

Fuwei Films (Holdings), Co. Ltd.
Form 6-K
May 13, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16 UNDER
THE SECURITIES EXCHANGE ACT OF 1934

For March 31, 2009

Commission File No. 001-33176

Fuwei Films (Holdings) Co., Ltd.

No. 387 Dongming Road
Weifang Shandong

People's Republic of China, Postal Code: 261061

(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES.)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.
Form 20-F x Form 40-F "

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): "

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): "

Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.
Yes " No "

If "Yes" marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):
82-_____

EXPLANATORY NOTE

This Report of Foreign Private Issuer on Form 6-K (this “Form 6-K”) contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934. These statements relate to future events or the future financial performance of Fuwei Films (Holdings) Co., Ltd. (the “Company”). The Company has attempted to identify forward-looking statements by terminology, including, but not limited to, “anticipates”, “believes”, “expects”, “can”, “continue”, “could”, “estimates”, “intends”, “may”, “plans”, “potentially”, “should” or “will” or the negative of these terms or other comparable terminology.

The forward-looking statements included in this Form 6-K are subject to risks, uncertainties and assumptions about the Company’s businesses and business environments. These statements reflect the Company’s current views with respect to future events and are not a guarantee of future results, operations, levels of activity, performance or achievements. Actual results of the Company’s results, operations, levels of activity, performance or achievements may differ materially from information contained in the forward-looking statements as a result of risk factors. They include, among other things, competition in the BOPET film industry; growth of, and risks inherent in, the BOPET film industry in China; changes in the international market; the increase of the price of energy (mainly power) and the sometimes inadequate energy supply in the area where Shandong Fuwei locates, which may result in the increase of production cost, decrease of sales, and negatively influence the Company’s financial performance; uncertainty of various kinds of international barriers; uncertainty as to future profitability and its ability to obtain adequate financing for its planned capital expenditure requirements; uncertainty as to the Company’s ability to successfully obtain financing and consequently continue the operation of the third BOPET production line, the construction of which has already commenced; uncertainty as to the Company’s ability to continuously develop new BOPET film products and keep up with changes in BOPET film technology; instability of power and energy supply; risks associated with possible defects and errors in its products; uncertainty as to its ability to protect and enforce its intellectual property rights; uncertainty as to its ability to attract and retain qualified executives and personnel; and uncertainty in acquiring raw materials on time and on acceptable terms, particularly in light of the volatility in the prices of petroleum products in recent years and the potential impact resulting from the pending criminal litigation and related new developments to the major shareholders. The Company’s expectations are as of the date this Form 6-K is filed, and the Company does not intend to update any of the forward-looking statements after the date this Report on Form 6-K is filed to confirm these statements to actual results, unless required by law.

On May 12, 2009, the Company announced its unaudited consolidated financial results for the three months period ended March 31, 2009.

FUWEI FILMS (HOLDINGS) CO., LTD. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF MARCH 31, 2009 AND DECEMBER 31, 2008
(amounts in thousands except share and per share value)

