THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this Composite Document or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Qifeng, you should at once hand this Composite Document together with the accompanying Form of Acceptance to the purchaser(s) or transferee(s) or to the bank or licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

This Composite Document should be read in conjunction with the accompanying Form of Acceptance, the provisions of which form part of the terms of the H Share Offer contained herein.

JILIN TOP TRADING CO. LTD.*
(Incorporated in the People's Republic of China with limited liability)
and
its subsidiary JILIN FIBER CO., LIMITED
(Incorporated in Hong Kong with limited liability)

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)

COMPOSITE OFFER AND RESPONSE DOCUMENT

VOLUNTARY CONDITIONAL OFFER BY SOMERLEY CAPITAL LIMITED ON BEHALF OF JILIN FIBER CO., LIMITED FOR ALL THE ISSUED H SHARES IN JILIN QIFENG CHEMICAL FIBER CO., LTD.* (OTHER THAN THOSE ALREADY HELD BY JILIN FIBER CO., LIMITED AND PARTIES ACTING IN CONCERT WITH IT)

VOLUNTARY CONDITIONAL OFFER BY JILIN TOP TRADING CO. LTD.* FOR ALL THE ISSUED DOMESTIC SHARES IN JILIN QIFENG CHEMICAL FIBER CO., LTD.* (OTHER THAN THOSE ALREADY HELD BY JILIN TOP TRADING CO. LTD.* AND PARTIES ACTING IN CONCERT WITH IT)

VOLUNTARY CONDITIONAL OFFER BY JILIN FIBER CO., LIMITED FOR ALL THE ISSUED NON-H FOREIGN SHARES IN JILIN QIFENG CHEMICAL FIBER CO., LTD.* (OTHER THAN THOSE ALREADY HELD BY JILIN FIBER CO., LIMITED AND PARTIES ACTING IN CONCERT WITH IT)

AND

PROPOSED WITHDRAWAL OF LISTING OF THE H SHARES OF JILIN QIFENG CHEMICAL FIBER CO., LTD.*

Financial adviser to the Offerors

SOMERLEY CAPITAL LIMITED

Independent Financial Adviser to the Independent Board Committees

第一上海
FIRST SHANGHAI GROUP
FIRST SHANGHAI CAPITAL LIMITED

Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" in this Composite Document. A letter from the board of Offerors is set out on pages 9 to 14 of this Composite Document. A letter from Somerly Capital, containing amongst other things, the terms of the H Share Offer, is set out on pages 15 to 25 of this Composite Document. A letter from the board of Qifeng is set out on pages 26 to 33 of this Composite Document. Letters from the Independent Board Committees containing its recommendation to the Independent H Shareholders in respect of the H Share Offer and the withdrawal of listing of the H Shares is set out on pages 34 to 37 of this Composite Document. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee in respect of the H Share Offer and the withdrawal of listing of the H Shares is set out on pages 38 to 55 of this Composite Document.

The procedures for acceptance and settlement of the H Share Offer are set out in Appendix I to this Composite Document and in the accompanying Form of Acceptance. Form of Acceptances of the H Share Offer contained herein should be received by the Registrar by no later than 4:00 p.m. on 30 June 2017 or such later time or date as the Offerors may determine and announce, with the consent of the Executive, in accordance with the Takeovers Code.

The H Share Class Meeting and the EGM (as the case may be) convened to approve the voluntary withdrawal of the listing of the H Shares from the Hong Kong Stock Exchange, will be held at 9:30 a.m. and 10:00 a.m., respectively on 19 May 2017. Notices of the H Share Class Meeting and the EGM are set out in Appendices IV and V, respectively. Proxy forms for use at the H Share Class Meeting and the EGM are enclosed with this Composite Document. Whether or not you are able to attend the H Share Class Meeting or the EGM (as the case may be), you are strongly urged to complete the accompanying proxy forms in accordance with the instructions printed thereon and return the proxy forms to the Registrar at 31/F, 148 Electric Road, North Point, Hong Kong (in case of the Independent H Shareholders) or the office of Qifeng at No. 516-1 Jiuzhan Street, Jilin City, Jilin Province, the PRC (in case of Qifeng Domestic Shareholders and Qifeng Non-H Foreign Shareholders) as soon as possible and in any event not later than 10:00 a.m. (in case of the EGM) or 9:30 a.m. (in case of the H Share Class Meeting) on 18 May 2017 or not less than 24 hours before the time appointed for any adjournment of the H Share Class Meeting and/or the EGM (as the case may be) and completion and return of the proxy forms will not preclude you from attending and voting in person at the H Share Class Meeting and/or the EGM (as the case may be) or any adjourned meeting should you so wish. Reply slips for the H Share Class Meeting and the EGM are also enclosed. You are reminded to complete and sign the reply slip (if you are entitled to attend the H Share Class Meeting or the EGM (as the case may be)) and return the signed reply slip to the Registrar (in case of Independent H Shareholders) or Qifeng (in case of Qifeng Domestic Shareholders and Qifeng Non-H Foreign Shareholders) on or before 28 April 2017 in accordance with the instructions printed thereon.

* *For identification purpose only*

3 April 2017

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In this Composite Document, the following expressions have the meanings set out below unless the context requires otherwise:

"Accepting Qifeng H Shareholder(s)"	the Qifeng H Shareholders who accept the H Share Offer by duly completing and returning the Form of Acceptance
"Accepting Qifeng H Shares"	the H Shares held by the Accepting Qifeng H Shareholders
"acting in concert"	has the meaning given to it in the Takeovers Code, and "parties acting in concert" shall be construed accordingly
"Associate"	has the meaning given to it in the Takeovers Code
"Authorisations"	all necessary authorisations, registrations, filings, rulings, consents, permissions, waivers, exemptions and approvals required from the Relevant Authorities or other third parties which are necessary for Qifeng to carry on its business
"Board"	the board of directors of Qifeng
"Business Day"	a day on which the Stock Exchange is open for the transaction of business
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"Closing Date"	30 June 2017 (or such later date(s) as the Offerors may, subject to the Takeovers Code, decide)
"Composite Document"	this composite offer document jointly issued by or on behalf of the Offerors and Qifeng in connection with the Proposal and the H Share Offer in accordance with the Takeovers Code and approved by the Executive
"Delisting"	the voluntary withdrawal of the listing of the H Shares from the Hong Kong Stock Exchange
"Directors"	the directors of Qifeng
"Domestic Share(s)"	the ordinary share(s) of RMB1 each in the share capital of Qifeng, which are not listed and traded on the Hong Kong Stock Exchange, subscribed by the PRC shareholders of Qifeng and credited as fully paid
"Domestic Share Offer"	the voluntary conditional offer being made by Top Trading to acquire all of the issued Domestic Shares other than those already owned by the Offerors, Jilin Chemical Fiber Group and parties acting in concert with any of them

"EGM"	the extraordinary general meeting of Qifeng Shareholders to be convened and held for the Independent Qifeng Shareholders to consider and approve the Delisting
"Exchange Rate"	the mid-price of RMB against HK$ at RMB0.8891 as quoted from the People's Bank of China as at the date of the Joint Announcement
"Executive"	the executive director of the Corporate Finance Division of the SFC or any delegate of the executive director
"Form of Acceptance"	the form of acceptance and transfer in respect of the H Share Offer which accompanies this Composite Document
"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong
"H Share(s)"	the overseas listed foreign invested ordinary share(s) in the share capital of Qifeng with a nominal value of RMB1 each, which are listed and traded on the Hong Kong Stock Exchange and credited as fully paid
"H Share Class Meeting"	the special general meeting of the Independent H Shareholders to be convened, and any adjournment thereof for the purpose of approving the Delisting
"H Share Conditions"	the conditions of the H Share Offer, as set out under the paragraph headed "3. Conditions of the H Share Offer" of "Letter from Somerley Capital" of this Composite Document
"H Share Offer"	the voluntary conditional offer being made by Somerley Capital on behalf of Jilin Fiber to acquire all of the issued H Shares other than those already owned by the Offerors, Jilin Chemical Fiber Group and parties acting in concert with any of them
"HKSCC"	Hong Kong Securities Clearing Company Limited
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Independent Board Committees"	together, the Listing Rules Independent Board Committee and the Takeovers Code Independent Board Committee
"Independent H Shareholder(s)"	Qifeng H Shareholder(s) other than the Offerors, Jilin Chemical Fiber Group or parties acting in concert with any of them

"Independent Financial Adviser" or "First Shanghai Capital"	First Shanghai Capital Limited, a corporation licensed under the SFO to carry out Type 6 (advising on corporate finance) regulated activity, being the independent financial adviser appointed to advise the Independent Board Committees, in respect of the Offers and the Delisting
"Independent Qifeng Shareholder(s)"	Qifeng Shareholders other than the Offerors, Jilin Chemical Fiber Group or parties acting in concert with any of them
"Jilin Chemical Fiber Group"	Jilin Chemical Fiber Group Co., Ltd* (吉林化纖集團有限責任公司), a limited liability company incorporated in the PRC, being the parent company beneficially owns the entire equity interests of the Offerors.
"Jilin Fiber"	Jilin Fiber Co., Limited (吉林纖維有限公司), a company incorporated in Hong Kong with limited liability and an indirectly wholly-owned subsidiary of Jilin Chemical Fiber Group
"Joint Announcement"	the announcement dated 1 December 2016 jointly made by the Offerors and Qifeng in connection with the H Share Offer
"Last Trading Date"	25 November 2016, being the last full trading day in the H Shares immediately before the suspension of trading in the H Shares pending publication of the Joint Announcement
"Latest Practicable Date"	31 March 2017, being the latest practicable date prior to the printing of this Composite Document for the purpose of ascertaining certain information contained in this Composite Document
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Listing Rules Independent Board Committee"	the independent committee of the Board, comprising all of the independent non-executive Directors, namely Mr. Li Yanxi, Mr. Jin Jie, Mr. Lv Xiaobo and Ms. Zhu Ping
"Non-H Foreign Share(s)"	the RMB-denominated ordinary share(s) in the share capital of Qifeng with a nominal value of RMB1 each, which are not listed and traded on the Hong Kong Stock Exchange, and are subscribed by persons other than PRC legal or natural persons and credited as fully paid
"Non-H Foreign Share Offer"	the voluntary conditional offer being made by Jilin Fiber to acquire all of the issued Non-H Foreign Shares other than those already owned by the Offerors, Jilin Chemical Fiber Group and parties acting in concert with any of them

"Offerors"	Jilin Fiber and Top Trading
"Offers"	the H Share Offer, the Domestic Offer and the Non-H Foreign Share Offer
"PRC"	the People's Republic of China
"Proposal"	the proposed Delisting via voluntary conditional offers by the Offerors for all of the issued H Shares, Non-H Foreign Shares and Domestic Shares, other than those already owned by the Offerors, Jilin Chemical Fiber Group and parties acting in concert with any of them
"Qifeng"	Jilin Qifeng Chemical Fiber Co., Ltd.* (吉林奇峰化纖股份有限公司), a joint stock company incorporated in the PRC with limited liability, whose H Shares are listed on the Hong Kong Stock Exchange (stock code: 549)
"Qifeng Domestic Shareholder(s)"	holder(s) of the Domestic Shares
"Qifeng Group"	Qifeng and its subsidiary
"Qifeng H Shareholder(s)"	holder(s) of the H Shares
"Qifeng Non-H Foreign Shareholder(s)"	holder(s) of Non-H Foreign Shares
"Qifeng Shareholder(s)"	holder(s) of Qifeng Shares
"Qifeng Shares"	the H Shares, the Domestic Shares and the Non-H Foreign Shares
"Registrar"	Boardroom Share Registrars (HK) Limited, whose address is at 31/F, 148 Electric Road, North Point, Hong Kong, being the share registrar of Qifeng for receiving and processing the acceptances of the H Share Offer from Qifeng H Shareholders
"Relevant Period"	the period commencing from 18 April 2016, being the date falling six months preceding the date of the Rule 3.7 Announcement, up to and including the Latest Practicable Date
"Relevant Authorities"	applicable governments or governmental bodies, regulatory bodies, courts or institutions including but not limited to the SFC and the Hong Kong Stock Exchange
"RMB"	Renminbi, the lawful currency of the PRC

"Rule 3.7 Announcement"	the announcement pursuant to Rule 3.7 of the Takeovers Code made by Qifeng dated 18 October 2016
"SFC"	Securities and Futures Commission
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (as revised from time to time)
"Somerley Capital"	Somerley Capital Limited, a corporation licensed under the Securities and Futures Ordinance to provide Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities, and the financial advisor to the Offerors in respect of the Offers
"Takeovers Code"	Hong Kong Code on Takeovers and Mergers (as revised from time to time)
"Takeovers Code Independent Board Committee"	the independent committee of the Board, comprising the two non-executive Directors namely, Ms. Pang Suet Mui and Mr. Wu Song and all of the independent non-executive Directors, namely Mr. Li Yanxi, Mr. Jin Jie, Mr. Lv Xiaobo and Ms. Zhu Ping
"Top Trading"	Jilin Top Trading Co. Ltd.* (吉林市拓普貿易有限公司), a company incorporated in the PRC with limited liability and an indirectly wholly-owned subsidiary of Jilin Chemical Fiber Group
"Unconditional Date"	the date on which the H Share Offer becomes or is declared unconditional in all respects

* *For identification purpose only*

Despatch date of this Composite Document	Monday, 3 April 2017
Opening date of the H Share Offer (*Note 1*)	Monday, 3 April 2017
Latest time for lodging transfers of the H Shares in order to be entitled to attend and vote at the H Share Class Meeting and the EGM	4:30 p.m. on Thursday, 13 April 2017
Closure of the register of Qifeng for the determination of entitlements of the Independent H Shareholders and the Independent Qifeng Shareholders (as the case maybe) to attend and vote at the H Share Class Meeting and the EGM	Tuesday, 18 April 2017 to Friday, 19 May 2017 (both days inclusive)
Last day for return of reply slip for the H Share Class Meeting and the EGM (*Note 2*)	Friday, 28 April 2017
Latest time for lodging proxy form in respect of the H Share Class Meeting (*Note 3*)	9:30 a.m. on Thursday, 18 May 2017
Latest time for lodging proxy form in respect of the EGM (*Note 3*)	10:00 a.m. on Thursday, 18 May 2017
Record date for the H Share Class Meeting and the EGM	Friday, 19 May 2017
H Share Class Meeting	9:30 a.m. on Friday, 19 May 2017
EGM	10:00 a.m. on Friday, 19 May 2017 or immediately after the conclusion or adjournment of the H Share Class Meeting
Announcement of the results of the H Share Class Meeting and the EGM on the website of the Hong Kong Stock Exchange	by 7:00 p.m. on Friday, 19 May 2017
Unconditional Date (*Notes 4 and 7*)	Friday, 19 May 2017
Re-opening of the register	Monday, 22 May 2017

Latest date for posting of remittances for the amounts due under the H Share Offer in respect of valid acceptances received at or before the Unconditional Date (assuming the H Share Offer becomes or is declared unconditional on the Unconditional Date) *(Note 5)*	Wednesday, 31 May 2017
Last day of trading of the H Shares on the Hong Kong Stock Exchange	Monday, 12 June 2017
Withdrawal of the listing of the H Shares from the Hong Kong Stock Exchange *(Note 6)*	9:00 a.m. on Friday, 16 June 2017
Announcement made and written notification sent to the Qifeng H Shareholders in respect of the Closing Date and the implication of not accepting the H Share Offer *(Note 6)*	by Friday, 16 June 2017
Latest time for the H Share Offer remaining open for acceptance on the Closing Date *(Note 8)*	4:00 p.m. on Friday, 30 June 2017
Closing Date	Friday, 30 June 2017
Announcement of the results of the H Share Offer as at the Closing Date on the website of the Hong Kong Stock Exchange	by 7:00 p.m. on Friday, 30 June 2017
Latest time and date for posting of remittances for the amounts due under the H Share Offer in respect of valid acceptances received at the latest time for acceptances of the H Share Offer on the Closing Date *(Note 5)*	Tuesday, 11 July 2017

Notes:

(1) The H Share Offer is made on Monday, 3 April 2017, the date of posting of this Composite Document, and is capable of being accepted on and from that date.

(2) Reply slip should be duly completed and returned to the Registrar Boardroom Share Registrars (HK) Limited at 31/F, 148 Electric Road, North Point, Hong Kong (in case of Independent H Shareholders) or the office of Qifeng at No. 516-1 Jiuzhan Street, Jilin City, Jilin Province, the PRC (in case of Qifeng Domestic Shareholders and Qifeng Non-H Foreign Shareholders) no later than Friday, 28 April 2017 (i.e. 20 clear days prior to the date of convening of the H Share Class Meeting and the EGM). Failure to return the reply slip will not affect Qifeng Shareholders' right to attend the H Share Class Meeting and the EGM.

(3) Proxy form should be deposited with the Registrar Boardroom Share Registrars (HK) Limited at 31/F, 148 Electric Road, North Point, Hong Kong (in case of Independent H Shareholders) or the office of Qifeng at No. 516-1 Jiuzhan Street, Jilin City, Jilin Provinces, the PRC (in case of Qifeng Domestic Shareholders and Qifeng Non-H Foreign Shareholders) as soon as possible and in any event by the time stated above, in order to be valid. Completion and return of a proxy form for the H Share Class Meeting or the EGM (as the case may be) will not preclude an independent Qifeng Shareholders from attending the H Share Class Meeting or the EGM (as the case may be) and voting in person if he/she/it so wishes and if such independent Qifeng Shareholder has notified Qifeng not less than 24 hours in writing before the time appointed for any adjournment of the H Share Class Meeting or the EGM (as the case may be). In such event, the returned proxy form will be deemed to have been revoked.

(4) It is expected that the Unconditional Date will be Friday, 19 May 2017, subject to the H Share Conditions having been satisfied or waived (as the case may be).

(5) Pursuant to Rule 20.1 of the Takeovers Code, settlement in cash in respect of acceptances of the H Share Offer will be made within 7 Business Days of the later of the Unconditional Date or the date on which the H Shares are tendered for acceptance of the H Share Offer. Relevant documents of title must be received by the Registrar to render each acceptance of the H Share Offer complete and valid.

(6) It is currently expected that the withdrawal of listing of the H Shares from the Hong Kong Stock Exchange would happen at 9:00 a.m. on 16 June 2017, subject to the satisfaction of any conditions for delisting such securities from the Hong Kong Stock Exchange, and receipt of any regulatory approvals required for such delisting.

(7) In accordance with Rule 15.3 of the Takeovers Code, where the H Share Offer becomes or is declared unconditional, it should remain open for acceptance for not less than 14 days thereafter. In such case, at least 14 days' notice in writing must be given before the H Share Offer is closed to the Independent H Shareholders who have not accepted the H Share Offer if the announcement to extend the H Share Offer does not state the next closing date. The Offerors will extend the 14-day period under Rule 15.3 of the Takeovers Code to 30 June 2017.

(8) The Offerors reserve the right to extend the H Share Offer until such time and/or date as it may determine and in accordance with the Takeovers Code. The Offerors will issue an announcement, stating whether the H Share Offer has been revised or extended, has expired or has become or been declared unconditional.

Unless otherwise indicated, all time references contained in this Composite Document are to Hong Kong time.

JILIN TOP TRADING CO. LTD.*
(Incorporated in the People's Republic of China with limited liability)

Sole director:
Mr. Zhou Dongfu

Registered office:
No. 250 Kunlun Street,
Jilin Economic and Technological
Development Zone, Jilin City, PRC

JILIN FIBER CO., LIMITED
(Incorporated in Hong Kong with limited liability)

Sole director:
Mr. Pei Haitao

Registered office:
Room 1501, Grand Millennium Plaza
(Lower Block), 181 Queen's Road Central,
Hong Kong

3 April 2017

To the Independent Qifeng Shareholders,

Dear Sir or Madam,

VOLUNTARY CONDITIONAL OFFER BY SOMERLEY CAPITAL LIMITED ON BEHALF OF JILIN FIBER CO., LIMITED FOR ALL THE ISSUED H SHARES IN JILIN QIFENG CHEMICAL FIBER CO., LTD.* (OTHER THAN THOSE ALREADY HELD BY JILIN FIBER CO., LIMITED AND PARTIES ACTING IN CONCERT WITH IT)

VOLUNTARY CONDITIONAL OFFER BY JILIN TOP TRADING CO. LTD.* FOR ALL THE ISSUED DOMESTIC SHARES IN JILIN QIFENG CHEMICAL FIBER CO., LTD.* (OTHER THAN THOSE ALREADY HELD BY JILIN TOP TRADING CO. LTD.* AND PARTIES ACTING IN CONCERT WITH IT)

VOLUNTARY CONDITIONAL OFFER BY JILIN FIBER CO., LIMITED FOR ALL THE ISSUED NON-H FOREIGN SHARES IN JILIN QIFENG CHEMICAL FIBER CO., LTD.* (OTHER THAN THOSE ALREADY HELD BY JILIN FIBER CO., LIMITED AND PARTIES ACTING IN CONCERT WITH IT)

AND

PROPOSED WITHDRAWAL OF LISTING OF THE H SHARES OF JILIN QIFENG CHEMICAL FIBER CO., LTD.

** For identification purpose only*

1. INTRODUCTION

On 1 December 2016, the Offerors and Qifeng jointly announced that:

(a) Somerley Capital, on behalf of Jilin Fiber, will make a voluntary conditional offer to acquire all of the issued H Shares (other than those already held by the Offerors, Jilin Chemical Fiber Group and parties acting in concert with any of them); and

(b) Subject to the H Share Offer becoming unconditional in all respects:

   (i) Top Trading will make a voluntary conditional offer to acquire all of the issued Domestic Shares (other than those already held by the Offerors, Jilin Chemical Fiber Group and parties acting in concert with any of them); and

   (ii) Jilin Fiber will make a voluntary conditional offer to acquire all of the issued Non-H Foreign Shares.

This letter forms part of the Composite Document and sets out certain background information on the Offerors, explains why we are making the Offers and our intention in relation to the Qifeng Group. Further details of the terms of the Offers are set out under the sections headed "The H Share Offer", "Conditions of the H Share Offer", "The Domestic Share Offer", "Conditions of the Domestic Share Offer", "The Non-H Foreign Share Offer" and "Conditions of the Non-H Foreign Share Offer" in the "Letter from Somerley Capital" which immediately follows this letter in this Composite Document, and details of the procedures for acceptance of the H Share Offer are set out in Appendix I to this Composite Document and in the accompanying Form of Acceptance.

Terms defined in the Composite Document have the same meaning when used in this letter.

2. INFORMATION ON THE OFFERORS

The Offerors are indirectly wholly-owned subsidiaries of Jilin Chemical Fiber Group, which is a PRC state-owned enterprise. As at the Latest Practicable Date, the directors of Jilin Chemical Fiber Group are Song Dewu, Liu Hongwei, Liu Yanguang, Liu Hong, Hao Peijun, Sun Yujing and Wang Fengli. The principal activities of the Jilin Chemical Fiber Group are production, commerce trade and export of chemical fibers. The ultimate controlling shareholder of the Offerors is wholly-owned by the PRC Government as to 98% by the People's Government of Jilin Municipality and 2% by the State-owned Assets Supervision and Administration Commission of the State Council in the PRC.

As at the Latest Practicable Date, the registered share capital of Qifeng comprises 259,875,000 H Shares, 437,016,596 Domestic Shares and 169,358,404 Non-H Foreign Shares.

The table below sets out the shareholding structure of Qifeng as at the Latest Practicable Date:

	Class of Qifeng Shares	Number of Qifeng Shares held	Approximate% of total Qifeng Shares in issue
Offerors and parties acting in concert with them	Domestic Shares	433,229,558	50.01
Other holders of Domestic Shares	Domestic Shares	3,787,038	0.44
Total Domestic Shares		**437,016,596**	**50.45**
Ronsace Company Limited	Non-H Foreign Shares	94,841,726	10.95
Sanlink Investments Limited	Non-H Foreign Shares	44,029,105	5.08
Halesfield Investment Limited	Non-H Foreign Shares	30,487,573	3.52
Total Non-H Foreign Shares		**169,358,404**	**19.55**
全國社會保障基金理事會 (The National Social Security Fund of the PRC)	H Shares	23,625,000	2.73
Other Qifeng H Shareholders	H Shares	236,250,000	27.27
Total H Shares		**259,875,000**	**30.00**
Total		**866,250,000**	**100.0**

As at the Latest Practicable Date:

(a) Jilin Chemical Fiber Group, being the parent company holding the entire equity interest of Top Trading which in turn holds the entire equity interest in Jilin Fiber, holds 433,229,558 Domestic Shares (representing approximately 99.13% of the total issued Domestic Shares and 50.01% of the issued share capital of Qifeng); and

(b) none of the Offerors, Jilin Chemical Fiber Group and the parties acting in concert with any of them legally or beneficially owns any H Share.

As at the Latest Practicable Date, Qifeng does not have in issue any outstanding convertible securities, options, warrants or derivatives in issue which confer any right to subscribe for, convert or exchange into the Domestic Shares, Non-H Foreign Shares or H Shares and/or rights over the Domestic Shares, Non-H Foreign Shares or H Shares in issue.

3. H SHARE OFFER

For further details of the H Share Offer, please refer to the "Letter from Somerley Capital" which immediately follows this letter in this Composite Document.

4. DOMESTIC SHARE OFFER

For further details of the Domestic Share Offer, please refer to the "Letter from Somerley Capital" which immediately follows this letter in this Composite Document.

5. NON-H FOREIGN SHARE OFFER

Pursuant to the rules and regulations in the PRC, any transfer of assets by any state-owned enterprises (including the acceptance of the Non-H Foreign Share Offer) needs to be conducted through auction process on a designated property rights exchange institution in the PRC (產權交易機構) unless otherwise approved by the competent authority of state-owned assets supervision and administration or the competent authority of finance of the PRC (as the case may be).

In light of the aforesaid PRC requirement, to facilitate the acceptance of the Non-H Foreign Share Offer by certain Qifeng Non-H Foreign Shareholders, subject to the relevant conditions, the Offerors will, before the Closing Date, participate in the auction process launched by the above Qifeng Non-H Foreign Shareholders, so as to facilitate the acceptance of the Non-H Foreign Share Offer and the transfer of the Non-H Foreign Shares, at the offer price of HK$1.097 per each Non-H Foreign Share.

Given that it is uncertain as to (i) whether any other candidates will participate in the auction launched by the Qifeng Non-H Foreign Shareholders, and (ii) if there will be such candidate, whether the price offered by such candidate will be higher than the offer price of HK$1.097 per each Non-H Foreign Share as offered by the Offerors, it is uncertain as to whether such Qifeng Non-H Foreign Shareholders will accept the Non-H Foreign Share Offer even if the Offerors participate in the auction.

For further details of the Non-H Share Offer, please refer to the "Letter from Somerley Capital" which immediately follows this letter in this Composite Document.

6. REASONS FOR AND BENEFITS OF THE OFFERS

Recent financial performance and financial position of the Qifeng Group

Over the recent years, the Qifeng Group's revenue had generally shown a trend of deterioration. The Offerors are of the view that the recent improvement of the financial performance of the Qifeng Group is neither due to the improvement of the overall market environment of the acrylic fiber products, nor the sales and operation improvement in the recent two years.

The Offerors noted that, as the Qifeng Group's current liabilities exceeded its current assets as shown in the consolidated financial statement of the Qifeng Group for the year ended 31 December 2016, the auditors of Qifeng expressed an audit opinion containing an emphasis of matter in respect of the existence of a material uncertainty which may cast significant doubt about the Qifeng Group's ability to continue as a going concern.

The Offerors consider that the Proposal, if successfully completed, will turn Qifeng into a company which is substantially-owned (or wholly-owned) by the Offerors and their ultimate sole shareholder Jilin Chemical Fiber Group. Given the state-owned background of the Offerors, the Offerors expect that the Proposal will lead to more support, commercially and financially, from the Offerors, so as to enable the Qifeng Group to have greater flexibility to make timely strategic investment decisions and/or diversify its operations with new business opportunities. The Offerors are of the view that as such strategic investment decisions and/or business opportunities would involve uncertainties on the outlook and future financial performance of the Qifeng Group, the Proposal gives the Qifeng H Shareholders an opportunity to realise their investment (as elaborated below) which would minimize the potential adverse effects of Qifeng's future development on Qifeng Shareholders' return on investment.

Share price performance of the H Shares

The Offerors consider that the depressed H Share price has had an adverse impact on the Qifeng Group's reputation with customers, and therefore on its business, and also on its employees' morale. The Offerors are of the view that the implementation of the Proposal could possibly eliminate this adverse impact.

In addition, maintaining the listing status of the H Shares requires Qifeng to incur administrative, compliance and other listing-related costs and expenses; if these costs and expenses are eliminated, the funds saved could be used for the Qifeng Group's business operations.

Benefits to Qifeng H Shareholders

The Offerors believe that the H Share Offer provides a compelling opportunity for Qifeng H Shareholders to dispose of their H Shares, for the following reasons:

- Premium valuation

The H Share Offer price represents 56.7% premium of the average closing price of the H Shares from 1 January 2016 to the last trading date prior to the publication of the Rule 3.7 Announcement on 18 October 2016 of approximately HK$0.7 per H Share. The H Share Offer is intended to provide the Qifeng H Shareholders with an opportunity to realise their investment in Qifeng for cash at an attractive premium without having to suffer any illiquidity discount.

- Certain and immediate value

Given Qifeng has not distributed any dividend to Qifeng H Shareholders since 2007 and considering the low trading volume in the H Shares, the H Share Offer represents an opportunity for Qifeng H Shareholders to exit their investment for cash proceeds.

- Avoid holding unlisted shares

Assuming the H Share Offer will become unconditional, Qifeng will make an application for the listing of the H Shares to be withdrawn from the Hong Kong Stock Exchange in accordance with Rule 6.12 of the Listing Rules. If the H Shares are delisted from the Hong Kong Stock Exchange, the H Shares will become securities that are not listed or quoted on any stock exchange and the liquidity of the H Shares may be severely reduced.

7. FUTURE PLANS FOR THE QIFENG GROUP

The Offerors intend to continue with the existing business of the Qifeng Group and do not intend to make any material changes to the current business operations of the Qifeng Group following completion of the Offers. It is also the intention of the Offerors that there will not be any material changes in the management or employees of the Qifeng Group as a result of the Offers.

8. NO RIGHT OF COMPULSORY ACQUISITION

The Offerors have no rights under the laws of the PRC and the Articles of Association of Qifeng to compulsorily acquire the H Shares that are not tendered for acceptance pursuant to the H Share Offer. Accordingly, the Independent H Shareholders are reminded that if they do not accept the H Share Offer and the H Share Offer subsequently becomes unconditional in all respects, and the H Shares are delisted from the Hong Kong Stock Exchange, this will result in the Independent H Shareholders holding securities that are not listed on the Hong Kong Stock Exchange. In addition, Qifeng may or may not continue to be subject to the Takeovers Code after the completion of the Offers depending on whether it remains as a public company thereafter.

The Offerors have made the application to the Executive for a waiver from the requirements under Rule 2.2(c) of the Takeovers Code, which requires a resolution of the independent shareholders to approve a delisiting to be made subject to the offeror(s) being entitled to exercise, and exercising, its/their rights of compulsory acquisition.

Once all of the conditions of the H Share Offer have been either satisfied or, waived by the Offerors, the H Share Offer will be declared unconditional and the H Share Offer will be extended for a subsequent period till 30 June 2017.

For further information, please refer to the "Letter from Somerley Capital" which forms part of this Composite Document.

9. WITHDRAWAL OF LISTING OF THE H SHARES

Upon the H Share Offer becoming unconditional, Qifeng will make an application for the Delisting in accordance with Rule 6.12 of the Listing Rules. The Qifeng Shareholders will be notified by way of an announcement of the dates of the last day for dealing in the H Shares and on which the Delisting will become effective.

10. OTHER INFORMATION

Your attention is drawn to the "Letter from Somerley Capital" which immediately follows this letter in this Composite Document, as well as the other information set out in the rest of this Composite Document.

By order of the board of
Jilin Top Trading Co. Ltd.*
Zhou Dongfu
Sole Director

By order of the board of
Jilin Fiber Co., Limited
Pei Haitao
Sole Director

** For identification purpose only*

SOMERLEY CAPITAL LIMITED

20th Floor
China Building
29 Queen's Road Central
Hong Kong

3 April 2017

To the Independent Qifeng Shareholders

Dear Sir or Madam,

**VOLUNTARY CONDITIONAL OFFER
BY SOMERLEY CAPITAL LIMITED
ON BEHALF OF
JILIN FIBER CO., LIMITED
FOR ALL THE ISSUED H SHARES IN
JILIN QIFENG CHEMICAL FIBER CO., LTD.* (OTHER THAN THOSE ALREADY
HELD BY JILIN FIBER CO., LIMITED AND PARTIES ACTING IN CONCERT WITH IT)**

**VOLUNTARY CONDITIONAL OFFER
BY JILIN TOP TRADING CO. LTD.*
FOR ALL THE ISSUED DOMESTIC SHARES IN
JILIN QIFENG CHEMICAL FIBER CO., LTD.* (OTHER THAN THOSE ALREADY
HELD BY JILIN TOP TRADING CO. LTD.* AND PARTIES ACTING IN CONCERT WITH IT)**

**VOLUNTARY CONDITIONAL OFFER
BY JILIN FIBER CO., LIMITED
FOR ALL THE ISSUED NON-H FOREIGN SHARES IN
JILIN QIFENG CHEMICAL FIBER CO., LTD.* (OTHER THAN THOSE ALREADY
HELD BY JILIN FIBER CO., LIMITED AND PARTIES ACTING IN CONCERT WITH IT)
AND
PROPOSED WITHDRAWAL OF LISTING OF THE
H SHARES OF JILIN QIFENG CHEMICAL
FIBER CO., LTD.***

* *For identification purpose only*

1. INTRODUCTION

On 1 December 2016, Qifeng announced that voluntary conditional offers will be made by Top Trading and its subsidiary Jilin Fiber, for the H Shares, the Domestic Shares and the Non-H Foreign Shares other than those already held by the Offerors and parties acting in concert with any of them in accordance with the Takeovers Code which, if implemented, will result in the Delisting.

