# 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)**

## 2012 FINAL RESULTS ANNOUNCEMENT

**Financial and Operation Highlights**

- Loss attributable to owners of the Company was approximately RMB186.6 million, as compared to a profit of approximately RMB65.2 million in 2011.

- Revenue was approximately RMB1.4 billion, representing a decrease of approximately 33% as compared to 2011, which was mainly attributable to decreases in the sale volume and average selling price for sales of acrylic fiber products.

- The overall gross profit margin of the Group decreased from 10.3% in 2011 to 1.2% in 2012, which was mainly due to a decrease in the price differential (i.e. the difference between the average selling price and the average purchase price of the major raw materials) on products sold.

- The Group's share of 50% of the loss of its jointly controlled entity, Jilin Jimont Acrylic Fiber Co., Ltd., for 2012 under the equity method of accounting amounted to approximately RMB40.2 million (2011: profit of RMB36.1million).

The board (the "Board") of directors (the "Directors") of Jilin Qifeng Chemical Fiber Co., Ltd. (the "Company") herewith announces the consolidated annual results of the Company and its subsidiary (collectively the "Group") for the year ended 31 December 2012 (the "Year") (the "Results Announcement"), with comparative figure for the year ended 31 December 2011 as follows. This Results Announcement has been reviewed by the Board and the Audit Committee of the Company.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
### FOR THE YEAR ENDED 31 DECEMBER 2012

| | Notes | **2012** | 2011 |
|---|---|---|---|
| | | **RMB'000** | RMB'000 |
| Revenue | 2 | **1,391,844** | 2,096,909 |
| Cost of sales | | **(1,375,781)** | (1,881,773) |
| **Gross profit** | | **16,063** | 215,136 |
| Distribution costs | | **(35,914)** | (41,997) |
| Administrative expenses | | **(73,393)** | (74,706) |
| Other income | 3 | **482,099** | 461,911 |
| Other expenses | 3 | **(411,535)** | (403,522) |
| Other gains/losses - net | 4 | **(5,314)** | (17,034) |
| **Operating (loss) /profit** | | **(27,994)** | 139,788 |
| Finance income | | **2,100** | 2,715 |
| Finance costs | | **(123,221)** | (105,638) |
| | | **(149,115)** | 36,865 |
| Share of (loss) /profit of a jointly controlled entity | | **(40,147)** | 36,151 |
| **(Loss) /profit before income tax** | 5 | **(189,262)** | 73,016 |
| Income tax credit/ (expense) | 6 | **2,695** | (7,824) |
| **(Loss) /profit and total comprehensive income for the year attributable to the owners of the Company** | | **(186,567)** | 65,192 |
| **(Loss) /earnings per share for (loss) /profit attributable to the owners of the Company during the year (expressed in RMB per share)** | | | |
| – basic and diluted | 7 | **(0.22)** | 0.08 |

## CONSOLIDATED BALANCE SHEET
### AS AT 31 DECEMBER 2012

| | Notes | **2012** | 2011 |
|---|---|---|---|
| | | **RMB'000** | RMB'000 |
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Land use rights | | **92,429** | 29,477 |
| Property, plant and equipment | | **1,684,252** | 1,538,788 |
| Intangible assets | | **8,205** | 16,411 |
| Interest in a jointly controlled entity | | **174,071** | 213,945 |
| Deferred income tax assets | | **83,780** | 80,354 |
| Prepayments | | **11,023** | 6,068 |
| | | **2,053,760** | 1,885,043 |
| **Current assets** | | | |
| Inventories | | **354,014** | 257,516 |
| Trade and other receivables | 9 | **407,785** | 463,929 |
| Current income tax recoverable | | **1,893** | 1,893 |
| Restricted bank deposits | | **123,647** | 70,790 |
| Cash and cash equivalents | | **109,228** | 264,127 |
| | | **996,567** | 1,058,255 |
| **Total assets** | | **3,050,327** | 2,943,298 |
| **EQUITY** | | | |
| **Capital and reserves attributable to owners of the Company** | | | |
| Share capital | | **866,250** | 866,250 |
| Share premium | | **142,477** | 142,477 |
| Other reserves | | **31,919** | 31,919 |
| Accumulated losses | | **(214,206)** | (27,639) |
| **Total equity** | | **826,440** | 1,013,007 |

