%

During the fiscal year ended December 31, 2010, our revenues were RMB 501.5 million, which was an increase of RMB 180.7 million or 56.3%, as compared to the same period for 2009. The significant increase in sales was mainly due to the significant increase of average unit sales price.

In 2010, sales of specialty films were RMB 88.0 million and 17.5% of our total revenues as compared to RMB 34.0 million and 10.6% in 2009, which was an increase of RMB 54.0 million, or 158.7%, as compared to the same period in 2009. The increase was mainly attributable to the increased demand for high value-added packaging. Furthermore, the increase of the sales of some specialty films, such as dry films also attributed to the sales increase.

Overseas sales were RMB 103.7 million or US$15.7 million, or 20.7% of total revenues, compared with RMB35.6 million or 11.1% of total revenues in 2009. The increase of the overseas sales mainly attributes to the increase of the overseas market and the sales price of BOPET products.

The following is a breakdown of domestic versus overseas sales for the periods ended December 31, 2010 and 2009 (amounts in thousands):

	December 31, 2010				December 31, 2009		
	RMB	US$	% of Total		RMB	% of Total	
Sales in China	397,781	60,162	79.3	%	285,120	88.9	%
Sales in other countries	103,677	15,681	20.7	%	35,611	11.1	%
Total	501,458	75,843	100.0	%	320,731	100.0	%

Cost of Goods Sold

Our cost of goods sold was RMB 370.9 million for the year ended December 31, 2010, which was an increase of RMB 74.8 million, or 25.3%, as compared to the same period for 2009. The increase resulted from the increased unit material price compared to the same period in 2009.

Gross Profit

Our gross profit during the year ended December 31, 2010 was RMB 130.6 million representing a gross margin of 26.0%, increasing RMB 106.0 million or 430.4%, compared to RMB 24.6 million or 7.7% for the year ended December 31, 2009. The increase in gross margin was mainly due to the increase of sales price being more than the increase of cost of sales.

Operating Expenses

Our operating expenses during the year ended December 31, 2010 was RMB 70.9 million, which was an increase of RMB 29.8 million, or 72.3%, as compared to the same period for 2009. This increase was mainly due to the increase of R&D expenses, accrued class action indemnity and related legal fees, and overseas sales expenses.

Other Expense

Our other expenses during the year ended December 31, 2010 was RMB 8.9 million, which was an increase of RMB 2.4 million, or 37.0%, as compared to the same period for 2009. The increase was mainly due to bank loan interest increase of RMB 2.3 million.

Income Tax Benefit/(Expense)

The effective tax rate was 21.8% and 17.7% in 2010 and 2009, respectively. The higher effective tax rate in 2010 was primarily due to higher proft in 2010 and the carryforward net loss for the period ended 2009.

Fiscal year ended 2009 compared to fiscal year ended 2008

Revenues

Our revenue can be analyzed as follows (in thousands):

	December 31, 2009				December 31, 2008		
	RMB	US$	% of Total		RMB	% of Total	
Printing film	35,231	5,161	11.0	%	56,611	12.7	%
Stamping film	174,356	25,539	54.4	%	139,598	31.2	%
Metallization film	35,138	5,147	10.9	%	45,152	10.1	%
Specialty film	34,004	4,981	10.6	%	98,536	22.0	%
Base film for other applications	42,001	6,152	13.1	%	107,409	24.0	%
Total	320,731	46,980	100.0	%	447,307	100	%

During the fiscal year ended December 31, 2009, our revenues were RMB 320.7 million, which was a decrease of RMB 126.5 million or 28.3%, as compared to the same period for 2008. The decrease in sales is mainly because the decrease of average unit sales price and the closing of leased production line, which caused the revenue to decrease RMB 74.8 million and RMB 51.7 million respectively compared to the same period in 2008.

