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吉林奇峰化纖股份有限公司
Jilin Qifeng Chemical Fiber Co., Ltd.*

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

(Stock Code: 549)

2016 FINAL RESULTS ANNOUNCEMENT

Financial and Operation Highlights

- Profits attributable to owners of the Company was approximately RMB87 million, as compared to approximately RMB132 million in 2015.
- Revenue was approximately RMB1.6 billion, representing a decrease of approximately 12% as compared to 2015
- The overall gross profit margin of the Group decreased from 18.6% in 2015 to 14.3% in 2016.
- The Group's share of 50% of the profit of its joint venture, Jilin Jimont Acrylic Fiber Co., Ltd., for 2016 under the equity method of accounting amounted to approximately RMB10.3 million (2015: RMB21.7 million).

The board (the "Board") of directors (the "Directors") of Jilin Qifeng Chemical Fiber Co., Ltd. (the "Company") hereby announces the consolidated annual results of the Company and its joint venture (collectively the "Group") for the year ended 31 December 2016 (the "Year") (the "Results Announcement"), with comparative figure for the year ended 31 December 2015 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 2016

	Notes	**2016**	2015
		RMB'000	RMB'000
Turnover	2	**1,571,255**	1,787,074
Cost of sales		**(1,346,765)**	(1,455,327)
Gross profit		**224,490**	331,747
Other income and gains	3	**483,885**	464,634
Distribution costs		**(56,577)**	(62,001)
Administrative expenses		**(86,763)**	(80,751)
Other expenses and losses	4	**(403,654)**	(379,597)
Operating profit		**161,381**	274,032
Finance income	6	**21,077**	5,510
Finance costs	6	**(82,079)**	(119,000)
		100,379	160,542
Share of result of a joint venture		**10,276**	21,682
Profit before income tax	5	**110,655**	182,224
Income tax expense	7	**(24,142)**	(5,429)
Profit after income tax from continuing operations		**86,513**	176,795
Loss for the year from discontinued operations		**—**	(44,615)
Profit and total comprehensive income for the year attributable to owners of the Company		**86,513**	132,180
Earnings per share attributable to owners of the Company (expressed in RMB cents per share)	8		
From continuing and discontinued operations			
– basic and diluted		**10.0**	15.2
From continuing operations			
– basic and diluted		**10.0**	20.4

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

	Notes	**2016**	2015
		RMB'000	RMB'000
ASSETS			
Non-current assets			
Land use rights		**66,206**	70,585
Property, plant and equipment		**977,026**	911,730
Intangible assets		**3,200**	3,667
Interest in a joint venture		**159,807**	149,259
Deferred income tax assets		**24,772**	48,914
Prepayments and other receivables	10	**230,216**	144,500
		1,461,227	1,328,655
Current assets			
Inventories		**261,715**	208,683
Trade and other receivables	11	**743,568**	802,515
Land use rights		**3,834**	3,321
Restricted bank deposits		**14,613**	62,151
Cash and cash equivalents		**40,275**	67,620
		1,064,005	1,144,290
Total assets		**2,525,232**	2,472,945
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		**(160,155)**	(246,668)
Total equity		**880,491**	793,978

	Note	2016	2015
		RMB'000	RMB'000
LIABILITIES			
Non-current liabilities			
Long-term bank borrowings		**76,500**	115,154
Deferred income		**33,846**	40,872
		110,346	156,026
Current liabilities			
Trade and other payables	12	**451,214**	354,661
Deferred income		**7,027**	7,027
Short-term bank borrowings		**1,037,500**	1,058,710
Current portion of long-term bank borrowings		**38,654**	102,543
		1,534,395	1,522,941
Total liabilities		**1,644,741**	1,678,967
Total equity and liabilities		**2,525,232**	2,472,945
Net current liabilities		**(470,390)**	(378,651)
Total assets less current liabilities		**990,837**	950,004

NOTES:

1. BASIS OF PREPARATION

1.1 Basis of preparation and going concern assumption

As at 31 December 2016, the Group's current liabilities exceeded its current assets by RMB470,390,000 (2015: RMB378,651,000) and the bank borrowings as included in the Group's current liabilities amounted to RMB1,076,154,000 (2015: RMB1,161,253,000) respectively. These conditions indicate 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 Group'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 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 Group's directors, having evaluating all the relevant facts available to them, 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;

(b) The Group's profitability and cash flows are expected to be positive taking into account the current business environment of the business operations; and

(c) The ultimate parent company, JCF Groupco, a state-owned enterprise, has confirmed and has 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.

