吉 林 奇 峰 化 纖 股 份 有 限 公 司
Jilin Qifeng Chemical Fiber Co., Ltd.*

(A joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 549)

2008 FINAL RESULTS ANNOUNCEMENT

The board of directors (the "Directors") of Jilin Qifeng Chemical Fiber Co., Ltd. (the "Company") (the "Board") is pleased to announce the consolidated annual results of the Company and its subsidiary (collectively the "Group") for the year ended 31 December 2008 (the "Year") (the "Results Announcement"), with comparative figure for the year ended 31 December 2007 as follows. This Results Announcement has been reviewed by the Board and the Audit Committee of the Company.

1. FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	**2008**	2007
		RMB'000	RMB'000
Revenue	2	**1,186,501**	1,764,867
Cost of sales		**(1,214,197)**	(1,682,775)
Gross (loss)/profit		**(27,696)**	82,092
Distribution costs		**(32,422)**	(49,489)
Administrative expenses		**(62,529)**	(70,097)
Other income	3	**138,167**	88,237
Other expenses	3	**(101,636)**	(61,733)
Impairment of non-current assets	4	**(93,428)**	—
Other losses – net	5	**(38,735)**	(4,512)
Operating loss		**(218,279)**	(15,502)
Finance income		**452**	1,182
Finance costs		**(103,339)**	(86,427)
Operating loss after finance income and costs		**(321,166)**	(100,747)
Share of loss of a jointly controlled entity		**(71,526)**	(56,054)
Loss before income tax	6	**(392,692)**	(156,801)
Income tax credit	7	**80,086**	33,001
Loss for the year attributable to the equity holders of the Company		**(312,606)**	(123,800)
Loss per share for loss attributable to the equity holders of the Company during the year (expressed in RMB per share)			
– basic and diluted	8	**(0.36)**	(0.14)
Dividend	9	**—**	—

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2008

	Note	**2008**	2007
		RMB'000	RMB'000
ASSETS			
Non-current assets			
Land use rights		**28,580**	30,462
Property, plant and equipment		**1,333,730**	1,535,288
Intangible assets		**36,669**	49,237
Interest in a jointly controlled entity		**90,969**	162,222
Deferred income tax assets		**126,304**	46,218
		1,616,252	1,823,427
Current assets			
Inventories		**157,571**	345,766
Trade and other receivables	10	**389,360**	390,845
Current income tax recoverable		**1,893**	1,893
Cash and cash equivalents		**108,282**	158,406
		657,106	896,910
Total assets		**2,273,358**	2,720,337
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		**866,250**	866,250
Share premium		**142,477**	142,477
Accumulated losses		**(328,920)**	(16,314)
Other reserves		**31,919**	31,919
Total equity		**711,726**	1,024,332

	Note	2008	2007
		RMB'000	RMB'000
LIABILITIES			
Non-current liabilities			
Long-term bank borrowings		**330,000**	870,000
Deferred income		**73,508**	78,732
		403,508	948,732
Current liabilities			
Trade and other payables	11	**233,624**	224,273
Short-term bank borrowings		**243,000**	363,000
Current portion of long-term bank borrowings		**650,000**	160,000
Derivative financial instrument		**31,500**	—
		1,158,124	747,273
Total liabilities		**1,561,632**	1,696,005
Total equity and liabilities		**2,273,358**	2,720,337
Net current (liabilities)/assets		**(501,018)**	149,637
Total assets less current liabilities		**1,115,234**	1,973,064

1 Basis of preparation

During the year ended 31 December 2008, the Group incurred a net loss of RMB312,606,000 and as of that date, the Group's current liabilities exceeded its current assets by RMB501,018,000 and the bank borrowings as included in the Group's current liabilities amounted to RMB893,000,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

The Directors are of the opinion that the Group will be able to finance its future financing requirements and working capital based on the considerations as set out below:

(a) The Group has maintained strong business relationship with its principal bankers to gain their ongoing financial support. As of the date of this Results Announcement, the Company has already obtained a standby banking facility from a principal banker for a period up to February 2010 and this committed facility is to be guaranteed by Jilin Chemical Fiber Group Co., Ltd., the Company's ultimate state-owned parent company.

In addition, the Group has also been actively discussing with other principal bankers for the renewal of certain banking facilities when they fall due in 2009. The Company has obtained a signed letter of intent from another principal banker which indicates its willingness to maintain the existing banking facilities granted by this banker to the Company be remained at the same amount in year 2008 for a period up to May 2010. The Company's directors believe that formal and binding facility letter will be entered into with this banker upon the maturity dates of the related borrowings.

The Directors considered that the abovementioned banking facilities should be sufficient for the Group to meet its funding and working capital requirements in the next twelve months from the balance sheet date.

(b) The ultimate parent company has confirmed its intention and ability to provide continuing financial support to the Group so as to enable it to meet its liabilities as and when they fall due and to carry on its business for the foreseeable future; and

(c) The Group's profitability and cash flows are expected to be improved in view of the recent significant reduction in the prices of acrylonitrile, the major raw materials for the Group's production, and the expected favourable returns from the new business segment which is to be fully operated in the second half of 2009 (Note 2).