| | As of Mar. 31, 2009 (Unaudited) | | As of Dec. 31, 2008 |
|---|------------------------------------|----------------|---------------------|
| | RMB | US\$ | RMB |
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | 22,764 | 3,325 | 15,823 |
| Restricted cash | 7,764 | 1,134 | 10,411 |
| Accounts receivable, net | 27,628 | 4,036 | 38,579 |
| Inventory | 33,222 | 4,853 | 30,589 |
| Advance to suppliers | 2,813 | 411 | 6,846 |
| Prepayments and other receivables | 1,528 | 223 | 1,857 |
| Deferred tax assets - current | 1,379 | 201 | 457 |
| Total current assets | 97,098 | 14,183 | 104,562 |
| Plant and equipment, net | | | |
| Plant and equipment, net | 252,377 | 36,867 | 259,235 |
| Construction in progress | 321,613 | 46,981 | 319,408 |
| Lease prepayments, net | 22,376 | 3,269 | 22,507 |
| Advanced to suppliers - Long Term | 4,613 | 675 | 4,308 |
| Goodwill | 10,276 | 1,501 | 10,276 |
| Deposit | 18,808 | 2,747 | 17,613 |
| Deferred tax assets - non current | 3,566 | 521 | 1,995 |
| Total assets | 730,727 | 106,744 | 739,904 |
| Current liabilities | | | |
| Short-term borrowings | 152,500 | 22,277 | 164,764 |
| Accounts payables | 23,257 | 3,397 | 23,301 |
| Advance from customers | 17,866 | 2,610 | 8,781 |
| Accrued expenses and other payables | 5,652 | 826 | 7,460 |
| Total current liabilities | 199,275 | 29,110 | 204,305 |
| Long-term loan | 15,000 | 2,191 | 5,000 |
| Total liabilities | 214,275 | 31,301 | 209,305 |
| Shareholders' equity | | | |
| Registered capital (US\$0.129752 par value; 20,000,000 shares authorized; 13,062,500 shares issued and outstanding) | 13,323 | 1,946 | 13,323 |
| Additional paid-in capital | 311,907 | 45,563 | 311,907 |
| Statutory reserve | 29,338 | 4,286 | 29,338 |
| Retained earnings | 160,835 | 23,495 | 174,970 |
| Cumulative translation adjustment | 1,049 | 153 | 1,061 |
| Total shareholders' equity | 516,452 | 75,443 | 530,599 |

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| | | | |
|--|---------|---------|---------|
| Total liabilities and shareholders' equity | 730,727 | 106,744 | 739,904 |
|--|---------|---------|---------|

The accompanying notes are an integral part of these unaudited condensed consolidated statements.

FUWEI FILMS (HOLDINGS) CO., LTD. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME
 FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2009 AND 2008
 (amounts in thousands except share and per share value)
 (UNAUDITED)

| | Three Month Period ended Mar. 31 | | | |
|--|----------------------------------|-----|------------|-------------|
| | 2009 | RMB | US\$ | 2008 RMB |
| Revenue | 74,517 | | 10,885 | 104,034 |
| Cost of revenue | (74,444) | | (10,874) | (82,409) |
| Gross profit | 73 | | 11 | 21,625 |
| Operating expenses | | | | |
| Selling expenses | (4,897) | | (715) | (3,438) |
| Administrative expenses | (11,462) | | (1,675) | (7,724) |
| Total operating expenses | (16,359) | | (2,390) | (11,163) |
| Operating income/(loss) | (16,286) | | (2,379) | 10,463 |
| Other income/(expense) | | | | |
| - Interest income | 101 | | 15 | 16 |
| - Interest expense | - | | - | (3,790) |
| - Other, net | (445) | | (65) | 2,241 |
| Total other income/(expense) | (344) | | (50) | (1,533) |
| Income/(loss) before income tax expense | (16,630) | | (2,429) | 8,930 |
| Income tax benefit/(expense) | 2,494 | | 364 | (993) |
| Net income/(loss) | (14,136) | | (2,065) | 7,937 |
| Other comprehensive income | | | | |
| -Foreign currency translation adjustments | (11) | | (2) | 620 |
| Comprehensive income | (14,147) | | (2,067) | 8,557 |
| Earnings per share, basic and diluted | (1.08) | | (0.16) | 0.61 |
| Weighted average number ordinary shares, basic and diluted | 13,062,500 | | 13,062,500 | 13,062,500 |

The accompanying notes are an integral part of these unaudited condensed consolidated statements.

FUWEI FILMS (HOLDINGS) CO., LTD. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2009 AND 2008
(amounts in thousands except share and per share value)
(UNAUDITED)

