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)

2012
Annual Report

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Wang Jinjun *(Chairman)*
Mr. Yang Xuefeng
Mr. Wang Changsheng

Non-executive Directors

Mr. Ma Jun
Ms. Pang Suet Mui
Mr. Sun Haichao
Mr. Jiang Junzhou

Independent non-executive Directors

Mr. Ye Yongmao
Mr. Mao Fengge
Mr. Lee Ka Chung, J.P.
Ms. Zhu Ping

SUPERVISORS

Ms. Sun Yujing
Mr. Zhang Jiaku
Mr. Liu Ming
Mr. Cheng Jianhang
Mr. Zhang Haiou
Ms. Bai Hua

AUDIT COMMITTEE

Mr. Lee Ka Chung, J.P. *(Chairman)*
Mr. Jiang Junzhou
Mr. Ye Yongmao

BOARD REMUNERATION COMMITTEE

Mr. Mao Fengge *(Chairman)*
Mr. Lee Ka Chung, J.P.
Mr. Ma Jun

NOMINATION COMMITTEE

Mr. Mao Fengge *(Chairman)*
Mr. Ye Yongmao
Mr. Jiang Junzhou

CONNECTED TRANSACTIONS COMMITTEE

Mr. Mao Fengge *(Chairman)*
Mr. Lee Ka Chung, J.P.
Mr. Ye Yongmao

JOINT COMPANY SECRETARIES

Ms. Liu Xiangmei
Mr. Chan Cheung *HKICPA, FCCA*

QUALIFIED ACCOUNTANT

Mr. Chan Cheung *HKICPA, FCCA*

AUTHORISED REPRESENTATIVES

Mr. Wang Changsheng
Mr. Chan Cheung *HKICPA, FCCA*

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

43/F Gloucester Tower,
The Landmark,
15 Queen's Road Central,
Hong Kong

AUDITORS

BDO Limited

LEGAL ADVISOR AS TO HONG KONG LAW

Orrick, Herrington & Sutcliffe

PRINCIPAL BANKERS

China Construction Bank
Jilin City Commercial Bank
Agricultural Bank of China
Bank of Communications
Bank of China Limited

H SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
46th Floor,
Hopewell Centre, 183 Queen's Road East,
Hong Kong

FINANCIAL SUMMARY

	Year ended 31 December				
	2012 RMB million	2011 RMB million	2010 RMB million	2009 RMB million	2008 RMB million
Revenue	1,391.8	2,096.9	1,501.1	1,255.9	1,186.5
Gross profit/(loss)	16.0	215.1	114.1	216.9	(27.7)
Operating expenses	(109.3)	(116.7)	(101.8)	(103.7)	(95.0)
Other gains/(losses), net Note 2	65.3	41.4	62.3	154.0	(95.6)
Operating (loss)/profit	(28.0)	139.8	74.6	267.2	(218.3)
Finance costs, net	(121.1)	(102.9)	(72.9)	(74.9)	(102.9)
Share of (loss)/profit of a jointly controlled entity	(40.2)	36.1	9.5	76.4	(71.5)
(Loss)/profit before income tax	(189.3)	73.0	11.2	268.7	(392.7)
Income tax (expense)/credit	2.7	(7.8)	1.4	(45.2)	80.1
(Loss)/profit attributable to the owners of the Company	(186.6)	65.2	12.6	223.5	(312.6)
(Losses)/earnings per share (RMB per share)	(0.22)	0.08	0.01	0.26	(0.36)
Dividend per share (RMB per share)	—	—	—	—	—
Gross profit/(loss) margin	1.2%	10.3%	7.6%	17.3%	(2.3%)
Net (loss)/profit margin	(13.4%)	3.1%	0.8%	17.8%	(26.3%)

	As at 31 December				
	2012 RMB million	2011 RMB million	2010 RMB million	2009 RMB million	2008 RMB million
Current assets	996.6	1,058.3	1,002.2	841.6	657.1
Non-current assets	2,053.8	1,885.0	1,592.5	1,646.1	1,616.2
Total assets	3,050.4	2,943.3	2,594.7	2,487.7	2,273.3
Current liabilities	1,834.2	1,483.2	1,225.4	836.0	1,158.1
Non-current liabilities	389.7	447.1	421.5	716.5	403.5
Total liabilities	2,223.9	1,930.3	1,646.9	1,552.5	1,561.6
Total equity	826.5	1,013.0	947.8	935.2	711.7
Current ratio	0.54	0.71	0.82	1.01	0.57
Gearing ratio Note 1	72.9%	65.6%	63.5%	62.4%	68.7%

Notes:

1. The gearing ratios set out on this page are calculated as total liabilities divided by total assets.
2. The amounts as set out above represent the aggregated total of other income, other expenses and other gains/losses – net as presented in the consolidated statement of comprehensive income of the Group.

CHAIRMAN'S STATEMENT

Dear shareholders,

On behalf of the Board of Directors (the "Board" or "Directors") of Jilin Qifeng Chemical Fiber Co., Ltd. (the "Company"), I herewith present the financial report and audited consolidated financial statements of the Company and its subsidiary (collectively, the "Group") for the financial year ended 31 December 2012 (the "Year").

ANNUAL RESULTS

During the Year, the Group's revenue amounted to approximately RMB 1.4 billion, representing a decrease of approximately 33% as compared to RMB2.1 billion in the previous year. Loss attributable to the owners of the Company for the Year amounted to approximately RMB186.57 million, decreased substantially from a profit of approximately RMB65.19 million for the year ended 31 December 2011.

BUSINESS REVIEW

The European financial crisis continued to exert a negative impact on the global economic environment during the Year. Coupled with the continual appreciation of the Renminbi ("RMB") and the slowing down of the export sector of the market in the People's Republic of China (the "PRC"), the demands of the downstream textile industry and the Group's acrylic fiber products were reduced inevitably. Under this market condition, the Group monitored the market closely and kept abreast of the ever-changing raw materials and sales markets. On the other hand, the Group improved its production efficiency and inventory control to strengthen its cost control.

OUTLOOK

Looking forward, the Group will continue to expand its market share by enhancing marketing and sales of acrylic fiber products and carbon fiber precursor, achieving further growth by consolidating its leading position in the PRC's acrylic fiber and carbon fiber precursor industries as well as expanding its overseas markets. At the same time, the Group will enhance its production process technology and research and development capacities. The Group is also committed to the development of new products and the research and development of production process to further improve its production efficiency, strengthen its cost control and enhance its profitability. The Group believes that the business environment of the PRC's acrylic fiber and carbon fiber precursor industry will be improved in the near future.

APPRECIATION

Lastly, I would like to take this opportunity to thank the shareholders of the Company ("Shareholders") and business partners of the Group for their support and encouragement over the past year. I would also like to express my gratitude to the Directors and the entire staff of the Group for their hard work and contribution.