The Directors are confident that the Group will continue to obtain the ongoing financial support from its principal bankers and the ultimate parent company and the Group's financial results and cash flows from its future operations will be improved, and there will be sufficient financial resources to cover the Group's operating costs and to meet its financing commitments. In view of the above, the Directors have prepared the consolidated financial statements on a going concern basis. The consolidated financial statements do not include any adjustments that would result from the failure to obtain such ongoing financial support from the Group's principal bankers and to generate sufficient cash flows from the Group's future operations.

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss (including derivative financial instruments).

(a) Standards, interpretations and amendments which are effective in 2008

In 2008, the Group has adopted the following amendments and interpretations which are mandatory for the Group's accounting periods on or after 1 January 2008:

HKAS 39 and HKFRS 7 (Amendments)	Financial Instruments: Recognition and Measurement and Financial Instruments: Disclosures – Reclassification of Financial Assets
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction

The above amendments and interpretations are not relevant to the Group and therefore the adoption of these amendments and interpretations in the current year did not result in any significant change in the Group's significant accounting policies and the presentation of the consolidated financial statements.

(b) Standards, interpretations and amendments to published standards that are not yet effective for the year ended 31 December 2008 and have not been early adopted by the Group

The HKICPA has issued the following new/revised standards, amendments or interpretations which are not yet effective for the year ended 31 December 2008 (collectively the "New or Revised HKFRSs"):

		Effective for accounting periods beginning on or after
HKAS 1 (Revised)	Presentation of Financial Statements	1 January 2009
HKAS 23 (Revised)	Borrowing Costs	1 January 2009
HKAS 27 (Revised)	Consolidated and Separate Financial Statements	1 July 2009
HKFRS 8	Operating Segments	1 January 2009
HKAS 32 and HKAS 1 (Amendments)	Financial Instruments: Presentation and Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation	1 January 2009
HKFRS 1 and HKAS 27 (Amendments)	First-time adoption of HKFRS and Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	1 July 2009

HKFRS 2 (Amendment)	Share-based Payment – Vesting Conditions and Cancellations	1 January 2009
HKFRS 3 (Revised)	Business Combinations	1 July 2009
HK(IFRIC)-Int 13	Customer Loyalty Programmes	1 July 2008
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate	1 January 2009
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation	1 October 2008
HK(IFRIC)-Int 17	Distribution of Non-cash Assets to Owners	1 July 2009
HK(IFRIC)-Int 18	Transfers of Assets from Customers	1 July 2009

In addition to the New or Revised HKFRSs as set out above, the HKICPA has also published certain improvements to the HKFRSs in October 2008 (the "Improvement Project"). Except for the amendment to HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" which will be effective for accounting periods on or after 1 July 2009, the other amendments under the Improvement Project will be effective for accounting periods on or after 1 January 2009.

The Group has not early adopted the abovementioned New or Revised HKFRSs and amendments under the Improvement Project in its consolidated financial statements and will apply these New or Revised HKFRSs and amendments under the Improvement Project in accordance with their respective effective dates. The Group has already commenced an assessment of the related impact to the Group. The Group is not yet in a position to state whether any substantial changes to the Group's significant accounting policies or presentation of the consolidated financial statements will be resulted.

2 Revenue and segmental information

Revenue recognised during the current and the prior year primarily represents the turnover from sales of acrylic fiber products.

During the years ended 31 December 2008 and 2007, the Group was principally engaged in the production and sales of acrylic fiber products (the "Acrylic Fiber Segment"), and all of the operations and assets in connection with this business segment are located in the People's Republic of China (the "PRC"). Except for a portion of the Group's revenue of RMB35,114,000 (2007: Nil) which was in connection with sales to overseas customers, the Group's revenue derived from this business segment was all related to sales of acrylic fiber products to domestic customers in the PRC.

In December 2008, the Group started to prepare for its diversification to another business segment in the production and sales of carbon fiber products (the "Carbon Fiber Segment"). As of 31 December 2008, certain production lines (primarily comprises of property, plant and equipment with carrying amounts of RMB46,277,000) were under modification for the Group's future operations in this new business segment. For the year ended 31 December 2008, the revenue and gross profit from the trial operation of this business segment amounted to RMB5,152,000 (2007: not applicable) and RMB1,209,000 (2007: not applicable) respectively which are all in connnection with the sales of carbon fiber products to domestic customers in the PRC. The Company's directors anticipate that the full operations of this new business segment will only be commenced in the second half of 2009.

In view of the situation as described above, the Directors consider that it is not necessary to present any more detailed business or geographical segmental information in this Results Announcement.