This letter forms part of this Composite Document and sets out, among other things, principal terms of the Offers and conditions of the Offers. Further details of the terms of the H Share Offer and details of the procedures for acceptance of the H Share Offer are also set out in Appendix I to this Composite Document and the accompanying Form of Acceptance.

Shareholders are strongly advised to consider carefully the information contained in the "Letter from the Offerors" and "Letter from the Board" as well as the "Letter from the Takeovers Code Independent Board Committee", the "Letter from the Listing Rules Independent Board Committee" and the "Letter from the Independent Financial Adviser" in this Composite Document.

Unless the context otherwise requires, terms defined in this Composite Document shall have the same meanings when used in this letter.

2. THE H SHARE OFFER

2.1 Consideration for the H Share Offer

The H Share Offer is being made by Somerley Capital on behalf of Jilin Fiber on the following basis:

For each H Share . . . . .HK$1.097 in cash*

** equivalent of the offer price of the Domestic Share Offer based on the Exchange Rate.*

The Offerors will not increase the consideration for the H Share Offer as set out above.

2.2 Comparisons of value

The offer price under the H Share Offer represents:

(a) a premium of approximately 6.50% over the closing price of HK$1.030 per H Share as quoted on the Hong Kong Stock Exchange on the Last Trading Date;

(b) a premium of approximately 5.89% over HK$1.036 which is the average closing price per H Share as quoted on the Hong Kong Stock Exchange for the five trading days up to and including the Last Trading Date;

(c) a premium of approximately 11.71% over HK$0.982 which is the average closing price per H Share as quoted on the Hong Kong Stock Exchange for the 30 trading days up to and including the Last Trading Date;

(d) a premium of approximately 34.60% over HK$0.815 which is the average closing price per H Share as quoted on the Hong Kong Stock Exchange for the 90 trading days up to and including the Last Trading Date;

(e) a premium of approximately 45.68% over HK$0.753 which is the average closing price per H Share as quoted on the Hong Kong Stock Exchange for the 180 trading days up to and including the Last Trading Date;

(f) a premium of approximately 27.56% over the closing price of HK$0.860 per H Share as quoted on the Hong Kong Stock Exchange on the last trading date prior to the publication of the Rule 3.7 Announcement;

(g) a premium of approximately 33.13% over HK$0.824 which is the average closing price per H Share as quoted on the Hong Kong Stock Exchange for the five trading days up to and including the last trading date prior to the publication of the Rule 3.7 Announcement;

(h) a premium of approximately 49.66% over HK$0.733 which is the average closing price per H Share as quoted on the Hong Kong Stock Exchange for the 30 trading days up to and including the last trading date prior to the publication of the Rule 3.7 Announcement;

(i) a premium of approximately 54.94% over HK$0.708 which is the average closing price per H Share as quoted on the Hong Kong Stock Exchange for the 90 trading days up to and including the last trading date prior to the publication of the Rule 3.7 Announcement;

(j) a premium of approximately 57.16% over HK$0.698 which is the average closing price per H Share as quoted on the Hong Kong Stock Exchange for the 180 trading days up to and including the last trading date prior to the publication of the Rule 3.7 Announcement;

(k) a premium of approximately 7.55% over HK$1.02 which is the closing price per H Share as quoted on the Hong Kong Stock Exchange on the Latest Practicable Date;

(l) a discount of approximately 4% to the audited consolidated net assets of the Qifeng Group per Qifeng Share, being the audited net assets of the Qifeng Group as at 31 December 2016 of approximately RMB880.491 million divided by 866,250,000 Qifeng Shares as at the Latest Practicable Date, of approximately RMB1.016 (equivalent to approximately HK$1.143 based on the Exchange Rate); and

(m) a discount of approximately 9% to the net asset value per Qifeng Share of approximately RMB1.07 (equivalent to HK$1.20 based on the Exchange Rate) as at 31 December 2016 after having adjusted for the valuation of the property interests held by the Qifeng Group as set out in the "Letter from the Board" in this Composite Document and the property valuation report prepared by Roma Appraisals Limited which is set out in Appendix III to this Composite Document.

2.3 Highest and lowest prices

During the Relevant Period, the highest closing price of the H Shares as quoted on the Hong Kong Stock Exchange was HK$1.09 on 10 November 2016, and the lowest closing price of the H Shares as quoted on the Hong Kong Stock Exchange was HK$0.58 on 24 June 2016.

2.4 Consideration

Based on the offer price of HK$1.097 per H Share and 259,875,000 H Shares in issue (representing the H Shares not already held by the Offerors, Jilin Chemical Fiber Group and parties acting in concert with any of them) as at the Latest Practicable Date, the maximum value of the H Share Offer (assuming the H Share Offer is accepted in full and there is no change in the share capital of Qifeng) is approximately HK$285,082,875.

The consideration payable under the H Share Offer was determined on the basis of the recent published financial information of Qifeng and the Offerors' review of Qifeng's business. The consideration will be paid in cash.

2.5 Settlement of consideration

Settlement of consideration in respect of acceptances of the H Share Offer will be made as soon as possible but in any event within 7 Business Days of the date of receipt of a complete and valid acceptance in respect of the H Share Offer or of the Unconditional Date, whichever is later.

2.6 Confirmation of financial resources in respect of the H Share Offer

The Offerors will finance such cash consideration for the H Share Offer by funds made available from its internal resources. Somerley Capital has been appointed as the financial adviser to the Offerors in respect of the H Share Offer. Somerley Capital is satisfied that sufficient financial resources are available to the Offerors to satisfy full acceptance of the H Share Offer. The Offerors undertake to Somerley Capital (the "**Offerors' Undertaking**") that the financial resources are ear-marked for the purpose of payment of the consideration for the acceptances of the H Share Offer. The Offerors' Undertaking cannot be amended or varied without the written consent of Somerley Capital.

Pursuant to the Takeovers Code, it is the sole responsibility of financial advisers to ensure sufficient financial resources are available to satisfy an offeror's obligations in respect of an offer. A financial adviser, in discharging its duties under the Takeovers Code, should observe the highest standard of care to satisfy itself of the adequacy of resources, including performance of due diligence.

3. CONDITIONS OF THE H SHARE OFFER

The H Share Offer is subject to the fulfilment or waiver, as applicable, of the following conditions:

(a) the passing of a resolution approving the Delisting at the H Share Class Meeting to be convened for this purpose by the Independent H Shareholders, provided that:

   (i) approval is given by at least 75% of the votes attaching to the H Shares held by the Independent H Shareholders that are cast either in person or by proxy; and

(ii) the number of votes cast (by way of poll) against the resolution is not more than 10% of the votes attaching to all the H Shares held by the Independent H Shareholders;

(b) the passing of a resolution approving the Delisting at the EGM to be convened for this purpose by the Independent Qifeng Shareholders, provided that:

(i) approval is given by at least 75% of the votes attaching to the Qifeng Shares held by the Independent Qifeng Shareholders that are cast either in person or by proxy; and

(ii) the number of votes cast (by way of poll) against the resolution is not more than 10% of the votes attaching to all Qifeng Shares held by the Independent Qifeng Shareholders;

(c) all necessary authorisations, consents and approvals (including approval in-principle) of any governmental or regulatory body in relation to the H Share Offer (including its implementation) having been obtained and remaining in full force and effect pursuant to the provisions of any laws or regulations in Hong Kong, the PRC and other relevant jurisdictions;

(d) all necessary third party consents in relation to the H Share Offer required pursuant to any agreement to which any member of the Qifeng Group is a party (where any failure to obtain a consent would have a material adverse effect on the business of the Qifeng Group taken as a whole) having been obtained or waived by the relevant party(ies);

(e) no relevant government, governmental, quasi-governmental, statutory or regulatory body, court or agency having granted any order or made any decision that would make the H Share Offer void, unenforceable or illegal, or restrict or prohibit the implementation of, or impose any additional material conditions or obligations with respect to, the H Share Offer (other than such orders or decisions as would not have a material adverse effect on the legal ability of the Offerors to proceed with or consummate the H Share Offer);

(f) all Authorisations remaining in full force and effect without variation, and all necessary statutory or regulatory obligations in all relevant jurisdictions having been complied with and no requirement having been imposed by any of the Relevant Authorities which is not expressly provided for, or is in addition to the requirements expressly provided for, in the relevant laws, rules, regulations or codes in connection with the H Share Offer or any matters, documents (including circulars) or things relating thereto, in each case up to and at the time when the H Share Offer becomes unconditional;

(g) no event having occurred which would make the H Share Offer or the acquisition of any of the H Shares void, unenforceable or illegal or which would prohibit the implementation of the H Share Offer or impose any additional material conditions or obligations with respect to the H Share Offer or any part thereof; and

(h) since the date of the Joint Announcement up to the Unconditional Date (both days inclusive), there having been no material adverse change in the business, financial or trading position of the Qifeng Group, taken as a whole.

Jilin Fiber reserves the right to waive all or any of the conditions set out above (except for the conditions referred to in paragraphs (a), (b), (c), (e) and (g) above) in whole or in part. Qifeng does not have the right to waive any of the conditions. If conditions of the H Share Offer are satisfied (or as the case may be waived), the Shareholders will be notified by an announcement in accordance with the Takeovers Code and the Listing Rules as soon as practicable thereafter.

As advised by the PRC legal advisors to the Offerors, the approval from the State-owned Assets Supervision and Administration Commission of Jilin Municipal Government (吉林市人民政府國有資產監督管理委員會) in respect of making the H Share Offer has been obtained and the filings with the PRC authorities with respect to the payment of consideration of the H Share Offer using onshore funds have been duly made. Save as aforesaid, the PRC legal advisors to the Offerors advised that no PRC regulatory approval is required for the making of the H Share Offer by the Offerors. Save as disclosed above, as at the Latest Practicable Date, the Offerors and Qifeng have not identified any governmental or regulatory approval required for the completion of the H Share Offer. Based on the above, the aforementioned condition (c) has been satisfied.

Also, the Board confirms that as at the Latest Practicable Date, no third party consent in relation to the H Share Offer is required pursuant to any agreement to which any member of the Qifeng Group is a party. As such, the aforementioned condition (d) has been satisfied.

The H Share Offer will be made in compliance with the Takeovers Code, which is administered by the Executive. In accordance with Note 2 to Rule 30.1 of the Takeovers Code, Jilin Fiber will not invoke any condition so as to cause the H Share Offer to lapse, unless the circumstances which give rise to the right to invoke the condition are of material significance to the Offerors in the context of the H Share Offer.

As of the Latest Practicable Date, none of the Offerors or parties acting in concert with any of them has received any irrevocable voting commitment in respect of the H Share Class Meeting, and/or the EGM and/or any irrevocable commitment to tender their H Shares in the H Share Offer from any Independent H Shareholder.

4. THE DOMESTIC SHARE OFFER

4.1 Consideration for the Domestic Share Offer

The Domestic Share Offer being made by Top Trading on the following basis:

For each Domestic Share . . . . RMB0.975 in cash

The Offerors will not increase the consideration for the Domestic Share Offer as set out above.

4.2 Consideration

Based on the offer price of RMB0.975 per Domestic Share and 3,787,038 Domestic Shares in issue (representing the Domestic Shares not already held by the Offerors, Jilin Chemical Fiber Group and parties acting in concert with any of them) as at the Latest Practicable Date, the maximum value of the Domestic Share Offer (assuming the Domestic Share Offer is accepted in full and there is no change in the share capital of Qifeng) is approximately RMB3,692,362.05.

The consideration payable under the Domestic Share Offer was determined on the basis of the recent published financial information of Qifeng and the Offerors' review of Qifeng's business. The consideration will be paid in cash.

4.3 Confirmation of financial resources in respect of the Domestic Share Offer

Top Trading will finance such cash consideration for the Domestic Share Offer by funds made available from its internal resources. Somerley Capital is satisfied that sufficient financial resources are available to the Offerors to satisfy full acceptance of the Domestic Share Offer. The Offerors undertake to Somerley Capital (the "**Offerors' Undertaking**") that the financial resources are ear-marked for the purpose of payment of the consideration for the acceptances of the Domestic Offer. The Offerors' Undertaking cannot be amended or varied without the written consent of Somerley Capital.

Pursuant to the Takeovers Code, it is the sole responsibility of financial advisers to ensure sufficient financial resources are available to satisfy an offeror's obligations in respect of an offer. A financial adviser, in discharging its duties under the Takeovers Code, should observe the highest standard of care to satisfy itself of the adequacy of resources, including performance of due diligence.

5. CONDITIONS OF THE DOMESTIC SHARE OFFER

The Domestic Share Offer is subject to the fulfilment or waiver, as applicable, of the following conditions:

(a) the H Share Offer becoming unconditional in all respects; and

(b) all necessary authorisations, consents and approvals (including approval in-principle) of any governmental or regulatory body in relation to the Domestic Share Offer having been obtained and remaining in full force and effect pursuant to the provisions of any laws or regulations in Hong Kong, the PRC and other relevant jurisdictions.

The conditions set out in paragraphs (a) to (b) are incapable of being waived.

Given that the Domestic Share Offer is not interconditional with the H Share Offer and the Non-H Foreign Share Offer, application has been made to the Executive for a waiver from the requirement under Note 3 to Rule 14 of the Takeovers Code.

6. THE NON-H FOREIGN SHARE OFFER

6.1 Consideration for the Non-H Foreign Share Offer

The Non-H Foreign Share Offer being made by Jilin Fiber on the following basis:

For each Non-H Foreign Share . . . . .HK$1.097 in cash*

** equivalent of the offer price of the Domestic Share Offer based on the Exchange Rate.*

The Offerors will not increase the consideration for the Non-H Foreign Share Offer as set out above.

6.2 Consideration

Based on the offer price of HK$1.097 for each Non-H Foreign Share and 169,358,404 Non-H Foreign Shares in issue (representing the Non-H Foreign Shares not already held by the Offerors, Jilin Chemical Fiber Group and parties acting in concert with any of them) as at the Latest Practicable Date, the maximum value of the Non-H Foreign Share Offer (assuming the Non-H Foreign Share Offer is accepted in full and there is no change in the share capital of Qifeng) is approximately HK$185,786,169.19.

The consideration payable under the Non-H Foreign Share Offer was determined on the basis of the recent published financial information of Qifeng and the Offerors' review of Qifeng's business. The consideration will be paid in cash.

6.3 Confirmation of financial resources in respect of the Non-H Foreign Share Offer

Jilin Fiber will finance such cash consideration for the Non-H Foreign Share Offer by funds made available from its internal resources. Somerley Capital is satisfied that sufficient financial resources are available to Jilin Fiber to satisfy full acceptance of the Non-H Foreign Share Offer. The Offerors undertake to Somerley Capital (the "**Offerors' Undertaking**") that the financial resources are ear-marked for the purpose of payment of the consideration for the acceptances of the Non-H Foreign Share Offer. The Offerors' Undertaking cannot be amended or varied without the written consent of Somerley Capital.

Pursuant to the Takeovers Code, it is the sole responsibility of financial advisers to ensure sufficient financial resources are available to satisfy an offeror's obligations in respect of an offer. A financial adviser, in discharging its duties under the Takeovers Code, should observe the highest standard of care to satisfy itself of the adequacy of resources, including performance of due diligence.

7. CONDITIONS OF THE NON-H FOREIGN SHARE OFFER

The Non-H Foreign Share Offer is subject to the fulfilment or waiver, as applicable, of the following conditions:

(a) the H Share Offer becoming unconditional in all respects; and

(b) all necessary authorisations, consents and approvals (including approval in-principle) of any governmental or regulatory body in relation to the Non-H Foreign Share Offer having been obtained and remaining in full force and effect pursuant to the provisions of any laws or regulations in Hong Kong, the PRC and other relevant jurisdictions.

The conditions set out in paragraphs (a) to (b) are incapable of being waived.

Given that the Non-H Foreign Share Offer is not interconditional with the H Share Offer and the Domestic Share Offer, application has been made to the Executive for a waiver from the requirement under Note 3 to Rule 14 of the Takeovers Code.

8. NO RIGHT OF COMPULSORY ACQUISITION

The Offerors have no rights under the laws of the PRC and the Articles of Association of Qifeng to compulsorily acquire the H Shares that are not tendered for acceptance pursuant to the H Share Offer. Accordingly, the Independent H Shareholders are reminded that if they do not accept the H Share Offer and the H Share Offer subsequently becomes unconditional in all respects, and the H Shares are delisted from the Hong Kong Stock Exchange, this will result in the Independent H Shareholders holding securities that are not listed on the Hong Kong Stock Exchange. In addition, Qifeng may or may not continue to be subject to the Takeovers Code after the completion of the Offers depending on whether it remains as a public company thereafter.

Application has been made to the Executive for a waiver from the requirements under Rule 2.2(c) of the Takeovers Code, which requires a resolution of the independent shareholders to approve a delisting to be made subject to the offeror(s) being entitled to exercise, and exercising, its/their rights of compulsory acquisition.

9. FURTHER TERMS OF THE H SHARE OFFER

Qifeng Shares

Under the terms of the H Share Offer, the H Shares will be acquired with all rights attached thereto as at the date of the Joint Announcement or which subsequently become attached thereto, including the right to receive in full all dividends (whether final or interim) and other distributions, if any, declared, made or paid, on or after the date of the Joint Announcement, and free from all rights of pre-emption, options, liens, claims, equities, charges, encumbrances and third party rights.

Hong Kong Stamp Duty

Seller 's ad valorem stamp duty for the H Shares which are registered with the Hong Kong branch register arising in connection with acceptance of the H Share Offer will be payable by each Qifeng H Shareholder at the rate of HK$1.00 for every HK$1,000 or part thereof of the consideration payable by Jilin Fiber for such person's H Shares and will be deducted from the cash amount due to such Qifeng H Shareholder under the H Share Offer. Jilin Fiber will pay the buyer's ad valorem stamp duty on its own behalf and the sellers' ad valorem stamp duty so deducted above on behalf of the Accepting Qifeng H Shareholders in respect of the H Shares accepted under the H Share Offer.

Closing Date of the H Share Offer

The H Share Offer will initially be opened for acceptances from the date that this Composite Document is posted until the conclusion of the H Share Class Meeting and the EGM, i.e. Friday, 19 May 2017. Once all of the H Share Conditions have been either fulfilled, or, if permitted, waived by the Offerors, the H Share Offer will be declared unconditional and the H Share Offer will be extended for a subsequent period until 30 June 2017 before the H Share Offer is closed by the Offerors in order to allow sufficient time for those Qifeng H Shareholders who have not accepted the H Share Offer to accept the H Share Offer.

10. GENERAL MATTERS RELATING TO THE H SHARE OFFER

Availability of the H Share Offer

The Offerors intend to make available the H Share Offer to all Qifeng H Shareholders, including those who are residents outside of Hong Kong, to the extent possible.

The making of the H Share Offer to the overseas Qifeng H Shareholders and/or their ability to participate in the H Share Offer may be subject to the laws of the relevant jurisdictions in which they are resident or domiciled. Overseas Qifeng H Shareholders should observe any applicable legal or regulatory requirements to which they may be subject including obtaining any governmental, exchange control or other consents, or filing and registration and the payment of any transfer or other taxes as a result of acceptance of the H Share Offer. It is the responsibility of the overseas Independent H Shareholders wishing to accept the H Share Offer to satisfy themselves as to the full observance of the laws of the relevant jurisdictions in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required, or the compliance with other necessary formalities and the payment of any issue, transfer or other taxes due as a result of acceptance of the H Share Offer in such jurisdiction.

Any acceptance of the H Share Offer by any Qifeng H Shareholder will be deemed to constitute a representation and warranty from such Qifeng H Shareholder to Jilin Fiber and Qifeng that all applicable legal and regulatory requirements to which they may be subject to have been complied with and that the H Share Offer can be extended to and/or accepted by such Qifeng H Shareholder lawfully under such requirements. Qifeng H Shareholders should consult their professional advisers if in doubt.

11. WITHDRAWAL OF LISTING OF THE H SHARES

Upon the H Share Offer becoming unconditional, Qifeng will make an application for the Delisting in accordance with Rule 6.12 of the Listing Rules. Qifeng Shareholders will be notified by way of an announcement of the dates of the last day for dealing in the H Shares and on which the Delisting will become effective.

12. ADDITIONAL INFORMATION

In considering what action to take in connection with the H Share Offer, Independent H Shareholders should consider their own tax position, and if they are in doubt, they should consult their own professional advisers. We emphasise that none of the Offerors, Qifeng, Somerley Capital or any of their respective directors or any person involved in the H Share Offer, accepts responsibility for any tax or other effects on, or liabilities of, any person or persons as a result of their acceptance of the H Share Offer.

In making their decision, the Independent H Shareholders must rely on their own examination of the terms of the H Share Offer, including the merits and risks involved. The contents of this letter shall not be construed as any legal or business advice on the part of the Offerors, Qifeng, Somerley Capital or any of their respective professional advisers. Independent H Shareholders should consult their own professional advisers for professional advice.

Your attention is drawn to the information set out in:

(a) the "Letter from the Offerors";

(b) the "Letter from the Board";

(c) the "Letter from the Takeovers Code Independent Board Committee";

(d) the "Letter from the Listing Rules Independent Board Committee";

(e) the "Letter from the Independent Financial Adviser"; and

(f) the accompanying Form of Acceptance and the additional information set out in the appendices to this Composite Document which form part of this Composite Document.

Yours faithfully,
For and on behalf of
Somerley Capital Limited
David Ching
Director

吉林奇峰化纖股份有限公司
JIILIN QIFENG CHEMICAL FIBER CO., LTD.*

(a joint stock company incorporated in the People's Republic of China with limited liability)
(Stock Code: 549)

Executive Directors:
Mr. Song Dewu
Mr.Yang Xuefeng
Mr. Pan Xianfeng

Non-executive Directors:
Mr. Ma Jun
Mr. Jiang Junzhou
Ms. Pang Suet Mui
Mr. Wu Song

Independent non-executive Directors:
Mr. Li Yanxi
Mr. Jin Jie
Mr. Lv Xiaobo
Ms. Zhu Ping

PRC Registered office:
Block 4, Zone D,
Hengshan West Road,
Jilin New and High Technology Development Zone,
Jilin City, Jilin Province,
The PRC

Principal place of business in Hong Kong
Unit 1715, 17/F.,
Concordia Plaza,
No.1 Science Museum Road,
Tsimshatsui, Kowloon

3 April 2017

To the Independent Qifeng Shareholders,

Dear Sir or Madam,

**VOLUNTARY CONDITIONAL OFFER
BY SOMERLEY CAPITAL LIMITED
ON BEHALF OF
JILIN FIBER CO., LIMITED
FOR ALL THE ISSUED H SHARES IN
JILIN QIFENG CHEMICAL FIBER CO., LTD.* (OTHER THAN THOSE ALREADY HELD BY JILIN FIBER CO., LIMITED AND PARTIES ACTING IN CONCERT WITH IT)**

**VOLUNTARY CONDITIONAL OFFER
BY JILIN TOP TRADING CO. LTD.*
FOR ALL THE ISSUED DOMESTIC SHARES IN
JILIN QIFENG CHEMICAL FIBER CO., LTD.* (OTHER THAN THOSE ALREADY HELD BY JILIN TOP TRADING CO. LTD.* AND PARTIES ACTING IN CONCERT WITH IT)**

** For identification purpose only*

VOLUNTARY CONDITIONAL OFFER
BY JILIN FIBER CO., LIMITED
FOR ALL THE ISSUED NON-H FOREIGN SHARES IN
JILIN QIFENG CHEMICAL FIBER CO., LTD.* (OTHER THAN THOSE ALREADY HELD BY JILIN FIBER CO., LIMITED AND PARTIES ACTING IN CONCERT WITH IT)

AND

PROPOSED WITHDRAWAL OF
LISTING OF THE H SHARES OF
JILIN QIFENG CHEMICAL FIBER CO., LTD.

1. INTRODUCTION

On 1 December 2016, the Offerors and Qifeng jointly announced that:

(a) Somerley Capital, on behalf of Jilin Fiber, will make a voluntary conditional offer to acquire all of the issued H Shares (other than those already held by the Offerors, Jilin Chemical Fiber Group and parties acting in concert with any of them); and

(b) Subject to the H Share Offer becoming unconditional in all respects:

  (i) Top Trading will make a voluntary conditional offer to acquire all of the issued Domestic Shares (other than those already held by the Offerors, Jilin Chemical Fiber Group and parties acting in concert with any of them); and

  (ii) Jilin Fiber will make a voluntary conditional offer to acquire all of the issued Non-H Foreign Shares.

First Shanghai Capital Limited has been appointed with the approval of the Independent Board Committees as the independent financial adviser to advise the Independent Board Committees in respect of the Offers and the Delisting.

The purpose of this Composite Document is to provide you with, among other things, (i) information relating to the Qifeng Group, the Offerors and the Offers; (ii) the "Letter from the Takeovers Code Independent Board Committee" containing its recommendation to the Independent Qifeng Shareholders in respect of the Offers and the Delisting; (iii) the "Letter from the Listing Rules Independent Board Committee" containing its recommendation to the Independent Qifeng Shareholders in respect of the Offers and the Delisting; and (iv) the "Letter from the Independent Financial Adviser" containing its recommendation to the Independent Board Committees in respect of the Offers and the Delisting.

2. INFORMATION ON THE QIFENG GROUP

The Qifeng Group is principally engaged in the production and sale of acrylic fiber products.

The Qifeng Group reported audited net profit before and after taxation of approximately RMB110.7 million and RMB86.5 million, respectively, for the financial year ended 31 December 2016. For the financial year ended 31 December 2015, the Qifeng Group reported audited net profit before and after taxation of approximately RMB182.2 million and RMB132.2 million, respectively. The audited net asset value of the Qifeng Group as at 31 December 2016 was approximately RMB880.5 million. The audited net asset value per share of the Qifeng Group as at 31 December 2016 was approximately RMB1.0.

Adjusted Net Asset Value

Based on the audited net asset value of the Qifeng Group as at 31 December 2016 and the adjustment of revaluation surplus arising from the valuation of property interests attributable to the owner of Qifeng as at 31 January 2017 (as set out in the property valuation report prepared by Roma Appraisals Limited in Appendix III to this Composite Document), the adjusted unaudited net asset value of the Qifeng Group was RMB923.8 million. The calculation of the adjusted net assets value per Share as at 31 December 2016 is set out in the table below.

	RMB million
Audited net asset value of Qifeng Group as at 31 December 2016	880.5
Adjustment:	
• Revaluation surplus arising from the valuation of property interests attributable to the owner of Qifeng as at 31 January 2017 (*Note 1*)	43.3
Adjusted Net Asset Value	923.8
Adjusted Net Asset Value per share *(Note 2)*	**RMB1.07**

Notes:

1. This represents revaluation surplus arising from the excess of market value of the property interests held by the Qifeng Group as valued by Roma Appraisals Limited as at 31 January 2017 over their corresponding book values as at 31 December 2016 (as set out in the property valuation report prepared by Roma Appraisals Limited in Appendix III to this Composite Document).

2. Based on 866,250,000 shares in issue of Qifeng as at the Latest Practicable Date.

Shareholding structure of Qifeng

As at the Latest Practicable Date, the registered share capital of Qifeng comprises 259,875,000 H Shares, 437,016,596 Domestic Shares and 169,358,404 Non-H Foreign Shares.

The table below sets out the shareholding structure of Qifeng as at the Latest Practicable Date:

	Class of Qifeng Shares	Number of Qifeng Shares held	Approximate % of total Qifeng Shares in issue
Offerors and parties acting in concert with them	Domestic Shares	433,229,558	50.01
Sub-total		**433,229,558**	**50.01**
Other public holders of Domestic Shares	Domestic Shares	3,787,038	0.44
Ronsace Company Limited	Non-H Foreign Shares	94,841,726	10.95
Other public holders of Non-H Foreign Shares	Non-H Foreign Shares	74,516,678	8.60
Public Qifeng H Shareholders	H Shares	259,875,000	30.00
Total		**866,250,000**	**100.0**

As at the Latest Practicable Date:

(a) Jilin Chemical Fiber Group, being the parent company holding the entire equity interest of Top Trading which in turn holds the entire equity interest in Jilin Fiber, holds 433,229,558 Domestic Shares (representing approximately 99.13% of the total issued Domestic Shares and 50.01% of the issued share capital of Qifeng); and

(b) none of the Offerors, Jilin Chemical Fiber Group and the parties acting in concert with any of them legally or beneficially owns any H Share.

Domestic Shares, Non-H Foreign Shares and H Shares are all ordinary shares in the share capital of Qifeng with the same rights, benefits and obligations. H Shares, however, may only be subscribed for by, and traded in HK$ between legal or natural persons of Hong Kong, Macau, Taiwan or any country or jurisdiction other than the PRC. Non-H Foreign Shares may only be subscribed for by, and traded in a currency other than RMB which may only be held by persons other than PRC legal or natural persons and are not listed on any stock exchange. Domestic Shares, on the other hand, may only be subscribed for by, and traded in RMB between, legal or natural persons of the PRC only. All dividends in respect of the Non-H Foreign Shares and H Shares are to be declared in RMB and paid by Qifeng in HK$ whereas all dividends in respect of Domestic Shares are to be paid by Qifeng in RMB.

According to Article 3.5 of the Articles of Association of Qifeng, with approval of the securities administration authority of the State Council or other competent authorities, in accordance with relevant laws and regulations of the overseas listing places and with approval of the overseas securities regulatory bodies, Qifeng Shareholders may convert the Domestic Shares or Non-H Foreign Shares held by the Qifeng Shareholders to H Shares and then sell to foreign investors or list and exchange them in overseas securities exchanges.

Reference is made to the announcements of Qifeng dated 29 September 2015 and 14 January 2016 and the circular and the notice of extraordinary general meeting of Qifeng dated 27 November 2015. While a specific resolution was passed by the Qifeng Shareholders in the extraordinary general meeting of Qifeng on 14 January 2016 to approve the conversion of 169,358,404 Non-H Foreign Shares to H Shares (the "**Conversion**"), approval from the China Securities Regulatory Commission for the Conversion had not been obtained. Therefore, the Conversion did not proceed. As at the Latest Practicable Date, there is no conversion in progress in the Domestic Shares or Non-H Foreign Shares of Qifeng.

As at the Latest Practicable Date, Qifeng does not have in issue any outstanding convertible securities, options, warrants or derivatives in issue which confer any right to subscribe for, convert or exchange into the Domestic Shares, Non-H Foreign Shares or H Shares and/or rights over the Domestic Shares, Non-H Foreign Shares or H Shares in issue.

3. INFORMATION ON THE OFFERORS

Your attention is drawn to the paragraph headed "Information on the Offerors" in the "Letter from the Offerors" as set out on pages 9 to 14 of this Composite Document.

4. H SHARE OFFER

For further details of the H Share Offer, please refer to the "Letter from the Offerors" and "Letter from Somerley Capital" in this Composite Document.

5. DOMESTIC SHARE OFFER

For further details of the Domestic Share Offer, please refer to the "Letter from the Offerors" and "Letter from Somerley Capital" in this Composite Document.

6. NON-H FOREIGN SHARE OFFER

For further details of the Non-H Foreign Share Offer, please refer to the "Letter from the Offerors" and "Letter from Somerley Capital" in this Composite Document.

7. OFFERORS' INTENTION IN RELATION TO THE QIFENG GROUP

Please refer to the section headed "Future Plans for Qifeng Grioup" in the "Letter from the Offerors" as set out on pages 9 to 14 of this Composite Document for detailed information on the Offerors' intention on the business and management of the Qifeng Group. The Board notes such intentions and is willing to render reasonable cooperation with the Offerors, which is in the interests of Qifeng and the Qifeng Shareholders as a whole.

8. NO RIGHT OF COMPULSORY ACQUISITION

The Offerors have no rights under the laws of the PRC and the Articles of Association of Qifeng to compulsorily acquire the H Shares that are not tendered for acceptance pursuant to the H Share Offer. Accordingly, the Independent H Shareholders are reminded that if they do not accept the H Share Offer and the H Share Offer subsequently becomes unconditional in all respects, and the H Shares are delisted from the Hong Kong Stock Exchange, this will result in the Independent H Shareholders holding securities that are not listed on the Hong Kong Stock Exchange. In addition, Qifeng may or may not continue to be subject to the Takeovers Code after the completion of the Offers depending on whether it remains as a public company thereafter.

The Offerors have applied to the Executive for a waiver from the requirements under Rule 2.2(c) of the Takeovers Code, which requires a resolution of the independent shareholders to approve a delisting to be made subject to the offeror(s) being entitled to exercise, and exercising, its/their rights of compulsory acquisition.

Once all of the conditions of the H Share Offer have been either satisfied or, waived by the Offerors, the H Share Offer will be declared unconditional and the H Share Offer will be extended for a subsequent period till 30 June 2017.

For further information, please refer to the "Letter from Somerley Capital" which forms part of this Composite Document.