Wang Jinjun
Chairman

Jilin City, Jilin Province, The PRC
28 March 2013

MAJOR OPERATIONAL DATA

1. Revenue

	Year ended 31 December			
	2012		2011	
	RMB million	%	RMB million	%
Acrylic top	609.3	43.8	1,046.0	49.9
Acrylic tow	228.0	16.4	327.2	15.6
Acrylic staple fiber	548.0	39.3	702.6	33.5
Carbon fiber precursor	2.2	0.2	15.0	0.7
Others*	4.3	0.3	6.1	0.3
Total	1,391.8	100.0	2,096.9	100.0

2. Sales volume

	Year ended 31 December			
	2012		2011	
	Tons	%	Tons	%
Acrylic top	37,215	42.2	50,143	48.5
Acrylic tow	15,298	17.4	16,353	15.8
Acrylic staple fiber	35,417	40.2	35,816	34.7
Carbon fiber precursor	38	—	407	0.4
Others*	219	0.2	582	0.6
Total	88,187	100.0	103,301	100.0

3. Average selling price and gross profit margin

	Year ended 31 December			
	2012		2011	
	Average selling price RMB/ton	Gross profit margin %	Average selling price RMB/ton	Gross profit margin %
Acrylic top	16,372	1.31	20,860	9.87
Acrylic tow	14,904	1.80	20,008	11.06
Acrylic staple fiber	15,473	1.21	19,617	10.58
Carbon fiber precursor	57,468	(8.02)	36,855	0.81
Average gross profit margin		1.2		10.3

* Refer to sales of acrylic fiber scrap

REVIEW AND OUTLOOK

Market Review

The European financial crisis continued to exert a negative impact on the global environment during the Year. Coupled with the continual appreciation of the RMB and the slowing down of the export sector of the PRC market, the demand of the downstream textile industry and the Group's acrylic fiber products was reduced inevitably. Due to the shrinkage for the demand of acrylic fiber products from the downstream customers and the decrease in the cost of acrylonitrile (the major raw material for the production of the Group's products), both the average selling price and the market turnover of the acrylic fiber products in the PRC market decreased significantly during the Year. As a result of a more significant decrease in average selling price of acrylic products as compared to the decrease in the average price of acrylonitrile, the price difference between acrylic fiber products and acrylonitrile decreased, which reduced the profitability of acrylic fiber manufacturers. The PRC carbon fiber market is still in its primary stage of development. The Group expects a gradual increase in the number of downstream carbonisation plants and the demand for carbon fiber, which will accelerate the development of the Group's carbon fiber precursor business.

Sales Review

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

Production Management

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

During the Year, the Group continued to implement stringent cost control measures, adhere to order-based production and inventory level control in order to further enhance operating efficiency. The Group has developed cellulose acetate fiber, regenerative fiber, far-infrared fiber, anion fiber, antibacterial fiber, Highlight fiber and Anti-pilling fibers. The Group has commenced a formal production of anti-pilling fibers during the year. The Group has updated its distributed control system, strengthened the technical parameters control adjustment, conducted spinnability research, completed the industrial oxalic acid content testing, improved the polymer aqueous indicators, etc., to improve its production efficiency. The Group has also completed seven technical reform projects, which set up a solid foundation to stabilise the production process, improve the production quality and reduce production waste consumption.

Employees

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

OUTLOOK

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

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

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

FINANCIAL ANALYSIS

Operating results

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

Operating expenses (distribution costs and administrative expenses)

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

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

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

Net finance costs

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

Share of loss/profit of a jointly controlled entity

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

Financial resources, liquidity and liability position

As of 31 December 2012, the Group's total assets and total liabilities were approximately RMB3.05 billion and RMB2.22 billion, respectively. As of 31 December 2012, the Group's net current liabilities amounted to approximately RMB838 million and its current ratio, calculated by dividing its current assets by its current liabilities as of 31 December 2012, was approximately 0.54 (2011: 0.71). The Group had cash in hand and cash at bank and restricted bank deposits of approximately RMB109.2 million and RMB123.6 million, respectively as of 31 December 2012. As of 31 December 2012, the total bank borrowings of the Group amounted to approximately RMB1.64 billion, of which, approximately RMB1.27 billion was short-term bank borrowings, approximately RMB56.5 million was current portion of long-term borrowings and approximately RMB307.5 million was non-current portion of long-term bank borrowings. Approximately 56.8% of the Group's bank borrowings bear floating interest rates. The bank borrowings were mainly used for the expansion of production facilities and the construction of the thermal power plant as well as the development of the carbon fiber precursor project. The net increase in bank borrowings was approximately RMB106.2 million during the Year. All of the Group's bank borrowings are denominated in Renminbi. Therefore, the management believes that the Group is exposed to minimal foreign exchange risks and has not made any foreign currency hedging arrangement. As of 31 December 2012, the Group's gearing ratio, calculated by dividing total liabilities by total assets, was approximately 72.9% (2011: 65.6%).

Material Acquisition

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

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

INVESTMENT REVIEW

Jointly controlled entity

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

Entrusted deposits and matured deposits

As of 31 December 2012, the Group did not hold deposits under trusts in any financial institutions in the PRC. All of the Group’s cash was held in commercial banks in the PRC in accordance with applicable laws and regulations. Except for restricted bank deposits of approximately RMB123.6 million, the Group had no bank deposits which cannot be withdrawn upon maturity.

Pledged assets

As of 31 December 2012, certain properties, plants and equipment, land use rights and bills receivables with a net book value of approximately RMB112.9 million, Nil, RMB3.0 million respectively (as of 31 December 2011: RMB547.0 million, RMB5.4 million and Nil, respectively) were pledged as securities for bank borrowings of approximately RMB162 million (as of 31 December 2011: RMB305 million). In addition, bank deposits of approximately RMB25.0 million, RMB32.8 million and RMB21.9 million was pledged for the issue of certain non-trade bills payable, trade bills payables and letters of credit for the Group’s purchases of raw materials, plant and machinery from certain overseas suppliers, respectively.

Contingent liabilities

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

Dividend

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

DIRECTORS

Executive Directors

Mr. Wang Jinjun, aged 51, is an executive Director and Chairman of the Board. Currently, he is also the chairman of the board of directors, the general manager, and the deputy secretary of the party committee of Jilin Chemical Fiber Group Co., Ltd. ("JCF Groupco"), as well as the chairman of the board of directors of Jilin Chemical Fiber Co., Ltd. ("JCFCL") and the Joint Venture. Since he joined the Group in 1996, he has held senior management positions at various departments in the Group including the equipment and energy department and the production department. Mr. Wang has over 23 years of experience in the chemical fiber industry. He graduated from Daqing Petroleum Institute of Heilongjiang Province in the PRC with a major in petroleum engineering, he also obtained a master's degree in engineering from Jilin University and is a qualified senior engineer in the PRC.

Mr. Yang Xuefeng, aged 48, is an executive Director and the General Manager of the Company. Prior to joining the Group, he had been the general manager of Jilin Jimont Acrylic Fiber Co., Ltd, the jointly controlled entity. Mr. Yang has 25 years experience in the chemical fiber industry. He graduated from Tianjin Institute of Textile Science and Technology in the PRC with a major in chemical fiber, he also obtained a master's degree in engineering from Jilin University and is a senior engineer in the PRC.

Mr. Wang Changsheng, aged 53, is an executive Director and the Chief Financial Officer, responsible for the financial management of the Group. He has been the chief financial officer of the Company since August 2001. Mr. Wang has over 31 years of experience in the chemical fiber industry and has extensive experience in company accounting, administration and management. He graduated from Changchun Taxation Institute in the PRC majoring in accounting and is a qualified senior accountant in the PRC.

Non-executive Directors

Mr. Ma Jun, aged 47, is an non-executive Director of the Company. He is currently a deputy general manager of JCF Groupco. He had held positions as the head of electric meter factory, head of polymerisation factory, the assistant to the general manager, deputy manager and general manager of the Group since he joined the Group in March 1997. Mr. Ma graduated from Jilin Vocational Teachers College in the PRC with a bachelor's degree in relation to electronics technology. He also obtained a master's degree from Jilin University. He has over 23 years of experience in the chemical fiber industry and is a qualified senior engineer in the PRC.