3 Other income and expenses

	2008 RMB'000	2007 RMB'000
Other income		
Rental income (Note a)	**51,897**	29,029
Income from provision of utilities (Note b)	**73,661**	51,774
Amortisation of deferred income	**6,724**	5,824
Others	**5,885**	1,610
	138,167	88,237
Other expenses		
Direct outgoings in respect of		
– rental income (Note a)	**(29,945)**	(13,064)
– provision of utilities (Note b)	**(56,502)**	(46,282)
Provision for impairment of trade and other receivables	**(15,189)**	(2,387)
	(101,636)	(61,733)
	36,531	26,504

Notes:

(a) Pursuant to a leasing agreement dated 8 August 2007 (the "Lease Agreement"), the Group agreed to lease certain utilities (such as water, steam and electricity) production facilities including a thermal power plant (collectively the "Utility Facilities") to a branch of the ultimate parent company (the "Branch") at rates as predetermined in the Lease Agreement. The initial term of the Lease Agreement would expire on 31 December 2009 and was renewable for another three years.

Subsequently, the Group had early terminated the Lease Agreement in November 2008. For the year ended 31 December 2008, the rental income received or receivable from the Branch in respect of the leases of the Utility Facilities amounted to RMB51,541,000 (2007: RMB28,674,000). Direct outgoings in respect of the rental income primarily comprise of depreciation on the Utility Facilities of RMB28,481,000 (2007: RMB11,566,000).

After the termination of the Lease Agreement, the Group has managed and operated the Utility Facilities to produce electricity and steam for its own production.

(b) On 26 August 2008, the Group has entered into a lease agreement with a fellow subsidiary pursuant to which, the Group leases certain utilities production facilities (the "Leased Assets") from the fellow subsidiary for the period from 4 November 2008 to 31 December 2010 and the lease term is renewable for another three years. Combined with the utilities production capacities of the Utility Facilities (Note a above refers), management believes that the Group can produce electricity and steam for its own production in a more cost efficient manner and the surplus of utilities generated from the Utility Facilities and the Leased Assets (if any) will be provided to the Group's jointly controlled entity, related companies and third parties at rates as agreed among the parties in concern.

For the year ended 31 December 2008, the income from the provision of utilities to the fellow subsidiary, jointly controlled entity and third parties amounted to RMB49,954,000 (2007: Nil), RMB18,217,000 (2007: RMB51,774,000) and RMB5,490,000 (2007: Nil) respectively. Direct outgoings in respect of the income from provision of utilities primarily comprise of costs of raw materials, operating lease rentals for the Leased Assets and depreciation of the Utility Facilities of RMB42,697,000 (2007: RMB39,940,000), RMB7,025,000 (2007: Nil) and RMB4,690,000 (2007: RMB4,387,000) respectively.

4 Impairment of non-current assets

The continuous appreciation of Renminbi, the reduction of the tax rebate for textile products and the global economic downturn have all imposed unfavourable impacts on the business environment of the Company's customers and therefore reducing their demands on the acrylic fiber products as manufactured by the Group. Combined with the prices of acrylonitrile remained at a high level till November 2008, the Group has suffered from losses for the second consecutive years and this circumstance is an indication that the Group's key operating assets (representing the Group's land use rights, property, plant and equipment and intangible assets) may be impaired.

The Company's management has performed an impairment assessment on those key operating assets and has identified two cash generating units ("CGUs") for the purpose of the impairment assessment, representing the key operating assets for the Acrylic Fiber Segment and the Carbon Fiber Segment respectively (Note 2). Based on the results of the impairment assessment, the carrying amounts of the property, plant and equipment and intangible assets in the CGU of the Acrylic Fiber Segment have been written down by RMB89,066,000 (2007: Nil) and RMB4,362,000 (2007: Nil) respectively. The aggregate impairment losses of RMB93,428,000 has been recognised in the consolidated income statement for the year ended 31 December 2008.

5 Other losses – net

	2008	2007
	RMB'000	RMB'000
Other gain		
Gain attributable to equity interests of a jointly controlled entity	**273**	273
Other losses		
Realised and unrealised losses on derivative financial instruments	**(34,787)**	—
Losses on disposals/write-off of property, plant and equipment	**(2,393)**	(2,226)
Foreign exchange losses, net	**(1,735)**	(2,069)
Others	**(93)**	(490)
	(39,008)	(4,785)
	(38,735)	(4,512)

Note:

As at 31 December 2008, the Group has an outstanding interest rate swap contract with a notional principal amount of RMB130,000,000, maturing in November 2015. The derivative financial liability associated with this interest rate swap contract has been recognised in the balance sheet based on its fair value of RMB31,500,000 as of the balance sheet date. In September 2008, the Group had early terminated another interest rate swap contract with notional principal amount of RMB280,000,000 which was originally maturing in November 2009.

The Directors consider that these interest rate swap contracts do not qualify for hedge accounting and the realised and unrealised losses associated with these derivative financial instruments of RMB3,287,000 (2007: Nil) and RMB31,500,000 (2007: Nil) respectively have been recognised as other losses in the consolidated income statement for the year ended 31 December 2008.