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

Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the values of assets to their estimated recoverable amounts, to provide for any further liabilities which might arise and to re-classify non-current assets and liabilities as current assets and liabilities, respectively. The effects of these adjustments have not been reflected in these consolidated financial statements.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules").

The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 5 to the consolidated financial statements.

1.2 Adoption of new/revised HKFRSs – effective on 1 January 2016

The Group has adopted the following new and revised HKFRSs and one new interpretation issued by the HKICPA, which are mandatory for the first time for the financial year beginning 1 January 2016:

Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
HKFRS 14	Regulatory Deferral Accounts
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012–2014 Cycle

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. 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.

1.3 New/revised HKFRSs that have been issued but are not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective.

HKFRS 16	Leases[1]
Amendments to HKFRS 2	Classification and Measurement of Share- based Payment Transactions[2]
HKFRS 9	Financial Instruments[2]
HKFRS 15	Revenue from Contracts with Customers[2]
HKFRS 15 Amendments	Clarification to HKFRS 15 Revenue Contracts with Customers[2]
HKAS 7 Amendments	Disclosure Initiative[3]
HKAS 12 Amendments	Recognition of Deferred Tax Assets for Unrealised Losses[3]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]

1 Effective for annual periods beginning on or after 1 January 2019

2 Effective for annual periods beginning on or after 1 January 2018

3 Effective for annual periods beginning on or after 1 January 2017

4 On 6 January 2016, the HKICPA issued "Effective Date of Amendments to HKFRS 10 and HKAS 28", following the International Accounting Standards Board's equivalent amendments. This update defers/removes the effective date of the amendments in "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" that the HKICPA issued on 7 October 2014. Early application of these amendments continues to be permitted.

2. 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 products, namely acrylic fiber and carbon fiber products. The operating segment for carbon fiber products was disposed of on 30 June 2015 and become discontinued operations.

All of the Group's continuing operations and its assets are located in the PRC except that, a portion of the Group's revenue from continuing operations of RMB308,785,000 (2015: RMB266,784,000) was in connection with sales to overseas customers. Therefore, the Decision-Makers consider the Group's business from a product perspective, rather than from a geographic perspective. The Decision-Makers assess the performance of the operating segment of acrylic 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 profit 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 2016 consists of sales from the acrylic fiber products segment of RMB1,571,255,000 (2015: RMB1,787,074,000).

The Group does not have any inter-segment sales during the years ended 31 December 2016 and 2015.

The segment information provided to the Decision-Makers for the years ended 31 December 2016 and 2015 is as follow:

Segment revenue and results

	Continuing operations Acrylic fiber products RMB'000	Discontinued operations Carbon fiber products RMB'000	Total RMB'000
Year ended 31 December 2016			
Total revenue from external customers	1,571,255	—	1,571,255
Adjusted segment results (Note)	284,242	—	284,242
Share of result of a joint venture	10,276	—	10,276
Depreciation and amortisation	(122,861)	—	(122,861)
Income tax expenses	(24,142)	—	(24,142)
	147,515	—	147,515
Other information:			
Additions to property, plant and equipment	183,824	—	183,824
Year ended 31 December 2015			
Total revenue from external customers	1,787,074	46,628	1,833,702
Adjusted segment results (Note)	397,523	6,737	404,260
(Provision for)/reversal of impairment on inventories	(1,407)	3,842	2,435
Share of result of a joint venture	21,682	—	21,682
Depreciation and amortisation	(121,863)	(13,990)	(135,853)
Income tax expenses	(5,429)	(475)	(5,904)
Loss on disposal of a subsidiary	—	(36,992)	(36,992)
	290,506	(40,878)	249,628
Other information:			
Additions to property, plant and equipment	30,902	—	30,902

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 profit before income tax is provided as follows:

	2016	2015
	RMB'000	RMB'000
Adjusted segment results for reportable segments	**284,242**	404,260
Reversal of impairment on inventories	**—**	2,435
Depreciation and amortisation	**(122,861)**	(135,853)
Net loss arising on derivative financial instrument	**—**	(221)
Finance costs - net	**(61,002)**	(117,227)
Share of result of a joint venture	**10,276**	21,682
Loss on disposal of a subsidiary	**—**	(36,992)
	(173,587)	(266,176)
Profit before income tax	**110,655**	138,084

Note:

The Group has managed and operated certain Utility Facilities and Leased Assets 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 Utility Facilities and Leased Assets will be provided to fellow subsidiaries, joint venture, Jilin Chemical Fibre Co., Ltd. ("JCFCL"), other 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 RMB135,670,000 (2015: RMB138,605,000), representing the related income net of direct outgoings (other than depreciation charge), which is attributable to the provisions of surplus utilities to fellow subsidiaries, joint venture, JCFCL, other related parties and third parties.