Mr. Jiang Junzhou, aged 54, is a non-executive Director and currently the vice general manager of JCF Groupco. He first became a Director of the Company on 28 June 2007. Mr. Jiang joined JCF Groupco in 1978 and has over 33 years of experience in education, imports and exports as well as management.

Ms. Pang Suet Mui, aged 43, is a non-executive Director. She is currently the deputy general manager of strategic investment department at Bank of China Group Investment Limited (''BOCGI''). She joined BOCGI in 1997 and has extensive experiences in banking, administration and management. Ms. Pang graduated from Peking University School of Pharmaceutical Sciences (formerly known as Beijing Medical University School of Pharmaceutical Sciences) with a bachelor's degree. She has also obtained a master's degree in finance from City University of Hong Kong. Ms. Pang holds the Chartered Financial Analyst designation.

Mr. Sun Haichao, aged 43, is currently a managing director of Taiping Investment Holdings Company Limited, which he joined in August 2001 and has served successively as a manager, senior manager, assistant general manager and deputy general manager. Prior to joining Taiping Investment, Mr. Sun also held managing positions at Beijing North Phoenix Intelligence Technology Co., Ltd. and Anshan Securities Company Limited, and worked at Hong Kong and Macao Affairs Office of the State Council. Mr. Sun received a bachelor degree in national economic management from Peking University in July 1991.

Independent non-executive Directors

Mr. Ye Yongmao, aged 70, has been an independent non-executive Director since 24 April 2005. Presently, he also acts as independent director of Shenma Industry Co., Ltd.. He is also a deputy head of general affairs of The China Chemical Fiber Industrial Association and a deputy officer of Chemical Fiber Professional Committee of the National Textile Engineering Society. Mr. Ye has almost 46 years of experience in the chemical fiber industry, particularly regarding the technology and production involved in the industry. He graduated from the Beijing Chemical Fiber Industrial Institute (major in fundamental organic chemical engineering) and is a senior engineer in the PRC.

Mr. Mao Fengge, aged 44, has been an independent non-executive Director since 9 June 2006. He is currently the head and legal representative of Jilin Huatai Accounting Firm. He graduated from Changchun Taxation Institute (major in accounting) and later from Yanbian University (major in law). Apart from his experience of over 21 years in the accounting field as a certified public accountant and a qualified securities accountant, he is also a registered assets valuer in the PRC.

Mr. Lee Ka Chung, J.P. , aged 60, has been an independent non-executive Director since 9 June 2006. He is presently an executive director of Chinachem Group, an arbitrator of Shenzhen Arbitration Committee, and also a fellow member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants, and Justice of the Peace in Hong Kong, Mr. Lee was also a legal consultant of Shenzhen Municipal People's Government and a consultant of Hong Kong regional affairs in Xinhua News Agency Hong Kong Branch.

Ms. Zhu Ping, aged 37, is an independent non-executive Director. She currently serves as the finance manager of Shanghai Shenghang Kangcheng International Logistics Co., Ltd. She has 11 years experience in finance and accounting. She graduated from East China Institute of Political Science and Law (now known as East China University of Political Science and Law) with a bachelor's degree in law.

SUPERVISORS

Ms. Sun Yujing, aged 47, is a Supervisor of the Company ("Supervisor"). She is currently the head of audit and supervisor department of JCF Groupco. Since she joined JCF Groupco in 1990, she had served as an auditor and the deputy head of the audit department, and deputy head of the audit and supervisory department. Ms. Sun has 20 years of experience in audit and supervisory services. She graduated from Changchun Taxation Institute with a major in accounting and is a qualified accountant in the PRC.

Mr. Zhang Jiaku, aged 54, is a Supervisor. He currently serves as the director of the safety and environment department of JCF Groupco. Mr. Zhang has been working with JCF Groupco since 1986. Mr. Zhang received a bachelor's degree in mathematics from Jilin Provincial Institute of Education and a master's degree in business administration from Jilin University.

Mr. Liu Ming, aged 41, is a Supervisor. Mr. Liu is a certified public accountant in the PRC and is a founder and project manager of Jilin Hualun Accounting Firm. Mr. Liu received a bachelor's degree from Changchun Institute of Taxation (now known as Jilin University of Finance and Economics).

Mr. Cheng Jianhang, aged 42, is a Supervisor. Mr. Cheng is qualified lawyer in the PRC and he is currently practicing law at Jilin Jiuxin Law Firm. Mr. Cheng received a bachelor's degree in law from Jilin University and a master's degree in commercial law from China University of Political Science and Law.

Mr. Zhang Haiou, aged 41, is a Supervisor. Mr. Zhang worked as a technician in the spinning workshop of Jilin Chemical Fibre Joint Stock Company（吉林化纖股份有限公司）in July 1995. He worked as a technician in the spinning workshop in the Company in September 1998 and was promoted to the technician in charge in May 1999. From May 2005 to December 2005, Mr. Zhang worked as a deputy head of the manufacturing department in the Company. From December 2005 to now, he has been the head and party branch secretary of the spinning workshop of the Company. Mr. Zhang received the certificate of a senior engineer in textile engineering in January 2006 from the Personnel Department of Jilin Province. He graduated from Jilin Institute of Chemical Technology（吉林化工學院）with a bachelor's degree in chemical engineering in July 1995.

Ms. Bai Hua, aged 44, is a Supervisor. She is currently the general manager of the quality control department and the general secretary of the Communist Party Branch of the Company. Ms. Bai joined Jilin Chemical Fiber Factory（吉林化學纖維廠）, the predecessor of Jilin Chemical Fiber Co., Ltd.（吉林化纖股份有限公司）, as a technician in July 1991. She then joined the Company in March 1997 and served as a deputy manager of the quality control department of the Company before she was promoted to her current position. Ms. Bai received a bachelor's degree in chemical fiber engineering from Dalian Polytechnic University, formerly known as Dalian Institute of Light Industry, in 1991 and a master's degree in industrial engineering from Jilin University in 2006.

OTHER SENIOR OFFICERS

Ms. Liu Xiangmei, aged 49, who joined JCF Groupco in 1985, is one of the joint company secretaries of the Company and the secretary to the Board. She has approximately 25 years of experience in the accounting and finance field. Ms. Liu graduated from Changchun Taxation Institute and is a qualified accountant and statistician in the PRC.

Mr. Chan Cheung, aged 39, who joined the Group in January 2008, is the other joint company secretary and qualified accountant of the Company. Prior to joining the Group, he served as the financial controller of a company listed on Nasdaq in the United States. He has over 15 years of experience in the field of financial management and auditing. Mr. Chan is also a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Certified Chartered Accountants. Mr. Chan graduated from the Hong Kong Polytechnic University with an honorary bachelor's degree in accounting.

The Board herewith present their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The Company is principally engaged in the manufacturing and sales of acrylic fibre products. The activities of the subsidiary and the jointly controlled entity are set out in notes 10 and 11 to the consolidated financial statements respectively.

SEGMENTAL INFORMATION

The Group's segmental information is set out in note 6 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated statement of comprehensive income on page 42.

The Directors do not recommend the declaration of a dividend for the year ended 31 December 2012.