6 Loss before income tax

Other than those as mentioned in Notes 3, 4 and 5, the Group's loss before income tax is also stated after charging/(crediting) the following:

	2008	2007
	RMB'000	RMB'000
Changes in inventories of finished goods and work in progress	**249,457**	(134,595)
Raw materials used	**881,455**	1,704,537
	1,130,912	1,569,942
Depreciation	**136,608**	122,492
Amortisation of		
– land use rights	**1,882**	1,882
– intangible assets	**8,206**	8,206
Employee benefit expenses	**44,401**	39,671
Provisions for impairment of inventories	**10,416**	31,943
Reversal of inventories write-down	**(8,223)**	—
Interest expenses on bank borrowings	**97,888**	89,910
Less: amounts capitalised in construction in progress	**—**	(5,724)
	97,888	84,186
Interest expenses on discounted notes receivable	**5,451**	2,241

7 Income tax

(a) No provision for Hong Kong profits tax has been made as the Group did not carry out any business or generate any assessable profits in Hong Kong for the year ended 31 December 2008 (2007: Nil).

(b) On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the PRC (the "New CIT Law") which is effective from 1 January 2008. Prior to the effective date of the New CIT Law, the enterprise income tax rate and local income tax rate applicable to the Company were 30% and 3% respectively, resulting in an aggregate income tax rate of 33%. The Company was exempted from local income tax and was requalified as an advanced technology company on 1 February 2005 and hence the Company was entitled to a 50% tax reduction for an additional three-year period from 2005 to 2007. Therefore, the effective income tax rate applicable to the Company for the three years ended 31 December 2007 was 15%. By reference to the New CIT Law, the corporate income tax rate applicable to the Company changed to 25% with effect from 1 January 2008.

The corporate income tax rate applicable to the subsidiary established in December 2008 is 25% (2007: not applicable).

No provision for corporate income tax has been made as the Group does not have estimated assessable profit for the year ended 31 December 2008 (2007: Nil).

(c) The amount of income tax credited to the consolidated income statement represent:

	2008 **RMB'000**	2007 RMB'000
Current income tax		
– over provision in the prior year	**—**	166
Deferred income tax		
– credit for the year	**80,086**	25,237
– effect of change in applicable tax rate due to the New CIT Law	**—**	7,598
	80,086	32,835
Income tax credit	**80,086**	33,001

8 Losses per share

Basic losses per share is calculated by dividing the loss attributable to the equity holders of the Company for the year by the weighted average number of the Company's shares in issue during the year of 866,250,000 (2007: 866,250,000) shares.

The Company has no dilutive potential ordinary shares and therefore the diluted losses per share is equal to the basic losses per share.

9 Dividends

The Directors have not declared a dividend for the years ended 31 December 2008 and 2007.

10 Trade and other receivables

	2008 **RMB'000**	2007 RMB'000
Trade receivables		
– third parties	**96,117**	124,944
– a fellow subsidiary	**22,429**	—
	118,546	124,944
Less: provision for impairment	**(17,341)**	(5,670)
Trade receivables – net	**101,205**	119,274
Prepayments	**18,590**	17,218
Notes receivable	**88,118**	117,269
Other receivables	**16,898**	14,424
Less: provision for impairment	**(7,516)**	(5,231)
Other receivables – net	**9,382**	9,193
Amounts due from (Note b)		
– ultimate parent company	**7,158**	9,773
– fellow subsidiaries	**1,639**	138
– jointly controlled entity	**163,268**	117,980
	389,360	390,845

Notes:

(a) The Group's sales are normally conducted on the cash on delivery terms or a credit term of 30 days. Aging analysis of trade receivables at the respective balance sheet dates are as follows:

	2008	2007
	RMB'000	RMB'000
0 - 30 days	**43,887**	40,387
31 - 90 days	**10,857**	23,489
91 - 365 days	**47,656**	59,157
Over 365 days	**16,146**	1,911
	118,546	124,944

(b) The amounts due from these related companies are unsecured, interest free and have no fixed terms of repayment.

11 Trade and other payables

	2008	2007
	RMB'000	RMB'000
Trade payables	**83,585**	58,428
Advance from customers	**19,259**	11,386
Payables for purchases of property, plant and equipment	**42,269**	42,891
Other payables and accruals	**47,725**	49,768
Amounts due to (Note b)		
– ultimate parent company	**—**	13,559
– fellow subsidiaries	**6,849**	13,091
– a shareholder of the Company	**1,540**	—
Provision for staff welfare	**32,397**	35,150
	233,624	224,273

Notes:

(a) Aging analysis of the trade payables at the respective balance sheet dates are as follows:

	2008	2007
	RMB'000	RMB'000
0 - 30 days	**25,629**	33,205
31 - 90 days	**30,156**	7,109
91 - 365 days	**17,719**	12,007
Over 365 days	**10,081**	6,107
	83,585	58,428

(b) The amounts due to these related parties are unsecured, interest free and have no fixed terms of repayment.