Information about major customers

Revenues of approximately RMB409,506,000 (2015: RMB533,226,000) are derived from two (2015: two) customers which individually contributed more than 10% to the Group's revenue. These revenues are all attributable to the acrylic fiber products segment. Details of the revenues from these two customers are as follows:

	2016		2015	
	Revenue RMB'000	**Proportion to the total revenues**	Revenue RMB'000	Proportion to the total revenues
Customer A	**257,070**	**16%**	310,372	17%
Customer B	**N/A**	**N/A**	222,854	12%
Customer C	**151,986**	**10%**	N/A	N/A
Total	**409,056**	**26%**	533,226	29%

3. OTHER INCOME AND GAINS

	2016 RMB'000	2015 RMB'000
Continuing operations:		
Other income		
Rental income	**505**	376
Income from provision of utilities	**431,354**	420,603
Amortisation of deferred income	**7,026**	6,963
Sales of raw materials	**34,693**	15,503
Subsidy income (Note a)	**3,788**	6,165
Inspection fee income (Note b)	**1,546**	1,975
Others	**230**	300
	479,142	451,885
Other gains		
Gain attributable to equity interests of a joint venture	**272**	273
Gain on disposal of land use right	**—**	3,697
Gain on disposal of property, plant and equipment, net	**—**	3,881
Foreign exchange gain, net	**4,471**	4,898
	4,743	12,749
	483,885	464,634
Discontinued operations:		
Other income		
Amortisation of deferred income	**—**	625
Others	**—**	15
	—	640

Notes:

(a) Subsidy income mainly represents the rewards received from local government in relation to the contribution of improving water quality by processing sewage for the past few years. There are no unfulfilled conditions or contingencies relating to these grants.

(b) Inspection fee income mainly represents the quality inspection service provided to the joint venture.

4. OTHER EXPENSES AND LOSSES

	2016	2015
	RMB'000	RMB'000
Continuing operations:		
Other expenses		
Direct outgoings in respect of provision of utilities	**(363,745)**	(337,863)
Cost of raw materials	**(31,625)**	(26,370)
	(395,370)	(364,233)
Other losses		
Impairment loss on trade and other receivables, net	**(8,284)**	(15,143)
Net loss arising on derivative financial instrument	**—**	(221)
	(8,284)	(15,364)
	(403,654)	(379,597)

5. PROFIT BEFORE INCOME TAX

Profit before income tax is stated after charging/(crediting):

	2016	2015
	RMB'000	RMB'000
Continuing operations:		
Inventories recognised as an expense		
– for production of fiber products	**1,346,765**	1,453,920
– provision for impairment on inventories	**—**	1,407
Depreciation on property, plant and equipment	**118,528**	117,664
Amortisation (included in administrative expenses) of		
– land use rights	**3,866**	3,866
– intangible assets	**467**	333
Employee benefit expenses	**132,203**	124,325
Minimum lease payment	**10,802**	13,178
Auditors' remuneration		
– audit services	**950**	1,235
Discontinued operations:		
Inventories recognised as an expense		
– for production of fiber products	**—**	43,290
– reversal of impairment on inventories	**—**	(3,842)
Depreciation	**—**	13,975
Amortisation of		
– land use rights	**—**	15
Employee benefit expenses	**—**	4,987

6. FINANCE INCOME AND COSTS

	2016	2015
	RMB'000	RMB'000
Continuing operations:		
Bank interest income	**(2,019)**	(2,038)
Interest income on amount due from Tangu	**(12,991)**	—
Interest income on consideration receivable	**(6,067)**	(3,472)
Finance income	**(21,077)**	(5,510)
Interest expenses on bank borrowings	**66,849**	104,125
Bank borrowings guarantee fees (Note)	**15,230**	14,875
Finance costs	**82,079**	119,000
Finance costs – net	**61,002**	113,490
Discontinued operations:		
Interest income	**—**	(708)
Interest expenses on bank borrowings	**—**	4,445
Finance costs	**—**	4,445
Finance costs – net	**—**	3,737

Note:

JCF Groupco and an authorised financial institution charged guarantee fees on those guaranteed bank borrowings which are calculated at predetermined rates on the daily outstanding principal amounts of the guaranteed bank borrowings.