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five financial years is set out on page 3 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group and of the Company are set out in note 8 to the consolidated financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 16(a) to the consolidated financial statements.

RESERVES

Movements in reserves of the Group and of the Company during the year ended 31 December 2012 are set out in notes 16(b) and 17 to the consolidated financial statements. As at 31 December 2012, the Group has no distributable reserve.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association ("Articles") or the laws of the PRC, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer new shares on a pro-rata basis to existing Shareholders.

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

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

DIRECTORS

The Directors of the Company in 2012 and up to the date of this report are:

Executive Directors
Mr. Wang Jinjun *(Chairman)*
Mr. Yang Xuefeng
Mr. Wang Changsheng

Non-executive Directors
Mr. Ma Jun
Ms. Pang Suet Mui
Mr. Chen Jinkui (resigned on 27 June 2012)
Mr. Jiang Junzhou
Mr. Sun Haichao (appointed on 27 June 2012)
Ms. Zhu Ping (re-designated as an independent non-executive director on 9 July 2012)

Independent non-executive Directors
Mr. Ye Yongmao
Mr. Mao Fengge
Mr. Lee Ka Chung, J.P.
Ms. Zhu Ping (re-designated as an independent non-executive director on 9 July 2012)

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive Directors an annual written confirmation of independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securtites on The Stock Exchange of Hong Kong Ltd. (the "Listing Rules") and considers all the independent non-executive Directors are independent from the Group.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the Directors and the Supervisors has entered into a service contract with the Company for a term of three years, effective from 30 June 2011 and expiring on the conclusion of the annual general meeting of the Company for the year 2013, except for Ms. Pang Suet Mui whose service contract is effective from 16 December 2011 and will expire on the conclusion of the annual general meeting of the Company for the year 2013 and Mr. Sun Haichao whose service contract is effective from 27 June 2012 and will expire on the conclusion of the annual general meeting of the Company for the year 2013. All Directors and Supervisors will retire and offer themselves for re-election at the annual general meeting of the Company for the year 2013.

None of the existing Directors and Supervisors and persons who are proposed for election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than the statutory compensation.

DIRECTORS' AND SUPERVISORS' COMPENSATION

The Group's remuneration policy aims to provide a fair market remuneration in a form and value to attract, retain and motivate high quality candidates. The policy is determined based on the Directors' and the Supervisors' experience and their contribution to the Group.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance in relation to the Group's business to which the Company, its subsidiary or jointly controlled entity, any of its fellow subsidiaries or its parent company was a party and in which a Director and/or a Superivisor of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and senior management are set out on pages 11 to 14 under the Biography of Directors, Supervisors and Senior Management section in this annual report.

INTERESTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES

As at 31 December 2012, none of the Directors, Supervisors and chief executives of the Company has any interests and short positions in the shares, the underlying shares and debentures of the Company or any of its associated corporation (within the meaning of the Securities and Futures Ordinance (the "SFO")) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) and required to be entered in the register maintained by the Company pursuant to section 352 of Part XV of the SFO or which were notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") (for this purpose, the relevant provisions of the SFO will be interpreted as if they applied to the Supervisors).

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2012, there was a total issued share capital of 866,250,000 shares of the Company (the "Shares") which include:

	Number of Shares	Approximate percentage of share capital of the Company
Domestic Shares	437,016,596	50.45%
Non-H Foreign Shares	169,358,404	19.55%
H-Shares	259,875,000	30.00%
Total	866,250,000	100.00%

As at 31 December 2012, the following persons (not being Director, Supervisor or chief executive of the Company), so far as are known to the Directors, have an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholders	Number of shares directly and indirectly held	Class of shares	Approximate percentage in relevant class of shares (%)			Approximate percentage in total issued share capital (%)		
			Direct interests	Indirect interests	Aggregate interests	Direct interests	Indirect interests	Aggregate interests
吉林化纖集團有限責任公司 (Jilin Chemical Fiber Group Co., Ltd.)	433,229,558	Domestic Shares	99.13	—	99.13	50.01	—	50.01
吉林市金泰投資(控股)有限責任公司 (Jilin City Jintai Investment (Holdings) Co., Ltd.)	433,229,558[(1)]	Domestic Shares	—	99.13	99.13	—	50.01	50.01
Ronsace Company Limited	94,841,726	Non-H Foreign Shares	56.00	—	56.00	10.95	—	10.95
Bank of China Group Investment Limited	94,841,726[(2)]	Non-H Foreign Shares	—	56.00	56.00	—	10.95	10.95
Bank of China Limited	94,841,726[(2)]	Non-H Foreign Shares	—	56.00	56.00	—	10.95	10.95
Sanlink Investments Limited	44,029,105	Non-H Foreign Shares	26.00	—	26.00	5.08	—	5.08

Name of Shareholders	Number of shares directly and indirectly held	Class of shares	Approximate percentage in relevant class of shares (%) Direct interests	Indirect interests	Aggregate interests	Approximate percentage in total issued share capital (%) Direct interests	Indirect interests	Aggregate interests
China Insurance Group Investment Limited	44,029,105[3]	Non-H Foreign Shares	—	26.00	26.00	—	5.08	5.08
China Life Insurance (Overseas) Company Limited	44,029,105[3]	Non-H Foreign Shares	—	26.00	26.00	—	5.08	5.08
Halesfield Investment Limited	30,487,573	Non-H Foreign Shares	18.00	—	18.00	3.52	—	3.52
Huang Jia Sen	30,487,573[4]	Non-H Foreign Shares	—	18.00	18.00	—	3.52	3.52
Huang Jia Zi	30,487,573[4]	Non-H Foreign Shares	—	18.00	18.00	—	3.52	3.52
Huang Jia Yuan	30,487,573[4]	Non-H Foreign Shares	—	18.00	18.00	—	3.52	3.52
全國社會保障基金理事會 (The National Social Security Fund of the PRC)	23,625,000	H Shares	9.09	—	9.09	2.73	—	2.73

Notes:

1. 433,229,558 Shares are deemed corporate interests indirectly held through JCF Groupco under the SFO.
2. 94,841,726 Shares are deemed corporate interests indirectly held through Ronsace Company Limited under the SFO.
3. 44,029,105 Shares are deemed corporate interests indirectly held through Sanlink Investments Limited under the SFO.
4. 30,487,573 Shares are deemed corporate interests indirectly held through Halesfield Investment Limited under the SFO.

COMPETING BUSINESS

Save that Mr. Wang Jinjun, Mr. Ma Jun and Mr. Yang Xuefeng are also directors of the jointly controlled entity, Jilin Jimont Acrylic Fiber Co., Ltd., none of the Directors is interested in any business apart from the Group's business, which competes or is likely to compete, either directly or indirectly, with the Group's business.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

In 2012, sales to the Group's five largest customers accounted for approximately 59% of the total sales for the year, in which sales to the largest customer represented approximately 31% of the total sales for the year.

Purchases from the Group's five largest suppliers amounted to approximately 78% of the total purchases for the year while total purchases from the largest supplier represented approximately 59% of the total purchases for the year.