| | Period Ended Mar. 31, 2009 | | Period Ended Mar. 31, 2008 |
|--|-------------------------------|---------|-------------------------------|
| | RMB | US\$ | RMB |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net income/(loss) | (14,136) | (2,065) | 7,937 |
| Adjustments to reconcile net income to net cash provided by operating activities | | | |
| - Depreciation of property, plant and equipment | 7,284 | 1,064 | 5,909 |
| - Amortization of intangible assets | 113 | 17 | 149 |
| - Deferred income taxes | (2,493) | (364) | - |
| - Bad debt expense/(recovery) | 6,148 | 898 | 73 |
| Changes in operating assets and liabilities, net of | | | |
| Share capital contribution - rental and interest paid by shareholders | | | 2,756 |
| - Accounts receivable | 9,534 | 1,393 | 856 |
| - Inventories | (2,632) | (385) | (8,020) |
| - Advance to suppliers | 3,728 | 545 | - |
| - Prepaid expenses and other current assets | (5,579) | (815) | (18,859) |
| - Accounts payable | (44) | (6) | 1,695 |
| - Accrued expenses and other payables | (361) | (53) | 11,667 |
| - Advance from customers | 9,086 | 1,327 | - |
| - Tax payable | (1,445) | (211) | - |
| Net cash provided by operating activities | 9,203 | 1,344 | 4,162 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchases of property, plant and equipment | (427) | (62) | (946) |
| Restricted cash related to trade finance | 2,647 | 387 | 33,464 |
| Addition to construction in progress | (2,205) | (322) | (25,673) |
| Deposit for purchase | - | - | (21,000) |
| Net cash (used in)/provided by investing activities | 15 | 2 | (19,155) |
| CASH FLOW FROM FINANCING ACTIVITIES | | | |
| Net proceeds from issuance of share capital | | | |
| Principal payments of short-term bank loans | (12,264) | (1,792) | (12,869) |
| Proceeds from short-term bank loans | 10,000 | 1,461 | 11,139 |
| Net cash provided by financing activities | (2,264) | (331) | (1,730) |
| Effect of foreign exchange rate changes | (13) | 1 | (2,770) |
| Net increase/(decrease) in cash and cash equivalent | 6,941 | 1,017 | (19,493) |
| Cash and cash equivalent | | | |
| At beginning of period/year | 15,823 | 2,308 | 30,909 |
| At end of period/year | 22,764 | 3,325 | 11,416 |

Supplemental disclosure of cash flow information

| | | | |
|--------------------|-------|-----|-------|
| -Interest paid | 1,777 | 260 | 2,966 |
| -Income taxes paid | - | - | 802 |

The accompanying notes are an integral part of these unaudited condensed consolidated statements.

FUWEI FILMS (HOLDINGS) CO., LTD. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(amounts in thousands except share and per share value)

NOTE 1 - BACKGROUND

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

On August 20, 2004, the Company was allotted and issued one ordinary share of US\$1.00 in Fuwei (BVI) (being the entire issued share capital of Fuwei (BVI)), thereby establishing Fuwei (BVI) as the intermediate investment holding company of the Group.

The Group was established by certain members of the former management team and employees (the “Group Founders”) of Shandong Neo-Luck Plastics Co., Ltd (“Shandong Neo-Luck”), a company owned 59% by a PRC state-owned enterprise. Prior to filing for bankruptcy protection on September 24, 2004, Shandong Neo-Luck was engaged in the business of BOPET film production. Certain production-related assets of Shandong Neo-Luck, which had previously been mortgaged to the Bank of China, Weifang City branch (the “Mortgagee Bank”) as security for several loans extended to Shandong Neo-Luck’s affiliates, were acquired through public auction by Shandong Fuwei on October 9, 2003 for RMB156,000 as a result of the borrower’s default on various bank loans. Shandong Fuwei, established in the PRC on January 28, 2003 as a limited liability company, commenced its operations in July 2003. The principal activities of Shandong Fuwei are those relating to the design, production and distribution of plastic films. Shandong Neo-Luck was subsequently declared bankrupt by the Weifang Municipal People’s Court in the PRC on September 24, 2004.

Through its intermediate holding company, Fuwei (BVI), the Company acquired a 100% ownership interest in Shandong Fuwei on October 27, 2004 for a purchase price of RMB91,093. Shandong Fuwei thereafter became a wholly-owned subsidiary of Fuwei (BVI) effective October 27, 2004. On December 25, 2004, Shandong Fuwei acquired additional production-related assets that were formerly owned by Shandong Neo-Luck for RMB119,280 through a public auction. Shandong Fuwei converted into a wholly-foreign owned enterprise in the PRC on January 5, 2005, with a registered capital of US\$11,000 which increased to US\$42,700 on December 31, 2006.