9. WITHDRAWAL OF LISTING OF THE H SHARES

Upon the H Share Offer becoming unconditional, Qifeng will make an application for the Delisting in accordance with Rule 6.12 of the Listing Rules. The Qifeng Shareholders will be notified by way of an announcement of the dates of the last day for dealing in the H Shares and on which the Delisting will become effective

10. THE EGM AND H SHARE CLASS MEETING

The H Share Class Meeting will be convened at 9:30 a.m. on 19 May 2017 for the purpose of passing a resolution by way of poll to approve the Delisting by the Independent H Shareholders, and pursuant to Rule 2.2 of the Takeovers Code, such approval must be given by at least 75% of the votes attaching to the H Shares held by the Independent H Shareholders that are cast either in person or by proxy; and the number of votes cast against the resolution is not more than 10% of the votes attaching to all of the H Shares held by the Independent H Shareholders. The Offerors and their respective concert parties are required to abstain from voting at the H Share Class Meeting. A notice of the H Share Class Meeting is set out in Appendix V to this Composite Document.

Furthermore, pursuant to Rule 2.2 of the Takeovers Code, the EGM will be convened at 10:00 a.m. on 19 May 2017 by way of poll to approve the Delisting by the Independent Qifeng Shareholders, and such approval must be given by at least 75% of the votes attaching to the Qifeng Shares held by the Independent Qifeng Shareholders that are cast either in person or by proxy, and the number of votes cast against the resolution shall be no more than 10% of the votes attaching to all Qifeng Shares held by the Independent Qifeng Shareholders. The Offerors and their respective concert parties are required to abstain from voting at the EGM. A notice of the EGM is set out in Appendix VI to this Composite Document.

The Qifeng Shares beneficially owned by the Offerors and the parties acting in concert with any of them, will not, in compliance with the Takeovers Code, be voted at the H Share Class Meeting and/or the EGM.

Whether or not you are able to attend the H Share Class Meeting and/or the EGM, you are strongly urged to complete the accompanying proxy forms in accordance with the instructions printed thereon and return the same to the Registrar, Boardroom Share Registrars (HK) Limited, at 31/F, 148 Electric Road, North Point, Hong Kong (in respect of the Independent H Shareholders) as soon as possible and in any event not later than 9:30 a.m., or to the office of Qifeng at No. 516-1 Jiuzhan Street, Jilin City, Jilin Province, the PRC (in respect of Qifeng Domestic Shareholders and Qifeng Non-H Foreign Shareholders) as soon as possible and in any event not later than 10:00 a.m. on 18 May 2017.

Completion and return of the proxy form(s) shall not preclude you from attending and voting in person at the H Share Class Meeting and/or the EGM or any adjourned meeting should you so wish if you have notified Qifeng not less than 24 hours in writing before the time scheduled for holding the H Share Class Meeting and/or the EGM. In such event, the returned forms of proxy shall be deemed to have been revoked.

You are requested to complete the accompanying reply slips in accordance with the instructions printed thereon and return the same to the Registrar, Boardroom Share Registrars (HK) Limited, at 31/F, 148 Electric Road, North Point, Hong Kong (in respect of the Independent H Shareholders), or to the office of Qifeng at No. 516-1 Jiuzhan Street, Jilin City, Jilin Province, the PRC (in respect of the Qifeng Domestic Shareholders and the Qifeng Non-H Foreign Shareholders). Voting at the H Share Class Meeting and the EGM will be taken by way of poll as required under the Listing Rules and the Takeovers Code.

11. RECOMMENDATION

In accordance with Rules 2.1 and 2.8 of the Takeovers Code, the Takeovers Code Independent Board Committee comprising all the non-executive Directors who have no direct or indirect interest in the Offers, other than as a Qifeng Shareholder, namely, Mr. Wu Song, Ms. Pang Suet Mui, Mr. Li Yanxi, Mr. Jin Jie, Mr. Lv Xiaobo and Ms. Zhu Ping, was established for the purpose of making a recommendation to the Independent Qifeng Shareholders as to whether the Offers are fair and reasonable and as to acceptance of the Offers and the approval of the Delisting.

As stated in the Joint Announcement, Mr. Ma Jun and Mr. Jiang Junzhou, the other non-executive Directors, would not serve as members of the Takeovers Code Independent Board Committee because Mr. Ma Jun was also a director of Jilin Chemical Fiber Group and Mr. Jiang Junzhou was also a deputy general manager of Jilin Chemical Fiber Group, the parent company of the Offerors.

In addition, according to Rule 13.39(6)(a) of the Listing Rules, the Listing Rules Independent Board Committee comprising all of the independent non-executive Directors, namely Mr. Li Yanxi, Mr. Jin Jie, Mr. Lv Xiaobo and Ms. Zhu Ping, was established for the purpose of making a recommendation to the Independent Qifeng Shareholders as to whether the Offers are fair and reasonable and as to acceptance of the Offers and the approval of the Delisting.

We recommend Independent Qifeng Shareholders to read the "Letter from the Takeovers Code Independent Board Committee" as set out on pages 34 and 35 of this Composite Document and the "Letter from the Listing Rules Independent Board Committee" as set out on pages 36 and 37 of this Composite Document which contain recommendation to the Independent Qifeng Shareholders in respect of the Offers and the Delisting, and the "Letter from the Independent Financial Adviser" as set out on pages 38 to 55 of this Composite Document containing its advice to the Independent Board Committees in respect of the Offers and the Delisting.

The Board (excluding Mr. Song Dewu, who is a director of Jilin Chemical Fiber Group, the ultimate sole shareholder of the Offerors, the members of the Takeovers Code Independent Board Committee whose recommendation is set out in the "Letter from the Takeovers Code Independent Board Committee" in this Composite Document, and the members of the Listing Rules Independent Board Committee whose recommendation is set out in the "Letter from the Listing Rules Independent Board Committee" in this Composite Document) unanimously recommends the Qifeng Shareholders to accept the Offers and approve the Delisting.

12. OTHER INFORMATION

Your attention is drawn to the "Letter from the Offerors" and the "Letter from Somerley Capital" in this Composite Document, as well as the other information set out in the rest of this Composite Document and the accompanying Form of Acceptance.

Yours faithfully,
By order of the Board of
Jilin Qifeng Chemical Fiber Co., Ltd*
Song Dewu
Chairman

* *For identification purpose only*

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)

3 April 2017

To the Independent Qifeng Shareholders,
Dear Sir or Madam,

**VOLUNTARY CONDITIONAL OFFER
BY SOMERLEY CAPITAL LIMITED
ON BEHALF OF
JILIN FIBER CO., LIMITED
FOR ALL THE ISSUED H SHARES IN
JILIN QIFENG CHEMICAL FIBER CO., LTD.* (OTHER THAN THOSE ALREADY HELD BY JILIN FIBER CO., LIMITED AND PARTIES ACTING IN CONCERT WITH IT)
VOLUNTARY CONDITIONAL OFFER
BY JILIN TOP TRADING CO. LTD.*
FOR ALL THE ISSUED DOMESTIC SHARES IN
JILIN QIFENG CHEMICAL FIBER CO., LTD.* (OTHER THAN THOSE ALREADY HELD BY JILIN TOP TRADING CO. LTD.* AND PARTIES ACTING IN CONCERT WITH IT)
VOLUNTARY CONDITIONAL OFFER
BY JILIN FIBER CO., LIMITED
FOR ALL THE ISSUED NON-H FOREIGN SHARES IN
JILIN QIFENG CHEMICAL FIBER CO., LTD.* (OTHER THAN THOSE ALREADY HELD BY JILIN FIBER CO., LIMITED AND PARTIES ACTING IN CONCERT WITH IT)
AND
PROPOSED WITHDRAWAL OF
LISTING OF THE H SHARES OF
JILIN QIFENG CHEMICAL FIBER CO., LTD.**

We refer to this Composite Document dated 3 April 2017 jointly issued by Qifeng and the Offerors, of which this letter forms part. Terms used herein shall have the same meanings as those defined in this Composite Document unless the context requires otherwise.

We have been appointed by the Board to form the Takeovers Code Independent Board Committee to advise you as to (i) whether, in our opinion, the terms of the Offers are fair and reasonable so far as the Independent Qifeng Shareholders are concerned; and (ii) acceptance of the Offers and approval of the Delisting, after taking into account the advice from First Shanghai Capital.

** For identification purpose only*

Details of advice from First Shanghai Capital and the principal factors it has taken into consideration in arriving at its recommendations are set out in the "Letter from the Independent Financial Adviser" on pages 38 to 55 of this Composite Document. Details of the Offers are set out in the "Letter from the Offerors", "Letter from Somerley Capital" and Appendix I contained in this Composite Document, and the accompanying Form of Acceptance.

Having taken into account the advice and recommendations of First Shanghai Capital and the principal factors taken into consideration by it in arriving at its opinion, we are of the opinion that the terms of the Offers are fair and reasonable so far as the Independent Qifeng Shareholders are concerned. Accordingly, we recommend the Independent Qifeng Shareholders to accept the Offers and approve the Delisting.

Yours faithfully
For and on behalf of the
Takeovers Code Independent Board Committee
Mr. Wu Song **Ms. Pang Suet Mui**
Non-executive Directors
Mr. Li Yanxi **Mr. Jin Jie** **Mr. Lv Xiaobo** **Ms. Zhu Ping**
Independent non-executive Directors

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)

3 April 2017

To the Independent Qifeng Shareholders,
Dear Sir or Madam,

VOLUNTARY CONDITIONAL OFFER BY SOMERLEY CAPITAL LIMITED ON BEHALF OF JILIN FIBER CO., LIMITED FOR ALL THE ISSUED H SHARES IN JILIN QIFENG CHEMICAL FIBER CO., LTD.* (OTHER THAN THOSE ALREADY HELD BY JILIN FIBER CO., LIMITED AND PARTIES ACTING IN CONCERT WITH IT)

VOLUNTARY CONDITIONAL OFFER BY JILIN TOP TRADING CO. LTD.* FOR ALL THE ISSUED DOMESTIC SHARES IN JILIN QIFENG CHEMICAL FIBER CO., LTD.* (OTHER THAN THOSE ALREADY HELD BY JILIN TOP TRADING CO. LTD.* AND PARTIES ACTING IN CONCERT WITH IT)

VOLUNTARY CONDITIONAL OFFER BY JILIN FIBER CO., LIMITED FOR ALL THE ISSUED NON-H FOREIGN SHARES IN JILIN QIFENG CHEMICAL FIBER CO., LTD.* (OTHER THAN THOSE ALREADY HELD BY JILIN FIBER CO., LIMITED AND PARTIES ACTING IN CONCERT WITH IT)

AND

PROPOSED WITHDRAWAL OF LISTING OF THE H SHARES OF JILIN QIFENG CHEMICAL FIBER CO., LTD.

We refer to this Composite Document dated 3 April 2017 jointly issued by Qifeng and the Offerors, of which this letter forms part. Terms used herein shall have the same meanings as those defined in this Composite Document unless the context requires otherwise.

* *For identification purpose only*

We have been appointed by the Board to form the Listing Rules Independent Board Committee to advise you as to (i) whether, in our opinion, the terms of the Offers are fair and reasonable so far as the Independent Qifeng Shareholders are concerned, and (ii) acceptance of the Offers and approval of the Delisting, after taking into account the advice from First Shanghai Capital.

Details of advice from First Shanghai Capital and the principal factors it has taken into consideration in arriving at its recommendations are set out in the "Letter from the Independent Financial Adviser" on pages 38 to 55 of this Composite Document. Details of the Offers are set out in the "Letter from the Offerors", ''Letter from Somerley Capital'' and Appendix I contained in this Composite Document, and the accompanying Form of Acceptance.

Having taken into account the advice and recommendations of First Shanghai Capital and the principal factors taken into consideration by it in arriving at its opinion, we are of the opinion that the terms of the Offers are fair and reasonable so far as the Independent Qifeng Shareholders are concerned. Accordingly, we recommend the Independent Qifeng Shareholders to accept the Offers and approve the Delisting.

Yours faithfully
For and on behalf of the
Listing Rules Independent Board Committee
Mr. Li Yanxi **Mr. Jin Jie** **Mr. Lv Xiaobo** **Ms. Zhu Ping**
Independent non-executive Directors

The following is the text of a letter of advice to the Independent Board Committees from First Shanghai Capital in respect of the Offers and the Delisting for the purpose of incorporation in this Composite Document.

FIRST SHANGHAI GROUP
FIRST SHANGHAI CAPITAL LIMITED
第一上海融資有限公司

FIRST SHANGHAI CAPITAL LIMITED
19th Floor, Wing On House
71 Des Voeux Road Central
Hong Kong

3 April 2017

To the Independent Board Committees

Dear Sir or Madam,

**VOLUNTARY CONDITIONAL OFFER
BY SOMERLEY CAPITAL LIMITED
ON BEHALF OF
JILIN FIBER CO., LIMITED
FOR ALL THE ISSUED H SHARES IN
JILIN QIFENG CHEMICAL FIBER CO., LTD.*
(OTHER THAN THOSE ALREADY HELD BY
JILIN FIBER CO., LIMITED AND PARTIES ACTING IN CONCERT WITH IT)**

**VOLUNTARY CONDITIONAL OFFER
BY JILIN TOP TRADING CO. LTD.*
FOR ALL THE ISSUED DOMESTIC SHARES IN
JILIN QIFENG CHEMICAL FIBER CO., LTD.*
(OTHER THAN THOSE ALREADY HELD BY
JILIN TOP TRADING CO. LTD.*
AND PARTIES ACTING IN CONCERT WITH IT)**

**VOLUNTARY CONDITIONAL OFFER
BY JILIN FIBER CO., LIMITED
FOR ALL THE ISSUED NON-H FOREIGN SHARES IN
JILIN QIFENG CHEMICAL FIBER CO., LTD.*
(OTHER THAN THOSE ALREADY HELD BY
JILIN FIBER CO., LIMITED AND PARTIES ACTING IN CONCERT WITH IT)**

AND

**PROPOSED WITHDRAWAL OF
LISTING OF THE H SHARES OF
JILIN QIFENG CHEMICAL FIBER CO., LTD.***

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committees, which in turn provides recommendation to the Independent Qifeng Shareholders, in respect of the Offers and the Delisting. Details of the Offers and the Delisting are set out in the composite offer and response document jointly issued by Qifeng and the Offerors (namely Jilin Fiber and Top Trading) dated 3 April 2017 (the "**Composite Document**"), of which this letter forms a part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Composite Document.

On 1 December 2016, the Offerors and Qifeng jointly announced that:

(a) Somerley Capital, on behalf of Jilin Fiber, would make a voluntary conditional offer to acquire all of the issued H Shares (other than those already held by the Offerors, Jilin Chemical Fiber Group and parties acting in concert with any of them);

(b) Subject to the H Share Offer becoming unconditional in all respects:

   (i) Top Trading would make a voluntary conditional offer to acquire all of the issued Domestic Shares (other than those already held by the Offerors, Jilin Chemical Fiber Group and parties acting in concert with any of them); and

   (ii) Jilin Fiber would make a voluntary conditional offer to acquire all of the issued Non-H Foreign Shares.

The H Share Offer is subject to, among other conditions, the approval of the Delisting at the H Share Class Meeting and at the EGM.

In accordance with Rules 2.1 and 2.8 of the Takeovers Code, the Takeovers Code Independent Board Committee comprising all the non-executive Directors who have no direct or indirect interest in the Offers, other than as a Qifeng Shareholder, namely, Mr. Wu Song, Ms. Pang Suet Mui, Mr. Li Yanxi, Mr. Jin Jie, Mr. Lv Xiaobo and Ms. Zhu Ping, was established for the purpose of making a recommendation to the Independent Qifeng Shareholders as to whether the Offers are fair and reasonable and as to acceptance of the Offers and the approval of the Delisting. As stated in the Joint Announcement, Mr. Ma Jun and Mr. Jiang Junzhou, the other non-executive directors of Qifeng, would not serve as members of the Takeovers Code Independent Board Committee because Mr. Ma Jun was also a director of Jilin Chemical Fiber Group and Mr. Jiang Junzhou was also a deputy general manager of Jilin Chemical Fiber Group, the parent company of the Offerors. The Takeovers Code Independent Board Committee has approved our appointment as the independent financial adviser to advise the Takeovers Code Independent Board Committee in respect of the Offers and the Delisting.

In addition, according to Rule 13.39(6)(a) of the Listing Rules, the Listing Rules Independent Board Committee comprising all of the independent non-executive Directors, namely Mr. Li Yanxi, Mr. Jin Jie, Mr. Lv Xiaobo and Ms. Zhu Ping, was established for the purpose of making a recommendation to the Independent Qifeng Shareholders as to whether the Offers are fair and reasonable and as to acceptance of the Offers and the approval of the Delisting. The Listing Rules

Independent Board Committee has approved our appointment as the independent financial adviser to advise the Listing Rules Independent Board Committee in respect of the Offers and the Delisting.

Within the past two years from the Latest Practicable Date, apart from our current engagement in respect of the Offers and the Delisting, we had been engaged as independent financial adviser by Qifeng in respect of certain continuing connected transactions as detailed in the circular of Qifeng dated 12 October 2016. Given (i) our independent role in this previous engagement; (ii) our fee for this previous engagement represented an insignificant percentage of the revenue of our parent group; and (iii) our work for this previous engagement had been completed, we consider this previous engagement would not affect our independence to form our opinion in respect of the Offers and the Delisting.

In formulating our opinion with regard to the Offers and the Delisting, we have relied on the information and facts supplied, opinions expressed and representations made to us by the management of the Qifeng Group (including those contained or referred to in the Joint Announcement and the Composite Document). We have assumed that the information and facts supplied, opinions expressed and representations made to us by the management of the Qifeng Group, and for which they are wholly responsible, were true, accurate and complete at the time they were made and continue to be true, accurate and complete in all material aspects until the Latest Practicable Date. We consider that the information we have received is sufficient for us to reach an informed view and we have no reason to believe that any material information have been withheld, nor doubt the truth, accuracy or completeness of the information provided. We have also relied on certain information available to the public and we have assumed such information to be accurate and reliable, and we have not independently verified the accuracy of such information. We have not, however, conducted any independent investigation into the business and affairs of the Qifeng Group or the Offerors or the associates of any of them, nor have we carried out any independent verification of the information supplied. We have also not considered the tax, regulatory and other legal implications on the Independent Qifeng Shareholders in respect of their acceptance or non-acceptance of the Offers, respectively, since these depend on their individual circumstances. In particular, the Independent Qifeng Shareholders who are overseas residents or subject to overseas taxation or Hong Kong taxation on securities dealings should consider their own tax position and, if in any doubt, should consult their own professional advisers. Should there be any subsequent major changes which occur during the period of the Offers and the Delisting that would affect or alter our opinion, we will notify the Independent Board Committees and the Independent Qifeng Shareholders as soon as practicable.

PRINCIPAL TERMS OF THE OFFERS

The Offers are being made at the following offer price (the "**Offer Price**").

For each H Share .... HK$1.097 in cash^

For each Domestic Share .... RMB0.975 in cash^

For each Non-H Foreign Share .... HK$1.097 in cash^

^ *Note: Equivalent in amount per Qifeng Share based on currency conversion at the Exchange Rate (i.e. the mid-price of RMB against HK$ at RMB0.8891 as quoted from the People's Bank of China as at the date of the Joint Announcement).*

As stated in the Joint Announcement, the Offer Price will not be increased.

The H Share Offer is subject to, among other conditions, the approval of the Delisting at the H Share Class Meeting and at the EGM. The Domestic Share Offer and the Non-H Foreign Share Offer are, in turn, conditional on, among other things, the H Share Offer becoming unconditional.

Further details of the terms of the H Share Offer, including but not limited to the procedures for acceptance, are set out in the Composite Document. We urge the Independent H Shareholders to read the Composite Document in full.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation with regard to the terms of the H Share Offer and the Delisting, we have taken into consideration the following principal factors and reasons.

1. Business and financial information on the Qifeng Group

The Qifeng Group is principally engaged in the production and sale of acrylic fiber products in the PRC.

1.1 *Historical financial performance of the Qifeng Group*

The following table summarises the statement of comprehensive income of the Qifeng Group for each of the years ended 31 December 2014, 2015 and 2016 as extracted from the annual report of Qifeng for the year ended 31 December 2015 (the "**2015 Annual Report**") and the annual results announcement of Qifeng for the year ended 31 December 2016 (the "**2016 Annual Results**").

	For the year ended 31 December		
	2014	**2015**	**2016**
	RMB million	*RMB million*	*RMB million*
	(Restated) #	*(Audited)*	*(Audited)*
Turnover	**1,896**	**1,787**	**1,571**
Cost of sales	(1,747)	(1,455)	(1,347)
Gross profit	**149**	**332**	**224**
Other income and gains	487	465	484
Distribution costs	(46)	(62)	(56)
Administrative expenses	(76)	(81)	(87)
Other expenses and losses	(366)	(380)	(404)
Operating profit	**148**	**274**	**161**
Net finance costs	(134)	(114)	(60)
Share of result of a joint venture	(32)	22	10
(Loss)/Profit before income tax	**(18)**	**182**	**111**
Income tax expense	(3)	(5)	(24)
(Loss)/Profit after income tax from continuing operations	**(21)**	**177**	**87**

	For the year ended 31 December		
	2014	**2015**	**2016**
	RMB million	*RMB million*	*RMB million*
	(Restated) #	*(Audited)*	*(Audited)*
Loss from discontinued operations#	(51)	(45)	—
(Loss)/Profit for the year	**(72)**	**132**	**87**

*Note: 100% interest in the Jilin Tangu Carbon Fiber Co., Ltd. ("**Tangu**"), which was principally engaged in the production and sale of carbon fiber products, was disposed of on 30 June 2015 (the "**Disposal**"). Accordingly, the segment for carbon fiber products had become discontinued operations.*

(a) *From the year ended 31 December 2014 to the year ended 31 December 2015*

Turnover of the Qifeng Group decreased from approximately RMB1,896 million for the year ended 31 December 2014 to approximately RMB1,787 million for the year ended 31 December 2015, representing an annual decline of approximately 6%. We understand from the 2015 Annual Report that, for the year ended 31 December 2015, (i) the sales volume of the acrylic fiber products of the Qifeng Group recorded an annual increase of approximately 15%; and (ii) the average unit selling price of the acrylic fiber products of the Qifeng Group recorded an annual decline of approximately 18%.

Gross profit margin of the Qifeng Group increased from approximately 8% for the year ended 31 December 2014 to approximately 19% for the year ended 31 December 2015. We understand from the 2015 Annual Report that, for the year ended 31 December 2015, (i) the overall supply of acrylonitrile, being a major raw material of the acrylic fiber products of the Qifeng Group, increased in the PRC; and (ii) the Qifeng Group enlarged its supplier base and implemented cost control measures.

Operating profit margin of the Qifeng Group increased from approximately 8% for the year ended 31 December 2014 to approximately 15% for the year ended 31 December 2015. The Qifeng Group recorded loss before income tax of approximately RMB18 million for the year ended 31 December 2014 and recorded profit before income tax of approximately RMB182 million for the year ended 31 December 2015 after taking into account (i) the share of result of a joint venture, namely Jilin Jimont Acrylic Fiber Co., Ltd. ("**Jimont**"), which is also principally engaged in the production and sale of acrylic fiber products; and (ii) net finance costs. We understand from the 2015 Annual Report that (i) the enhancement of share of result of Jimont from loss of approximately RMB32 million for the year ended 31 December 2014 to profit of approximately RMB22 million for the year ended 31 December 2015 was mainly attributable to the improvement of market condition; and (ii) the decrease in net finance costs was primarily resulted from the decrease in the borrowing costs of the Qifeng Group.

Regarding the Disposal, which became effective on 30 June 2015, we note from the 2015 Annual Report that, (i) Tangu, being the disposed company principally engaged in the discontinued operations of the production and sale of carbon fiber products, had been loss making since 2010 and was not expected to contribute significant income in the foreseeable future; and (ii) loss for the year from discontinued operations amounted to approximately RMB51 million and RMB45 million for each of the years ended 31 December 2014 and 2015, respectively.

Due to, among other factors, (i) the improvement in gross profit margin; and (ii) the enhancement of share of result of Jimont, the Qifeng Group turned around from recording net loss of approximately RMB72 million for the year ended 31 December 2014 to recording net profit of approximately RMB132 million for the year ended 31 December 2015.

(b) *From the year ended 31 December 2015 to the year ended 31 December 2016*

Turnover of the Qifeng Group decreased from approximately RMB1,787 million for the year ended 31 December 2015 to approximately RMB1,571 million for the year ended 31 December 2016, representing a year on year decline of approximately 12%. We understand from the 2016 Annual Results that, for the year ended 31 December 2016, (i) the sales volume of the acrylic fiber products of the Qifeng Group recorded an annual decline of approximately 0.4%; and (ii) the average unit selling price of the acrylic fiber products of the Qifeng Group recorded an annual decline of approximately 12%.

Gross profit margin of the Qifeng Group narrowed from approximately 19% for the year ended 31 December 2015 to approximately 14% for the year ended 31 December 2016. Along with the decline in gross profit margin, the operating profit margin of the Qifeng Group also narrowed from approximately 15% for the year ended 31 December 2015 to approximately 10% for the year ended 31 December 2016. We are advised by the management of the Qifeng Group that the reduction in gross profit margin for the year ended 31 December 2016 was mainly attributable to the decrease in the average unit selling price of the acrylic fiber products as mentioned above. Despite the reduction in the gross and operating profit margins of the Qifeng Group for the year ended 31 December 2016, they were higher than those for the year ended 31 December 2014.

After taking into account the share of result of Jimont and net finance costs, the profit before income tax of the Qifeng Group was approximately RMB182 million and RMB111 million, representing profit before income tax margin of approximately 10% and 7%, for the years ended 31 December 2015 and 2016, respectively.

Given the Disposal became effective on 30 June 2015, loss from discontinued operations reduced from approximately RMB45 million for the year ended 31 December 2015 to nil for the year ended 31 December 2016.

As a result of the foregoing, profit of the Qifeng Group amounted to approximately RMB132 million and RMB87 million, representing net profit margin of approximately 7% and 6%, for the years ended 31 December 2015 and 2016, respectively.

1.2 *Historical financial position of the Qifeng Group*

The following table summarises the balance sheet of the Qifeng Group as at 31 December 2015 and 2016.

	As at 31 December	
	2015	**2016**
	RMB million	*RMB million*
	(Audited)	*(Audited)*
Non-current assets		
Property, plant and equipment	912	977
Other non-current assets	417	484
	1,329	**1,461**
Current assets		
Trade and other receivables	803	744
Cash and bank balances	68	40
Restricted bank deposits	62	15
Other current assets	211	265
	1,144	**1,064**
Current liabilities		
Short-term bank borrowings	1,059	1,038
Current-portion of long-term bank borrowings	103	39
Other current liabilities	361	457
	1,523	**1,534**
Non-current liabilities		
Long-term bank borrowings	115	77
Deferred income	41	34
	156	**111**
Net current liabilities	**379**	**470**
Net assets	**794**	**880**

As at 31 December 2015 and 2016, (i) the principal assets of the Qifeng Group were property, plant and equipment and trade and other receivables; and (ii) the principal liabilities of the Qifeng Group were bank borrowings. The Qifeng Group recorded net current liabilities as at 31 December 2015 and 2016, primarily due to the level of bank borrowings. Regarding the financial statements for the year ended 31 December 2015 and 2016, the auditors of Qifeng had expressed an audit opinion containing an emphasis of matter in respect of the existence of a material uncertainty which might cast significant doubt about the ability of the Qifeng Group to continue as a going concern. As stated in the 2015 Annual Report and the 2016 Annual Results, the directors of Qifeng were of the opinion that the Qifeng Group would be able to finance its future financing requirements and working capital based on, among other things, (i) the Qifeng Group has maintained its good business relationship with its principal bankers and the principal bankers had indicated their willingness to renew their borrowings to the Qifeng Group upon maturities of borrowings; (ii) the profitability and cash flows of the Qifeng Group; and (iii) Jilin Chemical Fiber Group, which is the parent company of Qifeng and a state-owned enterprise, had confirmed to provide continuing financial support to the Qifeng Group so as to enable it to meet its liabilities and when they fall due and to carry on its business for the foreseeable future.

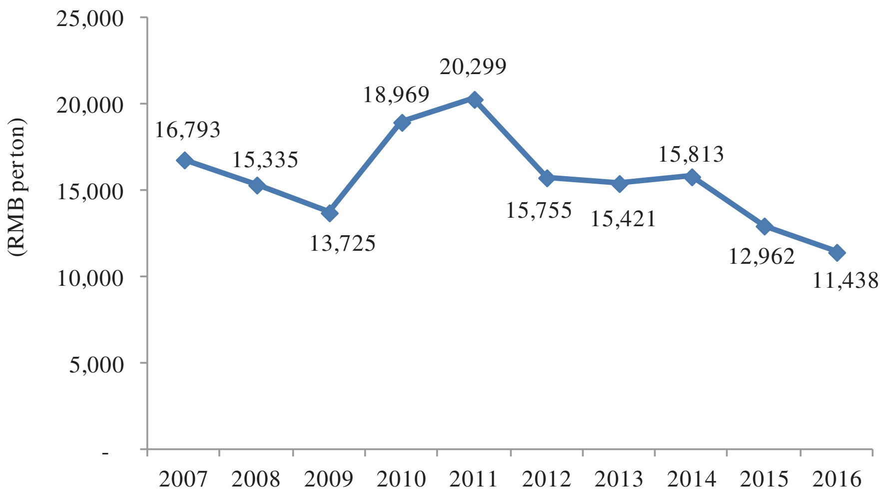
Qifeng has not distributed any dividend to the Qifeng H Shareholders since 2007.

Further details of the financial information of the Qifeng Group are set out in Appendix II to the Composite Document.

1.3 *Prospects of the principal business of the Qifeng Group*

According to the 2016 Annual Results, the economic growth of the PRC 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 the PRC, where 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 the PRC and the increasing trend of raw material prices commencing from the second half of 2016.

We have reviewed the trend of the average unit selling price of the acrylic fiber products of the Qifeng Group based on the annual reports and the 2016 Annual Results published by Qifeng.



With reference to the above chart, we note that the average unit selling price of the acrylic fiber products of the Qifeng Group reached its peak in 2011 at approximately RMB20,299 per ton and demonstrated an overall decline trend for the subsequent years. The average unit selling price plunged to approximately RMB11,438 per ton in 2016, representing a drop of approximately 44% as compared with that in 2011.

We have reviewed industry information published on the website of IHS Markit. According to its website, we understand IHS Markit (i) is a world leader in critical information, analytics and expertise; (ii) is listed on Nasdaq and headquartered in London; and (iii) has over 5,000 information and industry experts. According to the article titled *Acrylic and Modacrylic Fibers* dated May 2016 published on the website of IHS Markit, (i) since 2011, the global acrylic fiber market has declined, mainly because acrylic fiber faces competition from other fibers; (ii) the global acrylic fiber industry has undergone a major restructuring and capacity rationalizations because of declining demand; (iii) currently, about 60% of global capacity is concentrated in Asia, particularly in China; (iv) in the United States, acrylic fiber production stopped in 2006; and (v) limited growth in global acrylic fiber consumption is expected for the coming years.

Based on the aforementioned, particularly (i) the deterioration of the average unit selling price of the acrylic fiber products of the Qifeng Group in the recent years; and (ii) limited growth in global acrylic fiber consumption is expected for the coming years, we understand that the growth potential of the principal business of the Qifeng Group is uncertain.

2. Background of the Offerors and their intentions regarding the Qifeng Group

The Offerors are indirectly wholly-owned subsidiaries of Jilin Chemical Fiber Group, which is a PRC state-owned enterprise. Jilin Chemical Fiber Group holds approximately 50.01% of the issued share capital of Qifeng as at the Latest Practicable Date. The principal activities of Jilin Chemical Fiber Group are production, commerce trade and export of chemical fibers.

On 1 December 2016, the Offerors and Qifeng jointly announced that:

(a) Somerley Capital, on behalf of Jilin Fiber, would make a voluntary conditional offer to acquire all of the issued H Shares (other than those already held by the Offerors, Jilin Chemical Fiber Group and parties acting in concert with any of them);

(b) Subject to the H Share Offer becoming unconditional in all respects:

   (i) Top Trading would make a voluntary conditional offer to acquire all of the issued Domestic Shares (other than those already held by the Offerors, Jilin Chemical Fiber Group and parties acting in concert with any of them); and

   (ii) Jilin Fiber would make a voluntary conditional offer to acquire all of the issued Non-H Foreign Shares.

The H Share Offer is subject to, among other conditions, the approval of the Delisting at the H Share Class Meeting and at the EGM.

The following table illustrates the shareholding of Qifeng as at the Latest Practicable Date.

	Class of Qifeng Shares	Number of Qifeng Shares held	Approximate percentage of total Qifeng Shares in issue
Offerors and parties acting in concert with them	Domestic Shares	433,229,558	50.01
Other public holders of Domestic Shares	Domestic Shares	3,787,038	0.44
Ronsace Company Limited	Non-H Foreign Shares	94,841,726	10.95
Other public holders of Non-H Foreign Shares	Non-H Foreign Shares	74,516,678	8.60
Qifeng H Shareholders	H Shares	259,875,000	30.00
		866,250,000	100.00

The Offerors intend to continue with the existing business of Qifeng Group and do not intend to make any material changes to the current business operations of Qifeng Group following completion of the Offers. It is also the intention of the Offerors that there will not be any material changes in the management or employees of Qifeng Group as a result of the Offers.