None of the Directors, their associates or any Shareholder (which to the knowledge of the Directors own more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

CONTINUING CONNECTED TRANSACTIONS

Sales of finished goods to Tuopu Textile

The Company sold goods to Tuopu Textile Industrial Development Co., Ltd. ("Tuopu Textile") at the price determined by the Company with reference to the market price and no less than the price of the acrylic fiber products sold by the Company to independent third parties pursuant to a sales agreement entered into with Tuopu Textile on 8 August 2007 for an initial term ended on 31 December 2009 which, subject to the compliance with Listing Rules' requirements regarding connected transactions, shall be automatically renewable for terms not longer than three years. The agreement was renewed for a term of three years commencing on 1 January 2010 and ending on 31 December 2012.

JCF Groupco is a substantial shareholder of the Company holding approximately 50.01% of its share capital and a connected person of the Company. Tuopu Textile, being a wholly-owned subsidiary of JCF Groupco, is thus an associate of JCF Groupco and is also a connected person of the Company.

For the year ended 31 December 2012, sales to Tuopu Textile by the Company amounted to approximately RMB1.2 million, which is within the approved cap of RMB78.0 million as disclosed in the Company's announcement dated 27 April 2010 and circular dated 12 May 2010.

Sales of finished goods to Tuopu Textile by the jointly controlled entity

The jointly controlled entity, Jilin Jimont Acrylic Fiber Co., Ltd. sold goods to Tuopu Textile at the price determined by the jointly controlled entity with reference to the market price and no less than the price of the acrylic fiber products sold by the jointly controlled entity to independent third parties pursuant to a sales agreement entered into with Tuopu Textile on 8 August 2007 for an initial term ended on 31 December 2009 which, subject to the compliance with Listing Rules' requirements regarding connected transactions, shall be automatically renewable for terms not longer than three years. The agreement was renewed for a term of three years commencing on 1 January 2010 and ending on 31 December 2012.

The jointly controlled entity is a Sino-foreign equity joint-venture company jointly controlled by the Company, Montefibre S.p.A. and SIMEST S.p.A.. The Company holds 50% equity interest in the jointly controlled entity, it therefore does not constitute a subsidiary of the Company for legal or accounting purposes. However, for the purpose of the listing of the H shares of the Company on the Stock Exchange and good corporate governance, the Company and the Directors have undertaken to the Stock Exchange to have the jointly controlled entity generally regulated in a manner consistent with the regulation of subsidiaries of a listed group for the purposes of application of the Listing Rules. For the purposes of the Listing Rules provisions regarding connected transactions, the jointly controlled entity is regarded as a non-wholly owned subsidiary of the Company.

JCF Groupco is a substantial shareholder of the Company holding approximately 50.01% of interest in its share capital and a connected person of the Company. Tuopu Textile, being a wholly-owned subsidiary of JCF Groupco, is thus an associate of JCF Groupco and also a connected person of the Company.

For the year ended 31 December 2012, sales to Tuopu Textile by the jointly controlled entity amounted to approximately RMB786,000, which is within the approved cap of RMB20 million as disclosed in the Company's announcement dated 27 April 2010 and circular dated 12 May 2010.

Provision of utilities and water treatment services to Tuopu Textile by the Company

The Company provided utilities and water treatment services to Tuopu Textile pursuant to a utilities and water treatment services agreement entered into with Tuopu Textile on 26 August 2008, for an initial term ended on 31 December 2010 and, subject to the compliance with Listing Rules' requirements regarding connected transactions, and shall be automatically renewable for a term not longer than three years thereafter. The transaction was negotiated on arm's length basis and the prices were determined in line with normal commercial terms. The agreement was renewed for a term of three years commencing on 1 January 2010 and ending on 31 December 2013.

JCF Groupco is a substantial shareholder of the Company holding approximately 50.01% of its share capital and a connected person of the Company. Tuopu Textile, being a wholly-owned subsidiary of JCF Groupco, is thus an associate of JCF Groupco and also a connected person of the Company.

For the year ended 31 December 2012, utilities and water treatment services provided to Tuopu Textile by the Company amounted to approximately RMB5.3 million, which was within the approved cap of RMB17 million as disclosed in the Company's announcement dated 27 April 2010 and circular dated 12 May 2010.

Purchases of engineering construction services from Jianan by the jointly controlled entity

Pursuant to a engineering construction services agreement entered into between Jilin Chemical Fiber Construction and Installation Engineering Co., Ltd. ("Jianan") and the jointly controlled entity in 2008, the jointly controlled entity purchased from Jianan certain engineering construction services. The transaction was negotiated on arm's length basis and the prices were determined with reference to the prevailing market prices and in line with normal commercial terms. On 27 April 2010, the parties agreed to renew the agreement for a term of three years expiring on 31 December 2013.

JCF Groupco is a substantial shareholder of the Company holding approximately 50.01% of its share capital and is a connected person of the Company. Jianan, being an associate of JCF Groupco, is therefore also a connected person of the Company.

For the year ended 31 December 2012, purchase from Jianan by the jointly controlled entity amounted to approximately RMB2.0 million, which was within the approved cap of RMB2 million as disclosed in the Company's announcement dated 27 April 2010.

Purchase of sodium bisulfite from Huidong by the Company

The Company purchased sodium bisulfite from Jilin Huidong Chemical Industry Co., Ltd. ("Huidong") pursuant to a huidong purchase agreement entered into with Huidong on 11 April 2011, for an initial term up to 31 December 2013 and subject to compliance with relevant laws and requirements relating to continuing connected transactions under the Listing Rules (including reporting, announcement and Independent Shareholders' approval where applicable), shall be automatically renewable by the Company for terms not longer than three years each thereafter.

Huidong is a company established in the PRC principally engaged in the production of sodium bisulfite. It is owned as to 52.2% by JCF Groupco and 47.8% by independent third parties. Huidong is an associate of JCF Groupco and is therefore, a connected person of the Company.

For the year ended 31 December 2012, the Company's purchases of sodium bisulfite from Huidong amounted to approximately RMB6.8 million, which was within the approved cap of RMB8.0 million as disclosed in the Company's announcement dated 11 April 2011.

Purchases of repair and maintenance services from Jianan by the Company

The Company purchased repair and maintenance services from Jianan pursuant to a repair and maintenance contract entered into with Jianan on 2 August 2011, for an initial term up to 31 December 2013 and subject to compliance with relevant laws and requirements relating to continuing connected transactions under the Listing Rules (including reporting, announcement and Independent Shareholders' approval where applicable), shall be automatically renewable by the Company for terms not longer than three years each thereafter. Pursuant to the repair and maintenance contract, the tentative contract price is RMB8.0 million per year. The actual contract price will be determined by negotiation by the parties on case by case basis and in any event Jianan guarantees that the price it charges the Company will not be higher than the prices when it charges third parties or will not be higher than the prices at which the Company would be charged by independent third parties in providing the same or similar types of services.

Jianan is a wholly owned subsidiary of JCF Groupco and is therefore, a connected person of the Company.

For the year ended 31 December 2012, repair and maintenance services that the Company purchased from Jianan amounted to approximately RMB4.07 million, which was within the approved cap of RMB8.0 million as disclosed in the Company's announcement dated 2 August 2011.

The Group has entered into the abovementioned continuing connected transactions as set out from pages 20 to 23 (the "Continuing Connected Transactions") with connected persons which have been complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules. The Directors, including the independent non-executive directors, of the Company confirmed that the aforesaid Continuing Connected Transactions were entered into:

(i) in the ordinary and usual course of business of the Company and the jointly controlled entity (as applicable);

(ii) either on normal commercial terms or, on terms no less favourable to the Company and the jointly controlled entity (as applicable) than available to or from independent third parties; and

(iii) in accordance with the relevant agreements governing such transactions on terms that are fair and reasonable and in the interests of Shareholders as a whole.