7. INCOME TAX EXPENSE

The amount of income tax expenses to the consolidated statement of comprehensive income represents:

	2016	2015
	RMB'000	RMB'000
Continuing operations		
Current income tax – PRC corporate income tax	**—**	—
Deferred income tax		
– charge for the year	**24,142**	5,429
Income tax expenses	**24,142**	5,429
Discontinued operations		
Current income tax – PRC corporate income tax	**—**	—
Deferred income tax		
– charge for the year	**—**	475
Income tax expenses	**—**	475
Total	**24,142**	5,904

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 2015 and 2016.

8. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

Profit attributable to owners of the Company

	2016	2015
	RMB'000	RMB'000
For continuing and discontinued operations:		
Profit for the purposes of basic and diluted earning per share	**86,513**	132,180
For continuing operations:		
Profit for the purposes of basic and diluted earnings per share	**86,513**	176,795
For discontinued operations:		
Loss for the purposes of basic and diluted loss per share	**—**	(44,615)
Number of shares:	**(in thousand)**	(in thousand)
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	**866,250**	866,250

Basic earnings per share are calculated by dividing the 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 (2015: 866,250,000) shares.

The Company has no potential dilutive shares in issue during the year ended 31 December 2016 and 2015 and therefore the diluted earnings per share is equal to the basic earnings per share.

9. DIVIDEND

The Company's directors do not recommend the payment of any dividend for the year ended 31 December 2015 and 2016.

10. PREPAYMENTS AND OTHER RECEIVABLES – NON CURRENT

	2016	2015
	RMB'000	RMB'000
Trade receivables (Note 11)	**—**	3,369
Other receivables	**140,914**	10,978
Consideration receivable	**89,302**	130,153
	230,216	144,500

As at 31 December 2016, amount due from Tangu amounting to RMB140,914,000 was included in other receivable. The Group negotiated with the management of Tangu and agreed to extend the repayment schedule by installment up to 3 years after 31 December 2016. The amount due from Tangu amounting to RMB140,914,000 was reclassified from current portion of other receivable to non-current portion of other receivable. Amount due from Tangu is bearing interest at 5% per annum.

11. TRADE AND OTHER RECEIVABLES

	2016	2015
	RMB'000	RMB'000
		(Restated)
Trade receivables (Note)	**122,356**	102,626
Less: provision for impairment	**(8,224)**	(5,589)
Trade receivables – net	**114,132**	97,037
Bills receivables	**40,948**	85,541
Amounts due from related companies	**308,060**	266,523
Other receivables	**201,435**	317,113
Less: provision for impairment	**(19,475)**	(13,406)
Other receivables – net	**181,960**	303,707
Prepayments	**101,349**	53,008
Less: provision for impairment	**(2,881)**	(3,301)
Prepayments – net	**98,468**	49,707
	743,568	802,515

Note:

The Group's sales are normally conducted on cash on delivery terms to a credit term of 90 days. Aging analysis of trade receivables based on invoice date are as follows:

	2016 RMB'000	2015 RMB'000 (Restated)
0 – 30 days	**53,163**	41,112
31 – 90 days	**44,776**	44,207
91 – 180 days	**4,474**	2,883
Over 180 days	**11,719**	12,204
	114,132	100,406

	2016 RMB'000	2015 RMB'000
Represented by:		
Current portion	**114,132**	97,037
Non-current portion	**—**	3,369
	114,132	100,406

12. TRADE AND OTHER PAYABLES

	2016 RMB'000	2015 RMB'000
Trade payables (Note)	**222,379**	150,055
Bank bills payables	**23,000**	70,600
Amounts due to related companies	**22,245**	10,002
Other payables and accruals	**183,590**	124,004
	451,214	354,661

Note:

The aging analysis of trade payables based on invoice date is as follows:

	2016 RMB'000	2015 RMB'000 (Restated)
0 – 30 days	**58,252**	57,085
31 – 90 days	**113,016**	61,779
91 – 180 days	**27,928**	22,478
Over 180 days	**23,183**	8,713
	222,379	150,055

13. COMPARATIVE FIGURE

Certain 2015 corresponding comparative figures have been reclassified to conform to current year's presentation.