NOTE 2 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unaudited Interim Financial Information

The accompanying unaudited consolidated financial statements have been prepared by the Company, pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”) on Form 10-Q as applicable to smaller reporting companies, and generally accepted accounting principles for interim financial reporting. The information furnished herein reflects all adjustments (consisting of normal recurring accruals and adjustments) which are, in the opinion of management, necessary to fairly present the operating results for the respective periods. Certain information and footnote disclosures normally presented in annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) have been omitted pursuant to such rules and regulations. These consolidated financial statements should be read in conjunction

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with the audited consolidated financial statements and footnotes for the year ended December 31, 2008 included in the Company's Annual Report on Form 20-F. The results of the three month period ended March 31, 2009 are not necessarily indicative of the results to be expected for the full year ending December 31, 2009.

FUWEI FILMS (HOLDINGS) CO., LTD. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(amounts in thousands except share and per share value)

NOTE 2 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

Principles of Consolidation

The condensed consolidated financial statements include the financial statements of the Company and its two subsidiaries. All significant inter-company balances and transactions have been eliminated in consolidation.

Use of Estimates

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

Foreign Currency Transactions

The Group's reporting currency is the Renminbi ("RMB").

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

FUWEI FILMS (HOLDINGS) CO., LTD. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(amounts in thousands except share and per share value)

NOTE 2 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

Transactions denominated in currencies other than RMB are translated into RMB at the exchange rates quoted by the People's Bank of China (the "PBOC") prevailing at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies are translated into RMB using the applicable exchange rates quoted by the PBOC at the balance sheet dates. The resulting exchange differences are recorded in the statements of income.

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

Exchange Rate Information

Foreign Currency - The Company's principal country of operations is in the People's Republic of China. The financial position and results of operations of the Company are determined using the local currency ("Renminbi") as the functional currency. The results of operations denominated in foreign currency are translated at the average rate of exchange during the reporting period.

Unless otherwise noted, all translations from Renminbi to U.S. dollars in reporting of assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the market rate of exchange prevailing on that date. The registered equity capital denominated in the functional currency is translated at the historical rate of exchange at the time of capital contribution. All translation adjustments resulting from the translation of the financial statements into the reporting currency ("US Dollars") are dealt with as a separate component within shareholders' equity. We make no representation that any Renminbi or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or Renminbi, as the case may be, at any particular rate, the rates stated above, or at all.

Cash and Cash Equivalents and Restricted Cash

For statements of cash flow purposes, the Company considers all cash on hand and in banks, including accounts in book overdraft positions, certificates of deposit and other highly-liquid investments with maturities of three months or less, when purchased, to be cash and cash equivalents.

FUWEI FILMS (HOLDINGS) CO., LTD. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(amounts in thousands except share and per share value)

NOTE 2 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

Restricted cash refers to the cash balance held by bank as deposit for Letters of Credit. The Company has restricted cash of RMB7,764 million (US\$1,134 million) and RMB10,411 (US\$1,519) as of March 31, 2009 and December 31, 2008, respectively.

Trade Accounts Receivable

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

The Group reviews its allowance for doubtful accounts monthly. Past due balances over 90 days and over a specified amount are reviewed individually for collectability. All other balances are reviewed on a pooled basis by aging of such balances. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Group does not have any off-balance-sheet credit exposure related to its customers.

The Group has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. These receivables are due within 7 to 60 days from the date of billing. Normally, the Group does not obtain collateral from customers.