The Company's auditor was engaged to report on the abovementioned Continuing Connected Transactions of the Company and the jointly controlled entity in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The Company's auditor has issued his letter containing his findings and unqualified conclusions in respect of the abovementioned Continuing Connected Transactions as set out from pages 20 to 23 of this annual report. A copy of the auditor's letter has been provided by the Company to The Stock Exchange of Hong Kong Limited.

CONNECTED TRANSACTIONS

Construction Services Agreement

On 2 August 2011, Jilin Tangu Carbon Fiber Co., Ltd. ("Jilin Tangu"), a wholly-owned subsidiary of the Company, entered into a construction contract with Jianan, pursuant to which Jinan agreed to provide construction services to build pipe rack structure for Jilin Tangu, for a contract price of RMB5.0 million, which was determined with reference to the estimated amount of work to be performed, the relevant statutory fee rates for construction and repair works in Jilin province with a 13.5% discount, which Jianan guaranteed to be not less than the discount it provided to independent third parties.

Pursuant to the construction contract, before the 10th day of each month, Jilin Tangu shall pay 85% of the amount of settlement for the work conducted during the preceding month, and upon completion, Jilin Tangu will pay 95% of the amount of the final settlement of the contract price to Jianan and retain the remaining balance of 5% as security, which shall be released to Jianan upon the expiry of the relevant statutory warranty period.

JCF Groupco is a substantial shareholder of the Company, thus a connected person of the Company under the Listing Rules. Jianan is a wholly-owned subsidiary of the JCF Groupco, therefore it is an associate of the JCF Groupco, thus a connected person of the Company under the Listing Rules. Accordingly, the transaction under the abovementioned construction contract constitutes a connected transaction of the Company under the Listing Rules. Details of such transaction were set out in the announcement of the Company dated 2 August 2011.

Asset Purchase Agreement

On 10 October 2012, the Company entered into the Asset Purchase Agreement with JCFCL, pursuant to the Assets Purchase Agreement, the Company agreed to purchase the Assets, being certain properties, land and equipment relating to provision of the Utilities and water treatment services from JCFCL. The total consideration for the Assets is RMB290,000,000, which was determined based on arm's length negotiations and with reference to the valuation reports issued by independent valuers.

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

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE

Details of the compliance by the Company with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules are shown on pages 28 to 35 under the Corporate Governance Report section in this annual report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained sufficient public float of at least 25% of the Company's issued shares as required under the Listing Rules during the Year and as at the latest practicable date prior to the issue of this annual report.

AUDITOR

During the year, PricewaterhouseCoopers retired and BDO Limited was appointed auditor of the Company. A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint BDO Limited as auditor of the Company.

On behalf of the Board

Wang Jinjun
Chairman

Jilin City, Jilin Province, The PRC
28 March 2013

REPORT OF THE SUPERVISORY COMMITTEE

The supervisory committee of the Company (the "Supervisory Committee") herewith present the report of the Supervisory Committee for the year ended 31 December 2012.

In 2012, the Supervisory Committee mainly carried out the following work:

INSPECTION OVER IMPLEMENTATION OF RESOLUTIONS OF THE GENERAL MEETINGS

The Supervisory Committee exercised supervision and inspection of the implementation of the resolutions in general meetings by the Board and the senior management through observation and attendance at the board meetings and general meetings. The Supervisory Committee is of the opinion that the Directors and senior management of the Company have diligently performed their duties in compliance with resolutions of the general meetings. No violation of any laws or regulations or Articles or any act which jeopardises the interests of the Company and Shareholders has been found in the performance of the Company's Directors and senior management.

INSPECTION OVER LEGAL COMPLIANCE OF THE GROUP'S OPERATIONS

The Supervisory Committee exercised supervision on a regular basis over the legal compliance and rationality of the Group's operation and management in its ordinary work. It has also exercised supervision over work performance of the Board and senior management. The Supervisory Committee is of the opinion that, the Group's operation is sound and rational, and is in compliance with all applicable laws, regulations and rules and the Articles. The members of the Board and senior management of the Group have conscientiously and diligently performed their duties, and none of their act would prejudice the interests of the Group and Shareholders.

INSPECTION OVER THE GROUP'S DAILY OPERATING ACTIVITIES

The Supervisory Committee exercised supervision over the Group's operating activities. The Supervisory Committee is of the opinion that the Group has a sound internal control system and has made great progress in the formulation and implementation of its internal work procedures, thus effectively controlled its exposure to various operating risks. The Group's operation is in compliance with the PRC laws and regulations and the Articles.

INSPECTION OVER THE GROUP'S FINANCIAL CONDITION

The Supervisory Committee has seriously verified the Group's 2012 consolidated financial statements, supervised and inspected the Group's implementation of relevant financial policies and legislations as well as details on the Group's assets, financial income and expenditure and connected transactions. It is of the opinion that the financial report for 2012 fairly reflected its financial position and operating results, all of the continuing connected transactions were entered into on a fair basis and the pricing of the transactions is determined on arm's length basis and did not impair the interests of the Group and Shareholders.

Looking forward, the Supervisory Committee will continue to carry out its duties in strict compliance with the Articles and the relevant laws and regulations and protect the interests of Shareholders.

Sun Yujing
Chairman of the Supervisory Committee

Jilin City, Jilin Province, the PRC
28 March 2013

The Group confirms that maintaining good corporate governance standards throughout the Group serves as an effective risk management measure for the Group. The Board is committed to lead the Group to grow in an efficient manner followed by corporate missions in terms of business strategies and improved operational planning and procedures which are enforced under high corporate governance standards.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the Code on Corporate Governance Practices (the "Code") issued by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and has complied with the relevant code provisions and most of the recommended best practices during the period from 1 January 2012 to 26 March 2012.

For the purpose of complying with the new code of corporate governance practice as set out in the Appendix 14 of the Listing Rules, which shall take effect from 1 April 2012, the Board has adopted the revised Code ("New Code") on 27 March 2012. The Company has complied with the relevant Code Provisions in the New Code from 27 March 2012 to 31 December 2012.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Group has adopted the Model Code contained in Appendix 10 of the Listing Rules as the code of conduct for securities transactions by the Company's Directors. The Directors have confirmed, following specific enquiry by the Group that they have complied with the required standards set out in the Model Code for the reporting period of 2012.

CORPORATE MANAGEMENT

Board of Directors

The Board reviews and approves corporate matters such as business strategies and investments, mergers and acquisitions, as well as the general administrative and management of the Group. The Board is directly accountable to Shareholders and is responsible for preparing the consolidated financial statements.

The Board currently consists of 3 executive Directors, 4 non-executive Directors and 4 independent non-executive Directors. There is no related connection in respect of finance, business or family or other major relationships between the members of the Board. Please refer to the Directors' Report for the composition of the Board and "Biography of Directors, Supervisors and Senior Management" section in this report for the biographical details of the Directors and senior management.

The Directors acknowledge that it is their responsibility to prepare the Group's consolidated financial statements and warrant the consolidated financial statements are prepared in accordance with the requirements of laws and regulations and applicable accounting standards. The Directors also warrant the timely publication of the Group's consolidated financial statements.