3. Evaluation of the Offer Price

The Offers are being made at the Offer Price as follows.

For each H Share . . . . **HK$1.097 in cash^**

For each Domestic Share . . . . **RMB0.975 in cash^**

For each Non-H Foreign Share . . . . **HK$1.097 in cash^**

^ *Note: Equivalent in amount per Qifeng Share based on currency conversion at the Exchange Rate.*

As stated in the Joint Announcement, the Offer Price will not be increased.

Currently, the H Shares are listed on the Hong Kong Stock Exchange, whereas the Domestic Shares and the Non-H Foreign Shares are not listed.

3.1 ***Historical price performance of the H Shares***

We note that the H Share Offer Price of HK$1.097 per H Share represents:-

(a) a premium of approximately 8% over the closing price per H Share as quoted on the Hong Kong Stock Exchange as at the Latest Practicable Date of HK$1.020;

(b) a premium of approximately 28% over the closing price per H Share as quoted on the Hong Kong Stock Exchange on the last trading date prior to the commencement of the offer period (i.e. the date of publication of the Rule 3.7 Announcement, being 18 October 2016) of HK$0.860;

(c) a premium of approximately 33% over the average closing price per H Share as quoted on the Hong Kong Stock Exchange for the five trading days up to and including the last trading date prior to the commencement of the offer period of approximately HK$0.824;

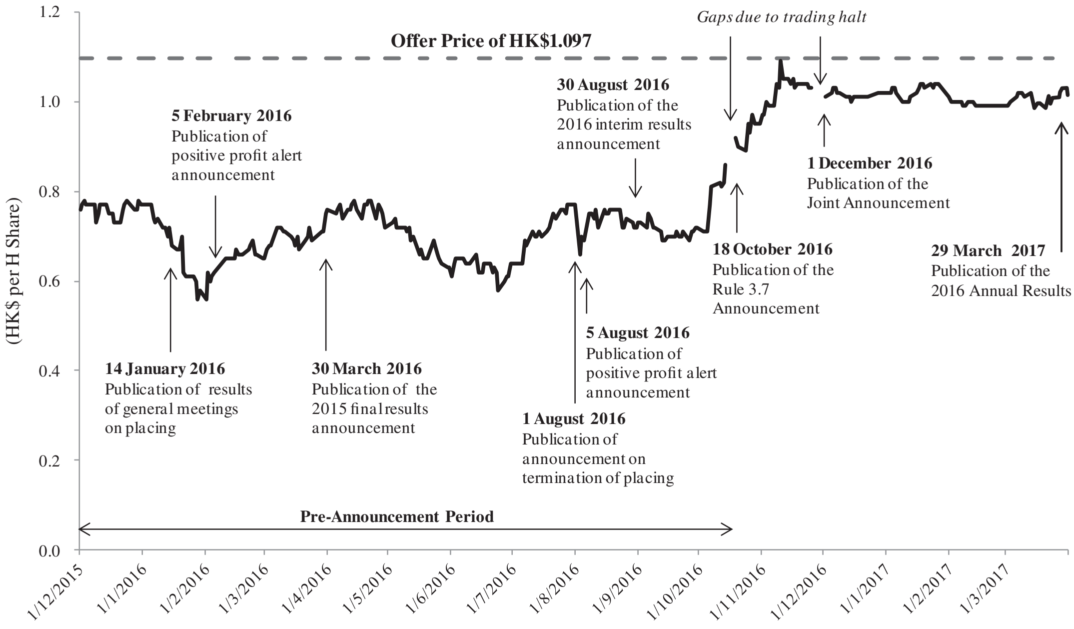
(d) a premium of approximately 50% over the average closing price per H Share as quoted on the Hong Kong Stock Exchange for the 30 trading days up to and including the last trading date prior to the commencement of the offer period of approximately HK$0.733;

(e) a premium of approximately 55% over the average closing price per H Share as quoted on the Hong Kong Stock Exchange for the 90 trading days up to and including the last trading date prior to the commencement of the offer period of approximately HK$0.708;

(f) a discount of approximately 4% to the latest published net assets of the Qifeng Group per Qifeng Share, being the audited net assets of the Qifeng Group as at 31 December 2016 of approximately RMB880 million divided by 866,250,000 Qifeng Shares as at the Latest Practicable Date, of approximately RMB1.016 (equivalent to approximately HK$1.143 based on the Exchange Rate) (the "**2016 NAV**"); and

(g) a discount of approximately 9% to the 2016 NAV adjusted by the property valuation results set out in Appendix III to the Composite Document (i.e. after taking into account the revaluation surplus of approximately RMB43 million as advised by the management of the Qifeng Group) of approximately RMB924 million divided by 866,250,000 Qifeng Shares as at the Latest Practicable Date, of approximately RMB1.067 (equivalent to approximately HK$1.200 based on the Exchange Rate) (the "**Adjusted 2016 NAV**").

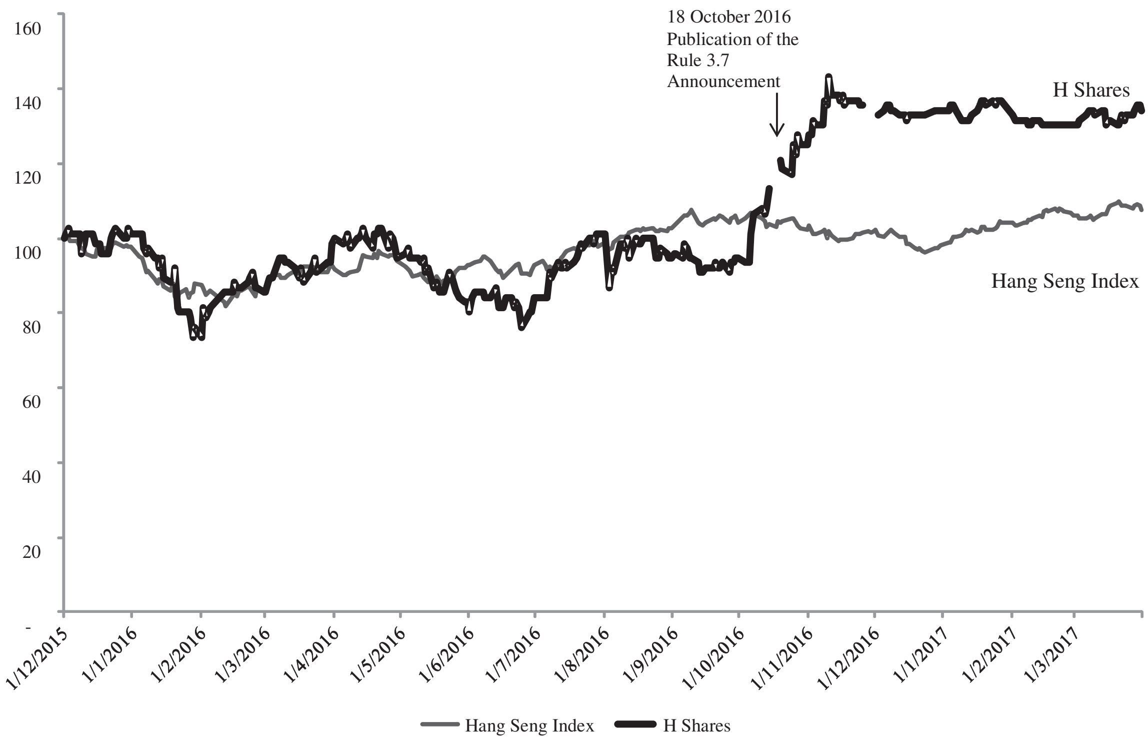
The chart below depicts the closing prices of the H Shares from 1 December 2015, being one year before the date of the Joint Announcement, up to and including the Latest Practicable Date (the "**Review Period**", where for the period from 1 December 2015 up to and including the date of the Rule 3.7 Announcement, the "**Pre-Announcement Period**").



Source: Bloomberg and the website of the Hong Kong Stock Exchange

The closing prices of the H Shares were mainly around HK$0.75 to HK$0.77 in December 2015. Following the publication of the results of the general meetings in respect of the approval of the proposed placing as detailed in the circular of Qifeng dated 27 November 2015 (the "**Proposed Placing**"), the closing price of the H Shares decreased from HK$0.72 on 14 January 2016 to HK$0.68 on 15 January 2016 and continued to demonstrate a decline trend. The closing price of the H Shares fell to a low point of HK$0.56 on 28 January 2016 and 1 February 2016. Following the publication of the positive profit alert announcement in respect of the financial results of the Qifeng Group for the year ended 31 December 2015 on 5 February 2016, the closing price of the H Shares had demonstrated a growth trend and reached HK$0.78 on 14 April 2016, 21 April 2016 and 22 April 2016. The closing price of the H Shares then gradually declined and reached a low point HK$0.58 on 24 June 2016, but gradually rebounded to HK$0.77 by the end of July 2016. Following the publication of the announcement in respect of the termination of the Proposed Placing, the closing price of the H Share plunged from HK$0.77 on 1 August 2016 to HK$0.66 on 3 August 2016, but rebounded after the publication of the positive profit alert announcement in respect of the financial results of the Qifeng Group for the six months ended 30 June 2016 on 5 August 2016. The recent growth momentum began in early October 2016 when the closing price of the H Shares was HK$0.71 on 5 October 2016. Prior to the commencement of the offer period (being the date of the publication of the Rule 3.7 Announcement), the closing price of the H Shares was HK$0.86 on 14 October 2016 and, after the publication of the Rule 3.7 Announcement, rose to HK$0.92 on 19 October 2016. The closing price of the H Shares reached a high point of HK$1.09 on 10 November 2016 and mainly fluctuated between HK$1.00 and HK$1.05 afterwards.

The chart below depicts the comparison of the movement of the closing price of the H Shares and the Hang Seng Index during the Review Period with base as 100 at the beginning of the Review Period.



Source: Bloomberg and the website of the Hong Kong Stock Exchange

With reference to the above chart, during the Pre-Announcement Period, the movement of the closing price of the H Share was generally in line with that of the Hang Seng Index, other than the slight underperformance around June 2016 and around September 2016. Following the publication of the Rule 3.7 Announcement, the level of the closing price of the H Shares significantly surged as compared that of the Hang Seng Index.

Overall, during the Review Period, the Offer Price of HK$1.097 was higher than the closing prices of the H Shares. During the Pre-Announcement Period, the closing prices of the H Shares were mainly between HK$0.60 and HK$0.80, with an average of approximately HK$0.71, where the Offer Price represents a premium of approximately 55% over such average price. The surge of the price of the H Shares to over HK$1.00 after the publication of the Rule 3.7 Announcement may be attributable to the anticipation and the proposal of the H Share Offer. The sustainability of the higher price level of the H Shares following the publication of the Rule 3.7 Announcement is uncertain, particularly if the H Share Offer does not take place in case the Delisting is not approved at the H Share Class Meeting and the EGM.

3.2 *Liquidity of the Qifeng Shares*

During the Review Period, the total number of H Shares was 259,875,000, representing 30% of the total number of Qifeng Shares (including the H Shares, the Domestic Shares and the Non-H Foreign Shares). The following table sets out the statistics of the monthly trading volume of the H Shares during the Review Period.

	Average daily trading volume of the H Shares *(Number of H Shares)*	**Approximate percentage of average daily trading volume of the H Shares to the total number of H Shares**
2015		
December	196,091	0.08%
2016		
January	219,600	0.08%
February	140,444	0.05%
March	386,286	0.15%
April	293,700	0.11%
May	654,857	0.25%
June	267,524	0.10%
July	442,800	0.17%
August	1,725,545	0.66%
September	1,458,000	0.56%
October	8,338,147	3.21%
November	2,836,526	1.09%
December	2,676,316	1.03%
2017		
January	1,478,842	0.57%
February	1,002,600	0.39%
March *(up to the Latest Practicable Date)*	1,210,437	0.47%

Source: Bloomberg

We note from the above table that the trading volume of the H Shares has been thin during the Review Period, particularly during the Pre-Announcement Period, where the percentages of average daily trading volume of the H Shares to the total number of H Shares were mainly at or below 0.25%. The higher percentage in October 2016 was mainly attributable to the significantly higher trading volume on the first single trading day following the publication of the Rule 3.7 Announcement. The sustainability of such hike in the trading volume of the H Share is uncertain, particularly if the H Share Offer does not take place in case the Delisting is not approved at the H Share Class Meeting and the EGM.

Given the thin trading volume of the H Shares, the Independent H Shareholders may find it difficult to dispose of a large volume of H Shares in the open market in a short period of time without exerting downward pressure on the price of the H Shares. Moreover, given the Domestic Shares and the Non-H Foreign Shares are not listed, the liquidity of the Domestic Shares and the Non-H Foreign Shares may be lower than that of the H Shares. Therefore, the Offers provide a viable alternative exit for the Independent Qifeng Shareholders, particularly for those who hold a large volume of the Qifeng Shares, to realise their investments in Qifeng.

3.3 *Market comparison*

We have attempted to identify a list of fair and representative comparable companies listed in Hong Kong which are principally engaged in the major business of the Qifeng Group, being the production and sale of acrylic fiber products in the PRC, to perform a price ratio analysis, but we could not identify such companies.

We have identified an exhaustive list of privatisation proposals (the "**Privatisation Precedents**"), which had offer period commenced and had successfully delisted from the Hong Kong Stock Exchange during the Pre-Announcement Period. The following table sets out the comparison of the offer price with trading prices (the "**Market Comparison**") and with net assets (the "**Book Value Comparison**").

		Premium of offer/cancellation price over the closing price prior to the commencement of the offer period				Premium/ (discount) of offer/ cancellation price over/to
Commencement date of offer period	**Company name (Stock code)**	**Last trading day**	**5-day share price average**	**30-day share price average**	**90-day share price average**	**Net assets per share (Note)**
8 July 2016	Nirvana Asia Ltd (1438 HK)	22%	31%	37%	39%	231%
17 June 2016	Bracell Limited (1768 HK)	45%	83%	137%	166%	(7%)
12 June 2016	TCL Communication Technology Holdings Limited (2618 HK)	39%	45%	52%	46%	130%

Commencement date of offer period	Company name (Stock code)	Premium of offer/cancellation price over the closing price prior to the commencement of the offer period: Last trading day	5-day share price average	30-day share price average	90-day share price average	Premium/ (discount) of offer/ cancellation price over/to Net assets per share (Note)
29 May 2016	Aupu Group Holding Company Limited (477 HK)	27%	29%	32%	32%	317%
24 May 2016	Peak Sport Products Co., Limited (1968 HK)	35%	38%	34%	38%	13%
30 March 2016	Dalian Wanda Commercial Properties Co., Ltd. (3699 HK)	39%	44%	54%	36%	18%
4 February 2016	Dongpeng Holdings Company Limited (3386 HK)	32%	42%	47%	55%	106%
6 January 2016	New World China Land Limited (917 HK)	26%	29%	41%	55%	12%
	Maximum:	**45%**	**83%**	**137%**	**166%**	**317%**
	Mean:	**33%**	**43%**	**54%**	**58%**	**103%**
	Median:	**34%**	**40%**	**44%**	**43%**	**62%**
	Minimum:	**22%**	**29%**	**32%**	**32%**	**(7%)**
The Offer Price		**28%**	**33%**	**50%**	**55%**	**0%**

Note: *Net assets per share is derived from the then latest published net assets attributable to shareholders divided by the total number of issued ordinary shares as at the commencement date of the offer period.*

Source: Publications on the website of the Hong Kong Stock Exchange by the subject companies

In respect of the Market Comparison, we note that the premiums of the Offer Price over the closing prices prior to the commencement of the offer period are within the ranges and are around the levels of the mean and median of those of the Privatisation Precedents. In respect of the Book Value Comparison, we note that the premium/discount over/to the net assets per share of the Offer Price is close to the low end but still within the range of those of the Privatisation Precedents. Given trading price indicates the market value of the shares and the amount which the shareholders might realise from the shares in the open market from time to time, we consider the Market Comparison to be a more meaningful indicator than the Book Value Comparison for our analytical purpose.

DISCUSSION AND RECOMMENDATION

Having considered the above principal factors and reasons, in particular, the following:-

- the Offer Price represents substantial premium over the closing prices of the H Shares during the Pre-Announcement Period, where the sustainability of the higher price level of the H Shares following the publication of the Rule 3.7 Announcement is uncertain;

- the trading volume of the H Shares has been thin, therefore the Independent H Shareholders may find it difficult to dispose of a large volume of H Shares in the open market in a short period of time without exerting downward pressure on the price of the H Shares. Moreover, given the Domestic Shares and the Non-H Foreign Shares are not listed, the liquidity of the Domestic Shares and the Non-H Foreign Shares may be lower than that of the H Shares. Hence, the Offers provide a viable alternative exit for the Independent Qifeng Shareholders, particularly for those who hold a large volume of the Qifeng Shares, to realise their investments in Qifeng;

- the Qifeng Group recorded net current liabilities as at 31 December 2015 and 2016, primarily due to the level of bank borrowings. Regarding the financial statements for the year ended 31 December 2015, the auditors of Qifeng had expressed an audit opinion containing an emphasis of matter in respect of the existence of a material uncertainty which might cast significant doubt about the ability of the Qifeng Group to continue as a going concern;

- the growth potential of the principal business of the Qifeng Group is uncertain in view of, among other factors, the deterioration trend of the turnover and the average unit selling price of the acrylic fiber products of the Qifeng Group for the recent financial periods;

- the Offer Price is comparable with the 2016 NAV and the Adjusted 2016 NAV; and

- Qifeng has not distributed any dividend to the Qifeng H Shareholders since 2007,

we consider the terms of the Offers to be fair and reasonable so far as the Independent Qifeng Shareholders are concerned. Accordingly, we recommend the Independent Board Committees to advise the Independent Qifeng Shareholders to accept the Offers.

The H Share Offer is conditional on, among other things, the approval of the Delisting. The Domestic Share Offer and the Non-H Foreign Share Offer are, in turn, conditional on, among other things, the H Share Offer becoming unconditional. If the Delisting is not approved, the Offers will lapse. In light of the aforementioned, particularly (i) the Offers are conditional on the Delisting; (ii) the premium represented by the Offer Price; (iii) the low liquidity of the Qifeng Shares; (iv) the Offers provide a viable alternative exit for the Independent Qifeng Shareholders; and (v) the uncertainty in respect of the growth potential of the principal business of the Qifeng Group, we are of the view that the Delisting is acceptable to and is in the interests of the Independent Qifeng Shareholders as a whole. Accordingly, we recommend the Independent Board Committees to advise the Independent Qifeng Shareholders to vote in favour of the resolution in approving the Delisting.

We would like to remind the Independent H Shareholders who would like to realise part or all of their investments in the H Shares to closely monitor the market price of the H Shares during the period of the H Share Offer and may, instead of accepting the H Share Offer, consider selling their H Shares in the open market should the proceeds, net of all transaction costs, of such sale exceed the amount receivable under the H Share Offer.

We would also like to remind the Independent H Shareholders that the Offerors have no rights under the laws of the PRC and the Articles of Association of Qifeng to compulsorily acquire the H Shares that are not tendered for acceptance pursuant to the H Share Offer. Accordingly, if the Independent H Shareholders do not accept the H Share Offer and the H Share Offer subsequently becomes unconditional in all respects, where the H Shares are delisted from the Hong Kong Stock Exchange, this will result in the Independent H Shareholders holding securities that are not listed on the Hong Kong Stock Exchange. In addition, Qifeng may or may not continue to be subject to the Takeovers Code after the completion of the Offers depending on whether it remains as a public company thereafter.

In any case, the Independent Qifeng Shareholders are strongly advised that the decision to realise or to hold their investment is subject to individual circumstances and investment objectives. If in doubt, the Independent Qifeng Shareholders should consult their own professional advisers for professional advice.

Yours faithfully,
For and on behalf of
First Shanghai Capital Limited

Fanny Lee
Managing Director

Allen Wang
Director

Note: Ms Fanny Lee and Mr Allen Wang have been responsible officers of Type 6 (advising on corporate finance) regulated activity under the SFO since 2006 and 2014, respectively. Both of them have participated in the provision of independent financial advisory services for various types of transactions involving companies listed in Hong Kong.

* *For identification purpose only*

1. PROCEDURES FOR ACCEPTANCE AND SETTLEMENT FOR THE QIFENG H SHAREHOLDERS

1.1. If the H Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your H Shares is/are in your name, and you wish to accept the H Share Offer in respect of your H Shares, you must send the duly completed Form of Acceptance together with the relevant H Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof), by post or by hand to the Registrar at 31/F, 148 Electric Road, North Point, Hong Kong as soon as possible and in any event so as to reach the Registrar at the aforesaid address no later than 4:00 p.m. on the Closing Date or such later time and/or date as Jilin Fiber may determine and announce in accordance with the Takeovers Code to the Registrar.

1.2. If the H Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your H Shares is/are in the name of a nominee company or a name other than your own, and you wish to accept the H Share Offer in respect of your H Shares, you must either:

(a) lodge your H Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) with the nominee company, or other nominee, with instructions authorising it to accept the H Share Offer on your behalf and requesting it to deliver the duly completed Form of Acceptance together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof), to the Registrar; or

(b) arrange for the H Shares to be registered in your name by Qifeng through the Registrar, and deliver the duly completed Form of Acceptance together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof), to the Registrar; or

(c) if your H Shares have been lodged with your licensed securities dealer or registered institution in securities or custodian bank through CCASS, instruct your licensed securities dealer or registered institution in securities or custodian bank to authorise HKSCC to accept the H Share Offer on your behalf on or before the deadline set out by HKSCC (which is normally one Business Day before the latest date on which acceptances of the H Share Offer must be received by the Registrar). In order to meet the deadline set by HKSCC, you should check with your licensed securities dealer or registered institution in securities or custodian bank for the timing on the processing of your instruction, and submit your instructions to your licensed securities dealer or registered institution in the securities or custodian bank as required by them; or

(d) if your H Shares have been lodged with your Investor Participant Account with CCASS, authorise your instruction via the CCASS Phone System or CCASS Internet System no later than the deadline set out by HKSCC (which is normally one Business Day before the latest date on which acceptances of the H Share Offer must be received by the Registrar).

1.3. If you have lodged transfer(s) of any of your H Shares for registration in your name and have not yet received your H Share certificate(s), and you wish to accept the H Share Offer in respect of your H Shares, you should nevertheless complete the Form of Acceptance and deliver it to the Registrar together with the transfer receipt(s) duly signed by yourself. Such action will constitute an irrevocable authority to Somerley Capital and/or the Offerors or their respective agent(s) to collect from Qifeng or the Registrar on your behalf the relevant share certificate(s) when issued and to deliver such share certificate(s) to the Registrar on your behalf and to authorise and instruct the Registrar to hold such share certificate(s), subject to the terms and conditions of the H Share Offer, as if it was/they were delivered to the Registrar with the Form of Acceptance.

1.4. If the H Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title in respect of your H Shares is/are not readily available and/or is/are lost and you wish to accept the H Share Offer in respect of your H Shares, you should nevertheless complete the Form of Acceptance and deliver it to the Registrar together with a letter stating that you have lost one or more of your share certificate(s) and/or transfer receipt(s) and/or other document(s) of title or that it is/they are not readily available. If you find such document(s) or if it/they become(s) available, the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title should be forwarded to the Registrar as soon as possible thereafter. If you have lost your H Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title, you should also write to the Registrar for a letter of indemnity which, when completed in accordance with the instructions given, should be returned to the Registrar.

1.5. Acceptance of the H Share Offer will be treated as valid only if the completed Form of Acceptance is received by the Registrar by no later than 4:00 p.m. on the Closing Date or such later time and/or date as the Offerors may determine and announce as permitted under the Takeovers Code, and is:

(a) accompanied by the relevant H Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and, if those H Share certificate(s) is/are not in your name, such other documents in order to establish your right to become the registered holder of the relevant H Share; or

(b) from a registered Qifeng H Shareholder or his personal representative (but only up to the amount of the registered holding and only to the extent that the acceptance relates to H Shares which are not taken into account under another sub-paragraph of this paragraph 1.5); or

(c) certified by the Registrar or the Hong Kong Stock Exchange.

1.6. If the Form of Acceptance is executed by a person other than the registered Qifeng H Shareholder, appropriate documentary evidence of authority (e.g. grant of probate or certified copy of a power of attorney) to the satisfaction of the Registrar must be produced.

1.7. No acknowledgement of receipt of any Form(s) of Acceptance, share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or satisfactory indemnity or indemnities required in respect thereof) will be given.

1.8. Provided that a valid Form of Acceptance and the relevant H Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) are complete and in good order in all respects and have been received by the Registrar no later than the latest time for acceptance (or such later time and/or date as the Offerors may announce with the consent of the Executive) and the H Share Offer has become or is declared unconditional in all respects, a cheque for the amount due to each Accepting Qifeng H Shareholder less seller's ad valorem stamp duty in respect of the Accepting Qifeng H Shares tendered by him/her/it under the H Share Offer will be despatched to the Accepting Qifeng H Shareholder by ordinary post at his/her/its own risk as soon as possible but in any event within 7 Business Days of the later of the date on which the H Share Offer becomes or is declared unconditional in all respects and the date of receipt of the completed Form of Acceptance and all the relevant documents by the Registrar (which should be received no later than 4:00 p.m. on the Closing Date or such later time and date as determined and announced by the Offerors with the consent of the Executive) from the Qifeng H Shareholder accepting the H Share Offer.

2. ACCEPTANCE PERIOD AND REVISIONS

2.1. The H Share Offer is made on Monday, 3 April 2017, the date of posting of this Composite Document, and is capable of acceptance on and from this date.

2.2. Jilin Fiber have the right, subject to the Takeovers Code, to extend the H Share Offer after the despatch of this Composite Document or to revise the terms of the H Share Offer (other than the offer price of the H Share Offer), and may introduce new conditions to be attached to any revision to any of the H Share Offer or any subsequent revision thereof to the extent necessary to implement the revised H Share Offer and subject to the consent of the Executive.

2.3. Unless the Executive consents to the extension of the H Share Offer, all acceptances must be received by 4:00 p.m. on the Closing Date in accordance with the instructions printed on the Form of Acceptance and the H Share Offer will be closed at 4:00 p.m. on the Closing Date.

2.4. In accordance with Rule 15.3 of the Takeovers Code, where the H Share Offer becomes or is declared unconditional, it should remain open for acceptance for not less than 14 days thereafter. In such case, at least 14 days' notice in writing must be given before the H Share Offer is closed to the Independent H Shareholders who have not accepted the H Share Offer and an announcement will be published. Jilin Fiber will extend the 14-day period under Rule 15.3 of the Takeovers Code to 30 June 2017.

2.5. If in the course of the H Share Offer, Jilin Fiber revise its terms (other than the offer price of the H Share Offer), all Qifeng H Shareholders, whether or not they have already accepted the H Share Offer, will be entitled to the revised terms. A revised offer must be kept open for at least 14 days following the date on which the revised offer document is posted and shall not be closed earlier than the Closing Date.

2.6. If the H Share Offer is extended (with the consent of the Executive) or revised, the announcement of such extension or revision will state the next closing date. If the Closing Date of the H Share Offer is extended, any reference in this Composite Document and in the Form of Acceptance to the closing date shall, except where the context otherwise requires, be deemed to refer to the closing date of the H Share Offer so extended. There is no obligation to extend the H Share Offer the conditions of which are not met by the Closing Date.

2.7. The acceptance by or on behalf of Qifeng H Shareholder in its original and/or any previously revised form, shall be treated as an acceptance of the relevant H Share Offer as so revised.

2.8. Any acceptance of the relevant revised H Share Offer and/or any election pursuant thereof shall be irrevocable unless and until the Accepting Qifeng H Shareholder of the H Share Offer becomes entitled to withdraw his/her/its acceptance under the paragraph headed "Right of Withdrawal" below and duly does so.

3. ANNOUNCEMENTS

3.1. By 6:00 p.m. on the Closing Date (or such later time and/or date as the Executive may agree), Jilin Fiber must inform the Executive and the Hong Kong Stock Exchange of their decision in relation to the revision, extension or expiry of the H Share Offer. Jilin Fiber must publish an announcement on the Hong Kong Stock Exchange's website by 7:00 p.m. on the Closing Date stating, among other information required under Rule 19.1 of the Takeovers Code, whether the H Share Offer has been revised, extended or has expired.

3.2. In computing the total number of H Shares represented by acceptances, only valid acceptances that are complete, in good order and fulfil the acceptance conditions set out in paragraph 1 of this Appendix I, and which have been received by the Registrar no later than 4:00 p.m. on the Closing Date, being the latest time and date for acceptance of the H Share Offer, shall be included.

3.3. As required under the Takeovers Code and the Listing Rules, any announcement in relation to the H Share Offer, in respect of which the Executive and the Hong Kong Stock Exchange have confirmed that they have no further comments thereon, must be made in accordance with the requirements of the Takeovers Code and the Listing Rules.

4. RIGHT OF WITHDRAWAL

4.1. If Jilin Fiber is not able to comply with the requirements set out in the paragraph headed "Announcements" in this Appendix, the Executive may require that Accepting Qifeng H Shareholders who have tendered acceptances to the H Share Offer be granted a right of withdrawal on terms that are acceptable to the Executive until the requirements set out in that paragraph are met.

4.2. If the H Share Offer is withdrawn or lapses, the Offeror shall, as soon as possible but in any event within 10 days thereof, return by ordinary post the H Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) lodged with the Form of Acceptance to the relevant Accepting Qifeng H Shareholder(s) at their own risk.

5. GENERAL

5.1. All communications, notices, Form of Acceptance, certificates of the H Shares, transfer receipts, other documents of title or indemnities, and remittances to settle the consideration payable under the H Share Offer to be delivered by or sent to or from the Qifeng H Shareholders will be delivered by or sent to or from them, or their designated agents, at their own risk, and none of Jilin Fiber, Somerley Capital, Qifeng, the Registrar, or any of their respective directors, or any other person involved in the H Share Offer, shall accept any liability for any loss in postage or any other liabilities that may arise as a result thereof.

5.2. Acceptance of the H Share Offer by any nominee will be deemed to constitute a warranty by such nominee to Jilin Fiber and Somerley Capital that the number of H Shares in respect of which it is indicated in the Form of Acceptance is the aggregate number of H Shares held by such nominee for such beneficial owners who are accepting the H Share Offer.

5.3. The provisions set out in the Form of Acceptance form part of the terms of the H Share Offer.

5.4. The accidental omission to despatch this Composite Document and/or the Form of Acceptance or any of them to any person to whom the H Share Offer is made will not invalidate the H Share Offer in any way.

5.5. The H Share Offer and all acceptances will be governed by and construed in accordance with the laws of Hong Kong. Execution of a Form of Acceptance by or on behalf of a Qifeng H Shareholder will constitute such Qifeng H Shareholder's agreement that the courts of Hong Kong shall have exclusive jurisdiction to settle any dispute which may arise in connection with the H Share Offer.

5.6. Due execution of a Form of Acceptance will constitute an irrevocable authority to Jilin Fiber or Somerley Capital or such person or persons as Jilin Fiber or Somerley Capital may direct to complete, amend and execute any document on behalf of the person accepting the H Share Offer and to do any other act that may be necessary or expedient for the purposes of vesting in Jilin Fiber or such person or persons as it may direct the H Shares in respect of which such person has accepted the H Share Offer.

5.7. Acceptance of the H Share Offer by any person or persons will constitute a warranty by such person or persons to Jilin Fiber that the H Shares acquired under the H Share Offer are sold by any such person or persons free from all liens, charges, equities, adverse interests, options, claims, and encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attaching to them as at the date of the Joint Announcement or subsequently becoming attached to them, including without limitation the right to receive in full all dividends (whether final or interim) and other distributions, if any, declared, made or paid on or after the date of the Joint Announcement.

5.8. References to the H Share Offer in this Composite Document and in the Form of Acceptance shall include any revision and/or extension thereof and references to the H Share Offer becoming unconditional shall include a reference to the H Share Offer being declared unconditional.

5.9. Seller's ad valorem stamp duty for transfers of the H Shares registered with the Registrar arising in connection with acceptance of the H Share Offer will be payable by each Accepting Qifeng H Shareholder at the rate of HK$1.00 for every HK$1,000 or part thereof of the greater of (i) the consideration payable by Jilin Fiber for such person's H Shares; and (ii) the value of the H Shares and will be deducted from the cash amount due to such Qifeng H Shareholder under the H Share Offer. Jilin Fiber will pay the buyer's ad valorem stamp duty on its own behalf and the sellers' ad valorem stamp duty so deducted above on behalf of the Accepting Qifeng H Shareholders in respect of the H Shares accepted under the H Share Offer.

5.10. Settlement of the consideration to which any Accepting Qifeng H Shareholder is entitled under the H Share Offer will be implemented in full in accordance with the terms of the H Share Offer without regard to any lien, right of set-off, counterclaim or other analogous right to which Qifeng may otherwise be, or claim to be, entitled against such Accepting Qifeng H Shareholder. No fractions of a cent will be payable and the amount of cash consideration payable to a Qifeng H Shareholder who accepts the H Share Offer will be rounded up to the nearest cent.