Amount due from Jilin Tangu Carbon Fiber Co., Ltd. ("Tangu") is reclassified from amounts due from related companies included in current assets to other receivables included in current assets.

Transactions with Tangu are reclassified from related party transactions to transactions with other state-owned entities in PRC.

EXTRACT OF INDEPENDENT AUDITORS' REPORT

The following is an extract of the independent auditor's report on the Group's consolidated financial statements for the year ended 31 December 2016.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

Without qualifying our opinion, we draw attention to note 2.1 to the consolidated financial statements, as at 31 December 2016, the Group's current liabilities exceeded its current assets by RMB470,390,000. This condition indicates the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. As explained in note 2.1 to the consolidated financial statements, these consolidated financial statements have been prepared on a going concern basis, the validity of which is dependent on the Group's ability to renew its bank borrowings upon maturity, to improve its business operation to generate adequate cash flows, and to source financing from its ultimate parent company to meet the Group's financial obligations as and when they fall due in the foreseeable future.

REVIEW AND OUTLOOK

Market Review

According to the published data from the National Bureau of Statistics of China, the economic growth rate in China for the year ended was 6.7%. China's economic growth was slowing down and the market condition remained challenging. In July 2016, the Ministry of Commerce of the PRC decided to impose anti-dumping duties on imported acrylic fibers originated in Japan, South Korea and Turkey in favour of the acrylic fiber industry in China, imported acrylic fiber decreased during the year. However, the profitability of the acrylic fiber industry narrowed and the cost pressures soared due to the expected increase of new acrylic fiber production capacity in China and the increasing trend of raw material prices commencing from the second half of 2016.

Sales Review

The Group's continuing operations recorded a sales revenue of approximately RMB1.6 billion for the Year, representing a decrease of approximately 12% as compared to approximately RMB1.8 billion for the previous year. The sales volume of the Group's acrylic fiber during the Year was 137,366 tons, decreased by approximately 0.4% from 137,872 tons for the previous year. The average unit selling price of acrylic fiber products for the Year was RMB11,438 per ton, decreased by approximately 12% as compared to that of the previous year. The total volume of the acrylic fiber products produced by the Group (together with its joint venture) in the Year was 280,926 tons, accounting for about 39% of the total production volume of the domestic acrylic fiber market in PRC.

Production Management

The Group's total production output from continuing operations was approximately 136,306 tons for the Year, representing an increase of 2% as compared to that for the previous year. During the Year, the Group enlarged its supplier base and strengthened raw material market analysis to enhance its purchasing function and inventory management. The Group also continued to implement stringent cost control measures and adhere to order-based production in order to further enhance operating efficiency. The Group has also conducted continual technical reform, quality improvement and waste reduction projects, which set up a solid foundation to stabilise production process, improve production quality and reduce production cost.

Employees

As at 31 December 2016, the Group's continuing operations had 1,719 employees, representing a decrease of 14 employees as compared to 1,733 employees as at 31 December 2015. 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. The Group was in compliance with all relevant PRC laws and regulations regarding occupational health and safety in all material aspects.

Environmental Policies and Performance

The Group set up and implemented internal environmental policies such as "Sewage Disposal Management Policy" (「污水處理管理政策」), "Emissions Management Policy" (「排放管理政策」), "Environmental Protection Management Standard" (「環保管理標準」) which are not less stringent than the relevant prevailing laws and regulations in the PRC. In the view of the Management, the Group was in compliance with relevant provisions "Thermal Power Plant Air Pollutant Emission Standards" (「火電廠大氣污染物排放標準」), "Industrial Environmental Noise Emission Standard" (「工業企業廠界環境噪聲排放標準」) and "Integrated Sewage Disposal Standard" (「污水綜合排放標準」) in the PRC.

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 opportunities and prospects for its business:

1. Development of differentiated acrylic fiber: The Group will commit to further developing differentiated acrylic fiber to enhance its competitiveness in the PRC's acrylic fiber products market. The management believes that differentiated fiber products will become one of the major driving forces in the future development of acrylic fibers in the PRC. The Group is positioned to seize new business opportunities to further enhance the Group's profitability.