The posts of chairman and the chief executive officer are held separately by Mr. Wang Jinjun and Mr. Yang Xuefeng, respectively and their roles and responsibilities are separate. The chairman is responsible for formulating Group's policies in conjunction with the Board and for ensuring that he and his delegates shall, in the capacity of chairman, perform his responsibilities. The chief executive officer is responsible for managing the Group's strategic initiatives and major business activities.

The Board has a balance of skills and experience and the Board membership is covered by professionally qualified and widely experienced personnel so as to bring in valuable contribution and different professional advices and consultancy for the development of the Group.

All Directors were provided with various briefing sessions as well as comprehensive materials on the responsibilities and duties of being a director of the Company, in particular highlighting the respective applicable rules and regulations, including the Listing Rules, which a director should aware and be informed of his appointment.

Pursuant to the Articles, the Directors including the non-executive Directors shall be elected at a shareholders' general meeting of the Company and serve for a term of three years. Upon the expiry of their term of office, the Directors may be re-elected for another term.

The details of the attendance of directors at Board meetings and general meetings during the year 2012 are set out below:

Directors	Attendance Board meetings	 General meetings
Executive Directors		
Mr. Wang Jinjun	5/5	2/2
Mr. Yang Xuefeng	5/5	2/2
Mr. Wang Changsheng	5/5	2/2
Non-executive Directors		
Mr. Ma Jun	5/5	2/2
Mr. Chen Jinkui (One meeting attended by proxy)	1/1	0/1
Ms. Pang Suet Mui (One meeting attended by proxy)	5/5	0/2
Mr. Jiang Junzhou (One meeting attended by proxy)	5/5	2/2
Mr. Sun Haichao	4/4	0/1
Independent non-executive Directors		
Mr. Ye Yongmao (One meeting attended by proxy)	5/5	0/2
Mr. Mao Fengge	5/5	1/2
Mr. Lee Ka Chung, J.P. (One meeting attended by proxy)	5/5	1/2
Ms. Zhu Ping (One meeting attended by proxy)	5/5	1/2

Continuous Professional Development

According to the Code A.6.5, all directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the board remains informed and relevant. The Company should be responsible for arranging and funding suitable training, placing an appropriate emphasis on the roles, functions and duties of the directors.

All Directors have participated in appropriate continuous professional development and refresh their knowledge and skills during the year. According to the records maintained by the Company, the current Directors received the following training with an emphasis on the roles, functions and duties of a director of a listed company in compliance with the new requirement of the CG Code on continuous professional development for the Year:

Name of Director	Attend training sessions organized by professional firms	Read articles and journals on the economy, general business and regulatory matters
Executive Directors		
Mr. Wang Jinjun	√	
Mr. Yang Xuefeng	√	
Mr. Wang Changsheng	√	
Non-executive Director		
Ms. Pang Suetmai	√	
Mr. Sun Haichao	√	
Mr. Jiang Junzhou		√
Mr. Ma Jun	√	
Independent non-executive Directors		
Mr. Ye Yongmao	√	
Mr. Mao Fengge	√	
Mr. Lee Ka Chung, J.P.	√	
Ms. Zhu Ping	√	

Board Committees

There are four committees established under the Board, namely the Audit Committee, the Board Remuneration Committee, the Nomination Committee and the Connected Transactions Committee.

(a) Audit Committee

The Audit Committee comprises of two independent non-executive Directors, namely Mr. Lee Ka Chung, J.P., Mr. Ye Yongmao and one non-executive Director Mr. Jiang Junzhou. The chairman of the Audit Committee is Mr. Lee Ka Chung, J.P. who possesses recognised professional qualification in finance and accounting. The terms of reference of the Audit Committee are in compliance with the Code. For the purpose of complying with the New Code adopted by the Company on 27 March 2012, the Board has adopted revised terms of reference for the Audit Committee on 27 March 2012. The terms of reference of the Audit Committee which explain their respective roles and the authority delegated to them by the Board are available on the websites of the Company and the Stock Exchange.

The functions of the Audit Committee includes but not limited to the following:

- Considering and reviewing the appointment, resignation and removal of external auditors and their fees;
- Reviewing the interim and annual results of the Group;
- Discussing with the external auditors for problems or issues of significance identified during the course of audit; and
- Overseeing the financial reporting system and the internal control procedures of the Company.

The work of the Audit Committee in 2012 includes but not limit to following:

- Reviewing the interim results and annual results of the Group;
- Discussing with the management of the Group over the completeness, fairness and appropriateness of the accounting standards and policies adopted by the Group in the preparation of the interim and annual financial statements;
- Reviewing and discussing with the external auditors over the consolidated financial statements of the Group; and
- Recommending to the Board, for the approval by Shareholders, of the re-appointment of the auditors.

The Company held 2 meetings of Audit Committee in 2012 and the details of the attendance are set out below:

Directors	Attendance
Mr. Lee Ka Chung, J.P. *(Chairman)*	2/2
Mr. Ye Yongmao	2/2
Mr. Jiang Junzhou (One meeting attended by proxy)	2/2

(b) Board Remuneration Committee

The Board Remuneration Committee consists of two independent non-executive Directors, namely Mr. Mao Fengge and Mr. Lee Ka Chung J.P. and one non-executive Director, Mr. Ma Jun (appointed on 27 March 2012). The terms of reference of the Board Remuneration Committee are in compliance with the Code. The chairman of the Board Remuneration Committee is Mr. Mao Fengge. The committee meets at least once a year. For the purpose of complying with the New Code adopted by the Company on 27 March 2012, the Board has adopted revised terms of reference for Board Remuneration Committee on 27 March 2012. The terms of reference of the Board Remuneration Committee which explain their respective roles and the authority delegated to them by the Board are available on the websites of the Company and the Stock Exchange.

The principal responsibilities of the Board Remuneration Committee are to make recommendations or proposals to the Board for examination on the overall remuneration policy and structure of the Directors and officers of the Company, to determine the remuneration packages of specific executive Directors and officers, to approve the terms of the service contracts requiring approval of Shareholders and to assess the performance of the Directors and officers.

The Board Remuneration Committee met once in 2012 on 27 March 2012. The details of the attendance are set out below:

Directors	Attendance
Mr. Mao Fengge	1/1
Mr. Lee Ka Chung, J.P.	1/1
Mr. Ma Jun	1/1

(c) *Nomination Committee*

The Nomination Committee consists of two independent non-executive Directors, namely Mr. Mao Fengge and Mr. Ye Yongmao and one non-executive Director Mr. Chen Jinkui. The chairman of the Nomination Committee is Mr. Mao Fengge. The terms of reference of the Nomination Committee are in compliance with the Code. The Committee meets at least once a year. For the purpose of complying with the New Code adopted by the Company on 27 March 2012, the Board has adopted revised terms of reference for Nomination Committee on 27 March 2012. The terms of reference of the Nomination Committee which explain their respective roles and the authority delegated to them by the Board are available on the websites of the Company and the Stock Exchange.

The Nomination Committee reviews the structure, size and composition of the Board on a regular basis and recommends to the Board regarding any proposed changes, including the appointment and succession of Directors and other related matters. It ensures that all nominations of director are fair and transparent and that the Board benefits from the right balance of skills, experience and knowledge to govern the Group effectively. It also assesses the independence of the independent non-executive Directors.

The Nomination Committee is responsible for identifying suitable candidates for the members of the Board when there is a vacancy or an additional Director is considered necessary. Normally, the Nomination Committee recommends the suitable candidates to members of the the Board. The members of the Board will then review the qualifications of the relevant candidates for determining the suitability to the Group on the basis of his or her qualifications, experiences and background. Suitable candidates will be recommended by the Board to Shareholders for approval at the general meeting.