Inventories

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

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment. Depreciation on property, plant and equipment is calculated on the straight-line method (after taking into account their respective estimated residual values) over the estimated useful lives of the assets. There are as follows:

FUWEI FILMS (HOLDINGS) CO., LTD. AND SUBSIDIARIES
 NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (amounts in thousands except share and per share value)

NOTE 2 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
 (continued)

| | Years |
|----------------------------|---------|
| Buildings and improvements | 25 - 30 |
| Plant and equipment | 10 - 15 |
| Computer equipment | 5 |
| Furniture and fixtures | 5 |
| Motor vehicles | 5 |

Depreciation of property, plant and equipment attributable to manufacturing activities is capitalized as part of the inventory, and expensed to cost of goods sold when inventory is sold. Depreciation related to abnormal amounts from idle capacity is charged to cost of goods sold for the period incurred.

Construction in progress represented capital expenditure in respect of the new BOPET production line and the trial production line. No depreciation is provided in respect of construction in progress.

Lease Prepayments

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

Goodwill

Goodwill represents the excess of purchased cost over fair value of net assets of Shandong Fuwei's acquired business. Goodwill is evaluated for impairment annually. The Company evaluates the carrying value of goodwill during the fourth quarter of each year and between annual evaluations if events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount. Such circumstances could include, but are not limited to: (1) a significant adverse change in legal factors or in business climate, (2) unanticipated competition, or (3) an adverse action or assessment by a regulator. When evaluating whether goodwill is impaired, the Company compares the fair value of the reporting unit to which the goodwill is assigned to the reporting unit's carrying amount, including goodwill. The fair value of the reporting unit is estimated using a combination of the income, or discounted cash flows, approach and the market approach, which utilizes comparable companies' data. If the carrying amount of a reporting unit exceeds its fair value, then the amount of the impairment loss must be measured. The impairment loss would be calculated by comparing the implied fair value of reporting unit goodwill to its carrying amount. In calculating the implied fair value of reporting unit goodwill, the fair value of the reporting unit is allocated to all of the other assets and liabilities of that unit based on their fair values. The excess of the fair value of a reporting unit over the amount assigned to its other assets and liabilities is the implied fair value of goodwill. An impairment loss would be recognized when the carrying amount of goodwill exceeds its implied fair value. The Company's evaluation of goodwill resulted in no impairment losses.

FUWEI FILMS (HOLDINGS) CO., LTD. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(amounts in thousands except share and per share value)

NOTE 2 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

Impairment of Long-lived Assets

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

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

Revenue Recognition

Sales of plastic films are reported, net of value added taxes (“VAT”), sales returns and trade discounts. The standard terms and conditions under which the Group generally delivers allow a customer the right to return product for refund only if the product does not conform to product specifications; the non-conforming product is identified by the customer; and the customer rejects the non-conforming product and notifies the Group within 7 days and 30 days of receipt for sales to customers in the PRC and overseas, respectively. The Group recognizes revenue when products are delivered and the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable.

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

FUWEI FILMS (HOLDINGS) CO., LTD. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(amounts in thousands except share and per share value)

NOTE 2 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

Government Grants

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

Retirement and Other Post-retirement Benefits

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

Income Taxes

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

Earnings Per Share

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

Contingencies

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

FUWEI FILMS (HOLDINGS) CO., LTD. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(amounts in thousands except share and per share value)

NOTE 2 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

Recently Issued Accounting Standards

In December 2007, the FASB issued SFAS No. 160, "Non-controlling Interests in Consolidated Financial Statements". This Statement amends ARB 51 to establish accounting and reporting standards for the non-controlling (minority) interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a non-controlling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS No. 160 is effective for the Company's fiscal year beginning October 1, 2009. Management does not expect the impact of the adoption of this accounting standard to be material on the consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations". This Statement replaces SFAS No. 141, Business Combinations. This Statement retains the fundamental requirements in Statement 141 that the acquisition method of accounting (which Statement 141 called the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. This Statement also establishes principles and requirements for how the acquirer: a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquired; b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) will apply prospectively to business combinations for which the acquisition date is on or after Company's fiscal year beginning October 1, 2009. The Company will be required to expense costs related to any acquisitions after January 1, 2009.

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

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NOTE 2 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

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

In May of 2008, FASB issued SFASB No. 163, Accounting for Financial Guarantee Insurance Contracts-an interpretation of FASB Statement No. 60. The scope of the statement is limited to financial guarantee insurance (and reinsurance) contracts. The pronouncement is effective for fiscal years beginning after December 31, 2008. The Company does not believe this pronouncement will impact its financial statements.