12 Comparative figures

The comparative figures for administrative expenses, distribution costs, other income, other expenses, and other losses - net as set out in the consolidated income statement and the related notes thereto have been reclassified or extended to conform with the current year's presentation.

2. POTENTIAL MODIFICATION TO THE AUDITOR'S REPORT

The report of the auditor on the Group's consolidated financial statements will include an emphasis of matter paragraph in relation to the going concern basis for preparation of the Group's consolidated financial statements. The auditor, without qualifying their opinion, will draw attention to the existence of a material uncertainty which may cast doubt about the Group's ability to continue as a going concern, details of which has been set out in Note 1 to the Results Announcement. The consolidated financial statements have been prepared by the Directors on a going concern basis, the validity of which primarily depends upon the ongoing support from the Group's principal bankers in renewing their borrowings to the Group as and when they fall due and the continuing financial support from the Group's ultimate parent company to cover the Group's operating costs and to meet its financing commitments. The consolidated financial statements do not include any adjustments that would result from a failure to obtain such ongoing support from the Group's principal bankers and the Group's ultimate parent company.

3. OPERATION REVIEW

Market Review

In 2008, the acrylic fibre industry in the PRC experienced unprecedented difficulties. The spread of international financial crisis delivered a heavy blow to the textile industry. The lack of confidence in the economic outlook among consumers and their low desire for consumption resulted in significant shrinkage of the downstream market. As affected by the international crude oil prices, the prices of acrylonitrile, the major raw materials for the production of acrylic fibres, remained at high levels until November 2008 (thereafter a significant decline occurred), squeezing the profit margin of the Group's products. During the year, the average purchase price per ton of acrylonitrile fell by only 16.7%. Meanwhile, the rapid development of Acrylonitrile Butadiene Styrene ("ABS") and polyacrylamide has further exacerbated the shortage of acrylonitrile. The emergence and development of substitutes also have posed new challenges for the acrylic fibre industry. As the selling prices of Persian fibre and dyeable polyester fibre are lower than that of the selling price of acrylic fibre, such materials have currently been applied in areas such as blanket, fur, plush and woollen thread as substitutes of acrylic fibre and have replaced the use of acrylic fibre by 15% to 20%, which further reduced the demand for acrylic fibre and eroded the market share of acrylic products. In terms of national policies in the PRC, adjustments to macroeconomic policies such as the appreciation of RMB, the tightening of the monetary policy, the implementation of beneficial policies for farmers and the promulgation of new labour law have all aggravated the operating difficulties facing by the acrylic fibre industry during the year 2008. Subsequent to the significant decline of international crude oil prices in November 2008, the spread between prices of acrylonitrile and acrylic product has been maintained at a more reasonable level. The market environment of the acrylic fiber industry has demonstrated improvement starting from December 2008.

Sales Review

In 2008, the Group recorded sales of 77,374 tons of acrylic fibre products, representing a sharp decrease of 26% as compared with 105,096 tons in 2007. The average unit selling price of acrylic fibre products decreased from RMB16,793 per ton in 2007 to RMB15,335 per ton in 2008. The decrease in sales volume and average unit selling price were due to shrinkage of the downstream market and the stagnated market condition.

The Group adopted a flexible marketing strategy through its established sales centre in Suzhou. Coupled with its stable product quality, the Group was able to maintain favorable pricing levels under a competitive environment. Meanwhile, in face of the increasing competitions in the domestic market, the Group seized export opportunities actively to develop and extend market base in order to achieve sales target. The Group entered into sales orders for export of acrylic staple fibre and acrylic top with customers in countries such as Vietnam, Pakistan and Italy. The vigorous export strategy, on one hand, mitigated the pressure on stagnant domestic sales, and on the other hand helped to establish a “quality” brand image for the Group’s products in the international market and paved way for the Group’s penetration to the global market.

Operations Review

The rising of raw material prices has driven up operating costs and products costs and resulted in a general decline in profit margin for manufacturing industries. Therefore, the Group implemented stringent cost control during the Year in an attempt to improve operating efficiency and productivity.

In 2008, our competitors continued to adopt the practice of cutting prices in order to maintain their respective market shares. In response to such competition approach, the Group had implemented a series of measures, including maintaining customers’ confidence through the continuous upgrading of product and service quality and; providing excellent products and services at lowered prices; liaising with customers on a regular basis to strengthen mutual business relationships; enhancing the position of the Group and its products in the market and increasing market share; and paying close attention to market trends. All these measures enabled the Group to gain an insight into the needs and expectations of the customers on the Group's products more timely and hence attracting customers to continue to use the products and services of the Group.

Production Management

For the year ended 31 December 2008, the Group's plant utilisation rate was about 48%. The Group's total production volume was approximately 65,716 tons, decreased by 38.8% from the same period last year. The production of differential acrylic products was approximately 8,463 tons, representing 12.9% of the total production which rose by 1.6% as compared with the same period last year. The decrease in utilisation rate was the result of tightened production quantity control in order to minimise the inventory level on hand in this stagnanted market.