| | Notes | **2012** | 2011 |
|---|---|---|---|
| | | **RMB'000** | RMB'000 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Long-term bank borrowings | | **307,500** | 364,500 |
| Deferred income | | **82,216** | 82,567 |
| | | **389,716** | 447,067 |
| **Current liabilities** | | | |
| Trade and other payables | 10 | **487,769** | 300,197 |
| Short-term bank borrowings | | **1,271,969** | 991,800 |
| Current portion of long-term bank borrowings | | **56,500** | 173,500 |
| Current income tax liabilities | | **933** | 202 |
| Derivative financial instrument | | **17,000** | 17,525 |
| | | **1,834,171** | 1,483,224 |
| **Total liabilities** | | **2,223,887** | 1,930,291 |
| **Total equity and liabilities** | | **3,050,327** | 2,943,298 |
| **Net current liabilities** | | **(837,604)** | (424,969) |
| **Total assets less current liabilities** | | **1,216,156** | 1,460,074 |

## 1 Basis of preparation

### 1.1 Basis of prepartation and going concern assumption

During the year ended 31 December 2012, the Group incurred a net loss of RMB186,567,000 and, as of that date, the Company's and the Group's current liabilities exceeded its current assets by RMB881,365,000 and RMB837,604,000 respectively and the bank borrowings as included in the Company's and the Group's current liabilities amounted to RMB1,268,969,000 RMB1,328,469,000 respectively. This situation indicates the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and therefore, the Group may not be able to realise its assets and discharge its liabilities in the normal course of business.

The Company's directors are of the opinion that the Group will be able to finance its future financing requirements and working capital based on the following considerations:

(a) The Group's profitability and cash flows are expected to be improved in view of the improving business environment of the business operations.

(b) The Group has maintained its good business relationship with its principal bankers and the principal bankers have indicated their willingness to renew their borrowings to the Group upon maturities of borrowings. The Company's directors believe that formal and binding facility letters will be entered into with the respective principal bankers upon the original maturity dates of the related borrowings.

(c) The ultimate parent company, Jilin Chemical Fiber Group Co., Ltd., a state-owned enterprise, has confirmed and has ability to provide continuing financial support to the Company and 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.

In view of the above, the Company's directors are of the view that there will be sufficient financial resources available to the Company and the Group to enable it to meet its liabilities as and when they fall due and to continue as a going concern. Accordingly, the Company's directors have prepared the consolidated financial statements on a going concern basis.

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 also include the applicable disclosure requirements of the Hong Kong Company Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of the derivative financial instrument being categorised as financial assets/liabilities at fair value through profit or loss.

### 1.2 Adoption of new/revised HKFRSs - first effective on 1 January 2012

The Group has adopted the following amendments to published standards issued by the HKICPA, which are mandatory for the first time for the financial year beginning 1 January 2012:

| | |
|---|---|
| Amendments to HKFRS 1 | Server Hyper Inflation and Removal of Fixed Dates for First-time Adopters |
| Amendments to HKFRS 7 | Disclosures – Transfers of Financial Assets |
| Amendments to HKAS 12 | Deferred Tax: Recovery of Underlying Assets |

Except as explained below, the adoption of the abovementioned amendments did not result in any substantial changes to the Group's significant accounting policies and presentation of the consolidated financial statements.

*Amendments to HKFRS 7 – Disclosures – Transfers of Financial Assets*

The amendments to HKFRS 7 expand the disclosure requirements for transfer transactions of financial assets, in particular where the reporting entity has continuing involvement in financial assets that it has derecognised. The newly required disclosures allow users of financial statements to better understand the risks to which the reporting entity remains exposed. Such information is relevant in assessing the amount, timing and uncertainty of the entity's future cash flows.

The Group has discounted certain of its bills receivables with recourse. As the Group retained the significant risks and rewards of ownership of the discounted bills, the transfer transactions did not meet the requirements of HKAS 39 for de-recognition. The discounted bills remained as the Group's financial assets with the cash received being recognised as asset-backed borrowings. The consolidated financial statements for the current period include additional disclosures describing the nature of the relationship between the discounted bills and the associated financial liabilities, including restrictions on the Group's use of the debts arising from the discounting arrangements.

## 2 Revenue and segment information

The chief operating decision-makers have been identified as the three executive directors of the Company (collectively the "Decision-Makers"). The Decision-Makers review the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The Group is principally engaged in the development, production and sales of chemical fiber, namely acrylic fiber and carbon fiber products. The operating segment for carbon fiber products has commenced its first phase of operation in August 2009.