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

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NOTE 3 - ACCOUNTS RECEIVABLES, NET

Accounts receivables at March 31, 2009 and December 31, 2008 consist of the following:

| | 3-31-2009 | | 12-31-2008 |
|---------------------------------------|-------------|-------|------------|
| | RMB | US\$ | RMB |
| | (Unaudited) | | |
| Accounts receivable | 31,621 | 4,619 | 41,245 |
| Less: Allowance for doubtful accounts | (5,491) | (802) | (4,074) |
| | 26,130 | 3,817 | 37,171 |
| Bills receivable | 1,498 | 219 | 1,408 |
| | 27,628 | 4,035 | 38,579 |

Bill receivables are bank's acceptance bills, which are guaranteed by bank.

NOTE 4-INVENTORIES

Inventories at March 31, 2009 and December 31, 2008 consist of the following:

| | 3-31-2009 | | 12-31-2008 |
|-----------------------------|-------------|-------|------------|
| | RMB | US\$ | RMB |
| | (Unaudited) | | |
| Raw materials | 15,752 | 2,301 | 11,239 |
| Work-in-progress | 1,238 | 181 | 1,527 |
| Finished goods | 16,711 | 2,441 | 17,285 |
| Consumables and spare parts | 577 | 84 | 539 |
| Inventory—impairment | (1,056) | (154) | - |
| | 33,222 | 4,853 | 30,589 |

NOTE 5-PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment consist of the following:

| | 3-31-2009 | | 12-31-2008 |
|--------------------------------|-------------|----------|------------|
| | RMB | US\$ | RMB |
| | (Unaudited) | | |
| Buildings | 38,022 | 5,554 | 34,807 |
| Plant and equipment | 327,317 | 47,814 | 330,106 |
| Computer equipment | 1,389 | 203 | 1,387 |
| Furniture and fixtures | 5,799 | 847 | 5,799 |
| Motor vehicles | 1,739 | 254 | 1,739 |
| | 374,266 | 54,672 | 373,838 |
| Less: accumulated depreciation | (121,888) | (17,805) | (114,604) |
| | 252,377 | 36,867 | 259,235 |

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NOTE 5-PROPERTY, PLANT AND EQUIPMENT, NET (continued)

Total depreciation for the three month periods ended March 31, 2009 and 2008 was RMB7,284 (US\$1,064) and RMB5,909 (US\$825), respectively. For the periods three months ended March 31, 2009 and 2008, depreciation expenses were RMB6,852 (US\$1,001) and RMB5,752 (US\$868), respectively.

NOTE 6 - CONSTRUCTION IN PROGRESS

Construction-in-progress represents capital expenditure in respect of the BOPET production line and the trial production line. Construction in progress was RMB 321,613 (US\$ 46,981) ended March 31, 2009, and RMB319,408 (US\$46,600) ended December 31, 2008, respectively.

Interest expense capitalized during the three month period ended March 31, 2009 was RMB2,107 (US\$308).

NOTE 7 - LEASE PREPAYMENTS

As of March 31, 2009 and December 31, 2008, lease prepayments, net of amortization were RMB 22,376 (US\$3,269) and RMB 22,507 (US\$3,284), respectively.

Amortization of land use rights for the three-month period ended March 31,2009 and 2008 were RMB113 (US\$17) and RMB 149 (US\$22), respectively.

Amortization expenses for the next five years after March 31, 2009 are as follows:

| | RMB | US\$ |
|--------------|-----|------|
| 1 year after | 454 | 66 |
| 2 year after | 454 | 66 |
| 3 year after | 454 | 66 |
| 4 year after | 454 | 66 |
| 5 year after | 454 | 66 |

NOTE 8 – DEPOSIT

On January 20, 2008, Shandong Fuwei signed a “Letter of Intent of Joyinn Capital Increase and Share Expansion”(“LOI”) with Joyinn Hotel Investment & Management Co., Ltd. (“Joyinn”) and the Shareholder of Joyinn. Joyinn is a legal company of limited liability that registered on May 19, 2006 in Beijing, with registered capital of RMB 50,000. In order to grow, Joyinn plans to increase its registered capital by RMB 52,000 to a total of RMB 102,000, and plans to accept Shandong Fuwei as a new shareholder to invest and buy its shares.