The Group stepped up its efforts in the development of new products and enhanced the production and testing of differential fibre during the Year. Through technological exchange with other industry players and testing, the Group continued to upgrade its production technology, and successfully and systematically implemented 5 technological reforms and innovations based on the market needs, which in turn generated certain economic benefits for the Group.

Internal Operation Control

In 2002, the Company obtained the ISO 14001 Environmental Management System and other certifications. These achievements have reinforced the Group's commitment to enhance internal operation control continuously. As at 31 December 2008, the Company had passed its annual ISO review and assessments for other certifications covering product quality, environmental protection and occupational safety and health.

Employees

As at 31 December 2008, the Group had 1,875 employees, representing an increase of approximately 57% as compared to 1,192 employees for the same period in 2007. The significant increase in the number of employees was mainly due to the Group has managed and operated the thermal power plant with effective from 4 November 2008 (Note 3(a) on page 9 refers). The Group's staff remuneration packages are determined with reference to prevailing market practices (including a performance-based incentive bonus). The Group also provided trainings to employees at all levels. For the year ended 31 December 2008, the Group provided the employees with training on various aspects such as the "one position, multiple capabilities concept and practice", comprehensive quality control, production safety and environmental protection etc., totalling to 4,564 class hours. The training for junior, middle and senior management members as well as the technical training conducted specially for carbon fibre program were completed satisfactorily and thus facilitated the implementation of the carbon fibre program. During the Year, the Staff Position Rank Management Plan was successfully implemented. By coducting quantified assessment on the staff's working attitudes, capabilities and performance, the Group is able to better motivate the staff to take initiatives.

Management Review and Analysis

Operation results

For the year ended 31 December 2008, the revenue of the Group amounted to approximately RMB1.19 billion, representing a decrease of approximately 33% from approximately RMB1.76 billion for the year of 2007. The decrease in revenue was mainly due to a decline in sales volume of approximately 26% and the decrease of approximately 8.7% in the average selling price per ton for the acrylic fibre products. The decrease in sales volume of acrylic fibre products was mainly due to unfavourable market conditions such as the significant shrinkage of downstream textile market. During the year of 2008, the Group's total production volume and sales volume were 65,716 tons and 77,374 tons respectively, with a sales-to-production ratio of approximately 117% (2007: 97.9%).

Loss attributable to the equity holders of the Company for the year was approximately RMB312.6 million, as compared with a loss attributable to equity holders of the Company of approximately RMB123.8 million in 2007. The net loss incurred by the Group was mainly attributable to the high raw material costs, high unit production costs and significant shrinkage of downstream market. The average purchase price of acrylonitrile (the major raw material for production of acrylic fibre) decreased by only 16.7% in 2008 and remained at a high level as a result of the price of crude oil and tightened domestic supply of acrylonitrile until November 2008 (thereafter a significant decline occurred). The price differential between the average selling price of the Group's acrylic fibre products and the average purchase price of acrylonitrile for the Year was approximately RMB4,071/ton, representing an increase of approximately 23% from approximately RMB3,306/ton for the year of 2007. However, the decrease in purchase price of acrylonitrile was insufficient to offset the significant decrease in demand of acrylic fibre products caused by shrinkage of downstream textile market. The decrease in plant utilisatoin rate from 79% in 2007 to 48% for the Year has increased the unit production costs significantly. In addition, the Group's loss for the year also included the provision for impairment of non-current assets (Note 4 on page 9 refers) of approximately RMB93.4 million and the Group's share of loss of the Joint Venture of approximately RMB71.5 million.

Operating expenses (representing distribution costs and administrative expenses)

Distribution costs decreased from approximately RMB49.5 million for year 2007 to approximately RMB32.4 million for year 2008. The decrease in distribution costs was primarily resulted from the decrease in transportation costs by approximately RMB13.8 million which was in line with the decrease in the sales volume for the Year. The reduction in administrative costs from approximately RMB70.1 million for year 2007 to approximately RMB62.5 million for year 2008 was primarily resulted from the cost control measures as implemented by the Group's management in view of the difficult market conditions.

Net other losses (representing the net aggregate amount of other income, other expenses, impairment of non-current assets and other losses - net)

Net other losses for the Year was RMB95.6 million, as compared to net other gains of approximately RMB22.0 million in the year of 2007. The significant increase in net other losses in 2008 was primarily attributable to the provision for impairment of non-current assets recognised in the Year of approximately RMB93.4 million (Note 4 on page 9 refers) and the losses associated with the derivative financial instruments recognised in the Year of approximately RMB34.8 million (Note 5 on page 9 refers). These increases have been partially offset by the increase in the net income from the Group's provision of utilities (mainly electricity and steam) to fellow subsidiaries, jointly controlled entity and third parties by approximately RMB11.7 million.