All of the Group's operations and assets are located in the PRC except that, a portion of the Group's revenue of RMB79,358,000 (2011: RMB160,030,000) was in connection with sales to overseas customers. Therefore, the Decision-Makers only consider the Group's business from a product perspective, rather than from a geographic perspective. The Decision-Makers assess the performance of the operating segments of acrylic fiber products and carbon fiber products on a regular basis.

The Decision-Makers primarily assess the performance of the operating segments based on a measure of adjusted segment results which are earnings before interests, tax, depreciation and amortisation. This measurement basis excludes the effects of non-recurring expenditure from the operating segments (such as legal expenses and impairments when the impairment is the result of an isolated, non-recurring event). Interest income and expenditure are not included in the result for each operating segment that is reviewed by the Decision-Makers.

Turnover for the year ended 31 December 2012 consists of sales from the acrylic fiber products segment and carbon fiber products segment of RMB1,389,649,000 (2011: RMB2,081,914,000) and RMB2,195,000 (2011: RMB14,995,000) respectively.

The Group does not have any inter-segment sales during the years ended 31 December 2012 and 2011.

The segment information provided to the Decision-Makers for the years ended 31 December 2012 and 2011 is as follow:

**Segment revenue and results**

| | Acrylic fiber products RMB'000 | Carbon fiber products RMB'000 | Total RMB'000 |
|---|---|---|---|
| **Year ended 31 December 2012** | | | |
| Total revenue from external customers | **1,389,649** | **2,195** | **1,391,844** |
| Adjusted segment results (Note) | **126,235** | **3,091** | **129,326** |
| Impairment on inventories | **—** | **(3,302)** | **(3,302)** |
| Share of loss of a jointly controlled entity | **(40,147)** | **—** | **(40,147)** |
| Depreciation and amortisation | **(144,012)** | **(3,255)** | **(147,267)** |
| Income tax credit | **1,770** | **925** | **2,695** |
| | **(56,154)** | **(2,541)** | **(58,695)** |
| Other information: | | | |
| Addition to land use rights | **64,964** | **—** | **64,964** |
| Addition to property, plant and equipment | **248,879** | **33,995** | **282,874** |
| Transfer of property, plant and equipment between segment | **36,052** | **(36,052)** | **—** |
| **Year ended 31 December 2011** | | | |
| Total revenue from external customers | 2,081,914 | 14,995 | 2,096,909 |
| Adjusted segment results (Note) | 302,286 | 232 | 302,518 |
| Share of profit of a jointly controlled entity | 36,151 | — | 36,151 |
| Depreciation and amortisation | (142,824) | (4,906) | (147,730) |
| Income tax (expenses) /credit | (8,898) | 1,074 | (7,824) |
| | 186,715 | (3,600) | 183,115 |
| Other information: | | | |
| Addition to land use rights | — | 6,543 | 6,543 |
| Addition to property, plant and equipment | 64,972 | 331,980 | 396,952 |

The revenue from external parties reported to the Decision-Makers is measured in a manner consistent with that in the consolidated statement of comprehensive income.

A reconciliation of adjusted segment results to (loss)/profit before income tax is provided as follows:

| | **2012** | 2011 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Adjusted segment results for reportable segments | **129,326** | 302,518 |
| Impairment on inventories | **(3,302)** | — |
| Depreciation and amortisation | **(147,267)** | (147,730) |
| Net loss on derivative financial instrument | **(6,751)** | (15,000) |
| Finance costs – net | **(121,121)** | (102,923) |
| Share of (loss) /profit of a jointly controlled entity | **(40,147)** | 36,151 |
| | **(318,588)** | (229,502) |
| (Loss)/profit before income tax | **(189,262)** | 73,016 |

Note:

The Group has managed and operated certain self-owned /leased utility production facilities primarily to produce electricity and steam for its own production of acrylic fiber and carbon fiber products at the most cost efficient manner and any surplus of utilities as generated from these facilities will be provided to fellow subsidiaries, jointly controlled entity, Jilin Chemical Fibre Co., Ltd. ("JCFCL"), related parties and third parties at rates to be determined amongst the parties concerned. The adjusted segment results as disclosed above for the acrylic fiber products segment included an amount of RMB81,107,000 (2011: RMB76,537,000), representing the related income net of direct outgoings (other than depreciation charge), which is attributable to the provisions of surplus utilities to fellow subsidiaries, jointly controlled entity, JCFCL, related parties and third parties.