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NOTE 8 – DEPOSIT (continued)

According to the LOI, Shandong Fuwei deposited RMB 26,000 (half of the would-be added register capital of RMB 52,000), to Joyinn as the prepayment as of March 31, 2008. The prepayment to Joyinn will be regarded as investment payment after all parties enter into the final capital increase and shares expansion agreement during the effective term of this LOI. A share pledging agreement was entered into subsequently on April 9, 2008 between Shandong Fuwei and Shandong Xinmeng Investment Co., Ltd. (“Pledger”), which holds 97.6% shares of Joyinn. The Pledger agreed to pledge its 52% interest in Joyinn, as a guarantee to the prepayment on the newly increased register capital made by Shandong Fuwei to Joyinn. Based on the mutual supplementary agreement signed in June 2008, the prepayment was decreased by RMB 5,000 and returned to the Company on June 18, 2008. As of March 31, 2009, the total amount of the deposit was RMB 18,808 (US\$2,747) after net of reserve.

NOTE 9 - SHORT-TERM AND LONG-TERM BANK LOANS

| Lender | Interest rate per Annum | 3-31-2009 | | 12-31-2008 |
|--|-------------------------------|-----------|--------|------------|
| | | RMB | US\$ | RMB |
| SHORT-TERM LOANS | | | | |
| Bank of Communications Co., Ltd. | | | | |
| - July 16, 2008 to June 10, 2009 | 5.841% | 82,580 | 12,063 | 82,580 |
| - July 18, 2008 to June 23, 2009 | 5.841% | 60,000 | 8,765 | 60,000 |
| Weifang Commercial Bank | | | | |
| - January 24, 2008 to January 12, 2009 | 0.00% | | | 10,000 |
| - January 30, 2008 to January 18, 2009 | 0.00% | | | 10,000 |
| - January 13, 2009 to January 12, 2010 | 0.00% | 10,000 | 1,461 | - |
| Bank of China | | | | |
| - March 13, 2008 to March 13, 2009 | 5.45% | (80) | (12) | 2,184 |
| LONG-TERM LOANS | | | | |
| - December 2, 2008 to December 2, 2011 | 0.00% | 5,000 | 730 | 5,000 |
| - January 16, 2009 to January 12, 2012 | 0.00% | 10,000 | 1,461 | - |
| | | 167,500 | 24,468 | 169,764 |

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NOTE 9 - SHORT-TERM AND LONG-TERM BANK LOANS (continued)

Notes:

During the years ended December 31, 2007 and 2008, the Company entered into several loan agreements with commercial banks with terms ranging from one year to three years to finance its working capital, R&D investment, construction, and foreign trade. None of the loan agreements requires the Company to comply with financial covenants. The weighted average interest rate of short-term bank loans outstanding as of March 31, 2009 and December 31, 2008 were 5.84% and 6.32% per annum, respectively.

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

The Company obtained new short-term loans on July 16, 2008 and July 18, 2008 for RMB 82,580 and RMB 60,000, respectively. The maturity date of the RMB 82,580 loan is June 10, 2009, and the maturity date of the RMB 60,000 loan is June 23, 2009. The annual interest rate is up by 10% based on the fixed benchmark interest rate of 5.31% determined by the People's Bank of China, effective December 22, 2008. As of March 31, 2009, the interest rate in effect is 5.841%.

The Company entered into two interest free loan agreements with the Weifang Commercial Bank for the amount of (i) RMB 10,000, effective January 13, 2009, with a maturity date of January 12, 2010; and (ii) RMB10,000, effective January 16, 2009, with a maturity date of January 12, 2012. The Company obtained from Weifang Commercial Bank a new loan of RMB5,000 on December 2, 2008, with a maturity date of December 2, 2011. All of the above loans are interest-free loans. These are industrial development fund loans administrated by the local government of Shandong Province, and made through the Weifang Commercial Bank, to be provided to local high-and -new tech enterprises for the purpose of enhancing innovation and technical research and development and to support their development. The proceeds of these loans have been used for construction of the trial production line and for research and development.