Net finance costs (including interest expenses on discounted notes receivable)

Net finance costs increased from approximately RMB85.2 million (after excluding the interests capitalised of RMB5.7 million) for year 2007 to approximately RMB102.9 million for year 2008. The increase in net finance costs was primarily resulted from the increase in the Group's overall borrowing interest rate when bank loans were renewed, the increase in interest expenses on discounted notes receivable and the fact that interest expenses of RMB5.7 million had been capitalised as construction in progress in the previous year.

Share of loss of a jointly controlled entity

The Group's jointly controlled entity, Jilin Jimont Acrylic Fiber Co., Ltd. (the "Joint Venture"), commenced its commercial production in 2007. The Group's share of 50% of the loss of the Joint Venture for the Year under the equity method of accounting amounted to RMB71.5 million (2007: RMB56.1 million). The Joint

Venture's financial performance for the Year was also affected adversely due to the difficult business environment as described on the section headed "Market Review" (page 13 refers). In addition, an impairment change of approximately RMB27.2 million has been charged against the non-current assets of the Joint Venture during the Year.

Financial resources, liquidity and liability position

As at 31 December 2008, the Group's total assets and total liabilities were approximately RMB2.27 billion and RMB1.56 billion respectively. As at 31 December 2008, the Group's net current liabilities amounted to approximately RMB501 million, and its current ratio, calculated by dividing current assets by current liabilities as at 31 December 2008, was approximately 0.57 (2007: 1.20). The liquidity of the Group is primiarily dependent on its ability to maintain adequate cash inflow from operations, to obtain external financing and refinancing and to obtain financing resources from its ultimate parent company. The Group had cash at bank and in hand of approximately RMB108.3 million as at 31 December 2008.

Total bank borrowings of the Group as at 31 December 2008 amounted to approximately RMB1,223 million, of which short term bank loans and current portion of long-term bank borrowings amounted to approximately RMB893 million and long-term bank borrowings were approximately RMB330 million. Approximately 80.1% of the Group's bank borrowings bear floating interest rates. The bank borrowings were mainly used for the expansion of production facilities in previous years and the construction of the thermal power plant which officially commenced production in early 2007. The net decrease in bank borrowings of RMB170 million during the year was mainly due to the repayments of certain matured bank borrowings.

All of the Group's bank borrowings are denominated in Renminbi. Therefore, the management believes that the Group is exposed to minimal foreign exchange risks and has not made any foreign currency hedging arrangement.

As at 31 December 2008, the Group's gearing ratio, calculated by dividing total liabilities by total assets, was approximately 68.7% (2007: 62.3%). The increased gearing ratio was mainly due to the decrease in the Group's total assets which primarily resulted from the reduction in inventory level, the depreciation and impairment charge on the non-current assets and the net cash outflow for the Year.

Investment status

Joint Venture

The Joint Venture was established on 21 December 2005. Its total registered share capital is RMB450.0 million and was originally owned as to 50% by each of the Company and Montefibre S.p.A. ("Montefibre"). In April 2007, Montefibre transferred its 10.64% equity interest in the Joint Venture to SIMEST S.p.A. ("SIMEST"), a development finance institution set up by the Italian government. Upon completion of the equity transfer, the Group continues to hold 50% equity interests in the Joint Venture, whereas Montefibre and SIMEST hold 39.36% and 10.64% equity interests in the Joint Venture respectively. The equity transfer did not result in any changes in the board composition of the Joint Venture.

The total fixed asset investment in phase one of the acrylic fibre project with annual production capacity reaching 100,000 tons was approximately RMB1.02 billion which was mainly financed by bank borrowings and capital contribution from the joint venture partners. All the joint venture partners had fully paid up their capital contributions according to their respective proportion of equity interest in the Joint Venture prior to year 2007.

The Joint Venture is principally engaged in the manufacture and sale of acrylic fibre products. Currently, the Joint Venture does not have any concrete timetable for implementing phase two of the project, which can be expected to further increase the total annual production capacity of the Joint Venture to 150,000 tons. The timetable for implementing phase two of the project will depend on various factors, including, among others, the future market conditions.

In 2008, the sales volume and production volume of the Joint Venture reached 57,806 tons and 50,527 tons respectively, representing a sales-to-production ratio of 114.4%. The utilisation rate of the production plant was 50.5%. The net loss of the Joint Venture for the Year amounted to approximately RMB143 million in 2008 (2007: RMB112.1 million), which was mainly due to factors such as high raw material costs, high unit production costs, the significant shrinkage in downstream textile market and an impairment provison has been made against the non-current assets of the Joint Venture of approximately RMB27.2 million.

Entrusted deposits and matured time deposits

As at 31 December 2008, the Group did not hold deposits under trusts in any financial institutions in the PRC. All of the Group's cash was held in commercial banks in the PRC in accordance with the applicable laws and regulations. The Group had no bank deposits that cannot be withdrawn upon maturity.

Pledged assets

As at 31 December 2008, certain property, plant and equipment and land use rights with net book value amounting to approximately RMB786.5 million and RMB7.3 million respectively (As at 31 December 2007: RMB938.7 million and RMB8.0 million respectively) were pledged as securities for bank borrowings of approximately RMB330 million (As at 31 December 2007: RMB380 million).