5.11. The making of the H Share Offer to persons with a registered address in jurisdictions outside Hong Kong may be prohibited or affected by the laws of the relevant jurisdictions. The Qifeng H Shareholders who are citizens or residents or nationals of jurisdictions outside Hong Kong should inform themselves about or obtain appropriate legal advice regarding the implications of the H Share Offer in the relevant jurisdiction and observe any applicable regulatory or legal requirements. It is the responsibility of any such person who wishes to accept the H Share Offer to satisfy himself/herself/itself as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control, regulation or other consents which may be required or the compliance with other necessary formalities, regulatory or legal requirements and the payment of any transfer or other taxes due in respect of such jurisdiction resulting from acceptance of the H Share Offer. Any such overseas Qifeng H Shareholders shall be fully responsible for payment of any transfer or other taxes and duties imposed by whomsoever payable in respect of that jurisdiction resulting from acceptance of the H Share Offer. Jilin Fiber, Somerley Capital and any other person involved in the H Share Offer shall be entitled to be fully indemnified and held harmless by such person for any taxes as such person may be required to pay.

5.12. Acceptance of the H Share Offer by any person or persons will constitute a warranty by such person to Jilin Fiber and Somerley Capital and that such person is permitted under all applicable laws to receive and accept the H Share Offer, and any revision thereof, and such acceptance shall be valid and binding in accordance with all applicable laws.

5.13. H Shares sold to Jilin Fiber by way of the H Share Offer will be registered under the name of Jilin Fiber or its nominee.

5.14. The English text of this Composite Document and of the Form of Acceptance shall prevail over their respective Chinese texts for the purpose of interpretation.

5.15. This Composite Document and the Form of Acceptance have been prepared for the purposes of compliance with the legislative and regulatory requirements applicable in respect of the H Share Offer in Hong Kong and the operating rules of the Hong Kong Stock Exchange.

5.16 HKSCC will generally give notice to all participants specifying the date on which an issue of securities shall become or cease to be an "Eligible Security" (as defined in the General Rules of CCASS). Upon the discontinuance of the eligibility of an Eligible Security, HKSCC may forthwith cease to render services in respect of such Eligible Security and may require participants to withdraw or transfer Eligible Securities of such an issue from CCASS. Participants will be further informed of the withdrawal deadline via broadcast message or other communication means.

1. SUMMARY OF FINANCIAL INFORMATION

The following summary of the financial information has been extracted from the audited consolidated financial statements of the Company for each of the three years ended 31 December 2014, 2015 and 2016 extracted from annual results announcement of the Company for the year ended 2016 and the annual report of the Company for the year 2015.

The auditors of the Company was Moore Stephens CPA Limited for the years ended 2014, 2015 and 2016 and the auditors have expressed an unqualified audit opinion with emphasis on going concern uncertainty on the financial statements of the Group for each of the three years ended 31 December 2014, 2015 and 2016.

(a) Extract of Independent Auditors' report from the annual results announcement 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.

(b) Independent Auditor's report for the year ended 31 December 2015

TO THE SHAREHOLDERS OF JILIN QIFENG CHEMICAL FIBER CO., LTD.
(a joint stock company incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Jilin Qifeng Chemical Fiber Co., Ltd. (the "Company") and its subsidiary (together the "Group") set out on pages 43 to 120, which comprise the consolidated statements of financial position as at 31 December 2015, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILTIY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2015, and of the Group's financial performance 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

Without qualifying our opinion, we draw attention to note 2.1 to the consolidated financial statements, as at 31 December 2015, the Group's current liabilities exceeded its current assets by RMB378,651,000. 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.

Moore Stephens CPA Limited
Certified Public Accountants

Chan King Keung
Practising Certificate Number: P06057

Hong Kong, 30 March 2016

(c) Independent Auditor's report for the year ended 31 December 2014

TO THE SHAREHOLDERS OF JILIN QIFENG CHEMICAL FIBER CO., LTD.
(a joint stock company incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Jilin Qifeng Chemical Fiber Co., Ltd. (the "Company") and its subsidiary (together the "Group") set out on pages 42 to 124, which comprise the consolidated and company statements of financial position as at 31 December 2014, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILTIY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 2014, 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

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 RMB72,170,000 during the year ended 31 December 2014 and, as of that date, the Group's current liabilities exceeded its current assets by RMB673,585,000. 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. 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.

OTHER MATTER

The consolidated financial statements of the Group for the year ended 31 December 2013, were audited by another auditor who expressed an unmodified opinion on those statements on 28 March 2014.

Moore Stephens CPA Limited
Certified Public Accountants

Chan King Keung
Practising Certificate Number: P06057

Hong Kong, 26 March 2015

The Group had no exceptional or extraordinary items which were exceptional because of its size, nature or incidence for each of the three years ended 31 December 2014, 2015 and 2016.

(i) Consolidated results

	For the year ended 31 December		
	2016	**2015**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
	(audited)	(audited)	(audited)
RESULTS			
Revenue	1,571,255	1,787,074	1,895,910
Profit/(loss) before tax and discontinued operations	110,655	182,224	(18,082)
Loss for the year from discontinued operations	—	(44,615)	(50,741)
Income tax expense	(24,142)	(5,429)	(3,347)
Profit/(loss) for the year attributable to Owners of the Company	86,513	132,180	(72,170)
Earnings per Share			
— Basic and diluted *(RMB cents)*	10.0	15.2	(8.3)
Dividend	Nil	Nil	Nil

(ii) Consolidated assets and liabilities

	For the year ended 31 December		
	2016	**2015**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
	(audited)	(audited)	(audited)
ASSETS AND LIABILITIES			
Total assets	2,525,232	2,472,945	2,918,991
Total liabilities	1,644,741	1,678,967	2,257,193
Equity attributable to owners of the Company	880,491	793,978	661,798

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2016

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

	Notes	**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 onging 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 fo 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	Unaudited Discontinued operations Carbon fiber products	Total
	RMB'000	*RMB'000*	*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	(108,792)	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	Proportion to the total revenues	Revenue	Proportion to the total revenues
	RMB'000		*RMB'000*	
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	2015
	RMB'000	*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	300	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 inadministrative 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	2015
	RMB'000	*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	2015
	RMB'000	*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	2015
	RMB'000	*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	2015
	RMB'000	*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.

3. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2015

The following is the full text of the audited consolidated financial statements of the Group as extracted from the annual report of the Company for the year ended 31 December 2015.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015

	Notes	**2015**	**2014**
		RMB'000	*RMB'000*
ASSETS			
Non-current assets			
Land use rights	7	70,585	80,735
Property, plant and equipment	8	911,730	1,426,090
Intangible assets	9	3,667	—
Interest in a joint venture	10	149,259	127,304
Deferred income tax assets	20	48,914	68,129
Prepayments and other receivables	11	144,500	2,785
		1,328,655	1,705,043
Current assets			
Inventories	12	208,683	345,256
Trade and other receivables	13	802,515	663,323
Land use rights	7	3,321	3,898
Restricted bank deposits	14	62,151	143,657
Cash and cash equivalents	14	67,620	57,814
		1,144,290	1,213,948
Total assets		2,472,945	2,918,991

	Notes	2015	2014
		RMB'000	*RMB'000*
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	15(a)	866,250	866,250
Share premium	15(b)	142,477	142,477
Other reserves	16	31,919	31,919
Accumulated losses	16	(246,668)	(378,848)
Total equity		793,978	661,798
LIABILITIES			
Non-current liabilities			
Long-term bank borrowings	17	115,154	307,697
Deferred income	18	40,872	61,963
		156,026	369,660
Current liabilities			
Trade and other payables	19	354,661	445,617
Deferred income	18	7,027	7,274
Short-term bank borrowings	17	1,058,710	1,309,099
Current portion of long-term bank borrowings	17	102,543	120,551
Derivative financial instrument	21	—	4,992
		1,522,941	1,887,533
Total liabilities		1,678,967	2,257,193
Total equity and liabilities		2,472,945	2,918,991
Net current liabilities		(378,651)	(673,585)
Total assets less current liabilities		950,004	1,031,458

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2015

	Notes	**2015**	**2014**
		RMB'000	*RMB'000*
			(Restated)
Turnover	6	1,787,074	1,895,910
Cost of sales		(1,455,327)	(1,746,747)
Gross profit		331,747	149,163
Other income and gains	22	464,634	486,899
Distribution costs		(62,001)	(46,385)
Administrative expenses		(80,751)	(75,511)
Other expenses and losses	23	(379,597)	(365,866)
Operating profit		274,032	148,300
Finance income	26	5,510	1,735
Finance costs	26	(119,000)	(135,730)
		160,542	14,305
Share of result of a joint venture	10	21,682	(32,387)
Profit/(loss) before income tax	24	182,224	(18,082)
Income tax expense	27	(5,429)	(3,347)
Profit/(loss) after income tax from continuing operations		176,795	(21,429)
Loss for the year from discontinued operations	30	(44,615)	(50,741)
Profit/(loss) and total comprehensive income for the year attributable to owners of the Company		132,180	(72,170)
Earnings/(loss) per share attributable to owners of the Company (expressed in RMB cents per share)	28		
From continuing and discontinued operations			
— basic and diluted		15.2	(8.3)
From continuing operations			
— basic and diluted		20.4	(2.5)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015

	Attributable to owners of the Company				
	Share capital	**Share premium**	**Other reserves**	**Accumulated losses**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 15(a))	*(Note 15(b))*	*(Note 16)*		
At 1 January 2014	866,250	142,477	31,919	(306,678)	733,968
Loss and total comprehensive income for the year	—	—	—	(72,170)	(72,170)
At 31 December 2014 and 1 January 2015	866,250	142,477	31,919	(378,848)	661,798
Profit and total comprehensive income for the year	—	—	—	132,180	132,180
At 31 December 2015	866,250	142,477	31,919	(246,668)	793,978

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015

	Notes	**2015**	**2014**
		RMB'000	*RMB'000*
Cash flows from operating activities			
Cash generated from operations	32	476,114	183,284
Income tax paid		—	1,893
Net cash generated from operating activities		476,114	185,177
Cash flows from investing activities			
Purchases of property, plant and equipment		(30,902)	(23,561)
Purchases of intangible assets		(4,000)	—
Government grants received		—	1,600
Proceeds from disposal of property, plant and equipment		11,312	154
Proceeds from disposal of land use rights		4,210	—
Net cash outflow from disposal of a subsidiary	31	(13,853)	—
Interest received		6,218	2,532
Payments of loss arising on derivative financial instrument		(5,213)	(5,655)
Decrease/(increase) in restricted bank deposits		29,305	(69,644)
Net cash used in investing activities		(2,923)	(94,574)
Cash flows from financing activities			
Proceeds from borrowings		1,042,856	2,763,000
Repayments of borrowings		(1,382,796)	(2,819,166)
Interests and guarantee fees paid		(123,445)	(147,436)
Proceeds from bill payables		—	80,000
Net cash used in financing activities		(463,385)	(123,602)
Net increase/(decrease) in cash and cash equivalents		9,806	(32,999)
Cash and cash equivalents at beginning of year		57,814	90,813
Cash and cash equivalents at end of year	14	67,620	57,814

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

1. GENERAL INFORMATION

Jilin Qifeng Chemical Fiber Co., Ltd. (the "Company") and its subsidiary (collectively the "Group") is principally engaged in the production and sales of different types of acrylic fiber products (namely acrylic top, acrylic tow and acrylic staple fiber) and the development, production and sales of carbon fiber products.

The Company is a limited liability company incorporated in the People's Republic of China (the "PRC") and is listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of its registered office is Block 4, Zone D, Hengshan West Road, Jilin New and High Technology Development Zone, Jilin City, Jilin Province, the PRC.

In the opinion of the Company's directors, the ultimate parent company of the Company is Jilin Chemical Fiber Group Co., Ltd. ("JCF Groupco"), a limited liability company established in the PRC and a state-owned enterprise wholly-owned by the PRC government.

These consolidated financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand, unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors (the "Board") of the Company on 30 March 2016.

2. BASIS OF PREPARATION

2.1 Basis of preparation and going concern assumption

As at 31 December 2015, the Group's current liabilities exceeded its current assets by RMB378,651,000 (2014: RMB673,585,000) and the bank borrowings as included in the Group's current liabilities amounted to RMB1,161,253,000 (2014: RMB1,429,650,000) 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 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 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, 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 improved in view of the improving 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 Company'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 Company'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, except for derivative financial instrument being categorised as financial liabilities at fair value through profit or loss (Note 21).

The preparation of consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

2.2 **Adoption of new/revised HKFRSs — effective on 1 January 2015**

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 2015:

Amendments to HKAS 19 (2011)	Defined Benefit Plans: Employee Contributions
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010-2012 Cycle
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011-2013 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.

In addition, the Group has adopted the amendments to the Listing Rule issued by the Stock Exchange relating to the disclosure of financial information with reference to the Hong Kong Companies Ordinance (Cap. 622) during the current financial year. The main impact to the consolidated financial statements is on preparation and disclosure of certain information in the consolidated financial statements.

2.3 **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 9	Financial Instruments[1]
HKFRS 14	Regulatory Deferral Accounts[2]
HKFRS 15	Revenue from Contracts with Customers[1]
Amendments to HKAS 1	Disclosure Initiative[3]
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[3]
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants[3]
Amendments to HKAS 27 (2011)	Equity Method in Separate Financial Statements[3]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	Investment Entities: Applying the Consolidation Exception[3]
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations[3]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle[3]

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

2 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

3 Effective for annual periods beginning on or after 1 January 2016

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.

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together the classification and measurement, impairment and hedge accounting phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 January 2018. The Group expects that the adoption of HKFRS 9 will have an impact on the classification and measurement of the Group's financial assets. Further information about the impact will be available nearer the implementation date of the standard.

The amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The Group expects to adopt the amendments from 1 January 2016.

HKFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations; changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. The Group expects to adopt HKFRS 15 on 1 January 2018. The Group is currently assessing the impact of HKFRS 15 upon adoption.

Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016 as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

3.1 Group accounting

The Group is currently comprised of the Company and its subsidiary. The Group also has an investment in a joint venture.

Subsidiary is fully consolidated from the date on which control is transferred to the Group and is de-consolidated from the date that control cease. When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 3.8) or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (see Note 3.1(b)). Inter-company transactions, balances and unrealised gains/losses on transactions between group companies are eliminated.

Investment in the joint venture is accounted for using the equity method of accounting and is initially recognised at cost. The consolidated statement of comprehensive income includes the Group's share of the results of the joint venture for the year and the consolidated statement of financial position includes the Group's share of net assets of the joint venture. Unrealised gains on transactions between the Group and its joint venture are eliminated to the extent of the Group's interest in the joint venture. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the assets transferred.

(a) *Subsidiary*

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Company's statement of financial position, investment in subsidiary is stated at cost less impairment loss, if any. The result of subsidiary is accounted for by the Company on the basis of dividend received and receivable.

(b) *Joint arrangements*

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

In assessing the classification of interests in joint arrangement, the Group considers:

— The structure of the joint arrangement;

— The legal form of joint arrangements structured through a separate vehicle;

— The contractual terms of the joint arrangement agreement; and

— Any other facts and circumstances (including any other contractual arrangements).

In the Company's statement of financial position, the investment in the joint venture is stated at cost less provision for impairment losses (if any). The result of the joint venture is accounted by the Company on the basis of dividend received and receivable.

3.2 **Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers. The chief operating decision-makers have been identified as the three executive directors of the Company who are responsible for allocating resources, assessing performance of operating segments and making strategic decisions.

3.3 **Foreign currency translation**

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in RMB which is the Company's functional and the Group's presentation currency. RMB is also the functional currency of the subsidiary and the joint venture of the Company.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statement of comprehensive income within 'finance income and costs'. All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within 'other income and gains' and 'other expenses and losses'.

3.4 **Property, plant and equipment**

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses (if any). Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Buildings	10 - 22 years
Machinery and equipment	12 - 16 years
Electronic and office equipment	5 years
Motor vehicles	5 years

Construction in progress represents buildings, plant and machinery under construction and pending installation and is stated at cost. No depreciation is provided for construction in progress during the construction and installation stage. When the related construction and installation works completed and the relevant assets are brought into their intended use, construction in progress will then be transferred to the relevant categories of property, plant and equipment and depreciated in accordance with the policy as stated above.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 3.7).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss and presented in the consolidated statement of comprehensive income within 'other income and gains' and 'other expenses and losses'.

3.5 Land use rights

All the land in the PRC is state-owned and no individual land ownership right exists. The Group leased several pieces of land and the related prepaid operating lease payments are recognised as land use rights. Land use rights are stated at the prepaid operating lease payments less accumulated amortisation and impairment losses (if any). Amortisation is calculated using the straight-line method to allocate the prepaid operating lease payments for land over the remaining lease terms.

3.6 Intangible assets — Accounting software

Accounting software is stated at historical cost and amortised using the straight-line method over its estimated useful life of 10 years. Carrying value of accounting software is stated at cost less accumulated amortisation and impairment losses (if any).

3.7 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to deprecation or amortisation and are tested annually for impairment. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered from impairment are reviewed for possible reversal of the impairment at each reporting date.

3.8 Financial assets

The Group classifies its financial assets in the following categories: financial assets 'at fair value through profit or loss', 'held-to-maturity' investments, 'available-for-sale' financial assets and 'loans and receivables'. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Regular way purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period which will then be classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables', 'restricted bank deposits' and 'cash and cash equivalents'. Loans and receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

3.9 **Derivative financial instruments**

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designed as a hedging instrument, and if so, the nature of the item being hedged. As mentioned Note 3.8 above, the Group has entered into an interest rate swap contract which has been classified as financial liability at fair value through profit or loss and the management considers that this derivative financial instrument do not qualify for hedge accounting. Changes in the fair value of this derivative financial instrument is recognised immediately in profit or loss and presented in the consolidated statement of comprehensive income within 'other income and gains' and 'other expenses and losses'.

3.10 **Fair value measurement**

The Group measures its derivative financial instruments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

3.11 **Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

3.12 **Impairment of financial assets carried at amortised costs**

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. The Group first assesses whether objective evidence of impairment exists.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

3.13 **Financial liabilities**

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities include trade and other payable and borrowings; they are initially measured at fair value, net of directly attributable costs incurred. Subsequent to initial recognition, financial liabilities are measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

3.14 **Derecognition of financial assets and liabilities**

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

3.15 **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

3.16 **Cash and cash equivalents**

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts (if any).

3.17 **Leases**

Leases in which a significant portion of the risks and rewards of ownership of the leased assets are retained by the lessor are classified as operating leases.

(a) *Leases — where the Group as the lessee*

Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

(b) *Leases — where the Group as the lessor*

When the Group leases out assets under operating leases, the assets are included in the statement of financial position according to their nature and where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in Note 3.4 above. Rental income arising from assets leased out under operating leases is recognised in accordance with the Group's revenue recognition policy as set out in Note 3.25 below.

3.18 **Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

3.19 **Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

3.20 **Trade payables**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

3.21 **Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

3.22 **Borrowing costs**

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3.23 Current and deferred income tax

Income tax expense for the period comprises current and deferred tax. Income tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the income tax is also recognised in other comprehensive income or directly in equity, respectively.

Current income tax is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted at the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in the subsidiary and the joint venture, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

3.24 **Employee benefits**

(a) *Retirement benefits costs*

The Group contributes on a monthly basis to various defined contribution retirement benefit plans organised by relevant municipal and provincial governments in the PRC. The municipal and provincial governments undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

(b) *Bonus plans*

The Group recognises a liability and an expense for bonuses, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

3.25 **Recognition of revenue and income**

Revenue is measured at the fair values of the considerations received or receivable for the sales of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue and income when the amount of revenue and income can be reliably measured, when it is probable that future economic benefits will flow to the entity and when specific criteria have been met for the Group's activities as described below. The amounts of revenue and income are not considered to be reliably measureable until all contingences associated with the sales and income has been resolved.

(a) *Sales of goods*

Sales of goods are recognised when the Group has delivered products to the customers; the customers have accepted the products and the related risks and rewards of ownership; and collectability of the related receivables is reasonably assured. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts, if any.

(b) *Operating lease rental income*

Rental income from operating lease is recognised on a straight-line basis over the terms of leases.

(c) *Income from provision of utilities*

Income from provision of utilities is recognised when the related utilities are provided to the customers or users.

(d) *Interest income*

Interest income is recognised on a time-proportion basis using the effective interest method.

3.26 **Government grants**

Grants from government are recognised at their fair value when there is a reasonable assurance that the grants will be received and the Group complies with the attached conditions.

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match with the costs that the grants are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in liabilities as deferred income and are credited to profit or loss on a straight-line basis over the estimated useful lives of the related assets.

3.27 **Contingent liabilities**

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

Contingent liabilities are not recognised but are disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

4. FINANCIAL RISK MANAGEMENT

4.1 **Financial risk factors**

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) *Market risk*

Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions settle in RMB, only with approximately 14.4% (2014: 11.6%) of the Group's revenue denominated in United State dollars ("US dollar").

The conversion of RMB into foreign currencies is subject to the rules and regulation of the foreign exchange control promulgated by the PRC government.

Management considers that the foreign exchange risk associated with the Group's financial assets and liabilities will not be significant. Management considers that the possible depreciation of RMB in future periods may have a favourable implication on the Group's sales and costs of production but the potential impacts cannot be quantified.

Interest rate risk

As the Group has no significant interest bearing assets (other than cash and cash equivalents and restricted bank deposits), the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest rate risk primarily arises from bank borrowings.

Borrowings obtained at variable rates expose the Group to cash flow interest rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk. In general, the Group raises long-term borrowings at floating rates as well as fixed rates, based upon the capital market conditions and the Group's internal requirements. As at 31 December 2015, the Group's fixed rates borrowings and floating rates borrowings amounted to RMB492,710,000 (2014: RMB384,849,000) and RMB783,697,000 (2014: RMB1,352,498,000) respectively.

With all other variables held constant, the Group's finance costs on the floating rates borrowings will increase/decrease by approximately RMB3,918,000 (2014: RMB3,088,000) if the interest rate is 50 basis points higher/lower.

(b) *Credit risk*

The Group's credit risks are primarily attributable to trade and other receivables (including bills receivables) and deposits with banks and financial institutions. The Group's maximum exposure to credit risk is the unimpaired carrying amounts of respective financial assets as mentioned above. Management has credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade receivables, the Group limits its exposure to credit risk by performing credit reviews and monitoring the financial strength of its major customers. Customers are assessed and rated based on their credit quality, taking into account its financial position, past repayment history and other factors. Individual credit limits are set by the management and utilisation of these credit limits is regularly monitored.

Generally, trade receivables are due within 30 days from the date of billing.

Except for the financial guarantee given by the Group as set out in Note 34(e), the Group does not provide any other guarantees which would expose the Group to credit risk.

As at 31 December 2015, the Group has certain concentration of credit risk because approximately 73% (2014: 71%) of the total trade receivables (gross amount before any impairment provision) was due from five of the Group's debtors (the "Top Five Debtors"). The aging analysis of the balances due from the Top Five Debtors are as below:

	2015	2014
	RMB'000	*RMB'000*
Receivables from the Top Five Debtors:		
Within 30 days	27,647	34,211
31 - 90 days	39,038	30,375
91 - 365 days	4,006	4,784
Over 365 days	4,363	9,899
	75,054	79,269

As at 31 December 2015, no provision for receivable has been made against the Top Five Debtors and the management does not expect any significant losses from the non-performance by the abovementioned counterparties.

For deposits with banks and financial institutions, the Group has limited its credit exposure by restricting their selection of banks and financial institutions on those reputable commercial banks or state-owned banks.

Transfer of financial assets

Transferred financial assets that are not derecognised in their entirety

(i) As at 31 December 2014, the Group discounted certain commercial and bankers' acceptance in the Mainland China (the "Endorsed Bills") with a carrying amount of RMB172,256,000 to certain banks in Mainland China (the "Discounting"). In the opinion of the directors of the Company, the Group retained the substantial risks and rewards, which included default risks relating to such Endorsed Bills, and accordingly, it continued to recognise the full carrying amounts of the Endorsed Bills and the associated borrowings. Subsequent to the Discounting, the Group did not retain any rights on the use of the Endorsed Bills, including the sale, transfer or pledge of the Endorsed Bills to any other third parties. The aggregate carrying amount of the borrowings secured by the Endorsed Bills during the year to which the bank had recourse was RMB160,149,000 as at 31 December 2014. As at 31 December 2015, the Group did not have Discounting of these Endorsed Bills.

(ii) As part of its normal business, the Group entered into a letter of credit factoring arrangement (the "Arrangement") and transferred certain trade receivables to a bank. Under the Arrangement, the Group may be required to reimburse the bank for loss of interest and principal if any trade debtors have late or default payment upon maturity. Subsequent to the transfer, the Group did not retain any rights on the use of the letter of credit, including the sale, transfer or pledge of the trade receivables to any other third parties. The original carrying value of the letter of credit transferred under the Arrangement that have not been settled as at 31 December 2015 amounted to RMB45,900,000 (2014: RMB75,741,000). The carrying amount of the assets that the Group continued to recognise as at 31 December 2015 amounted to RMB45,900,000 (2014: RMB75,741,000) and that of the associated borrowings as at 31 December 2015 amounted to RMB44,840,000 (2014: RMB54,700,000).

Transferred financial assets that are derecognised in their entirety

As at 31 December 2015, the Group discounted certain bankers' acceptances to banks in the Mainland China (the "Derecognised Bills") with a carrying amount of RMB120,040,000 (2014: RMB52,871,000). The Derecognised Bills had a maturity of one to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, the Group has derecognised the full carrying amounts of the Derecognised Bills and the associated borrowings. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills equal to their carrying amounts. In the opinion of the directors of the Company, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

As at 31 December 2015, the Group, endorsed certain bankers' acceptance in the Mainland China (the "Endorsed Derecognised Bills") to certain of its suppliers in order to settle the trade payables due to such suppliers with a carrying amount in aggregate of RMB248,731,000 (2014: RMB172,256,000). The Endorsed Derecognised Bills had a maturity of one to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Endorsed Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Endorsement Involvement"). In the opinion of the directors of the Company, the Group has transferred substantially all risks and rewards relating to the Endorsed Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Endorsed Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group's Continuing Endorsement Involvement in Endorsed Derecognised Bills and the undiscounted cash flows to repurchase these Endorsed Derecognised Bills equal to their carrying amounts. In the opinion of the directors of the Company, the fair values of the Group's Continuing Involvement in the Endorsed Derecognised Bills are not significant.

During the year ended 31 December 2015, the Group did not recognise any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The endorsement was made evenly throughout the year.

At the end of the reporting period, the Group did not provide any financial guarantees to any parties which would expose the Group to credit risk.

(c) *Liquidity risk*

Liquidity risk is the risk that the Group is unable to meet its liabilities and obligations when they fall due. Prudent liquidity risk management implies maintaining sufficient cash and the ability to close out market positions.

Management monitors regularly rolling cash flow forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities or funding from the ultimate parent company at all times. Such forecasting takes into consideration the Group's debt financing plans and compliance with internal ratio targets.

Management also monitors regularly the surplus cash held by the operating entities over and above balance required for working capital management and the Group will invest surplus cash in interest bearing current accounts or deposits, choosing instruments with appropriate maturities or sufficient liquidity, to provide sufficient head-room as determined by the abovementioned forecasts. As at 31 December 2015, the Group has interest bearing bank balances of RMB67,598,000 (2014: RMB57,806,000) that are expected to be readily for use in managing liquidity risk.

The table below analyses the Group's non-derivative financial liabilities (with contractual obligations) and net-settled derivative financial liability into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. Derivative financial liability is included in the analysis as its contractual maturity is essential for an understanding of the timing of the expected cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows (including the estimated interest expenses on the related borrowings up to their maturities).

	On demand or less than 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2015					
Long-term bank borrowings	114,786	61,144	74,562	14,892	265,384
Short-term bank borrowings	1,115,073	—	—	—	1,115,073
Financial liabilities as included in trade and other payables	276,301	—	—	—	276,301
	1,506,160	61,144	74,562	14,892	1,656,758

	On demand or less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2014					
Long-term bank borrowings	114,863	116,351	153,207	51,948	436,369
Short-term bank borrowings	1,354,864	—	—	—	1,354,864
Financial liabilities as included in trade and other payables	369,349	—	—	—	369,349
Net settled derivative financial instrument	4,992	—	—	—	4,992
	1,844,068	116,351	153,207	51,948	2,165,574

Although the Group has a considerable amount of financial liabilities to be settled or refinanced within the next twelve months from the end of the reporting period, the Company's directors are of the view that the Group can manage the associated liquidity risks in view of the situations as described in Note 2.1 to the consolidated financial statements.

4.2 **Capital risk management**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends to equity holders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the debt-to-total capital ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as the total equity as shown in the consolidated statement of financial position, plus net debt.

The Group aims to maintain a manageable debt-to-total capital ratio of not exceeding 70% (2014: 72%). The debt-to-total capital ratios as at 31 December 2015 and 2014 were as follows:

	2015	2014
	RMB'000	*RMB'000*
Total borrowings (Note 17)	1,276,407	1,737,347
Less: Cash and cash equivalents (Note 14)	(67,620)	(57,814)
Net debt	1,208,787	1,679,533
Total equity	793,978	661,798
Total capital	2,002,765	2,341,331
Debt-to-total capital ratio	60%	72%

The decrease in the debt-to-total capital ratio in current year is primarily resulted from profit for the year, which leads to increase in the Group's total equity.

4.3 **Fair value estimation**

Except for the interest rate swap contract as mentioned in Note 21, the Group does not have any financial assets/liabilities which are required to be measured in the statement of financial position at fair value as of the reporting date. This interest rate swap contract was categorised to the level 2 of the fair value measurement hierarchy as set out in the HKFRS 13 "Fair Value Measurement" because its fair value can be determined by the use of valuation techniques which maximise the use of non-entity specific market data which is observable. The fair value of the interest rate swap contract is calculated at the present value of the estimated future cash flows based on observable interest rate.

As at 31 December 2014, the financial liabilities that were classified as Level 2 investments under HKFRS 13 amounted to RMB4,992,000. The impact of the fair value change of such investments on the Group's profit or loss is disclosed in notes 22 and 23. During the year ended 31 December 2014, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities. The carrying value less impairment provision of receivable and payable balances were assumed to approximate their fair values.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) *Going concern consideration*

The assessment of going concern assumption involves making a judgement by the Company's directors, at a particular point of time, about the future outcome of events or conditions which are inherently uncertain. The Company's directors consider that the Group has the capability to continue as a going concern and the conditions which indicates the existence of a material uncertainty on the going concern assumption are set out in Note 2.1.

(b) *Impairment of non-current key operating assets*

Land use rights and property, plant and equipment are the key operating assets for the Group's business operations (collectively the "Key Operating Assets"). Management tests whether the Key Operating Assets have suffered any impairment in accordance with the accounting policy as stated in Note 3.7. The management has assessed the recoverable amounts of the Key Operating Assets based on value-in-use calculations which require the use of estimates on the projections of cash inflows from the continual use of the Key Operating Assets and discount rate.

If the projected gross margin had been 5% lower than the management's estimates or the discount rate as applied in the impairment assessment was higher than management's existing estimates by 0.5 percentage point, the recoverable amounts of the Key Operating Assets will be reduced by approximately RMB72,706,000 (2014: RMB94,166,000) and RMB64,379,000 (2014: RMB81,954,000) respectively. Even the recoverable amounts of the Key Operating Assets are reduced by the abovementioned respective amounts, the adjusted recoverable amounts of those Key Operating Assets are still higher than their carrying amounts as of the end of reporting period.

(c) *Depreciation*

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account their estimated residual values. The Group reviews the estimated useful lives of the assets regularly. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expenses for future periods would be adjusted if there are significant changes from previous estimates.

(d) *Recoverability of deferred income tax assets*

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against the recognised temporary differences (including tax losses). The assessment on the probability of whether the recognised deferred income tax assets can be fully recovered involves the use of judgement and estimates. As at 31 December 2015, the Group has recognised deferred income tax assets of RMB48,914,000 (2014: deferred income tax assets of RMB68,129,000) (Note 20). The Company's directors consider that the Group is capable of generating sufficient taxable profit from its future business operations for utilising the recognised temporary differences.

(e) *Impairment of receivables*

The Group makes provision for impairment of receivables based on an assessment of the recoverability of trade and other receivables. The identification of doubtful debts requires the use of judgement and estimates.

As at 31 December 2015, the Group has trade receivables which are past due but not impaired of RMB59,294,000 (2014: RMB39,815,000) (Note 13(b)) and trade receivables of RMB5,589,000 (2014: RMB5,984,000) which are being considered as doubtful debts and provided for (Note 13(c)).

As at 31 December 2015, the Group has overdue balance of RMB40,763,000 (2014: RMB66,377,000) due from a related company as set out in note 13(d). The related company will settle the overdue balance in accordance with the settlement plan as committed by the related company. Based on the progress of the subsequent settlement, the management does not expect a significant loss from the overdue balance.

Management considers that the provision for impairment of trade and other receivables of RMB22,296,000 as at 31 December 2015 (2014: RMB7,870,000) adequately cover any significant losses arising from any non-performance by the independent and related counter parties.

6. 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 (Note 30).

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 RMB266,784,000 (2014: RMB221,904,000) 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 from continuing and discontinued operations for the year ended 31 December 2015 consists of sales from the acrylic fiber products segment and carbon fiber products segment of RMB1,787,074,000 (2014: RMB1,895,910,000) and RMB46,628,000 (2014: RMB45,639,000) respectively.

The Group does not have any inter-segment sales during the years ended 31 December 2015 and 2014.