2. Anti-dumping duties on imported acrylic fibers: In July 2016, The Ministry of Commerce of the PRC announced the imposition of anti-dumping duties on imported acrylic fibers originating from Japan, Korea and Turkey. The management believes that demand for local manufactured acrylic fibers will increase as a result of the decision.

FINANCIAL ANALYSIS

Operating results

The revenue of the Group amounted to approximately RMB1.6 billion for the Year, representing a decrease of approximately 12% from approximately RMB1.8 billion for the year ended 31 December 2015. The decrease in overall revenue was mainly due to the decrease in average unit price of the Group's acrylic fiber products during the year. The Group's total sales volume of the Group's operations was 137,366 tons and total production volume was 136,306 tons, representing a sales-to-production ratio of approximately 101% (2015: 103%). Profit attributable to the owners of the Company for the Year was approximately RMB86.5 million, decreased significantly from a profit of approximately RMB132.2 million for year ended 31 December 2015. The substantial decrease in profit of the Group for the Year was mainly attributable to the decrease in sales and gross profit margin of the products of the Group.

Operating expenses (distribution costs and administrative expenses)

Distribution costs of the Group's continuing operations decreased from approximately RMB62.0 million for the year ended 31 December 2015 to approximately RMB56.6 million for the Year. The decrease in distribution costs was primarily resulted from the decrease in transportation costs during the Year. Administrative expenses increased slightly from approximately RMB80.8 million for the year ended 31 December 2015 to approximately RMB86.8 million for the Year.

Net other gains (the net aggregate amount of other income and gains and other expenses and losses)

Net other gains for the Year was approximately RMB80.2 million, as compared to that of approximately RMB85.0 million for the year ended 31 December 2015. The decrease in net other gains in the Year was primarily due to the decrease in net other income from the provision of utilities.

Net finance costs

Net finance costs decreased from approximately RMB113.5 million for the year ended 31 December 2015 to approximately RMB61.0 million for the Year. The decrease in net finance costs was primarily resulted from the decrease in borrowing costs of the Group.

Share of result of a joint venture

The Group's share of 50% of the profit of its joint venture, Jilin Jimont Acrylic Fiber Co., Ltd. ("Jimont"), under the equity method of accounting amounted to approximately RMB10.3 million for the Year (2015: profit of RMB21.7 million). The decrease in the profit of Jimont was primarily resulted from the market conditions as described in this announcement, which also had a similar impact on the financial performance of Jimont during the Year.

Financial resources, liquidity and liability position

As of 31 December 2016, the Group's total assets and total liabilities were approximately RMB2.53 billion and RMB1.64 billion, respectively (2015: RMB2.47 billion and RMB1.68 billion respectively). As of 31 December 2016, the Group's net current liabilities amounted to approximately RMB470.4 million (2015: RMB378.7 million) and its current ratio, calculated by dividing its current assets by its current liabilities as of 31 December 2016, was approximately 0.69 (2015: 0.75). The Group had cash in hand and at bank and restricted bank deposits of approximately RMB40.3 million and RMB14.6 million, respectively, as of 31 December 2016 (2015: RMB67.6 million and RMB62.2 million respectively). As of 31 December 2016, the total bank borrowings of the Group amounted to approximately RMB1.15 billion (2015: RMB1.28 billion), out of which approximately RMB1.04 billion (2015: RMB1.06 billion) was short-term bank borrowings, approximately RMB38.7 million (2015: RMB102.5 million) was current portion of long-term borrowings and approximately RMB76.5 million (2015: RMB115.2 million) was the non-current portion of long term bank borrowings. Approximately 60% (2015: 61%) 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 in the previous years. The net decrease in bank borrowings was approximately RMB124 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 2016, the Group's gearing ratio, calculated by dividing total liabilities by total assets, was approximately 65.1% (2015: 67.9%).