Contingent liabilities

The Group had no material contingent liabilities as at 31 December 2008.

Dividend

The Board does not recommend the declaration of a dividend for the year ended 31 December 2008 (2007: Nil).

Outlook

Looking forward, the management expects market conditions will remain challenging in 2009. The Group will put more efforts in the research and development of new products in 2009. The Group foresees new opportunities and highlights for its business as set out below:

1. The establishment of Jilin Tangu Carbon Fibre Co., Ltd. (吉林碳谷碳纖維有限公司): The Group commenced research and development of carbon fibre since 2006 and convened a meeting to certify the scientific technological achievements in carbon fibre in March 2008 at which experts gave high regard to the clinical status of the Group's achievements in research and development of carbon fibre. The Group has therefore incorporated its wholly-owned subsidiary Jilin Tangu Carbon Fibre Co., Ltd. (吉林碳谷碳纖維有限公司) in December 2008, and its production plant is expected to commence full operation in July 2009 with an annual production capacity of approximately 1,500 tons of crude carbon fibres. Carbon fibre, a high performance new fibre material, has the characteristic of exceptional strength and is widely used for military, industrial and civic purposes. At present, the annual demand for carton fibre in the PRC is approximately 6,000 tons and the supply is only approximately 2,000 tons. The development of carbon fibres offers greater market potential and long-term economic benefits for the Group.

2. Development of differential fibre: The Group will put more efforts on the development of differential fibres. As a type of high value-added acrylic fibre, differential fibre will improve the Group's profit margin and competitiveness in

the domestic acrylic fibre market. The Group plans to develop air-conditioning fibre, fire-resistant fibre and original liquid dyeing fibre; and further improve the production volume of differential fibres such as pill resistant fibre, gel dyeing fibre, oerlikon fibre, high shrinkage staple and high shrinkage top in order to meet market needs in 2009. The management believes that differential acrylic fibre products will become one of the major growth drivers for the acrylic fibre industry in the PRC. The Group is well positioned to seize such opportunities to further boost the profitability of the Group.

3. Signs of stabilisation in market conditions: The current market conditions show signs of stabilisation in product demand and sales, as the spread between prices of raw materials and acrylic products is maintained at a reasonable level, providing a certain level of margin. It is expected the utilisation rate of the production plants will increase in 2009 and will lower the unit production costs and hence improve the profit margin.

The management of the Group will actively seek to capitalise on the above opportunities to consolidate its market position through cost-reduction and development of new products, so as to further strengthen the leading position of the Group in acrylic fibre industry and maximize returns to shareholders.

Code on Corporate Governance Practitces

The Board is of the opinion that the Group has complied with the requirements of all code provisions of the Code on Corporate Governance Practices in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) during the Year.

Model Code for securities transactions by Directors

The Group has adopted the Model Code for Securities Transactions by Directors (the “Model Code”) contained in Appendix 10 of the Listing Rules as the code of conduct for securities transactions by the Company’s Directors. The directors have confirmed, following specific enquiry by the Group that they have complied with the required standards set out in the Model Code for the Year.

Audit Committee

The Audit Committee reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial report matters including the review of the Group’s consolidated annual results for the year ended 31 December 2008.

Purchase, sale or redemption of the Company's listed securities

During the year ended 31 December 2008, the Company had not redeemed any of its shares. Neither the Company nor its subsidiary, jointly controlled entity purchased or sold any of the listed securities of the Company during the year ended 31 December 2008.

Closure of register of members

Persons whose name appear on the register of members of the Company by close of business on 22 May 2009 will be entitled to attend and vote at the forthcoming annual general meeting ("AGM"). The register of members of the Company will be closed from 25 May 2009 to 23 June 2009, both days inclusive, during which period no transfer of shares will be effected. In order to qualify to attend the AGM, all share certificates accompanied by the duly completed transfer forms must be lodged with the Company's H share registrar, Computershare Hong Kong Investor Services Limited (address: 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong) not later than 4:30 p.m. on 22 May 2009.

Publication of annual report

The 2008 annual report will be published on the website of the Company (www.qifengfiber.com) and on the HKExnews website of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) in due course.

By Order of the Board
Jilin Qifeng Chemical Fiber Co., Ltd.*
Wang Jinjun
Chairman

Jilin, the PRC
22 April 2009

As at the date of this announcement, the executive Directors are Mr. Wang Jinjun, Mr. Ma Jun and Mr. Wang Changsheng, the non-executive Directors are Mr. Hao Peijun, Mr. Gong Jianzhong, Mr. Chen Jinkui, Mr. Jiang Junzhou and Mr. Zhang Yuchen, and the independent non-executive Directors are Mr. Ye Yongmao, Mr. Mao Fengge and Mr. Lee Ka Chung, J.P.

* *The Company is registered as an oversea company under Part XI of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) under the English name ,"Jilin Qifeng Chemical Fiber Co., Ltd.,"*