**Segment assets and liabilities**

| | Acrylic fiber products RMB'000 | Carbon fiber products RMB'000 | Total RMB'000 |
|---|---|---|---|
| **As at 31 December 2012** | | | |
| Total segment assets | **2,393,534** | **571,120** | **2,964,654** |
| Total segment assets include: | | | |
| Interest in a jointly controlled entity | **174,071** | **—** | **174,071** |
| Total liabilities | **534,535** | **35,450** | **569,985** |
| **As at 31 December 2011** | | | |
| Total segment assets | 2,275,525 | 585,526 | 2,861,051 |
| Total assets include: | | | |
| Interest in a jointly controlled entity | 213,945 | — | 213,945 |
| Total segment liabilities | 333,447 | 49,317 | 382,764 |

The amounts provided to the Decision-Makers with respect to total assets/liabilities are measured in a manner consistent with that of the consolidated financial statements. These assets/liabilities are allocated based on the operations of the respective segments.

Reportable segment assets are reconciled to total assets per consolidated statement of financial position as follows:

| | **2012 RMB'000** | 2011 RMB'000 |
|---|---|---|
| Segment assets for reportable segments | **2,964,654** | 2,861,051 |
| Unallocated: | | |
| Deferred income tax assets | **83,780** | 80,354 |
| Current income tax recoverable | **1,893** | 1,893 |
| | **85,673** | 82,247 |
| Total assets per consolidated statement of financial position | **3,050,327** | 2,943,298 |

Reportable segment liabilities are reconciled to total liabilities per consolidated statement of financial position as follows:

| | 2012<br>RMB'000 | 2011<br>RMB'000 |
|---|---|---|
| Segment liabilities for reportable segments | **569,985** | 382,764 |
| Unallocated: | | |
| Borrowings | **1,635,969** | 1,529,800 |
| Current income tax liabilities | **933** | 202 |
| Derivative financial instrument | **17,000** | 17,525 |
| | **1,653,902** | 1,547,527 |
| Total liabilities per consolidated statement of financial position | **2,223,887** | 1,930,291 |

## 3 Other income and expenses

| | 2012<br>RMB'000 | 2011<br>RMB'000 |
|---|---|---|
| Other income | | |
| Rental income | **1,025** | 1,003 |
| Income from provision of utilities | **465,896** | 452,633 |
| Amortisation of deferred income | **6,961** | 8,012 |
| Subsidy income (Note) | **6,108** | — |
| Others | **2,109** | 263 |
| | **482,099** | 461,911 |
| Other expenses | | |
| Direct outgoings in respect of provision of utilities | **(408,900)** | (402,953) |
| Others | **(2,635)** | (569) |
| | **(411,535)** | (403,522) |
| | **70,564** | 58,389 |

Note:

Subsidy income mainly represents subsidies received from local government in relation to the carbon fiber production business during the year.

## 4 Other gains/losses - net

| | 2012 RMB'000 | 2011 RMB'000 |
|---|---|---|
| Other gains | | |
| Gain attributable to equity interests of a jointly controlled entity | **273** | 273 |
| Gain on disposal of property, plant and equipment | **1,222** | — |
| | **1,495** | 273 |
| Other losses | | |
| Net loss on derivative financial instrument | **(6,751)** | (15,000) |
| Foreign exchange losses, net | **(9)** | (1,253) |
| Others | **(49)** | (1,054) |
| | **(6,809)** | (17,307) |
| | **(5,314)** | (17,034) |

## 5 (Loss) /profit before income tax

(Loss) /profit before income tax is stated after charging:

| | 2012 RMB'000 | 2011 RMB'000 |
|---|---|---|
| Inventories recognised as an expense | | |
| – for production of fiber products | **1,372,479** | 1,881,773 |
| – for provision of utilities | **408,900** | 402,953 |
| – impairment on inventories | **3,302** | — |
| Depreciation | **137,049** | 137,641 |
| Amortisation of | | |
| – land use rights | **2,012** | 1,882 |
| – intangible assets (included in administrative expenses) | **8,206** | 8,207 |
| Employee benefit expenses | **86,470** | 72,605 |
| Operating lease payment | **58,106** | 49,941 |
| Auditors' remuneration | | |
| – audit services | **1,180** | 1,500 |
| – non-audit services | **220** | — |

## 6 Income tax

The amount of income tax (credited)/charged to the consolidated statement of comprehensive income represents:

| | **2012** | 2011 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Current income tax – PRC corporate income tax | | |
| – provision for the year (Note c) | **731** | — |
| – under-provision in respect of prior years (Note d) | **—** | 2,108 |
| | **731** | 2,108 |
| Deferred income tax | | |
| – (credit) /charge for the year | **(3,426)** | 5,716 |
| Income tax (credit) /expenses | **(2,695)** | 7,824 |

Notes:

(a) By reference to the Corporate Income Tax Law of the PRC as approved by the National People's Congress on 16 March 2007, the corporate income tax rate applicable to the Company and its subsidiary for the current and the prior year is 25%.