The segment information provided to the Decision-Makers for the years ended 31 December 2015 and 2014 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 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
Year ended 31 December 2014			
Total revenue from external customers	1,895,910	45,639	1,941,549
Adjusted segment results (Note)	309,696	5,155	314,851
Provision for impairment on inventories	(2,473)	(10,487)	(12,960)
Share of result of a joint venture	(32,387)	—	(32,387)
Depreciation and amortisation	(166,167)	(26,686)	(192,853)
Income tax expenses	(3,347)	(950)	(4,297)
	105,322	(32,968)	72,354
Other information:			
Additions to property, plant and equipment	21,603	1,958	23,561

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/(loss) before income tax is provided as follows:

	2015	2014
	RMB'000	*RMB'000*
Adjusted segment results for reportable segments	404,260	314,851
Reversal of/(provision for) impairment on inventories	2,435	(12,960)
Depreciation and amortisation	(135,853)	(192,853)
Net (loss)/gain arising on derivative financial instrument	(221)	380
Finance costs — net	(117,227)	(144,904)
Share of result of a joint venture	21,682	(32,387)
Loss on disposal of a subsidiary	(36,992)	—
	(266,176)	(382,724)
Profit/(loss) before income tax	138,084	(67,873)

	2015	2014
	RMB'000	*RMB'000*
Represented by:		
Continuing operations	182,224	(18,082)
Discontinued operations	(44,140)	(49,791)
As at 31 December	138,084	(67,873)

Note: As disclosed in Note 34(a)(i), 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 RMB138,605,000 (2014: RMB159,871,000), 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.

Segment assets and liabilities

	Continuing operations Acrylic fiber products	**Discontinued operations Carbon fiber products**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
As at 31 December 2014			
Total segment assets	2,218,620	632,242	2,850,862
Total segment assets include:			
Interest in a joint venture	127,304	—	127,304
Total segment liabilities	425,350	89,504	514,854

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.

As at 31 December 2014, reportable segment assets are reconciled to total assets per consolidated statement of financial position as follows:

	As at 31 December 2014
	RMB'000
Segment assets for reportable segments	2,850,862
Unallocated:	
Deferred income tax assets	68,129
Total assets per consolidated statement of financial position	2,918,991

As at 31 December 2014, reportable segment liabilities are reconciled to total liabilities per consolidated statement of financial position as follows:

	As at 31 December 2014
	RMB'000
Segment liabilities for reportable segments	514,854
Unallocated:	
Borrowings	1,737,347
Derivative financial instrument	4,992
	1,742,339
Total liabilities per consolidated statement of financial position	2,257,193

Upon disposal of carbon fiber products business, the Group principally operates in one segment, namely acrylic fiber products. Therefore, no segment assets and liabilities is presented as at 31 December 2015.

Information about major customers

Revenues of approximately RMB533,226,000 (2014: RMB572,130,000) are derived from two (2014: 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:

	2015		**2014**	
	Revenue	**Proportion to the total revenues**	**Revenue**	**Proportion to the total revenues**
	RMB'000		*RMB'000*	
Customer A	310,372	17%	319,590	17%
Customer B	222,854	12%	252,540	13%
Total	533,226	29%	572,130	30%

7. LAND USE RIGHTS

The Group's interests in land use rights represent prepaid operating lease payments for lands in the PRC.

Movements in the land use rights are analysed as below:

	2015	2014
	RMB'000	*RMB'000*
As at 1 January	84,633	88,531
Disposal	(513)	—
Amortisation	(3,881)	(3,898)
Disposal of a subsidiary (Note 31)	(6,333)	—
As at 31 December	73,906	84,633
Represented by:		
Current portion	3,321	3,898
Non-current portion	70,585	80,735
As at 31 December	73,906	84,633

As at 31 December 2014, the Group's discontinued operations was in the process of obtaining the land use right certificates for the land in the PRC with carrying amount of RMB6,349,000 from the relevant government authorities.

For the year 31 December 2015, amortisation expenses of RMB3,881,000 (2014: RMB3,898,000) have been charged in administrative expenses.

8. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machinery and equipment	Electronic and office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2014						
Cost	704,198	2,232,604	3,176	14,933	111,936	3,066,847
Accumulated depreciation	(246,893)	(1,214,456)	(2,765)	(11,238)	—	(1,475,352)
Net book amount	457,305	1,018,148	411	3,695	111,936	1,591,495
Year ended 31 December 2014						
Opening net book amount	457,305	1,018,148	411	3,695	111,936	1,591,495
Additions	—	4,642	—	—	18,919	23,561
Disposals	—	—	—	(11)	—	(11)
Depreciation	(32,995)	(154,912)	(302)	(746)	—	(188,955)
Closing net book amount	424,310	867,878	109	2,938	130,855	1,426,090
As at 31 December 2014						
Cost	704,198	2,237,246	3,176	14,709	130,855	3,090,184
Accumulated depreciation	(279,888)	(1,369,368)	(3,067)	(11,771)	—	(1,664,094)
Net book amount	424,310	867,878	109	2,938	130,855	1,426,090
Year ended 31 December 2015						
Opening net book amount	424,310	867,878	109	2,938	130,855	1,426,090
Additions	5,358	4,469	1,123	4,395	15,557	30,902
Transfer	72,377	54,344	—	—	(126,721)	—
Disposals	—	(1,462)	(22)	—	(5,947)	(7,431)
Depreciation	(39,977)	(90,079)	(215)	(1,368)	—	(131,639)
Disposal of a subsidiary (note 31)	(71,487)	(333,234)	(104)	(206)	(1,161)	(406,192)
Closing net book amount	390,581	501,916	891	5,759	12,583	911,730
As at 31 December 2015						
Cost	680,667	1,880,749	3,633	18,756	12,583	2,596,388
Accumulated depreciation	(290,086)	(1,378,833)	(2,742)	(12,997)	—	(1,684,658)
Net book amount	390,581	501,916	891	5,759	12,583	911,730

Notes:

(a) As at 31 December 2015, property, plant and equipment of the Group with carrying amounts of RMB327,431,000 (2014: RMB416,150,000) have been pledged as securities for certain bank borrowings of the Group (Note 17(b)).

(b) As at 31 December 2015, the Group is in the process of obtaining the certificates of ownership in respect of certain buildings of the Group with carrying amounts of RMB18,432,000 (2014: RMB100,444,000) from the relevant government authorities.

(c) Depreciation expenses of RMB50,601,000 (2014: RMB98,336,000), RMB12,794,000 (2014: RMB30,017,000) and RMB68,244,000 (2014: RMB60,602,000) have been charged in cost of sales, administrative expenses and other expenses included in direct outgoings in respect of provision of utilities respectively.

9. INTANGIBLE ASSETS

	Accounting software
	RMB'000
Year ended 31 December 2015	
Opening net book amount	—
Additions	4,000
Amortisation charge	(333)
Closing net book amount	3,667
As at 31 December 2015	
Cost	4,000
Accumulated amortisation	(333)
Net book amount	3,667

For the year 31 December 2015, amortisation expenses of RMB333,000 (2014: Nil) have been charged in administrative expenses.

10. INTEREST IN A JOINT VENTURE

	2015	**2014**
	RMB'000	*RMB'000*
As at 1 January	127,304	159,418
Share of results	21,682	(32,387)
Others (Note 22)	273	273
As at 31 December	149,259	127,304

Notes:

(a) The Group has a 50% equity interest in a joint venture, Jilin Jimont Acrylic Fiber Co., Ltd. ("Jimont"), which was established in the PRC on 21 December 2005 and its principal activity is the production and sales of acrylic fiber products. As at 31 December 2015 and 2014, Jimont has a registered and paid-in capital of RMB450,000,000 and is jointly owned by the Company, Montefiber S.p.A and SIMEST S.p.A as to 50.00%, 39.38% and 10.62% respectively.

The Company was advised by Montefiber that they have reached an agreement with an independent third party, which is a company incorporated in the PRC for the transfer of 50% equity interest (Montefiber and SIMEST S.p.A. hold 39.38% and 10.62% respectively) in Jimont, the agreement is subject to approval from the relevant PRC government authorities. Montefiber is in the course of seeking approval from the relevant PRC authorities to complete the transfer.

(b) The following is the extract of the financial information of Jimont and the respective 50% interest being shared by the Group:

	As at 31 December 2015		As at 31 December 2014	
	Jimont	**50% shared by the Group**	**Jimont**	**50% shared by the Group**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets	766,122	383,061	758,865	379,433
Current assets	422,563	211,282	725,441	362,720
Total assets	1,188,685	594,343	1,484,306	742,153
Non-current liabilities	25,654	12,827	100,000	50,000
Financial liabilities, excluding trade and other payable	496,417	248,209	693,400	346,700
Other current liabilities	363,931	181,965	431,586	215,793
Total liabilities	886,002	443,001	1,224,986	612,493
Net assets	302,683		259,320	
Reconciliation to the Group's interest in the joint venture:				
Proportion of the Group's ownership	50%		50%	
Group's share of net assets of the joint venture	151,342		129,660	
Carrying amount of the Group's interest in the joint venture	149,259		127,304	
Share of joint venture's capital commitments	2,880		—	

	Year ended 31 December 2015		Year ended 31 December 2014	
	Jimont	**50% shared by the Group**	**Jimont**	**50% shared by the Group**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	1,481,929	740,965	1,638,522	819,261
Expenses	(1,438,566)	(719,283)	(1,703,297)	(851,648)
Net Profit/(Loss) for the year	43,363	21,682	(64,775)	(32,387)
Included in the above amounts are:				
Depreciation and amortisation	(70,912)	(35,456)	(72,900)	(36,450)
Interest income	5,667	2,834	6,257	3,129
Interest expense	(68,407)	(34,204)	(72,041)	(36,021)
Income tax expense	(14,526)	(7,263)	(128)	(64)

(c) There are no contingent liabilities relating to the Group's interest in the joint venture, and no contingent liabilities of the joint venture itself.

11. PREPAYMENTS AND OTHER RECEIVABLES — NON CURRENT

	2015	**2014**
	RMB'000	*RMB'000*
Prepayments	—	2,785
Trade receivables (Notes 13(a) and 34(b))	3,369	—
Other receivables (Note 34(b))	10,978	—
Consideration receivable (Note 31)	130,153	—
	144,500	2,785

The prepayments classified as non-current assets are all associated with the Group's purchases of property, plant and equipment.

12. INVENTORIES

	2015	2014
	RMB'000	*RMB'000*
Raw materials	135,322	123,349
Work in progress	14,327	13,142
Finished goods	59,034	208,765
	208,683	345,256

As at 31 December 2015, a batch of raw materials with costs of RMB8,468,000 (2014: RMB9,085,000) were considered as long aged with net realisable value lower than the carrying value. Provision for impairment on the abovementioned raw materials of RMB8,468,000 (2014: RMB4,587,000) were made as at 31 December 2015.

13. TRADE AND OTHER RECEIVABLES

	2015	2014
	RMB'000	*RMB'000*
Trade receivables (Note a)	102,626	112,255
Less: provision for impairment	(5,589)	(5,984)
Trade receivables — net	97,037	106,271
Bills receivables (Note 4.1(b) (i))	85,541	190,123
Amounts due from related companies (Notes d and 34(b))	525,168	266,190
Other receivables	58,468	76,911
Less: provision for impairment	(13,406)	(1,886)
Other receivables — net	45,062	75,025
Prepayments	53,008	25,714
Less: provision for impairment	(3,301)	—
Prepayments — net	49,707	25,714
	802,515	663,323

Notes:

(a) The Group's sales are normally conducted on cash on delivery terms or a credit term of 30 days. Aging analysis of trade receivables based on invoice date are as follows:

	2015	**2014**
	RMB'000	*RMB'000*
0-30 days	41,112	66,456
31-90 days	44,207	22,183
91-365 days	8,681	7,733
Over 365 days	6,406	9,899
	100,406	106,271

	2015	**2014**
	RMB'000	*RMB'000*
Represented by:		
Current portion	97,037	106,271
Non-current portion	3,369	—
	100,406	106,271

(b) Trade receivables with aging less than 30 days are not considered as past due. As at 31 December 2015, the following trade receivables were past due but not individually or collectively be impaired. These balances relate to a number of independent customers for whom there is no recent history of default. The aging analysis of these trade receivables is as follows:

	2015	**2014**
	RMB'000	*RMB'000*
31-90 days past due	44,207	22,183
91-365 days past due	8,681	7,733
Over 365 days past due	6,406	9,899
	59,294	39,815

Included in the trade receivables that were past due but not impaired as set out above, was an amount of RMB8,369,000 (2014: RMB6,119,000) due from Tuopu Textile Industrial Development Co., Ltd. ("Tuopu Textile"), a group entity under JCF Groupco. Included in other receivables was an amount due from Tuopu Textile of RMB10,978,000 (2014: RMB10,571,000) in relation to provision of utility. Therefore, the total trade and other receivables due from Toupu Textile amounted to RMB19,347,000 as at 31 December 2015 (2014: RMB16,690,000). The trade and other receivable due from Tuopu Textile was interest bearing at 4.4% and had a three year repayment term. JCF Groupco confirmed to provide continuing financial support to Tuopu Textile to the extent necessary to enable them to meet their obligation as and when they fall due. The directors of the Company does not expect any significant loss from the non-performance by Tuopu Textile and hence no provision for impairment has been made as at 31 December 2015 (2014: Nil).

(c) As at 31 December 2015, trade receivables of RMB5,589,000 (2014: RMB5,984,000) were considered as doubtful debts and were fully provided for. The amount of the provision was RMB5,589,000 (2014: RMB5,984,000) as at 31 December 2015. The individually impaired receivables mainly relate to customers which are in unexpected difficult economic situations.

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

	2015	**2014**
	RMB'000	*RMB'000*
0-30 days	64,140	143,071
31-90 days	51,309	43,932
91-365 days	273,305	46,902
Over 365 days	136,414	32,285
	525,168	266,190

The amounts due from related companies primarily comprise of receivables in respect of the provision of utilities and advance to Jilin Tangu Carbon Fiber Co., Ltd. ("Tangu"), a subsidiary of the Company up to 30 June 2015 and a subsidiary of a state-owned enterprise controlled by the PRC government. Included in these amounts, an amount of RMB40,763,000 (2014: RMB66,377,000) has already been past due. According to settlement plans entered into between the Group and these related companies, the amount will be fully repaid by 31 December 2016. The management does not expect any significant loss from the non-performance by these related companies and hence no provision for impairment has been made as at 31 December 2015 (2014: Nil).

At 31 December 2014, included in the amounts due from the related companies was an amount of RMB47,000,000 representing a letter of credit received from JCFCL which was discounted to a financial institution with recourse. JCFCL was the primary obligors for payment on due date of such commercial acceptances. In the event of default, the Group was obliged to pay the financial institution the amount in default. Late interest would be charged by the financial institution until the amount was settled. The Group was therefore exposed to the credit risk and late payment risk in respect of the letter of credit. The proceeds of the discounting transactions were included in borrowings as asset-backed financing (Note 17) until the discounted bills were matured or settled.

(e) The below table reconciles the impairment loss of trade and other receivables for the year:

	2015	**2014**
	RMB'000	*RMB'000*
At 1 January	7,870	12,537
Reversal of impairment loss	—	(3,586)
Impairment loss recognised (Note 23)	15,143	963
Bad debt written off	—	(2,044)
Disposal of a subsidiary	(717)	—
At 31 December	22,296	7,870

The Group recognised impairment loss on trade and other receivables on individual assessment based on the accounting policy stated in Note 3.12.

(f) The other classes include bills receivables and amounts due from related companies within trade and other receivables do not contain impaired assets.

(g) The carrying amounts of trade and other receivables are all denominated in RMB except that, trade receivables of RMB35,172,000 (2014: RMB37,048,000) are denominated in US dollars.

(h) The carrying amounts of trade and other receivables approximate their fair values.

(i) Other receivables included the current portion of consideration receivables of RMB31,087,000 arising from the disposal of a subsidiary on 30 June 2015 (Note 31).

14. CASH AND CASH EQUIVALENTS/RESTRICTED BANK DEPOSITS

Cash and cash equivalents/restricted bank deposits which are mainly denominated in RMB are analysed as follows:

	2015	**2014**
	RMB'000	*RMB'000*
Cash at bank and on hand	129,771	201,471
Less: restricted bank deposits (Note a)	(62,151)	(143,657)
Cash and cash equivalents	67,620	57,814

Notes:

(a) The Group has pledged certain bank deposits with carrying amounts of RMB43,940,000 (2014: RMB89,035,000) to financial institutions for the issuance of certain bank bills payable of RMB70,600,000 (2014: RMB140,000,000) (Note 19).

Furthermore, bank deposits of RMB18,211,000 (2014: RMB677,000) as at 31 December 2015 have been pledged for the issues of certain letters of credit for the Group's purchases of raw materials.

As at 31 December 2014, the Group had fixed bank deposit with carrying amount of RMB10,000,000.

The Group drawn down a specific bank borrowing of RMB75,000,000 in July 2010 which could only be used for funding of the Group's further investment to its joint venture. The proceeds from the bank borrowings had to be deposited in a designated bank account and restricted for the specific usage as mentioned above. During the year ended 31 December 2011, with the consent from the borrowing bank, the Group utilised a portion of the restricted deposits of RMB31,067,000 for financing the working capital of the Group. As at 31 December 2014, the restricted bank deposit in connection with the abovementioned specific borrowing amounted to RMB43,933,000. As at 31 December 2015, the balance was used.

(b) At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to RMB129,749,000 (2014: RMB201,463,000). RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

15. SHARE CAPITAL

(a) Share capital

	Number of shares *(in thousand)*	Nominal values *RMB'000*
Registered, issued and fully paid		
— Domestic shares	437,017	437,017
— Non-H foreign shares	169,358	169,358
— H shares	259,875	259,875
	866,250	866,250

Notes:

(i) There was no movement in share capital during the years ended 31 December 2015 and 2014.

(ii) The Company was converted into a joint stock company on 23 May 2005, with registered, issued and fully paid capital of RMB630,000,000 divided into 630,000,000 shares at par value of RMB1 each (out of which: 460,642,000 shares were domestic shares and 169,358,000 shares are foreign shares).

On 21 June 2006, the Company successfully offered 236,250,000 H shares and listed on The Stock Exchange of Hong Kong Limited. On the same date, the Company had transferred 23,625,000 domestic shares to National Council for Social Security Fund (the "NCSSF") and NCSSF entrusted the Company to convert these shares into the Company's H shares.

(b) Share premium

Share premium represents the amount of funds contributed by the shareholders in excess of the par value of the Company's H shares as issued during the Company's initial public offering in June 2006.

16. RESERVES

	Reserve fund	Enterprise expansion fund	Statutory reserve fund	Accumulated losses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note a)	*(Note a)*	*(Note b)*		
As at 1 January 2014	—	—	31,919	(306,678)	(274,759)
Loss for the year	—	—	—	(72,170)	(72,170)
As at 31 December 2014	—*	—*	31,919*	(378,848)	(346,929)
Profit for the year	—	—	—	132,180	132,180
As at 31 December 2015	—*	—*	31,919*	(246,668)	(214,749)

* These reserve accounts comprise the combined other reserves of RMB31,919,000 (2014: RMB31,919,000) in the consolidated statement of financial position.

(a) **Reserve fund and enterprise expansion fund**

In accordance with the relevant laws and regulations in the PRC and the requirements of the Articles of Associations of the Company and its subsidiary, appropriations from net profit should be made to the reserve fund and the enterprise expansion fund, after offsetting accumulated losses from prior years, and before profit distributions to the investors. The percentages to be appropriated to the reserve fund and the enterprise expansion fund are determined by the board of directors. Upon approval, the reserve fund can be used to offset accumulated losses or be converted into capital and the enterprise expansion fund can be converted into capital.

(b) **Statutory reserve fund**

In accordance with the relevant laws and regulations in the PRC and the Articles of Associations of the Company, it is required to appropriate 10% of the annual statutory net profit, after offsetting any prior years' losses to the statutory reserve fund before distributing the net profit. When the respective balance of the statutory reserve fund reaches 50% of the share capital of the Company and its subsidiary, any further appropriation is at the discretion of shareholders of the Company and its subsidiary. The statutory reserve fund can be used to offset prior years' losses, if any, and may be converted into share capital by issuing new shares to shareholders in proportion to their existing shareholding or by increasing the par value of the shares currently held by them, provided that the respective remaining balance of the statutory reserve fund after such issue is not less than 25% of registered capital of the Company and its subsidiary.

(c) The board of directors of the Company and the subsidiary have confirmed not to make any appropriations to the reserve fund and enterprise expansion fund for the years ended 31 December 2015 and 2014.

17. BORROWINGS

	2015			2014		
	Effective interest rate %	**Maturity**	**RMB'000**	**Effective interest rate %**	**Maturity**	**RMB'000**
Current						
Bank borrowings	5.52	2016	1,058,710	6.54	2015	1,148,950
Discounted bills with recourse	—	—	—	6.04	2015	160,149
Current portions of long term bank borrowings — secured	6.29	2016	102,543	6.32	2015	120,551
			1,161,253			1,429,650
Non-current						
Bank borrowings — secured	5.22	2017-2022	115,154	6.47	2016-2022	307,697
			115,154			307,697
Total net borrowings			1,276,407			1,737,347
Representing:						
— guaranteed borrowings (Note a)			953,870			1,394,998
— secured borrowings (Note b)			322,537			342,349
Net fixed rate borrowings as a percentage of total net borrowings			38.6%			22.2%

Notes:

(a) Bank borrowings of RMB953,870,000 (2014: RMB1,394,998,000) are guaranteed by JCF Groupco the ultimate parent company of the Company.

(b) Bank borrowings of RMB44,840,000 (2014: RMB54,700,000) and RMB277,697,000 (2014: RMB:127,500,000) are secured by letter of credit held by the Company and certain property, plant and equipment of the Company with carrying amounts of RMB327,431,000 (2014: RMB21,447,000) (Note 8).

As at 31 December 2014, bank borrowings of RMB160,149,000 were secured by certain bank bills receivable, commercial bills receivable, trade and other receivable of the Company with carrying amounts of RMB172,256,000 (Note 13).

(c) Borrowings at the end of reporting period were repayable as follows:

	2015	2014
	RMB'000	*RMB'000*
On demand	—	308,000
Within 1 year	1,161,253	1,121,650
Between 1 and 2 years	55,654	132,543
Between 2 and 5 years	51,000	132,654
Over 5 years	8,500	42,500
	1,276,407	1,737,347

During the year ended 31 December 2014, the Group did not meet certain financial covenants specified by banks (including operating cash flow ratio, current ratio and net profit ratio). The lenders did not take any action and has subsequently renewed the matured bank loans. Accordingly, the full amounts of the bank loans with an aggregate carrying amount of RMB308,000,000 as at 31 December 2014, which are repayable within one year, were presented as "on demand" time band in the above analysis.

(d) The carrying amounts of bank borrowings are all denominated in RMB.

(e) As at 31 December 2015, the Group has fixed interest rates bank borrowings of RMB492,710,000 (2014: RMB384,849,000) which are all short-term bank borrowings. The carrying amounts of these fixed interest rates bank borrowings approximate their fair values as the impact of discounting is not significant. All other bank borrowings carried floating interest rates and the carrying amounts of these floating rates borrowings approximate their fair values.

18. DEFERRED INCOME

	Government grant for construction of new facilities	Purchases of domestically manufactured equipment	Total
	RMB'000	*RMB'000*	*RMB'000*
	(Note a)	*(Note b)*	
As at 1 January 2014	64,803	10,108	74,911
Additions (Note c)	1,600	—	1,600
Amortisation (Note 22)	(5,890)	(1,384)	(7,274)
As at 31 December 2014	60,513	8,724	69,237
Amortisation (Note 22)	(6,204)	(1,384)	(7,588)
Disposal of a subsidiary (Note 31)	(13,750)	—	(13,750)
As at 31 December 2015	40,559	7,340	47,899

	2015	2014
	RMB'000	*RMB'000*
Represented by		
Current portion	7,027	7,274
Non-current portion	40,872	61,963
	47,899	69,237

Notes:

(a) The Group received government grants for the compensation of capital expenditure incurred for the constructions/installations of property, plant and equipment. The amounts are deferred and amortised over the estimated useful lives of the related assets of 16 to 22 years.

(b) The Group claimed corporate income tax credits on 40% of the costs of certain qualified equipment manufactured in the PRC, which was approved by the local tax bureau in the Jilin City, the PRC. The amounts are deferred and amortised over the estimated useful lives of the related assets of 16 years.

(c) During the year ended 31 December 2014, the Group received government grants of RMB1,600,000 for the improvement of certain sewage water facilities of the Group.

19. TRADE AND OTHER PAYABLES

	2015	2014
	RMB'000	*RMB'000*
Trade payables (Note a)	150,055	170,540
Bank bills payables (Note b)	70,600	140,000
Amounts due to related companies (Notes c and 34(b))	10,002	6,992
Other payables and accruals	124,004	128,085
	354,661	445,617

Notes:

(a) The aging analysis of trade payables is as follows:

	2015	2014
	RMB'000	*RMB'000*
0-30 days	57,085	71,628
31-90 days	61,779	41,261
91-365 days	24,990	46,533
Over 365 days	6,201	11,118
	150,055	170,540

(b) Bills payables are secured by certain restricted bank deposits of the Group with carrying amount of RMB43,940,000 (2014: RMB89,035,000) (Note 14).

(c) The amounts due to the related companies are unsecured, interest free and have no fixed term of repayment.

(d) The carrying amounts of trade and other payables approximate their fair values.

20. DEFERRED INCOME TAX ASSETS

Movements in the deferred income tax assets are analysed as follows:

	Pre-operating expense	Fair value loss on derivative financial instrument	Accelerated accounting depreciation	Provisions for impairment of receivables	Inventories write-down	Tax losses	Deferred income	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2014	5,959	2,757	5,198	3,545	1,147	38,490	3,065	12,265	72,426
(Charged)/credited to the consolidated statement of comprehensive income	(852)	(1,509)	(386)	(1,757)	618	—	41	(452)	(4,297)
As at 31 December 2014	5,107	1,248	4,812	1,788	1,765	38,490	3,106	11,813	68,129
(Charged) /credited to the consolidated statement of comprehensive income	(838)	(1,248)	(1,852)	3,786	352	(5,275)	(136)	(693)	(5,904)
Disposal of a subsidiary (Note 31)	—	—	(2,960)	—	—	—	—	(10,351)	(13,311)
As at 31 December 2015	4,269	—	—	5,574	2,117	33,215	2,970	769	48,914

The PRC tax losses can only be carried forward for a maximum period of five years. Included in the tax losses above is unutilised tax losses recognised at 31 December 2015 with the amount of RMB132,858,000 (2014: RMB153,960,000) which will expire in 2020.

At 31 December 2015, the Group did not further recognise deferred tax assets of RMB24,324,000 (2014: RMB6,456,000) in respect of tax loss amounting to RMB97,287,000 (2014: RMB25,824,000) as it is not highly probable that future taxable profits against which the losses can be utilised will be sufficiently available in the relevant tax jurisdiction. The tax losses will be expired in 2018 (2014: 2017).

21. DERIVATIVE FINANCIAL INSTRUMENT

As at 31 December 2014, the derivative financial liability of RMB4,992,000 represented an outstanding interest rate swap contract with an outstanding notional amount of RMB78,000,000, with original notional principal amount of RMB130,000,000. The interest rate swap contract was matured in November 2015 and the fair value loss as at the mature date was recognised in the consolidated statement of comprehensive income.

22. OTHER INCOME AND GAINS

	Notes	2015 RMB'000	2014 RMB'000 (Restated)
Continuing operations:			
Other income			
Rental income		376	612
Income from provision of utilities	34(a)	420,603	461,725
Amortisation of deferred income	18	6,963	6,024
Sales of raw materials		15,503	10,725
Subsidy income (Note i)		6,165	1,063
Inspection fee income (Note ii)		1,975	2,017
Others		300	740
		451,885	482,906
Other gains			
Gain attributable to equity interests of a joint venture	10	273	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		4,898	—
Reversal of impairment loss on trade and other receivables, net	13(e)	—	3,340
Net gain arising on derivative financial instrument	32	—	380
		12,749	3,993
		464,634	486,899
Discontinued operations:			
Other income			
Amortisation of deferred income	18	625	1,250
Sales of raw materials		—	234
Subsidy income		—	1,175
Others		15	—
	30	640	2,659

Notes:

(i) 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.

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

23. OTHER EXPENSES AND LOSSES

	Notes	2015 *RMB'000*	2014 *RMB'000* *(Restated)*
Continuing operations:			
Other expenses			
Direct outgoings in respect of provision of utilities		(337,863)	(354,897)
Cost of raw materials		(26,370)	(10,908)
Others		—	(61)
		(364,233)	(365,866)
Other losses			
Impairment loss on trade and other receivables, net	13(e)	(15,143)	—
Net loss arising on derivative financial instrument	32	(221)	—
		(15,364)	—
		(379,597)	(365,866)
Discontinued operations:			
Other expenses			
Others		—	(22)
Other losses			
Impairment loss on trade and other receivables, net	13(e)	—	(717)
	30	—	(739)

24. PROFIT/(LOSS) BEFORE INCOME TAX

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

	Notes	2015 RMB'000	2014 RMB'000 (Restated)
Continuing operations:			
Inventories recognised as an expense			
— for production of fiber products		1,453,920	1,744,274
— provision for impairment on inventories		1,407	2,473
Depreciation	8	117,664	162,301
Amortisation of			
— land use rights	7	3,866	3,866
— intangible assets (included in administrative expenses)	9	333	—
Employee benefit expenses	25	124,325	116,188
Minimum lease payment		13,178	14,664
Auditors' remuneration			
— audit services		1,235	1,180
Discontinued operations:			
Inventories recognised as an expense			
— for production of fiber products		43,290	46,832
— (reversal of)/provision for impairment on inventories		(3,842)	10,487
Depreciation	8	13,975	26,654
Amortisation of			
— land use rights	7	15	32
Employee benefit expenses	25	4,987	11,285
Auditors' remuneration			
— audit services		—	135

25. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2015 RMB'000	2014 RMB'000 (Restated)
Wages and salaries	73,539	74,446
Pension costs — defined contribution plans	10,088	8,533
Other social security costs	45,685	44,494
	129,312	127,473

Directors' remuneration

Directors' remuneration is disclosed as follows:

Year ended 31 December 2015

Name of director and supervisor	**Fees**	**Salary**	**Employer's contribution to pension scheme**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Executive director				
Mr. SONG Dewu (Chairman)	—	330	6	336
Mr. YANG Xuefeng	—	196	6	202
Mr. PAN Xianfeng (Note a)	—	56	5	61
	—	582	17	599
Non-executive director				
Mr. MA Jun	—	231	6	237
Mr. JIANG Junzhou	—	231	6	237
Ms. PANG Suet Mui	20	—	—	20
Mr. WU Song (Note b)	20	—	—	20
Mr. Sun Haichao (Note d)	10	—	—	10
	50	462	12	524
Independent non-executive director				
Mr. LI Yanxi (Note f)	25	—	—	25
Mr. JIN Jie (Note f)	50	—	—	50
Mr. LV Xiaobo (Note c)	50	—	—	50
Ms. ZHU Ping	50	—	—	50
	175	—	—	175
	225	1,044	29	1,298
Supervisor				
Ms. SUN Yujing	—	180	5	185
Mr. ZHANG Haiou	—	57	4	61
Mr. CHENG Jianhang	—	—	—	—
Mr. LIU Ming	20	—	—	20
Ms. BAI Hua	—	56	5	61
Mr. Xu Jiawei	—	108	4	112
	20	401	18	439

Year ended 31 December 2014

Name of director and supervisor	**Fees**	**Salary**	**Employer's contribution to pension scheme**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Executive director				
Mr. SONG Dewu (Chairman)	—	61	12	73
Mr. YANG Xuefeng	196	67	13	276
Mr. WANG Changsheng (Note e)	127	61	12	200
	323	189	37	549
Non-executive director				
Mr. MA Jun	—	58	12	70
Mr. JIANG Junzhou	—	60	12	72
Ms. PANG Suet Mui	20	—	—	20
Mr. SUN Hai Chao (Note d)	20	—	—	20
	40	118	24	182
Independent non-executive director				
Mr. YE Yongmao (Note e)	50	—	—	50
Mr. MAO Fengge (Note f)	25	—	—	25
Mr. LEE Ka Chung (Note f)	119	—	—	119
Ms. ZHU Ping	46	—	—	46
Mr. LI Yanxi (Note f)	25	—	—	25
Mr. JIN Jie (Note f)	25	—	—	25
	290	—	—	290
	653	307	61	1,021
Supervisor				
Ms. SUN Yujing	—	47	9	56
Mr. ZHANG Haiou	—	52	10	62
Mr. ZHANG Jiaku	—	29	6	35
Mr. CHENG Jianhang	—	—	—	—
Mr. LIU Ming	20	—	—	20
Ms. BAI Hua	—	52	10	62
Mr. Xu Jiawei	—	42	8	50
	20	222	43	285

Notes:

(a) Mr. Pan Xiangfeng has been elected as an executive director and the director of the finance department of the Company on 29 January 2015.

(b) Mr. Wu Song has been elected as a non-executive director on 29 April 2015.

(c) Mr. Lv Xiaobo has been elected as an independent non-executive director on 29 January 2015.

(d) The non-executive director of the Company, Mr. Sun Haichao, resigned on 26 June 2015.

(e) The executive director and chief financial officer of the Company, Mr. Wang Changsheng, and an independent non-executive director, Mr. Ye Yongmao, resigned on 2 December 2014.

(f) The independent non-executive directors of the Company, Mr. Mao Fengge and Mr. Lee Ka Chung, resigned on 30 June 2014 and Mr. Li Yanxi and Mr. Jin Jie have been elected as independent non-executive directors of the Company on the same day.