In 2009, sales of specialty films were RMB 34.0 million and 10.6% of our total revenues as compared to RMB 107.4 million and 24.0% in 2008, which is a decrease of RMB 73.4 million, or 68.3%, as compared to the same period in 2008. The decrease was attributable to the decreased demand for high value-added packaging caused by financial crisis which further caused the decreased demand for specialty films. Furthermore, we adjusted the composition of products portfolio, reducing sales of some specialty films, such as matte films. In 2009, the sales of specialty films such as dry films increased.

Cost of Goods Sold

Our cost of goods sold was RMB 296.1 million for the year ended December 31, 2009, which was a decrease of RMB 80.8 million, or 21.4%, as compared to the same period for 2008. The decrease resulted from the decreased unit material price and the closing of the leased production line, which caused the total cost of goods sold to decrease RMB 35.1 million and RMB 45.7 million respectively compared to the same period in 2008.

Gross Profit

Our gross profit during the year ended December 31, 2009 was RMB 24.6 million representing a gross margin of 7.7%, compared to RMB 70.3 million or 15.7% for the year ended December 31, 2008. The decrease in gross margin was mainly due to the decline in sales quantity of specialty films which further led to a sharp decline in average unit sale prices.

Operating Expenses

Our operating expenses during the year ended December 31, 2009 was RMB 41.2 million, which was a decrease of RMB 4.6 million, or 10.0%, as compared to the same period for 2008. The decrease was mainly due to decline of the maintainance expenses as a public company.

Other Expense

Our other expenses during the year ended December 31, 2009 was RMB 6.5 million, which was an increase of RMB 3.0 million, or 86.1%, as compared to the same period for 2008. The increase was mainly due to the decrease of capitalized expenditure of interest by RMB 6.0 million.

Income Tax Benefit/(Expense)

The effective tax rate was 17.7% and 14.0% in 2009 and 2008 respectively. The higher effective tax rate in 2009 was primarily due to the net loss for the period ended 2009, hence, no income tax was incurred only deferred tax benefit.

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 2010 have been primarily financed through short-term borrowings from financial institutions. The interest rates of short-term borrowings from financial institutions during the three-year period from 2008 to 2010 ranged from 0% to 6.73%, and these borrowings may not be prepaid prior to maturity.

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. On December 31, 2010, we had borrowings of RMB 172.0 million including four different loan agreements with four financial institutions in the PRC. In June 2010, we signed an extension for our RMB137.0 million loan agreement, which will expire in June 2011.

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.

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

We entered into three interest-free Loan Contracts with the Bank of Weifang (formerly known as Weifang City Commercial Bank) for the amount of (i) RMB10 million, effective January 13, 2010, with a maturity date of January 12, 2012; (ii) RMB10 million, effective January 16, 2009, with a maturity date of January 12, 2012; and (iii) RMB5 million, effective December 2, 2008, with a maturity date of December 2, 2011.

On June 4, 2009, Shandong Fuwei entered into a one-year foreign currency loan agreement with Bank of China Weifang Branch for US$ 477,000 which was secured by a deposit of RMB 3.3 million with an interest rate of 1.38375%, 0.2% down float by trading day's LIBOR interest, in order to reduce the currency translation cost of Shandong Fuwei. Proceed of the loan of US$ 477,000 was paid off on June 4, 2010.

On November 20, 2009, we signed a long-term loan contract of RMB10 million with Weifang Dongfang State-owned Assets Management Co., Ltd., for a term of eight years effective as of October 19, 2009 and will expire on October 18, 2017. From 2015 to 2016, we will make principal installment payments of RMB3.4 million per year with the remaining principal balance of RMB3.3 million paid in 2017. The annual interest rate is 5.52% which is down by 10% compared to the fixed benchmark of 5-year interest rate announced by the People's Bank of China. The loan is guaranteed by Shandong Deqin Investment & Guarantee Co., Ltd. and is used for our key projects.

We believe 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 2008, 2009 and 2010 is as follows:

	Year Ended December 31, 2008	Year Ended December 31, 2009	Year Ended December 31, 2010
		(RMB in thousands)	
Net cash generated from operating activities	80,027	7,988	98,574
Net cash generated/(used in) investing activities	(76,750)	(5,657)	52,012