Long-term bank loans maturity for the next three years after March 31, 2009 are as follows:

| | RMB | US\$ |
|--------------|--------|-------|
| 1 year after | - | - |
| 2 year after | 5,000 | 730 |
| 3 year after | 10,000 | 1,461 |

On March 13, 2008, Shandong Fuwei recommended a foreign currency portfolio from Bank of China Weifang branch, with expectation to reduce the cost of foreign exchange for Shandong Fuwei importing raw materials. The portfolio transactions are guaranteed by RMB2,264 security deposit for one-year foreign currency loan of US\$319 with an interest rate of 5.45%. The outstanding loan of US\$319 matured on March 13, 2009.

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NOTE 10-INCOME TAX

The Company is registered in Cayman Islands and has operations primarily in two tax jurisdictions, the PRC and Cayman Islands.

The provision for income taxes from operations consists of the following for the three months periods ended March 31, 2009 and 2008:

| | 3-31-2009 (RMB) | (USD) | 3-31-2008 (RMB) |
|---|--------------------|-------|--------------------|
| Cayman Islands Current Income Tax Expense (Benefit) | - | - | - |
| PRC Current Income Expense (Benefit) | - | - | 993 |
| Deferred Tax Expense (Benefit) | (2,494) | (364) | - |
| Total Provision for Income Tax | (2,494) | (364) | 993 |

The following is a reconciliation of the provision for income taxes at the respective income tax rate to the income reflected in the Statement of Operations:

| | 3-31-2009 | 3-31-2008 |
|--|-----------|-----------|
| Tax expense (credit) – Cayman Islands | 0% | 0% |
| Foreign income tax – PRC | 15% | 15% |
| Exempt from income tax due to tax holidays | (0)% | (0)% |
| Tax expense at actual rate | 15% | 15% |

Cayman Islands Tax

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

PRC Tax

Pursuant to the acquisition by Fuwei (BVI), Shandong Fuwei became a wholly foreign-owned enterprise under the laws of the PRC on January 5, 2005. Accordingly, Shandong Fuwei is entitled to a new 2-year exemption and the 3-year 50% reduction for Foreign Enterprise Income Tax holiday 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 exempted 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. The tax holiday of Shandong Fuwei commenced in 2005. Shandong Fuwei was exempted from PRC income tax for the period from January 28, 2003 to December 31, 2006, and 50% reduction in tax rate for the year ended December 31, 2007.

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NOTE 10-INCOME TAX (continued)

The New Tax Law was adopted on March 16, 2007 in the PRC. Under the New Tax Law, which became effective on January 1, 2008, domestic enterprises and foreign-invested enterprises generally are 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. Shandong Fuwei was redesignated as a High-and-New Tech Enterprise in December 2008 and is enjoying the favorable income tax rate of 15% pursuant to the Enterprise Income Tax Law.

Income tax benefit reported in the consolidated statements of income differs from the income tax expense amount computed by applying the PRC income tax rate (the statutory tax rate of the Company's principal subsidiary). For the periods ended March 31, 2009 and December 31, 2008, the Company's effective tax rates were both at 15% rate for High-and-New Tech Enterprise located in the Development District of national level in China. The effective income tax rate for the three month period ended March 31, 2009 and 2008 were 15.0% and 11.1%, respectively.

Tax effects of temporary differences that give rise to significant portions of the deferred tax assets/(liabilities) as of March 31, 2009 and December 31, 2008 are presented below.

| | 3-31-2009 | | 12-31-2008 |
|---------------------|-----------|-----|------------|
| | RMB | USD | RMB |
| Current | | | |
| Accounts receivable | 132 | 19 | (80) |
| Other receivables | 1,247 | 182 | 538 |
| | 1,379 | 201 | 457 |