In addition to the directions' emoluments as disclosed above, certain directors of the Company received emoluments from JCF Groupco, the ultimate parent company, and its fellow subsidiaries during the year ended 31 December 2015 amounting to RMB1,333,000 (2014: RMB297,000), part of which is in respect of their services rendered to the Company and its subsidiary. No apportionment has been made as the directors consider that it is impracticable to apportion this amount between their services rendered to the Company and its subsidiary and their services rendered to the ultimate parent company and those fellow subsidiaries.

Five highest paid individuals

The five individuals whose emoluments were the highest in the Company and its subsidiary for the year ended 31 December 2015 included four (2014: four) directors whose emoluments are reflected in the analysis presented above. The aggregate amounts of emoluments paid and payable to the remaining one (2014: one) individual whose emoluments was the highest in the Group during the year are as follows:

	2015	**2014**
	RMB'000	*RMB'000*
Basic salaries and allowances	1,185	1,185

The emoluments of that highest paid individual fell within the following bands:

	Number of individual	
	2015	**2014**
RMB893,361 to RMB1,340,039 (2014: RMB792,896 to RMB1,189,343) (equivalent to HK$1,000,001 to HK$1,500,000)	1	1

During the years ended 31 December 2015 and 2014, no emoluments have been paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office and there is no director waived or agreed to waive any of their emoluments.

Member of senior management

The emoluments paid or payable to members of senior management were within the following bands:

	2015	**2014**
	No. of individuals	*No. of individuals*
Nil to RMB893,361 (2014: Nil to RMB792,896) (equivalent to Nil to HK$1,000,000)	20	21
RMB893,361 to RMB1,340,039 (2014: RMB792,896 to RMB1,189,343) (equivalent to HK$1,000,001 to HK$1,500,000)	1	1

26. FINANCE INCOME AND COSTS

	Notes	**2015** *RMB'000*	**2014** *RMB'000* *(Restated)*
Continuing operations:			
Bank interest income		(2,038)	(1,735)
Interest income on consideration receivable	31	(3,472)	—
Finance income		(5,510)	(1,735)
Interest expenses on bank borrowings		104,125	135,730
Bank borrowings guarantee fees to JCF Groupco	34	14,875	—
Finance costs		119,000	135,730
Finance costs — net		113,490	133,995
Discontinued operations:			
Interest income	30	(708)	(797)
Interest expenses on bank borrowings		4,445	10,506
Bank borrowings guarantee fees to JCF Groupco	34	—	1,200
Finance costs	30	4,445	11,706
Finance costs — net		3,737	10,909

Note: With effect from 1 January 2011, JCF Groupco has charged guarantee fees on those guaranteed bank borrowings (Note 17(a)) which are calculated at predetermined rates on the daily outstanding principal amounts of the guaranteed bank borrowings. No guarantee fee was charged by JCF Groupco to the Company for the year ended 31 December 2014.

27. INCOME TAX EXPENSE

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

	Note	**2015**	**2014**
		RMB'000	*RMB'000*
			(Restated)
Continuing operations			
Current income tax — PRC corporate income tax		—	—
Deferred income tax — charge for the year		5,429	3,347
Income tax expenses		5,429	3,347
Discontinued operations			
Current income tax — PRC corporate income tax		—	—
Deferred income tax — charge for the year		475	950
Income tax expenses	30	475	950
Total		5,904	4,297

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 (2014: Nil).

Tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate applicable to the results of the Group as follows:

	2015	2014
	RMB'000	*RMB'000*
		(Restated)
Profit/(loss) before income tax		
— continuing operations	182,224	(18,082)
— discontinued operations	(7,148)	(49,791)
	175,076	(67,873)
Tax calculated at corporate income tax rate of 25% (2014: 25%)	43,769	(16,969)
Tax effects of:		
— income not subject to tax	(1,966)	(1,506)
— expenses not deductible for tax purposes	4,021	76
— tax effect of tax losses and other deductible temporary difference not recognised	22,308	14,599
— utilisation of tax losses previously not recognised	(56,808)	—
— tax effect of share of result of a joint venture	(5,420)	8,097
Income tax expenses	5,904	4,297

28. EARNINGS/(LOSS) PER SHARE

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

Profit/(loss) attributable to owners of the Company

	2015	2014
	RMB'000	*RMB'000*
		(Restated)
For continuing and discontinued operations:		
Profit/(loss) for the purposes of basic and diluted earnings/(loss) per share	132,180	(72,170)
For continuing operations:		
Profit/(loss) for the purposes of basic and diluted earnings/(loss) per share	176,795	(21,429)
For discontinued operations:		
Loss for the purposes of basic and diluted loss per share	(44,615)	(50,741)
Number of shares:	*(in thousand)*	*(in thousand)*
Weighted average number of ordinary shares for the purposes of basic and diluted earnings/(loss) per share	866,250	866,250

Basic earnings/(loss) per share are calculated by dividing the profit/(loss) 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 (2014: 866,250,000) shares.

The Company has no potential dilutive shares in issue during the years ended 31 December 2015 and 2014 and therefore the diluted earnings/(loss) per share is equal to the basic earnings/(loss) per share.

29. DIVIDEND

The Company's directors do not recommend the payment of any dividend for the year ended 31 December 2015 (2014: nil).

30. DISCONTINUED OPERATIONS

On 26 June 2015, the Group entered into an equity transfer agreement with Jilin City Guosheng Asset Management Co., Ltd. ("Guosheng"), pursuant to which, the Group agreed to dispose its 100% entire interest in Tangu for a consideration of RMB157,768,000 (the "Consideration"). On 30 June 2015, the equity transfer agreement became effective under the approval by the State-owned Assets Supervision & Administration Commission of the People's Government of Jilin City. The results of the disposed subsidiary for the years ended 31 December 2015 and 2014 were as follows:

	Notes	**2015**	**2014**
		RMB'000	*RMB'000*
Turnover		46,628	45,639
Cost of sales		(39,448)	(57,319)
Gross profit/(loss)		7,180	(11,680)
Distribution costs		(830)	(1,013)
Administrative expenses		(10,401)	(28,109)
Other income and gains	22	640	2,659
Other expenses and losses	23	—	(739)
Operating loss		(3,411)	(38,882)
Finance income	26	708	797
Finance costs	26	(4,445)	(11,706)
Loss before income tax	24	(7,148)	(49,791)
Income tax expenses	27	(475)	(950)
Loss after income tax		(7,623)	(50,741)
Loss on disposal of a subsidiary	31	(36,992)	—
Loss for the year from discontinued operations		(44,615)	(50,741)

The net cash flows of the discontinued operations for the years ended 31 December 2015 and 2014 were as follows:

	2015	2014
	RMB'000	*RMB'000*
Net cash (used in)/generated from operating activities	(3,593)	24,081
Net cash generated from investing activities	36,155	32,853
Net cash used in financing activities	(23,918)	(57,592)
Net cash inflows/(outflows) from the discontinued operations	8,644	(658)
From discontinued operations		
— basic and diluted (expressed in RMB cents per share)	(5.2)	(5.8)

31. DISPOSAL OF A SUBSIDIARY

	Notes	**As at 30 June 2015** *RMB'000*
Assets disposed of:		
Land use rights	7	6,333
Property, plant and equipment	8	406,192
Deferred income tax assets	20	13,311
Inventories		96,490
Trade and other receivables		65,825
Restricted bank deposits		52,201
Cash and cash equivalents		13,853
Total assets		654,205
Liabilities disposed of:		
Long term bank borrowings		105,000
Deferred income	18	13,750
Short term bank borrowings		16,000
Trade and other payables		324,695
Total liabilities		459,445
Net assets		194,760
Loss on disposal of a subsidiary	30, 32	(36,992)
		157,768
Satisfied by:		
Consideration receivable (Note)		157,768

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	As at 30 June 2015
	RMB'000
Cash and cash equivalents	(13,853)

Note:

During the year ended 31 December 2015, significant non-cash transactions include the consideration of RMB157,768,000 from the disposal of a subsidiary. Consideration receivable is unsecured, interest bearing at rate of 4.35% per annum and will be repaid in three installments in the following three years. As at 31 December 2015, the carrying amount of consideration receivable is as follows:

	2015
	RMB'000
Consideration receivable:	
— Within 1 year (Note 13(i))	31,087
— Within 2 to 5 years (Note 11)	130,153
	161,240

The movement in the consideration receivable during the year is as follows:

	2015
	RMB'000
Arising on disposal of a subsidiary	157,768
Charged to consolidated statement of comprehensive income:	
— interest income on consideration receivable (Note 26)	3,472
As at 31 December	161,240

32. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Cash generated from operations

	Notes	2015 RMB'000	2014 RMB'000 (Restated)
Profit/(loss) before income tax			
— Continuing operations		182,224	(18,082)
— Discontinued operations (including loss on disposal of a subsidiary)		(44,140)	(49,791)
		138,084	(67,873)
Adjustments for:			
— Provision for/(reversal of) impairment on trade and other receivables	23	15,143	(2,623)
— Depreciation	8, 24	131,639	188,955
— Amortisation of			
— land use rights	7, 24	3,881	3,898
— intangible assets	9, 24	333	—
— Amortisation of deferred income	18, 22	(7,588)	(7,274)
— (Reversal of)/provision for impairment of inventories	24	(2,435)	12,960
— Net loss/(gain) arising on derivative financial instrument	22, 23	221	(380)
— Gain on disposal of property, plant and equipment	22	(3,881)	(143)
— Gain on disposal of land use rights	22	(3,697)	—
— Loss on disposal of a subsidiary	31	36,992	—
— Interest income	26	(6,218)	(2,532)
— Interest and guarantee fee expenses	26	123,445	147,436
— Share of result of a joint venture	10	(21,682)	32,387
— Gain attributable to equity interests of a joint venture	10, 22	(273)	(273)
Operating profit before working capital changes		403,964	304,538
Changes in working capital:			
— decrease in inventories		42,518	46,588
— increase in trade and other receivables		(204,107)	(87,609)
— increase/(decrease) in trade and other payables		233,739	(80,233)
Cash generated from operations		476,114	183,284

33. COMMITMENTS

(a) Capital Commitment

Capital expenditure contracted for at the end of the reporting period but not yet incurred is as follows:

	2015	2014
	RMB'000	*RMB'000*
Property, plant and equipment	17,955	1,553

(b) Operating lease commitments

The Group as the lessee

The Group is the lessee in respect of properties and items of plant and machinery held under operating leases. The leases typically run for an initial period of 3 to 4 years.

The future aggregate minimum lease payments under non-cancellable operating leases, mainly in relation to the rental expense of leased assets to JCFCL and the rental expense to group entities under JCF Groupco, are as follows:

	2015	2014
	RMB'000	*RMB'000*
Not later than 1 year		
— Leased assets to independent entities	23	—
— Leased assets to JCFCL (Note 34(a) (i))	10,277	10,277
— Leased assets to group entities under JCF Groupco	2,192	2,192
	12,492	12,469
Later than 1 year and not later than 5 years		
— Leased assets to independent entities	68	—
— Leased assets to JCFCL (Note 34(a) (i))	—	10,277
— Leased assets to group entities under JCF Groupco	—	2,192
	68	12,469
	12,560	24,938

The Group as the lessor

The Group leases out land use rights under operating lease. The lease typically runs for an initial period of 17 years. None of the leases include contingent rentals.

The future minimum lease payments receivable under non-cancellable operating leases are as follows:

	2015	**2014**
	RMB'000	*RMB'000*
Land use rights and machinery		
Not later than 1 year	28	119
Later than 1 year and not later than 5 years	112	167
Later than 5 years	29	66
	169	352

34. SIGNIFICANT RELATED PARTY TRANSACTIONS

The Group is controlled by JCF Groupco, the ultimate parent company, which owns 50.01% of the Company's shares. The remaining 49.99% of the shares are held by public shareholders and several strategic investors. JCF Groupco itself is a state-owned enterprise controlled by the PRC government. In accordance with HKAS 24 (Revised) "Related Party Disclosures" ("HKAS 24 (Revised)"), government related entities (e.g. state-owned enterprises) and their subsidiaries directly or indirectly controlled, jointly controlled or significantly influenced by the PRC government are also defined as related parties of the Group. A portion of the Group's business activities is conducted with other government related entities in the PRC (primarily with respect to sales of finished products, purchases of raw materials/utilities and transactions with state-owned banks). The Group believes that these transactions are carried out on terms that are similarly and consistently applied to all other customers or suppliers.

For the purpose of related party transaction disclosures, the Group has identified, to the extent practicable, its customers and suppliers as to whether they are government related entities. The Company's directors believe that it is meaningful to disclose any significant related party transactions with these government related entities for the interests of the financial statements users, although these transactions are exempted from the disclosure requirements as set out in the HKAS 24 (Revised). The Company's directors believe that the information in respect of related party transactions has been adequately disclosed in these consolidated financial statements.

In addition to those disclosed elsewhere in the consolidated financial statements, the following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties during the year.

During the year, for the purpose of this report, the directors are of the view that the following group entities under JCF Groupco and Tangu are related parties of the group:

Name of related parties	**Relationships**
Tuopu Textile	A subsidiary of JCF Groupco
Jilin Chemical Fiber Construction and Installation Engineering Co., Ltd.	A subsidiary of JCF Groupco
Jilin Huidong Chemical Industry Co., Ltd.	A subsidiary of JCF Groupco
Jilin Aika Viscose Fiber Co., Ltd.	A subsidiary of JCF Groupco
JCFCL	A subsidiary of JCF Groupco
Jilin Chemical Fiber Furunde Textile Co. Ltd	A subsidiary of JCF Groupco
Jilin Chemical Fiber Group Import Export Co., Ltd.	A subsidiary of JCF Groupco
Tangu	A subsidiary of the Company up to 30 June 2015 and a subsidiary of a state-owned enterprise controlled by the PRC government

(a) **Related party transactions**

	2015	**2014**
	RMB'000	*RMB'000*
Sales of goods to:		
— a shareholder of the Company	310,372	318,996
— group entities under JCF Groupco*	57,196	2,974
Provision of utilities to:		
— a joint venture	160,006	169,510
— group entities under JCF Groupco*	206,681	213,244
— Tangu	5,297	—
Provision of quality inspection services		
— a joint venture	1,863	2,017
— Tangu	44	—
Sales of raw materials to a joint venture	9,477	10,389
Sales of materials to Tangu	102	—
Sales of property, plant and equipment to:		
— a joint venture	5,947	—
— group entities under JCF Groupco*	5	—
Rental expense to JCFCL in respect of the remaining leased asset* (Note (i))	(11,868)	(10,924)
Rental expense to group entities under JCF Groupco*	(1,186)	(2,192)
Bank borrowings guarantee fees to the JCF Groupco (Note (ii))	(14,875)	(1,200)
Repair and maintenance service fee to group entities under JCF Groupco*	(8,015)	(5,653)
Purchases of property, plant and equipment from a group entity under JCF Groupco	—	(218)
Purchases of raw materials from:		
— a joint venture	(198)	(249)
— group entities under JCF Groupco*	(9,392)	(9,399)
Construction costs to group entities under JCF Groupco*	—	(190)

* *These transactions constitute continuing connected transactions as defined under Chapter 14A of the Listing Rules.*

Notes:

(i) On 26 August 2008, the Group has entered into a lease agreement with JCFCL, pursuant to which, the Group leases certain utility production facilities (the "Leased Assets") from JCFCL for the period from 4 November 2008 to 31 December 2010. In 2013, the lease agreement has been renewed for another three years until 31 December 2016 (Note 33(b)). Along with certain utility production facilities (including a thermal power plant (the "Utility Facilities")) as owned by the Group, the Company's directors believe that the Group can produce electricity and steam for its own production in a more cost efficient manner and any surplus of utilities generated from the Utility Facilities and the Leased Assets will be provided to the Group's fellow subsidiaries, joint venture, other related companies and third parties at the rates to be determined amongst the parties concerned.

(ii) JCF Groupco waived the bank borrowing guarantee fees of the Company for the year ended 31 December 2014. Guarantee fees amounting to RMB1,200,000 was paid by Tangu for the year ended 31 December 2014.

(iii) JCF Groupco allowed the Group to the use of the trademark of "白山" (Baishan) at nil consideration during the years ended 31 December 2015 and 2014.

(iv) The Group permitted JCF Groupco to use the Group's premises free of rent to operate its staff canteen. The Group is not required to bear the operating costs of the canteen.

(b) **Balances with related parties**

	2015	**2014**
	RMB'000	*RMB'000*
		(Restated)
Trade receivables from		
— group entities under JCF Groupco	6,463	—
— Tuopu Textile		
— Non current	3,369	—
— Current	5,000	6,119
	14,832	6,119
Advance from customer		
— a shareholder of the Company	4,967	6,854
Amount due from — Non current		
— Tuopu Textile	10,978	—
Amounts due from — current		
— group entities under JCF Groupco	62,182	64,442
— a joint venture	29,708	19,010
— JCFCL	174,633	172,559
— Tangu	258,645	—
— Tuopu Textile	—	10,179
	525,168	266,190
	536,146	266,190

	2015	2014
	RMB'000	*RMB'000*
		(Restated)
Trade payables to		
— group entities under JCF Groupco	—	612
Amounts due to		
— JCF Groupco	7,096	3,075
— group entities under JCF Groupco	2,906	3,418
— JCFCL	—	499
	10,002	6,992
Advance to supplier		
— group entities under JCF Groupco	372	—

Note:

The trade and other receivables due from Toupu Textile was interest bearing at 4.4% and had a three year repayment term. JCF Groupco confirmed to provide continuing financial support to Toupu Textile to the extent necessary to enable them to meet their obligation as and when they fall due. The directors of the Company does not expect any significant loss from the non-performance by Toupu Textile and hence no provision for impairment has been made as at 31 December 2015 (2014: Nil).

The amounts due from the joint venture and other related companies except for Toupu Textile were unsecured, non-interest bearing and had no fixed terms of repayment.

As at 31 December 2014, included in the amounts due from the related companies was an amount of RMB47,000,000 representing a letter of credit from JCFCL which was discounted to a financial institution with recourse. JCFCL was the primary obligors for payment on due date of such commercial acceptances. In the event of default, the Group was obliged to pay the financial institution the amount in default. Late interest would be charged by the financial institution until the amount was settled. The Group was therefore exposed to the credit risk and late payment risk in respect of the letter of credit. The proceeds of the discounting transactions were included in borrowings as asset-backed financing (Note 17) until the discounted bills were matured or settled.

(c) **Transactions/balances with other state-owned entities in the PRC**

The Group operates in an economic environment currently predominated by enterprises directly or indirectly owned, jointly controlled or significantly influenced by the PRC government (collectively the "state-owned entities"). Except as stated above the Company's directors consider that state-owned entities are independent third parties so far as the Group's business transactions with them are concerned.

During the year, the Group had transactions with other state-owned entities including, but not limited to, the sales of finished goods, purchases of raw materials/utilities and transactions with state-owned banks.

The sales of finished goods to these state-owned entities are individually not significant. The individually significant purchases transactions with these state-controlled entities primarily includes the purchases of raw materials/utilities from these state-owned entities of RMB776,437,000 (2014: RMB1,217,377,000).

In addition, approximately 100% and 94% (2014: 100% and 96% respectively) of the Group's bank balances (including restricted bank deposits) and borrowings are deposited/arranged with state-owned banks as at 31 December 2015.

(d) **Key management compensation**

Key management includes the executive and non-executive directors, supervisors and secretaries to the board of directors of the Company. The compensation paid or payable to these key management is shown as below:

	2015	**2014**
	RMB'000	*RMB'000*
Wages, salaries and other short-term employee benefits	2,924	2,443
Pension and social security costs	51	117
	2,975	2,560

(e) **Financial Guarantee Liabilities**

As at 31 December 2015, the Group has outstanding guarantee off RMB16,000,000 provided to Tangu for its bank borrowings which would be expired on 20 May 2016.

The directors of the Company consider that the fair value of this outstanding financial guarantee is insignificant at initial recognition and the possibility of default is remote. Accordingly, no value has been recognised at the inspection of the guarantee contracts and on the consolidated statement of financial position as at 31 December 2015.

35. FINANCIAL INSTRUMENTS BY CATEGORY

As of the respective reporting dates, the financial instruments of the Group are categorised as follows:

	Asset/(liabilities) as per consolidated statement of financial position			
	Loans and receivables	Total	Financial liabilities at amortised costs	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2015				
Trade and other receivables (excluding prepayments)	897,308	897,308	—	—
Cash and cash equivalents	67,620	67,620	—	—
Restricted bank deposits	62,151	62,151	—	—
Borrowings	—	—	(1,276,407)	(1,276,407)
Trade and other payables (excluding other taxes, advance from customers and provision for staff welfare)	—	—	(276,301)	(276,301)
Total	1,027,079	1,027,079	(1,552,708)	(1,552,708)

	Asset/(liabilities) as per consolidated statement of financial position				
	Loans and receivables	**Total**	**Financial liabilities at fair value through profit or loss**	**Financial liabilities at amortised costs**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2014					
Trade and other receivables (excluding prepayments)	637,609	637,609	—	—	—
Cash and cash equivalents	57,814	57,814	—	—	—
Restricted bank deposits	143,657	143,657	—	—	—
Borrowings	—	—	—	(1,737,347)	(1,737,347)
Derivative financial instrument	—	—	(4,992)	—	(4,992)
Trade and other payables (excluding other taxes, advance from customers and provision for staff welfare)	—	—	—	(369,349)	(369,349)
Total	839,080	839,080	(4,992)	(2,106,696)	(2,111,688)

36. COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	2015	2014
	RMB'000	*RMB'000*
ASSETS		
Non-current assets		
Land use rights	70,585	74,421
Property, plant and equipment	911,730	1,011,618
Intangible assets	3,667	—
Investment in a subsidiary	—	385,000
Investment in a joint venture	225,000	225,000
Deferred income tax assets	48,232	51,674
Prepayments and other receivables	144,500	2,785
	1,403,714	1,750,498
Current assets		
Inventories	208,683	254,213
Trade and other receivables	802,515	816,391
Land use rights	3,321	3,865
Restricted bank deposits	62,151	93,657
Cash and cash equivalents	67,620	52,605
	1,144,290	1,220,731
Total assets	2,548,004	2,971,229
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	(171,609)	(101,606)
Total equity	869,037	939,040

	2015	2014
	RMB'000	*RMB'000*
LIABILITIES		
Non-current liabilities		
Long-term bank borrowings	115,154	217,697
Deferred income	40,872	48,838
	156,026	266,535
Current liabilities		
Trade and other payables	354,661	370,488
Deferred income	7,027	6,024
Short-term bank borrowings	1,058,710	1,289,099
Current portion of long-term bank borrowings	102,543	95,051
Derivative financial instrument	—	4,992
	1,522,941	1,765,654
Total liabilities	1,678,967	2,032,189
Total equity and liabilities	2,548,004	2,971,229
Net current liabilities	(378,651)	(544,923)
Total assets less current liabilities	1,025,063	1,205,575

Details of the change in the Company individual components of equity between the beginning and the end of the year are set out below:

	Reserve fund	Enterprise expansion fund	Statutory reserve fund	Accumulated losses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 16(a))	*(Note 16(a))*	*(Note 16(b))*		
As at 1 January 2014	—	—	31,919	(126,296)	(94,377)
Profit for the year	—	—	—	24,690	24,690
As at 31 December 2014	—	—	31,919	(101,606)	(69,687)
Loss for the year	—	—	—	(70,003)	(70,003)
As at 31 December 2015	—	—	31,919	(171,609)	(139,690)

37. COMPARATIVE FIGURE

Comparative figures

Certain 2014 corresponding comparative figures have been reclassified to conform to current year's presentation.

Results from the disposed subsidiary were reclassified to the balance of loss from discontinued operations.

38. SUBSEQUENT EVENTS

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-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.

4. INDEBTEDNESS

Borrowings

At the close of business on 28 February 2017, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this Composite Document, the Company had guaranteed or secured outstanding bank borrowing of RMB1,131 million and finance lease borrowing of RMB36.78 million.

Save as aforesaid, and apart from normal accounts payable in the ordinary course of business, the Group did not have any other loan capital issued and outstanding or agreed to be issued but unissued, loans, bank overdrafts, or other similar indebtedness, hire purchase commitment, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, guarantees or other material contingent liabilities as at the close of business on 31 October 2016.

5. MATERIAL CHANGE

As at the Latest Practicable Date, the Directors confirm that there had been no material changes in the financial or trading position or outlook of the Qifeng Group since 31 December 2016 (being the date to which the latest published audited consolidated financial statements of Qifeng were made up) up to and including the Latest Practicable Date.

The following is the text of a report prepared for the purpose of incorporation in this circular received from Roma Appraisals Limited, an independent valuer, in connection with their valuations as at 31 January 2017 of the properties.

ROMA

Unit 3806, 38/F, China Resources Building,
26 Harbour Road, Wan Chai, Hong Kong
Tel (852) 2529 6878 Fax (852) 2529 6806
E-mail info@romagroup.com
http:// www.romagroup.com

3 April 2017

Jilin Qifeng Chemical Fiber Co., Limited
Block 4, Zone D,
Hengshan West Road,
Jilin New and High Technology Development Zone,
Jilin City, Jilin Province,
The People's Republic of China

Dear Sir/Madam,

Re: Valuation of 2 properties located in the People's Republic of China

In accordance with your instruction for us to value the properties held by Jilin Qifeng Chemical Fiber Company Limited (the "Company") and / or its subsidiaries (together with the Company referred to as the "Group") in the People's Republic of China (the "PRC"), we confirm that we have carried out inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the properties as at 31 January 2017 (the "Date of Valuation") for the purpose of incorporation in the circular of the Company dated 3 April 2017.

1. BASIS OF VALUATION

Our valuations of the properties are our opinion of the market values of the concerned properties which we would define as intended to mean "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

Market value is understood as the value of an asset or liability estimated without regard to costs of sale or purchase (or transaction) and without offset for any associated taxes or potential taxes.

2. VALUATION METHODOLOGIES

For property 1, due to the specific purpose for which most of the buildings and structures of the property have been constructed, there are no readily identifiable market comparables. Thus the buildings, structures and Construction in Progress (the "CIP") have been valued on the basis of its depreciated replacement costs instead of direct comparison method. The depreciated replacement cost approach ("DRC") is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement of the existing structures less deductions for physical deterioration and all relevant forms of obsolescence and optimization. In practice, Depreciated Replacement Cost approach may be used as a substitute for the Market Value of specialized property only, due to the lack of market comparables available. In valuing the Construction in Progress (the "CIP") of property which is currently under construction as at the Date of Valuation, we have assumed that it will be developed and completed in accordance with the latest construction contracts provided to us by the Group. In arriving at our opinion of value, we have taken into account the construction cost relevant to the stage of construction as at the Date of Valuation. Our valuation does not necessarily represent the amount that might be realized from the disposition of the property and the DRC is subject to adequate profitability of the concerned business.

For property 2, we have valued it by the direct comparison approach assuming sale of the property in its existing states with the benefit of vacant possession and by making reference to comparable sales transactions as available in the relevant market.

3. TITLE INVESTIGATION

For the properties in the PRC, we have been provided with copies of extracts of title documents relating to the properties in the PRC. However, we have not searched the original documents to ascertain the existence of any amendments which do not appear on the copies handed to us. We have relied to a very considerable extent on information given by the Group and the Group's PRC legal adviser, Jian Da Law Firm (廣東景達律師事務所) regarding the title of the properties in the PRC. All documents have been used for reference only.

In valuing the properties, we have relied on the advice given by the Group and its PRC legal adviser that the Group has valid and enforceable title to the properties which are freely transferable, and has free and uninterrupted right to use the same, for the whole of the unexpired term granted subject to the payment of annual government rent / land use fees and all requisite land premium / purchase consideration payable have been fully settled.

4. VALUATION ASSUMPTIONS

Our valuations have been made on the assumption that the owners sell the properties in the market in their existing states without the benefit of deferred term contracts, leasebacks, joint ventures, management agreements or any similar arrangements which would serve to affect the values of such properties.

In addition, no account has been taken of any option or right of pre-emption concerning or affecting the sale of the properties and no allowance has been made for the properties to be sold in one lot or to a single purchaser.

5. SOURCE OF INFORMATION

In the course of our valuations, we have relied to a very considerable extent on the information provided by the Group and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, identification of property, particulars of occupation, site / floor areas, ages of buildings and all other relevant matters which can affect the values of the properties. All documents have been used for reference only.

We have no reason to doubt the truth and accuracy of the information provided to us. We have also been advised that no material facts have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and have no reason to suspect that any material information has been withheld.

6. VALUATION CONSIDERATION

We have inspected the exterior and, where possible, the interior of the properties. No structural survey has been made in respect of the properties. However, in the course of our inspection, we did not note any serious defects. We are not, however, able to report that the property is free from rot, infestation or any other structural defects. No tests were carried out on any of the building services.

We have not carried out on-site measurement to verify the site / floor areas of the properties under consideration but we have assumed that the site / floor areas shown on the documents handed to us are correct. Except as otherwise stated, all dimensions, measurements and areas included in the valuation certificates are based on information contained in the documents provided to us by the Group and are therefore approximations.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the properties nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

In valuing the properties, we have complied with the HKIS Valuation Standards (2012 Edition) published by The Hong Kong Institute of Surveyors and Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by the Stock Exchange of Hong Kong Limited.

For the purpose of compliance with Rule 11.3 of the Code on Takeovers and Mergers and advised by the Group, the potential tax liabilities which would arise on the disposal of the property interests held by the Group in the PRC, for the amount of market value minus the cost of purchase, comprise PRC business tax (equivalent to 5% of sales revenue), Chinese land appreciation tax (ranging from 30% to 60% of the appreciated amount), Chinese corporate income tax and Chinese stamp duty (0.05% of the consideration stated in sales contract). The exact amount of the tax payable upon realisation of the relevant properties will be subject to the formal tax advice issued by the relevant tax authorities at the time of disposal by presenting the relevant transaction documents. Further, as advised by the Group, the likelihood of the potential tax liability being crystallised is remote as the Company has no intention to dispose of them.

7. REMARKS

Unless otherwise stated, all monetary amounts stated in our valuations are in Renminbi ("RMB").

Our Summary of Values and Valuation Certificates are attached.

Yours faithfully,
For and on behalf of
Roma Appraisals Limited

Dr. Alan W K Lee	**Frank F Wong**
BCom (Property) MFin PhD (BA)	*BA (Business Admin in Acct/Econ) MSc (Real Est)*
MHKIS RPS (GP) AAPI CPV CPV (Business)	*MRICS Registered Valuer ACIPHE*
Director	**Associate Director**

Note: Dr. Alan W K Lee is a Registered Professional Surveyor (General Practice), a member of Hong Kong Institute of Surveyors and an Associate of Australian Property Institute. He has over 13 years' valuation experience in Hong Kong, Macau, the PRC, the Asia Pacific Region, European countries and American countries.

Note: Mr. Frank F Wong is a Chartered Surveyor, Registered Valuer and Associate of Chartered Institute of Plumbing and Heating Engineering who has 18 years' valuation, transaction advisory and project consultancy of properties experience in Hong Kong and 10 years' experience in valuation of properties in the PRC as well as relevant experience in the Asia-Pacific region, Australia and Oceania-Papua New Guinea, France, Germany, Poland, United Kingdom, United States, Abu Dhabi (UAE) and Jordan.