(b) 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 2012 (2011: Nil).

(c) The amount represents PRC corporate income tax charged on the estimated tax assessable profit that was generated by the subsidiary for the year ended 31 December 2012 (2011: Nil).

(d) The amount represents the under-provision of income tax expenses of the Company in prior years as identified by the local tax bureau during the course of a tax inspection as conducted in April 2011.

## 7 (Loss) /earnings per share

Basic (loss) /earnings per share is calculated by dividing the (loss) /profit attributable to the owners 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 (2011: 866,250,000) shares.

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

## 8 Dividend

The Company's directors do not recommend the payment of a dividend for the years ended 31 December 2012 and 2011.

## 9 Trade and other receivables

| | Group | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Trade receivables (Note a) | **116,210** | 115,383 |
| Less: provision for impairment | **(5,021)** | (5,021) |
| Trade receivables – net | **111,189** | 110,362 |
| Bills receivables | **125,022** | 121,879 |
| Amounts due from related parties (Note b) | **60,040** | 163,394 |
| Other receivables | **90,296** | 68,286 |
| Less: provision for impairment | **(7,516)** | (7,516) |
| Other receivables – net | **82,780** | 60,770 |
| Prepayments | **28,754** | 7,524 |
| | **407,785** | 463,929 |

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 based on invoice date are as follows:

| | Group | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| 0 – 30 days | **66,719** | 31,639 |
| 31 – 90 days | **7,700** | 47,739 |
| 91 – 365 days | **28,441** | 17,698 |
| Over 365 days | **13,350** | 18,307 |
| | **116,210** | 115,383 |

(b) The aging analysis of the amounts due from the related parties is as follows:

| | Group | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| 0 – 30 days | **16,224** | 14,438 |
| 31 – 90 days | **16,027** | 40,534 |
| 91 – 365 days | **2,374** | 103,090 |
| Over 365 days | **25,415** | 5,332 |
| | **60,040** | 163,394 |

## 10 Trade and other payables

| | Group | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Trade payables (Note) | **222,580** | 124,629 |
| Bills payables | **82,000** | — |
| Advance from customers | **23,850** | 32,968 |
| Payable for purchases of property, plant and equipment | **26,014** | 56,315 |
| Amounts due to related parties | **85,311** | 12,364 |
| Other payable and accruals | **22,520** | 27,996 |
| Provision for staff welfare | **25,319** | 26,599 |
| Other taxes | **175** | 19,326 |
| | **487,769** | 300,197 |

Note:

The aging analysis of the trade payables is as follows:

| | Group | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| 0 – 30 days | **66,715** | 28,000 |
| 31 – 90 days | **97,963** | 81,371 |
| 91 – 365 days | **49,117** | 9,629 |
| Over 365 days | **8,785** | 5,629 |
| | **222,580** | 124,629 |

## EXTRACT OF INDEPENDENT AUDITORS' REPORT

The following is an extract of the independent auditors' report on the Group's consolidated financial statements for the year ended 31 December 2012:

**"OPINION**

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**EMPHASIS OF MATTER**

**Going concern basis for preparation of consolidated financial statements**

Without qualifying our opinion, we draw attention to note 2.1 to the consolidated financial statements, which indicates that the Group incurred a net loss of RMB186,567,000 during the year ended 31 December 2012 and, as of that date, the Company's and the Group's current liabilities exceeded its current assets by RMB881,365,000 and RMB837,604,000 respectively. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's and the Group's ability to continue as a going concern."

## REVIEW AND OUTLOOK

### Market Review

The European financial crisis continued to exert a negative impact on the global environment during the Year. Coupled with the continual appreciation of the RMB and the slowing down of the export sector of the PRC market, the demand of the downstream textile industry and the Group's acrylic fiber products was reduced inevitably. Due to the shrinkage for the demand of acrylic fiber products from the downstream customers and the decrease in the cost of acrylonitrile (the major raw material for the production of the Group's products), both the average selling price and the market turnover of the acrylic fiber products in the PRC market decreased significantly during the Year.