CAPITAL STRUCTURE

Placing of new H Shares and conversion of non-H foreign Shares to H Shares

On 14 January 2016, a specific mandate was granted by the shareholders in shareholders' meetings of the Company to issue not more than 600,000,000 new H Shares (the "Placing Shares") pursuant to a proposed offer by way of private placing of the Placing Shares by or on behalf of the placing agent to the placee(s),on a best endeavour basis, on the terms and subject to the conditions set out in the placing agreement entered into between the Company and the placing agent on 29 September 2015 (the "Placing"). The 600,000,000 Placing Shares represent approximately 69.26% of the existing issued share capital of the Company as at the date of this annual report. On 14 January 2016, a specific resolution was also passed by the shareholders in shareholders' meetings of the Company to approve the conversion of 169,358,404 Non-H Foreign Shares to H Shares (the "Conversion"). After completion of the Conversion, the 169,358,404 Non-H Foreign Shares (representing approximately 19.55% of the existing issued share capital as at the date of this annual report) will be cancelled and the 169,358,404 H Shares newly issued pursuant to the Conversion will rank, when issued and fully paid, pari passu in all respects with the H Shares in issue as at the date of allotment and issue of such H Shares.

On 1 August 2016, the Company announced that the Placing Agreement for the Placing has lapsed as the conditions of the Placing Agreement have not been satisfied or waived on or before 31 July 2016. As such, the Placing has been terminated. The Company will not expand its business into the medical and healthcare industry and introduce Jilin Railway Investment as a strategic partner subsequent to the termination of the Placing.

INVESTMENT REVIEW

STATUS OF INVESTMENTS

Joint venture

A joint venture, Jimont, was established on 21 December 2005 and as at 31 December 2016, was currently held equally by the Company and Jiangsu Zhongxin Ziyuan Group Limited (江蘇中新資源集團有限公司). Jimont is mainly engaged in the manufacturing and sales of acrylic fiber products with an annual production capacity of 136,000 tons (2015: 108,000 tons).

In 2016, the sales volume and production volume of the joint venture reached 145,255 tons and 144,620 tons (2015: 117,005 tons and 114,528 tons), respectively, representing a sales-to-production ratio of approximately 100% (2015: 102%). The utilisation rate of the joint venture production plant was 106% (2015: 104%). The profit of the joint venture was approximately RMB20.6 million in the year ended 31 December 2016 (2015: profit of RMB43.4 million). The decrease in the profitability of the joint venture was mainly due to impact of the market conditions described in the section headed "Market Review".

Bank deposits

As of 31 December 2016, 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 RMB14.6 million (2015: RMB62.2 million), the Group had no bank deposits which cannot be withdrawn upon maturity.

Pledged assets

As of 31 December 2016, certain properties, plants and equipment with a net book value of approximately RMB205.5 million (as of 31 December 2015: properties, plant and equipment with a net book value of approximately RMB327.4 million) were pledged as securities for bank borrowings of approximately RMB115.2 million (as of 31 December 2015: RMB287.7 million). In addition, bank deposits of approximately RMB11.5 million and RMB3.1 million (2015: RMB43.9 million and RMB18.2 million respectively) were pledged for the issue of certain trade and bills payables and letters of credit, respectively, for the Group's purchases of raw materials, plant and machinery from certain overseas suppliers.

Contingent liabilities

The Group had no material contingent liabilities as of 31 December 2016 (2015: Nil).

Dividend

The Board does not recommend the declaration of a dividend for the year ended 31 December 2016 (2015: Nil).

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE

The Company has adopted the Code on Corporate Governance Practices (the "Code") issued by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and has complied with the relevant code provisions and most of the recommended best practices during the Year.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Group has adopted 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 has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, risk management, internal control and financial report matters including the review of the Group's consolidated annual results for the year ended 31 December 2016.

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

For the year ended 31 December 2016, neither the Company nor any of its joint venture and fellow subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PUBLICATION OF ANNUAL REPORT

The 2016 annual report of the Company 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.*
Song Dewu
Chairman

Jilin City, Jilin Province, The PRC
29 March 2017

* *The Company is a non- Hong Kong company under Part 16 of the Company Ordinance (Chapter 622 of the Laws of Hong Kong) registered under the English name "Jilin Qifeng Chemical Fiber Co., Ltd.".*

As at the date of this announcement, the executive directors of the Company are Mr. Song Dewu, Mr. Yang Xuefeng and Mr. Pan Xianfeng, the non-executive directors of the Company are Ms. Pang Suet Mui, Mr. Wu Song, Mr. Jiang Junzhou and Mr. Ma Jun, and the independent non-executive directors of the Company are Mr. Li Yanxi, Mr. Jin Jie, Ms. Zhu Ping and Mr. Lv Xiaobo.