SUMMARY OF VALUES

Properties held by the Group in the PRC

No.	**Property**	**Market Value in Existing State as at 31 January 2017**
1.	An industrial complex and Construction in Progress situated at the Jilin Economic and Technological Development Zone, Jilin City, Jilin Province, the PRC 中國吉林省吉林市吉林經濟技術開發區之一個工業園區及在建工程項目	RMB469,100,000
2.	Level 2 on Block 4, Zone D, Hengshan West Road, Jilin New and High Technology Development Zone, Jilin City, Jilin Province, the PRC 中國吉林省吉林市高新區恒山西路D區4號樓二層	RMB1,100,000
	Total:	RMB470,200,000

VALUATION CERTIFICATE

Properties held by the Group in the PRC

No.	Property	Description and Tenure	Particulars of Occupancy	Market Value in Existing State as at 31 Janaury 2017
1.	An industrial complex and Construction in Progress (the "CIP") situated at the Jilin Economic and Technological Development Zone, Jilin City, Jilin Province, The PRC 中國 吉林省 吉林市 吉林經濟技術開發區 之一個工業園區 及在建工程項目	The property comprises seven parcels of land with a total site area of about 596,983.84 sq.m. (or about 6,425,934 sq.ft.) and various buildings and ancillary structures erected thereon, which were completed in various stages in between 1996 and 2006. And the CIP is expected to be completed in 2017. The property has a total gross floor area ("GFA") of approximately 162,821.69 sq.m. (or about 1,752,613 sq.ft.). The land use rights of the property have been granted for various terms expiring between 10 April 2022 and 29 October 2055 for industrial and railway uses.	The property is occupied by the Group for industrial and ancillary uses except portion of property is subject to various tenancies. (Notes Nos.4 and 5 refer). As advised by the Group, there are some structures under construction. (Notes No. 6 refers)	RMB469,100,000

Notes:

1. Pursuant to 7 State-owned Land Use Rights Certificates, the property with a total site area of approximately 596,983.84 sq.m. has been granted to Jilin Qifeng Chemical Fiber Company Limited (吉林奇峰化纖股份有限公司) ("Qifeng") for industrial and railway uses. Details of which are as follows:

No.	Certificate No.	Usage	Expiry date	Site Area (sq.m.)
1.	Ji Shi Guo Yong (2005) No.220202003217	Industrial	10 April 2022	16,603.89
2.	Ji Shi Guo Yong (2005) No.220202004952	Industrial	10 April 2022	183,613.37
3.	Ji Shi Guo Yong (2005) No.220202004953	Industrial	10 April 2022	113,067.81
4.	Ji Shi Guo Yong (2005) No.220202004101	Industrial	29 October 2055	85,526.46
5.	Ji Shi Guo Yong (2015) No.220202000497	Industrial	29 October 2055	36,568.80
6.	Ji Shi Guo Yong (2012) No.220202008916	Industrial	20 September 2045	97,407.52
7.	Ji Shi Guo Yong (2012) No.220202008997	Railway	20 September 2045	64,195.99
			Total:	596,983.84

2. Pursuant to 78 Building Ownership Certificates (房屋所有權證) registered on 24 August 2012, 27 August 2012 and 18 December 2012, the property with a total GFA of approximately 162,821.69 sq.m. is legally held by Qifeng. Details of which are as follows:

No.	Certificate No.	Usage	GFA (sq.m.)
1.	Jilin Shi Fang Quang Zheng Chang Zi No.XZ00005190	Industrial	253.30
2.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00005159	Industrial	763.90
3.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00005124	Industrial	895.31
4.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00005189	Industrial	724.27
5.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00005227	Industrial	219.61
6.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00005175	Industrial	57.80
7.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00005158	Industrial	128.32
8.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00005173	Industrial	658.19
9.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00005188	Industrial	11,138.15
10.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00005191	Industrial	18,250.62
11.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00005177	Industrial	163.61
12.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00005116	Industrial	445.22
13.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00005178	Industrial	345.48
14.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00005174	Industrial	2,177.80
15.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00005145	Industrial	1,061.90
16.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00005176	Industrial	3,703.58
17.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00005155	Industrial	40.58
18.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00005192	Industrial	5,899.38
19.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00005153	Industrial	5,875.99
20.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00005146	Industrial	3,789.16
21.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00005123	Industrial	1,002.58
22.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00005115	Industrial	1,287.85
23.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00005168	Industrial	1,865.35
24.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00005179	Industrial	496.89
25.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00005117	Industrial	1,166.92
26.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00005149	Industrial	709.64
27.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00005151	Industrial	2,992.67
28.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00005114	Industrial	35.51
29.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00005152	Industrial	5,853.90
30.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00005193	Industrial	12,817.38
31.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00005187	Industrial	466.53
32.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00005120	Industrial	2,360.17
33.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00005122	Industrial	2,051.59
34.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00005185	Industrial	59.39
35.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00005183	Industrial	59.39
36.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00005186	Industrial	238.75
37.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00005148	Industrial	471.28
38.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00005184	Industrial	317.47
39.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00005182	Industrial	3,394.00
40.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00005160	Industrial	93.42
41.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00005125	Industrial	35.54
42.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00005154	Industrial	160.80

No.	Certificate No.	Usage	GFA (sq.m.)
43.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00005163	Industrial	167.16
44.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00005164	Industrial	350.00
45.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00005162	Industrial	492.00
46.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00005157	Industrial	1,673.79
47.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00005161	Industrial	1,166.10
48.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00005147	Industrial	470.26
49.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00005165	Industrial	1,116.97
50.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00005181	Industrial	20,349.00
51.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00005156	Industrial	135.00
52.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00005143	Industrial	376.52
53.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00005180	Industrial	1,400.61
54.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00005144	Industrial	1,562.53
55.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00005119	Industrial	174.94
56.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00005167	Industrial	432.53
57.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00005226	Office	315.96
58.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00005172	Office	610.36
59.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00005170	Office	163.22
60.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00005171	Office	1,077.91
61.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00005121	Industrial	3,607.20
62.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00005166	Industrial	18.37
63.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00008957	Industrial	2,638.31
64.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00008956	Industrial	14,834.46
65.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00008955	Industrial	1,136.88
66.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00008954	Industrial	1,071.29
67.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00008953	Industrial	1,274.62
68.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00008952	Industrial	229.62
69.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00008951	Industrial	470.33
70.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00008950	Industrial	178.75
71.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00008949	Industrial	123.39
72.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00008948	Industrial	81.97
73.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00008947	Industrial	22.21
74.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00008959	Industrial	64.33
75.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00005150	Industrial	3,321.79
76.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00005131	Industrial	150.20
77.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00005169	Industrial	6,414.16
78.	Jilin Shi Fang Quang Zheng Jiu Zi No.XZ00005118	Industrial	619.76
	Total GFA:		162,821.69

3. Pursuant to a Mortgage Contract No. 22100620140000877 registered on 16 August 2013, two loan extension agreements Nos. 2201022016000003 and 22010220160000007 made between Qifeng and the Agricultural Bank of China, Jiangebei Branch of Jilin City (the "Bank") dated 9 August 2016 and 12 August 2016 respectively, a portion of the property with site area of 183,613.37 sq.m. (Notes No. 1 item No. 2 refers) a total GFA of approximately 59,534.08 sq.m. is subject to a mortgage in favour of the Bank for a maximum amount of RMB 108,600,000. (Notes No.2, item Nos. 18, 20-27, 29-33, 52-62 and 77-78 refer)

4. Pursuant to a tenancy agreement dated 31 December 2015, portion of the property under State-owned Land Use Rights Certificate Ji Shi Guo Yong (2015) No.220202000497 (Former State-owned Land Use Rights Certificates Ji Shi Guo You (2005) Zi No.22020200413) with a site area of 13,000 sq.m. is leased by Jilin City Hong Ding Chemical Co., Ltd. (吉林市宏鼎化工有限公司), an independent third party, for a term commencing on 1 January 2016 and expiring on 31 December 2018 at an annual rent of RMB292,500 for industry use.

5. Pursuant to a tenancy agreement dated 31 December 2016, portion of the property under State-owned Land Use Rights Certificate Ji Shi Guo Yong (2015) No. 220202000497 with a site area of 8,544.96 sq.m. is leased by Jilin Huidong Chemical Industry Co., Ltd (吉林惠東化工責任有限公司), an independent third party, for a term commencing on 1 January 2017 and expiring on 31 December 2017 at an annual rent of RMB129,883.39 for industry use.

6. Pursuant to six construction contracts in between Jilin Qifeng Chemical Fiber Co. Limited and various contractors, the expected total contracts sum of the CIP is RMB20,859,800 and the total incurred construction cost with tax is RMB13,140,033. The expected completion date of the CIP is by February 2017.

7. The estimated value of the property after the construction in progress has been completed, is in an approximate sum of RMB489,960,000.

8. Our inspection was performed by Ms. Vinci Q. J. Hou Bachelor of Arts in Finance, Master of Science in E-Commerce and Logistic Technologies, with about 2-years property valuation experience, in December 2016.

9. We have been provided with a legal opinion on the title to the Property issued by the Group's legal adviser, Jian Da Law Firm as to PRC laws dated on the Latest Practicable Date, which contains, inter alia, the following information:

   a. Qifeng is in possession of a proper legal title to the property and is entitled to transfer the property with its residual term of land use rights at no extra land premium or other onerous payment payable to the government;

   b. All land premium and other costs of ancillary utility services has been settled in full;

   c. Apart from the aforesaid mortgage, the property is not subject to any other mortgage or any other material encumbrances; and

   d. The existing use of the property is in compliance with the local planning regulations and have been approved by the relevant authorities.

VALUATION CERTIFICATE

No.	Property	Description and Tenure	Particulars of Occupancy	Market Value in Existing State as at 31 Janaury 2017
2	Level 2 on Block 4, Zone D, Hengshan West Road, Jilin New and High Technology Development Zone, Jilin City, Jilin Province, The PRC 中國 吉林省 吉林市 高新區恒山西路 D區4號樓 二層	The property comprises an office unit on level 2 of a 5-storey office building, completed in about 1995. The property has a gross floor area ("GFA") of approximately 630.00 sq.m. (or about 6,781 sq.ft.).	The property is occupied by the Group for office use.	RMB1,100,000

Notes:

1. Pursuant to a Building Ownership Certificate (房屋所有權證), Ji Gao Fang Quan Zheng No.SY00021885 (吉高房權證第SY00021885號) dated 31 July 2005, the property with a GFA of approximately 630.00 sq.m. is legally owned by Jilin Qifeng Chemical Fiber Company Limited (吉林奇峰化纖股份有限公司) ("Qifeng") for office use.

2. Our inspection was performed by Ms. Vinci Q. J. Hou Bachelor of Arts in Finance, Master of Science in E-Commerce and Logistic Technologies, with about 2-years property valuation experience, in December 2016.

3. We have been provided with a legal opinion on the title to the Property issued by the Group's legal adviser, Jian Da Law Firm as to PRC laws dated on the Latest Practicable Date, which contains, inter alia, the following information:

   a. Qifeng is in possession of a proper legal title to the property and is entitled to transfer the property with its residual term of land use rights at no extra land premium or other onerous payment payable to the government;

   b. All land premium and other costs of ancillary utility services has been settled in full;

   c. The property is not subject to mortgage or any other material encumbrances; and

   d. The existing use of the property is in compliance with the local planning regulations and have been approved by the relevant authorities.

1. RESPONSIBILITY STATEMENT

This Composite Document includes particulars given in compliance with the Takeovers Code for the purpose of providing information with regard to the H Share Offer, the Offerors and Qifeng.

The directors of the Offerors and Jilin Chemical Fiber Group jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document, other than those relating to Qifeng, and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this Composite Document (other than those expressed by Qifeng), have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statement in this Composite Document misleading.

The Directors jointly and severally accept full responsibility for the accuracy of the information (other than that relating to the Offerors and parties acting in concert with any of them) contained in this Composite Document and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Composite Document (other than those expressed by the Offerors and parties acting in concert with any of them) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statement in this Composite Document misleading.

2. MARKET PRICES OF H SHARES

(a) During the Relevant Period, the highest closing price of the H Shares as quoted on the Hong Kong Stock Exchange was HK$1.09 per H Share on 10 November 2016, and the lowest closing price of the H Shares as quoted on the Hong Kong Stock Exchange was HK$0.58 per H Share on 24 June 2016.

(b) The table below sets out the closing prices of the H Shares as quoted on the Hong Kong Stock Exchange on the last trading day of each of the calendar months during the Relevant Period:

Date	Closing price per H Shares (HK$)
31 March 2017 (being the Latest Practicable Date)	1.02
28 February 2017	0.99
27 January 2017	1.04
30 December 2016	1.02
Last Trading Date	1.03
31 October 2016	0.95
14 October 2016 (being the last full trading date before the publication of the Rule 3.7 Announcement)	0.86
30 September 2016	0.72
31 August 2016	0.72
29 July 2016	0.77
30 June 2016	0.64
31 May 2016	0.63
29 April 2016	0.72

During the Relevant Period, no transaction has taken place in respect of the Domestic Shares and the Non-H Foreign Shares.

3. DISCLOSURE OF INTERESTS

(a) Interests of the directors, chief executives and supervisors of Qifeng in the securities of Qifeng and the securities of Qifeng's associated corporations

As at the Latest Practicable Date, none of the Directors, the chief executive and the supervisors of Qifeng and their respective associates had any interest on short position in the shares, underlying shares and debentures of Qifeng and any of its associated corporations, which, would have to be notified to Qifeng and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or would be required, pursuant to section 352 of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), to be recorded in the register therein, or would be required to be notified to Qifeng and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules (the "**Model Code**") or required to be disclosed under the Takeovers Code.

(b) Interests of substantial shareholders in the securities of Qifeng

As at the Latest Practicable Date, so far as is known to any Director or chief executive of Qifeng, other than a Director or chief executive of Qifeng, the following persons have interests or short positions in the Qifeng Shares and underlying shares of Qifeng which would fall to be disclosed to Qifeng under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in ten per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Qifeng Group.

Name of shareholder	Class of Qifeng Shares	Capacity	Number of Qifeng Shares interested	Approximate percentage in relevant class of Qifeng Shares	Approximate percentage in total issued share capital of Qifeng
Jilin Chemical Fiber Group	Domestic Shares	Beneficial owner	433,229,558	99.13%	50.01%
吉林市城市建設控股集團有限公司(Jilin City Construction Holdings Group Co., Ltd.) ("**JCF Group Co**")	Domestic Shares	Interest in controlled corporation	433,229,558[1]	99.13%	50.01%
Ronsace Company Limited	Non-H Foreign Shares	Beneficial owner	94,841,726	56.00%	10.95%
Bank of China Group Investment Limited	Non-H Foreign Shares	Interest in controlled corporation	94,841,726[2]	56.00%	10.95%
Bank of China Limited	Non-H Foreign Shares	Interest in controlled corporation	94,841,726[2]	56.00%	10.95%

Name of shareholder	Class of Qifeng Shares	Capacity	Number of Qifeng Shares interested	Approximate percentage in relevant class of Qifeng Shares	Approximate percentage in total issued share capital of Qifeng
Sanlink Investments Limited	Non-H Foreign Shares	Beneficial owner	44,029,105	26.00%	5.08%
China Insurance Group Investment Limited	Non-H Foreign Shares	Interest in controlled corporation	44,029,105[3]	26.00%	5.08%
China Life Insurance (Overseas) Company Limited	Non-H Foreign Shares	Interest in controlled corporation	44,029,105[3]	26.00%	5.08%
Halesfield Investment Limited	Non-H Foreign Shares	Beneficial owner	30,487,573	18.00%	3.52%
Huang Jia Sen	Non-H Foreign Shares	Interest in controlled corporation	30,487,573[4]	18.00%	3.52%
Huang Jia Zi	Non-H Foreign Shares	Interest in controlled corporation	30,487,573[4]	18.00%	3.52%
Huang Jia Yuan	Non-H Foreign Shares	Interest in controlled corporation	30,487,573[4]	18.00%	3.52%
全國社會保障基金理事會 (The National Social Security Fund of the PRC)	H Shares	Beneficial owner	23,625,000	9.09%	2.73%

Notes:

1. 433,229,558 Qifeng Shares are deemed corporate interests indirectly held through Jilin Chemical Fiber Group under the SFO. Jilin City Construction Holdings Group Co., Ltd. is a state-owned enterprise in the PRC.

2. 94,841,726 Qifeng Shares are deemed corporate interests indirectly held through Ronsace Company Limited under the SFO.

3. 44,029,105 Qifeng Shares are deemed corporate interests indirectly held through Sanlink Investments Limited under the SFO.

4. 30,487,573 Qifeng Shares are deemed corporate interests indirectly held through Halesfield Investment Limited under the SFO.

(c) Interests and dealings in the Qifeng Shares

As at the Latest Practicable Date, the Offerors were interested 433,229,558 Domestic Shares (representing approximately 99.13% of the total issued Domestic Shares and 50.01% of the issued share capital of Qifeng).

Save as aforesaid, as at the Latest Practicable Date:

(1) none of the Offerors were interested in any Qifeng Shares or any convertible securities, warrants, options or derivatives in respect of the Qifeng Shares;

(2) none of the directors of the Offerors were interested in any Qifeng Shares or any convertible securities, warrants, oprtions or derivatives in respect of the Qifeng Shares;

(3) none of the parties acting in concert with the Offerors were interested in any Qifeng Shares or any convertible securities, warrants, oprtions or derivatives in respect of the Qifeng Shares;

(4) none of the Offerors or parties acting in concert with the Offerors have received any irrevocable commitment to (i) accept or not to accept the Offers or (ii) vote for or against the Delisting;

(5) none of the Offerors and the parties acting in concert with the Offerors had any arrangement of the kind referred to in Note 8 to Rule 22 of Takeovers Code with any person;

(6) none of the Offerors and the parties acting in concert with the Offerors had borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in Qifeng; and

(7) Qifeng had not borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in Qifeng.

None of the Offerors, their directors or parties acting in concert with the Offerors have dealt for value in any Qifeng Shares or any options, warrants, derivatives or securities convertible into Qifeng Shares during the Relevant Period.

During the Relevant Period: -

(1) no subsidiary of Qifeng, pension fund of the Qifeng Group or adviser of Qifeng as specified in class (2) of the definition of "associate" in the Takeovers Code (but excluding exempt principal traders) owned or controlled any Qifeng Shares or any convertible securities, warrants, options or derivatives in respect of the Qifeng Shares or had dealt for value in any Qifeng Shares or any convertible securities, warrants, options or derivatives in respect of the Qifeng Shares;

(2) no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with Qifeng or with any person who is an associate of Qifeng by virtue of classes (1) to (4) of the definition of "associate" in the Takeovers Code and no such person owned or controlled any Qifeng Shares or any convertible securities, warrants, options or derivatives in respect of the Qifeng Shares or had dealt for value in any Qifeng Shares or any convertible securities, warrants, options or derivatives in respect of the Qifeng Shares; and

(3) no Qifeng Shares or convertible securities, warrants, options or derivatives in respect of the Qifeng Shares was managed on a discretionary basis by fund managers (other than exempt fund managers) connected with Qifeng and no fund managers (other than exempt fund managers) connected with Qifeng had dealt for value in any Qifeng Shares or any convertible securities, warrants, options or derivatives in respect of the Qifeng Shares.

(d) **Interests and dealings in the shares of the Offerors**

As at the Latest Practicable Date, neither the Directors nor Qifeng had any interest in the shares or any convertible securities, warrants, options or derivatives in respect of the shares in the Offerors and neither the Directors nor Qifeng had dealt for value in any such shares, convertible securities, warrants, options or derivatives during the Relevant Period.

(e) **Other interests**

As at the Latest Practicable Date: -

(1) no benefit (save for statutory compensation required under applicable law) is or will be paid to any Director as compensation for loss of office or otherwise in connection with the Offers;

(2) save for the Offers, there was no agreement, arrangement or understanding (including any compensation arrangement) between the Offerors or any of the parties acting in concert with the Offerors on the one hand and any of the Directors, recent Directors, the Qifeng Shareholders or recent Qifeng Shareholders on the other hand having any connection with or dependence upon or being conditional upon the outcome of the Offers or otherwise connected with the Offers;

(3) there is no agreement or arrangement to which any of the Offerors is a party which relates to the circumstances in which it may or may not invoke or seek to invoke the pre-condition, a condition to the Offers and the consequences of its doing so;

(4) there was no agreement, arrangement or understanding between the Offerors and any other person in relation to the transfer, charge or pledge of the Qifeng Shares to be purchased by the Offerors (or any of their respective wholly-owned subsidiaries) upon completion of the Offers;

(5) save for the Offers, there was no agreement or arrangement between any of the Directors and any other person which is conditional on or dependent upon the outcome of the Offers or otherwise connected with the Offers;

(6) none of the Directors had any existing or proposed service contract with the Qifeng Group or associated companies of Qifeng which (i) (including both continuous and fixed term contracts) has been entered into or amended within six months before the commencement of the Offer Period; or (ii) is a continuous contract with a notice period of 12 months or more; or (iii) is a fixed term contract with more than 12 months to run irrespective of the notice period; and

(7) there are no material contracts entered into by the Offerors in which any Director has a material personal interest.

4. INFORMATION REGARDING THE SHARE CAPITAL OF QIFENG

(1) As of the Latest Practicable Date, the authorised and issued share capital of Qifeng were as follows:

Authorised share capital

Number of Shares	Value of Shares
437,016,596 Domestic Shares	RMB 437,016,596
259,875,000 H Shares	RMB 259,875,000
169,358,404 Non-H Foreign Shares	RMB 169,358,404

Issued share capital

Number of Shares	Value of Shares
437,016,596 Domestic Shares	RMB 437,016,596
259,875,000 H Shares	RMB 259,875,000
169,358,404 Non-H Foreign Shares	RMB 169,358,404

(2) All of the Qifeng Shares currently in issue rank pari passu in substantially all respects to each other, including with respect to dividends (except with respect to the currency in which the dividends are paid), voting rights and capital.

(3) No new Qifeng Shares were issued since 31 December 2016, being the end of the last financial year of Qifeng prior to the Latest Practicable Date.

(4) Other than the Qifeng Shares, there are no other options, derivatives, warrants or other securities convertible or exchangeable into Qifeng Shares which are issued by Qifeng as at the Latest Practicable Date.

5. MATERIAL CONTRACTS

Save for the below, no material contracts other than contracts entered into in the ordinary course of business carried on or intended to be carried on by the Qifeng Group had been entered into by any member of the Qifeng Group within two years preceding 18 October 2016, being the commencement of the Offer Period, and up to and including the Latest Practicable Date:

- the conditional placing agreement (the "**Placing Agreement**") entered into between Qifeng and Orient Securities (Hong Kong) Limited (the "**Placing Agent**") dated 29 September 2015, pursuant to which the Placing Agent has conditionally agreed to place, on a best endeavor basis, up to 600,000,000 new H Shares (the "**Placing Shares**") at a placing price of the higher of HK$ equivalent of RMB1 per Placing Share and HK$1.1 (the exchange rate is calculated based on the middle rate of RMB against HK$ announced by the China Foreign Exchange Trade System delegated by People's Bank of China on the fifth Business Day from the date of fulfillment or exemption (as the case may be) of all the conditions or such other date as both parties may agree in writing).

6. FURTHER INFORMATION CONCERNING DIRECTORS OF QIFENG

A. Directors' service agreements

As at the Latest Practicable Date, none of the Directors had entered or was proposing to enter into a service contract with any member of the Qifeng Group which is not determinable by the Qifeng Group within one year without payment of compensation, other than statutory compensation.

B. Competing interests

None of the Directors and their respective associates has an interest in a business, which competes or may compete with the businesses of Qifeng and any other conflicts of interest which any such person has or may have with Qifeng.

C. Directors interests in assets

None of the Directors had any direct or indirect interest in any assets which had been acquired or disposed of or leased to any member of Qifeng or proposed to be so acquired, disposed of or leased to since 31 December 2016, being the date to which the latest published audited accounts of Qifeng were made up, and up to the Latest Practicable Date.

D. Directors interests in contracts

There is no contract or arrangement subsisting at the Latest Practicable Date in which any of the Directors is materially interested and which is significant in relation to the business of Qifeng.

7. EXPERTS

The following are the qualifications of each of the experts who have been named in this document or provided their report or advice which are contained in this Composite Document.

Name	Qualification
Somerley Capital	Somerley Capital Limited, the financial adviser to the Offerors, which is a licensed corporation under the SFO, licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities
First Shanghai Capital	First Shanghai Capital Limited, the independent financial adviser to the Independent Board Committees, which is a licensed corporation under the SFO, licensed to carry out type 6 (advising on corporate finance) regulated activity
Roma Appraisals Limited	Property valuer

Somerley Capital, First Shanghai Capital and Roma Appraisals Limited have given and have not withdrawn their respective written consents to the issue of this Composite Document with the inclusion in this Composite Document of the text of their respective letters, reports or opinions, as the case may be, and references to their names in the form and context in which they respectively appear.

8. LITIGATION

As at the Latest Practicable Date, none of the members of the Qifeng Group was engaged in any litigation or arbitration of material importance and there was no litigation or arbitration of material importance known to the Directors to be pending or threatened by or against any member of the Qifeng Group.

9. MATERIAL CHANGE

As at the Latest Practicable Date, the Directors confirm that there had been no material changes in the financial or trading position or outlook of the Qifeng Group since 31 December 2016 (being the date to which the latest published audited consolidated financial statements of Qifeng were made up) up to and including the Latest Practicable Date.

10. GENERAL

(1) The registered office of Top Trading is situated at No. 250 Kunlun Street, Jilin Economic and Technological Development Zone, Jilin City, PRC. The sole director of Top Trading is Zhou Dongfu.

(2) The registered office of Jilin Fiber is situated at Room 1501, Grand Millennium Plaza (Lower Block), 181 Queen's Road Central, Hong Kong. The sole director of Jilin Fiber is Pei Haitao.

(3) The registered office of Somerley Capital is situated at 20/F., China Building, 29 Queen's Road Central, Central, Hong Kong.

(4) In case of inconsistency, the English language text of this document and the accompanying forms shall prevail over the Chinese language text.

(5) All time and dates references contained in this Composite Document refer to Hong Kong time and dates.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection (i) during normal business hours from 9:00 a.m. to 6:00 p.m. (on Business Days) at the offices of Luk & Partners at Unit 2001, Level 20, One International Finance Centre, 1 Harbour View Street, Hong Kong; (ii) on the website of the SFC (www.sfc.hk); and (iii) on the website of Qifeng (www.qifengfiber.com) from the date of the Composite Document onwards for so long as the H Share Offer remains open for acceptance:

(a) the memorandum of association and articles of association of Qifeng;

(b) the memorandum of association and articles of association of Top Trading;

(c) the memorandum of association and articles of association of Jilin Fiber;

(d) the annual reports of Qifeng for each of the years ended 31 December 2014 and 2015;

(e) the interim report of Qifeng for the six months ended 30 June 2016;

(f) the letter from both boards of directors of the Offerors, the text of which is set out in this Composite Document;

(g) the letter from Somerley Capital, the text of which is set out in this Composite Document;

(h) the letter from the Board, the text of which is set out in this Composite Document;

(i) the letter from the Takeovers Code Independent Board Committee, the text of which is set out in this Composite Document;

(j) the letter from the Listing Rules Independent Board Committee, the text of which is set out in this Composite Document;

(k) the letter from the Independent Financial Adviser, the text of which is set out in this Composite Document;

(l) the letter and full property valuation report of the Qifeng Group (including the valuation certificates) prepared by Roma Appraisals Limited, a summary of which is set out in "Appendix III — Property Valuation Report" to this Composite Document;

(m) the report from Moore Stephens CPA Limited on expressing an unqualified audit opinion on the financial statements of the Group for the year ended 31 December 2015, the text of which is set out in Appendix II to this Composite Document;

(n) the report from Moore Stephens CPA Limited on expressing an unqualified audit opinion on the financial statements of the Group for the year ended 31 December 2014, the text of which is set out in Appendix II to this Composite Document;

(o) the written consents referred to in the paragraph headed “Experts” in Appendix IV to this Composite Document;

(p) the material contract referred to in the paragraph headed “Material Contracts” in Appendix IV to this Composite Document (i.e. the Placing Agreement);

(q) a copy of the circular of Qifeng dated 12 October 2016; and

(r) this Composite Document.

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)

NOTICE OF H SHARE CLASS MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**Meeting**") of Jilin Qifeng Chemical Fiber Co., Ltd (the "**Company**") will be held at 9:30 a.m. on Friday, 19 May 2017 at the meeting room of 6th Floor, No. 516-1, Jiuzhan Street, Jilin City, Jilin Province, the People's Republic of China, for the purposes of considering and, if thought fit, passing (with or without modifications), the following resolutions. Unless otherwise indicated, capitalised terms used herein shall have the same meaning as those defined in the composite offer and response document of the Company dated 3 April 2017:

AS SPECIAL RESOLUTIONS

"THAT

(a) the voluntary withdrawal of the listing of the H Shares from the Stock Exchange, be and is hereby approved; and

(b) any director of the Company be and is hereby authorised to take such other action and execute such documents or deeds as he may consider necessary or desirable for the purpose of implementing the voluntary withdrawal as referred to in paragraph (a) above."

Jilin City, Jilin Province, the PRC, 3 April 2017

By order of the Board of
Jilin Qifeng Chemical Fiber Co., Ltd*
Song Dewu
Chairman

Notes:

1. Any shareholder of the Company (the "**Shareholder**") entitled to attend and vote at the H Share Class Meeting is entitled to appoint another person as his proxy to attend and vote on his behalf in accordance with the articles of the Company. A Shareholder who is the holder of two or more shares of the Company (the "**Shares**") may appoint more than one proxy to attend on the same occasion. A proxy need not be a Shareholder.

2. A form of proxy for use at the H Share Class Meeting is enclosed. In order to be valid, the form of proxy together with the power of attorney or other authority (if any) under which it is signed, or a certified copy of such power or authority, must be lodged with the Company's H Shares registrar in Hong Kong, Boardroom Share Registrars (HK) Limited, at 31/F, 148 Electric Road, North Point, Hong Kong not less than 24 hours before the time appointed for holding the H Share Class Meeting or any adjournment thereof.

3. Where there are joint registered holders of any Share(s), any one of such joint holders may attend and vote at the H Share Class Meeting, either in person or by proxy, in respect of such Share(s) as if he/she was solely entitled thereto, but if more than one of such joint holders are present at the H Share Class Meeting or any adjourned meeting thereof (as the case may be), the most senior shall alone be entitled to vote, whether in person or by proxy. For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

4. Completion and return of the form of proxy will not preclude a Shareholder from attending and voting in person at the H Share Class Meeting or any adjournment thereof if he/she so desires. If a Shareholder attends the H Share Class Meeting after having deposited the form of proxy, his/her form of proxy will be deemed to have been revoked.

5. Shareholders who intend to attend the H Share Class Meeting should complete and return the reply slip in writing by hand or by post to the Company's H Shares registrar in Hong Kong before Friday, 28 April 2017.

   The name and address of the Company's H Shares registrar in Hong Kong is as follows:

   Boardroom Share Registrars (HK) Limited
   31/F, 148 Electric Road
   North Point
   Hong Kong

6. The holders of H shares of the Company should note that the register of members of the Company will be closed from Tuesday, 18 April 2017 to Friday, 19 May 2017 (both days inclusive), during which period no transfer of H Shares can be registered. In order to qualify to attend and vote at the H Share Class Meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's H Shares registrar in Hong Kong, no later than 4:30 p.m. on Thursday, 13 April 2017.

7. Voting of all resolutions as set out in this notice will be by poll in accordance with Rule 13.39(4) of the Listing Rules.

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

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

吉林奇峰化纖股份有限公司
JIILIN QIFENG CHEMICAL FIBER CO., LTD.*

(a joint stock company incorporated in the People's Republic of China with limited liability)
(Stock Code: 549)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of Jilin Qifeng Chemical Fiber Co., Ltd (the "**Company**") will be held at 10:00 a.m. on Friday, 19 May 2017 at the meeting room of 6th Floor, No. 516-1, Jiuzhan Street, Jilin City, Jilin Province, the People's Republic of China, for the purposes of considering and, if thought fit, passing (with or without modifications), the following resolutions. Unless otherwise indicated, capitalised terms used herein shall have the same meaning as those defined in the composite offer and response document of the Company dated 3 April 2017:

AS SPECIAL RESOLUTIONS

"**THAT**

(a) the voluntary withdrawal of the listing of the H Shares from the Stock Exchange, be and is hereby approved; and

(b) any director of the Company be and is hereby authorised to take such other action and execute such documents or deeds as he may consider necessary or desirable for the purpose of implementing the voluntary withdrawal as referred to in paragraph (a) above."

Jilin City, Jilin Province, the PRC, 3 April 2017

By order of the Board of
Jilin Qifeng Chemical Fiber Co., Ltd*
Song Dewu
Chairman

Notes:

1. Any shareholder of the Company (the "**Shareholder**") entitled to attend and vote at the EGM is entitled to appoint another person as his proxy to attend and vote on his behalf in accordance with the articles of the Company. A Shareholder who is the holder of two or more shares of the Company (the "**Shares**") may appoint more than one proxy to attend on the same occasion. A proxy need not be a Shareholder.

2. A form of proxy for use at the EGM is enclosed. In order to be valid, the form of proxy together with the power of attorney or other authority (if any) under which it is signed, or a certified copy of such power or authority, must be lodged with the Company's H Share registrar and transfer office in Hong Kong, Boardroom Share Registrars (HK) Limited, located at 31/F, 148 Electronic Road, North Point, Hong Kong (in respect of H Shares), or to the Company's office in the PRC at No. 516-1 Jiuzhan Street, Jilin City, Jilin Province, the PRC (in respect of Domestic Shares and Non-H Foreign Shares) not less than 24 hours before the time appointed for holding the EGM or any adjournment thereof.

3. Where there are joint registered holders of any Share(s), any one of such joint holders may attend and vote at the EGM, either in person or by proxy, in respect of such Share(s) as if he/she was solely entitled thereto, but if more than one of such joint holders are present at the EGM or any adjourned meeting thereof (as the case may be), the most senior shall alone be entitled to vote, whether in person or by proxy. For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

4. Completion and return of the form of proxy will not preclude a Shareholder from attending and voting in person at the EGM or any adjournment thereof if he/she so desires. If a Shareholder attends the EGM after having deposited the form of proxy, his/her form of proxy will be deemed to have been revoked.

5. Shareholders who intend to attend the EGM should complete and return the reply slip in writing by hand or by post to the Company's H Shares registrar in Hong Kong (for holders of H Shares) or the office of the Company in the PRC (for holders of Domestic Shares and Non-H Foreign Shares) no later than Friday, 28 April 2017.

   The name and address of the Company's H Shares registrar in Hong Kong are as follows:

   Boardroom Share Registrars (HK) Limited
   31/F, 148 Electric Road
   North Point
   Hong Kong

   The address of the office of the Company in the PRC is as follows:

   No. 516-1 Jiuzhan Street,
   Jilin City,
   Jilin Province,
   The PRC

6. The holders of H shares of the Company should note that the register of members of the Company will be closed from Tuesday, 18 April 2017 to Friday, 19 May 2017 (both days inclusive), during which period no transfer of H Shares can be registered. In order to qualify to attend and vote at the EGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's H Shares registrar in Hong Kong (in respect of H Shares), no later than 4:30 p.m. on Thursday, 13 April 2017.

7. Voting of all resolutions as set out in this notice will be by poll in accordance with Rule 13.39(4) of the Listing Rules.

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

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