As a result of a more significant decrease in average selling price of acrylic products as compared to the decrease in the average price of acrylonitrile, the price difference between acrylic fiber products and acrylonitrile decreased, which reduced the profitability of acrylic fiber manufacturers. The PRC carbon fiber market is still in its primary stage of development.

The Group expects a gradual increase in the number of downstream carbonisation plants and the demand for carbon fiber, which will accelerate the development of the Group's carbon fiber precursor business.

**Sales Review**

The Group's revenue was approximately RMB1.4 billion for the Year, representing a decrease of approximately 33% as compared to approximately RMB2.1 billion for the year ended 31 December 2011. The sales volume of the Group's acrylic fiber and carbon fiber products amounted to 88,187 tons, decreased by approximately 14% compared with 103,301 tons for the previous year. The average unit selling price of acrylic fiber products for the Year was RMB15,755 per ton, decreased by approximately 22% as compared to that of the previous year. The price differential between the average selling prices of the Group's acrylic fiber products and its major raw material, acrylonitrile, was RMB3,959 per ton for the Year, representing a decrease of approximately 28% from RMB5,540 per ton in the previous year. The total volume of the acrylic fiber products produced by the Group (together with its jointly controlled entity) in the Year was 180,858 tons, accounting for about 22% of the total production volume of the domestic acrylic fiber market in PRC. Sales of the Group's carbon fiber products were 38 tons for the Year (2011: 407 tons) which accounted for a very insignificant part of the group's overall sales volume.

**Production Management**

The Group's total production output was approximately 91,687 tons for the Year, representing a decrease of 8.4% as compared to that for the previous year. Production output of carbon fiber products was about 1,000 tons (2011: 613 tons). As two acrylic fiber production lines were modified to produce carbon fiber precursor in 2008, the total acrylic fiber production capacity of the Group had been reduced by 30,000 tons to 106,000 tons since then. Upon the completion of the new carbon fiber production plant in late 2011, the production lines were restored and the acrylic fiber production has increased to 136,000 tons per annum for the Year. The utilisation rate of Group's acrylic fiber production facilities was about 67% (2011: 93%).

During the Year, the Group continued to implement stringent cost control measures, adhere to order-based production and inventory level control in order to further enhance operating efficiency. The Group has developed cellulose acetate fiber, regenerative fiber, far-infrared fiber, anion fiber, antibacterial fiber, Highlight fiber and Anti-pilling fibers. The Group has commenced a formal production of anti-pilling fibers during the year.

The Group has updated its distributed control system, strengthened the technical parameters control adjustment, conducted spinnability research, completed the industrial oxalic acid content testing, improved the polymer aqueous indicators, etc., to improve its production efficiency. The Group has also completed seven technical reform projects, which set up a solid foundation to stabilise the production process, improve the production quality and reduce production waste consumption.

### Employees

As at 31 December 2012, the Group had 2,014 employees, representing a decrease of 37 employees as compared to 2,051 employees as at 31 December 2011. The Group's staff remuneration packages were determined with reference to the prevailing market practices (including a performance-based incentive bonus). The Group also provided continuous training to employees at all levels. During the Year, the Group provided its employees with numerous training opportunities corresponding to the various functions of their positions including product quality control, production safety and environmental protection. The Group also conducted performance evaluations of all employees.

## FINANCIAL ANALYSIS

### Operating results

The revenue of the Group amounted to approximately RMB1.4 billion for the Year, representing a decrease of approximately 33% from approximately RMB2.1 billion for the year ended 31 December 2011. The decrease in overall revenue was mainly due to the decrease in the sales volume of the Group's products by approximately 14%, and the decrease in the average selling price of the Group acrylic fiber products by approximately 22%. During the Year, the Group's total sales volume was 88,187 tons and total production volume was 91,687 tons, representing a sales-to-production ratio of approximately 96% (2011: 103%). Loss attributable to the owners of the Company for the Year was approximately RMB186.6 million, compared to the profit of approximately RMB65.2 million for the year 2011. The substantial decrease in profit of the Group for the Year was mainly attributable to the decrease in the overall sales volume and profit margin of the Company and its jointly controlled entity. During the Year, the gross profit margin of the Group decreased to 1.2% from 10.3% in 2011, which was primarily due to the decreasing price differential between the cost of acrylonitrile and the selling price of the Group's products. The price differential between the average selling price of the Group's products and the average purchase price of acrylonitrile was RMB3,959 per ton, representing a decrease of approximately 28% from RMB5,540 per ton for that of 2011.

**Operating expenses (distribution costs and administrative expenses)**

Distribution costs decreased from approximately RMB42.0 million for the year ended 31 December 2011 to approximately RMB35.9 million for the Year. The decrease in distribution costs was primarily resulted from the decrease in transportation costs due to the decrease in sales volume during the Year. Administrative expenses decreased slightly from approximately RMB74.7 million for the year ended 31 December 2011 to approximately RMB73.4 million for the Year.

**Net other gains (the net aggregate amount of other income, other expenses and other gains/losses – net)**

Net other gains for the Year was approximately RMB65.3 million, as compared to that of approximately RMB41.4 million for the year ended 31 December 2011. The increase in net other gains in the Year was primarily due to the decrease in net loss associated with the derivative financial instrument and the increase in other income including provision of utilities and subsidy.

**Net finance costs**

Net finance costs increased from approximately RMB102.9 million for the year ended 31 December 2011 to approximately RMB121.1 million for the Year. The increase in net finance costs was resulted from the increase in bank borrowings for expansion of the carbon fiber project in 2011, the increase in the average interest rates, as well as the increase in guarantee fees paid to the ultimate parent company.

**Share of loss/profit of a jointly controlled entity**

The Group's share of 50% of the loss of its jointly controlled entity, Jilin Jimont Acrylic Fiber Co., Ltd., under the equity method of accounting amounted to approximately RMB40.2 million for the Year (2011: profit of RMB36.1 million). The market condition as described in the section headed "Market Review" also had a similar impact on the financial performance of the jointly controlled entity during the Year.

**Financial resources, liquidity and liability position**

As of 31 December 2012, the Group's total assets and total liabilities were approximately RMB3.05 billion and RMB2.22 billion, respectively. As of 31 December 2012, the Group's net current liabilities amounted to approximately RMB838 million and its current ratio, calculated by dividing its current assets by its current liabilities as of 31 December 2012, was approximately 0.54 (2011: 0.71). The Group had cash in hand and cash at bank and restricted bank deposits of approximately RMB109.2 million and RMB123.6 million, respectively as of 31 December 2012. As of 31 December 2012, the total bank borrowings of the Group amounted to approximately RMB1.64 billion, of which, approximately RMB1.27 billion was short-term bank borrowings, approximately RMB56.5 million was current portion of long-term borrowings and approximately RMB307.5 million was non-current portion of long-term bank borrowings. Approximately 56.8% of the Group's bank borrowings bear floating interest rates. The bank borrowings were mainly used for the expansion of production facilities and the construction of the thermal power plant as well as the development of the carbon fiber precursor project. The net increase in bank borrowings was approximately RMB106.2 million during the Year. 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 of 31 December 2012, the Group's gearing ratio, calculated by dividing total liabilities by total assets, was approximately 72.9% (2011: 65.6%).

**Material Acquisition**

On 10 October 2012, the Company entered into an asset purchase agreement (the "Asset Purchase Agreement") with JCFCL, pursuant to which, the Company agreed to purchase the Assets, being certain properties, land and equipment (the "Assets") relating to provision of the Utilities and water treatment services from JCFCL. The total consideration for the Assets is RMB290,000,000, which was determined based on arm's length negotiations and with reference to the valuation reports issued by independent valuers. The transaction under the Asset Purchase Agreement constituted a very substantial acquisition of the Company under Chapter 14 of the Listing Rules.

JCFCL is owned as to 21.31% by JCF Groupco which in turn owns 50.01% of the issued share capital of the Company and in light of the past and present relationships among the Company, JCF Groupco, JCFCL and the Assets, the Directors consider it was appropriate to treat JCFCL as a connected person for the purpose of the Acquisition and hence the Acquisition also constituted a non-exempt connected transaction of the Company under Chapter 14A of the Listing Rules. The Acquisition was then approved at the extraordinary general meeting of the Company held on 28 December 2012. Please refer to the announcements of the Company dated 10 October 2012 and 28 December 2012 and the circular of the Company dated 14 November 2012 for further details.

## INVESTMENT REVIEW

### Jointly controlled entity

Our jointly controlled entity, Jilin Jimont Acrylic Fiber Co., Ltd., was established on 21 December 2005 with a total registered share capital of RMB450 million. The Group holds 50.00% equity interest in the jointly controlled entity, whereas Montefibre S.p.A and SIMEST S.p.A hold 39.36% and 10.64% respectively. The total fixed asset investment in phase one of the acrylic fiber project with annual production capacity of 100,000 tons was approximately RMB1.02 billion, which was mainly financed by bank borrowings and capital contribution from the joint venture partners. All joint venture partners had paid up their capital contributions according to their respective share of equity interest in the jointly controlled entity prior to 2007. The jointly controlled entity is principally engaged in the production and sales of acrylic fiber products. In 2012, the sales volume and production volume of the jointly controlled entity reached 88,775 tons and 90,171 tons, respectively, representing a sales-to-production ratio of approximately 98%. The utilisation rate of the jointly controlled entity production plant was 90%. The loss of the jointly controlled entity was approximately RMB80.3 million in the year ended 31 December 2012 (2011: profit of RMB72.3 million). The decrease in the profitability of the jointly controlled entity was mainly due to impact of the market conditions described in the section headed “Market Review”.

### Entrusted deposits and matured deposits

As of 31 December 2012, 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 applicable laws and regulations. Except for restricted bank deposits of approximately RMB123.6 million, the Group had no bank deposits which cannot be withdrawn upon maturity.

### Pledged assets

As of 31 December 2012, certain properties, plants and equipments, land use rights and bills receivables with a net book value of approximately RMB112.9 million, Nil and RMB3.0 million, respectively (as of 31 December 2011: RMB547.0 million, RMB5.4 million and Nil, respectively) were pledged as securities for bank borrowings. In addition, bank deposits of approximately RMB25.0 million, RMB32.8 million and RMB21.9 million was pledged for the issue of certain non-trade bills payable, trade bills payables and letters of credit for the Group’s purchases of raw materials, plant and machinery from certain overseas suppliers, respectively.

### Contingent liabilities

The Group had no material contingent liabilities as of 31 December 2012.

### Dividend

The Board does not recommend the declaration of a dividend for the year ended 31 December 2012 (2011: Nil).

## OUTLOOK

Looking forward, with the development of the PRC economy and textile industry as well as the adjustments to macroeconomic policies of the PRC, the Group expects the following new opportunities and prospects for its business:

1. Development of carbon fiber: The Group has reached a production of 5,000 tons per annum of its carbon fiber precursor. The Group believes that with the development of the carbon fiber market, the carbon fiber products will bring about larger market potential and long-term economic benefits to the Group.

2. Development of differentiated acrylic fiber: Development of differentiated acrylic fiber will become one of the main drives for the future development of the acrylic fiber industry in China. In particular, the recent commencement of production of the anti-pilling acrylic fiber will bring about additional economic benefits for the Group. The Group is committed to the development of differentiated acrylic fiber to enhance its competitiveness in the market for differentiated acrylic fiber products in China.

## COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE

During the year, the Company has complied with the code provisions as set out in the Code on Corporate Governance Practices (effective until 31 March 2012) and the Corporate Governance Code (the "New Code") (effective from 1 April 2012) set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), except as noted hereunder.

The independent non-executive Director, Mr. Ye Yongmao, the non-executive Directors, Ms. Pang Suetmui and Chen Jinkui, were unable to attend the annual general meeting of the Company held in June 2012 as provided for in code provision A.6.7 of the New Code as they were occupied by other commitments.

## 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 reporting period of 2012.

## AUDIT COMMITTEE

The Audit Committee has reviewed with the 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 2012.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

For the year ended 31 December 2012, neither the Company nor any of its subsidiary, jointly controlled entity and fellow subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## CLOSURE OF REGISTER OF MEMBERS

Persons whose name appear on the register of members of the Company by close of business on 9 May 2013 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 10 May 2013 to 10 June 2013, 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: Room 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong) not later than 4:30 p.m. on 9 May 2013.

## PUBLICATION OF ANNUAL REPORT

The 2012 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 City, Jilin Province, The PRC
28 March 2013

*As at the date of this announcement, the executive Directors are Mr. Wang Jinjun, Mr. Yang Xuefeng and Mr. Wang Changsheng, the non-executive Directors are Ms. Pang Suet Mui, Mr. Jiang Junzhou, Mr. Ma Jun and Mr. Sun Haichao and independent non-executive Directors are Mr. Ye Yongmao, Mr. Mao Fengge, Mr. Lee Ka Chung, J.P. and Ms. Zhu Ping.*

* *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.,"*