The Nomination Committee met once in 2012 on 27 March 2012. The details of the attendance are set out below:

Directors	Attendance
Mr. Mao Fengge *(Chairman)*	1/1
Mr. Ye Yongmao	1/1
Mr. Jiang Junzhou	1/1

(d) *Connected Transactions Committee*

The Connected Transactions Committee consists of three independent non-executive Directors, namely Mr. Mao Fengge, Mr. Lee Ka Chung J.P. and Mr. Ye Yongmao. The chairman of the Connected Transactions Committee is Mr. Mao Fengge. The committee meets at least once a year.

The primary duties of the Connected Transactions Committee are to review the Group's proposed connected transactions (including connected transactions exempted under the Listing Rules) to be entered into with any connected person of the Group. It also reviews the approval procedures of relevant board meetings.

The Connected Transactions Committee met once in 2012 on 27 March 2012. The details of the attendance are set out below:

Directors	Attendance
Mr. Mao Fengge *(Chairman)*	1/1
Mr. Lee Ka Chung, J.P.	1/1
Mr. Ye Yongmao	1/1

Supervisory Committee

The Company's Supervisory Committee consists of six Supervisors, two of which are elected by Shareholders as their representatives, two is elected by our employees and the other two are independent Supervisors. Supervisors serve for a term of three years, after which they are subject to re-election.

The Supervisory Committee is responsible for exercising supervision over the Board and the Group's senior management.

The Supervisor Committee meets at least twice a year. The details of the attendance are set out below:

Supervisors	Attendance
Ms. Sun Yujing	2/2
Mr. Zhang Jiaku	2/2
Mr. Liu Ming	2/2
Mr. Cheng Jianhang	2/2
Mr. Zhang Haiou	2/2
Ms. Bai Hua	2/2

INTERNAL CONTROL

Framework

The Board has overall responsibility in monitoring the process of corporate reporting and control system throughout the Group. The corporate reporting function is delegated to the finance and accounting department to conduct proper and regular reviews on the deployment of resources and financial reporting systems. The corporate governance practices and compliance with the Listing Rules, SFO and other applicable regulations are delegated to the joint company secretaries of the Company. The senior management of the Group reviews and discusses the reporting and control systems with the executive Directors regularly and with the Audit Committee, Board Remuneration Committee, Nomination Committee and Connected Transaction Committee annually.

Assessment on the effectiveness of internal control system

The system of internal controls is designed to provide reasonable assurance against human errors, material misstatement, losses, damages or fraud. It is also designed for the identification and management of risks that are significant to the fulfillment of the Group's business objectives.

Activities, procedures and controls are well documented and the existence and effectiveness of the existing control procedures are tested by reference to the ranking of each individual risk area. The criteria for assessing the effectiveness of internal controls are based on the assessment of whether the documented control processes have operated throughout the year being reviewed with respect to the procedures and internal control for the handling and dissemination of price-sensitive informations, the Company is aware of its disclosure obligation under the Listing Rules, the overriding principle, of which is that information which is expected to be price-sensitive should be announced immediately when it is the subject of a decision, and to identify whether there are any control weaknesses.

The internal audit department carries out various audits on control procedures in respect of those significant risk areas of the Group with findings reported to the Audit Committee. The Audit Committee reviews the findings and reports to the Board annually.

COMPANY SECRETARIES

The Joint Company Secretaries' biographies are set out on page 14 of this report. Each of the Joint Company Secretaries has taken no less than 15 hours of relevant professional training during the Year. All Directors have access to the advice and services of the Joint Company Secretaries to ensure that Board procedures as well as all applicable rules and regulations are followed.

AUDITORS' REMUNERATION

Remuneration paid to the Group's external auditors for audit services provided for the year ended 31 December 2012 was RMB1.3 million.

Shareholders' Rights

How Shareholders can convene an extraordinary general meeting and put forward proposals at Shareholders' meetings

The procedures for Shareholders to convene an extraordinary general meeting and put forward proposals at Shareholders' meetings are set out in the Articles.

One or more Shareholders in aggregate holding not less than 10% of the issued share capital of the Company carrying the right of voting at general meeting of the Company, may by written request to require an extraordinary general meeting to be called by the Board for the transaction of business specified in such request and such meeting shall be held within two months after the Board receives such request.

If the Board fails to issue the notice for the extraordinary general meeting within 30 days after receipt of the above written request or is unable to or fails to perform the duty of calling a general meeting, the Supervisory Committee shall convene and hold the meeting promptly.

If the Supervisory Committee fails to convene and hold the meeting, one or more Shareholders in aggregate holding more than 10% of the issued share capital of the Company in 90 successive days may proceed to convene such meeting himself/herself (themselves) four months after the Board receives such written request. All reasonable expenses arising out of the calling and holding of the general meeting by such Shareholders shall be borne by the Company.

Shareholders holding no less than 3% of the total voting shares of the Company shall be entitled to submit written provisional proposals to the Board 10 days before the annual general meeting. The Board shall inform other Shareholders of the proposals within two days after the receipt of such proposals and include the relevant matters in the agenda of the general meeting.

Procedures by which enquiries may be put to the Board

Shareholders may send their enquiries and concerns to the Board by addressing them to the joint company secretary of the Company by mail at No. 516-1, Jiuzhan Street, Jilin City, Jilin Province, the PRC or by email at sy1121@jlcfc.com. The joint company secretaries will forward communications relating to matters within the Board's direct responsibilities to the Board and communications relating to ordinary business matters, such as suggestions, inquiries and customer complaints, to the chief executive of the Company.

INVESTOR RELATIONS

The Board and the senior management have confirmed that it is their responsibility to represent all Shareholders' interests and to maximise the values of Shareholders and have made to the Group the following commitments:

1. Strive to maintain the long-term sustainable and healthy growth of Shareholders' values and investment returns;

2. Be responsible for the planning, construction and operation of the Group's core business;

3. Be responsible for the Company's investment and business risks management; and

4. Make disclosure which gives a true, fair and full view of the Group's financial condition and operating performance.

The Group considers that the Shareholders' rights should be respected and guaranteed. The Group is committed to maintain good communication with Shareholders regarding its performance through means such as interim report, annual report and Shareholders' general meeting to enable the Shareholders to justify their investment and exercise their rights. The Group encourages Shareholders, participation through Shareholders' general meetings and other means.

In order to promote the communication with Shareholders, the Group has maintained a website as a channel to provide the latest information and to strengthen communication with Shareholders and the public. The Group's corporate correspondence and information will also be published on the website in a timely way.

INDEPENDENT AUDITOR'S REPORT

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

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 38 to 118, which comprise the consolidated and company statements of financial position as at 31 December 2012, 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 the terms of our 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 2012, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

EMPHASIS OF MATTER

Going concern basis for preparation of consolidated financial statements

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

BDO Limited
Certified Public Accountants
Cheung Sai Kit
Practising Certificate Number P05544

Hong Kong, 28 March 2013

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2012

	Notes	2012 RMB'000	2011 RMB'000
ASSETS			
Non-current assets			
Land use rights	7	**92,429**	29,477
Property, plant and equipment	8	**1,684,252**	1,538,788
Intangible assets	9	**8,205**	16,411
Interest in a jointly controlled entity	11	**174,071**	213,945
Deferred income tax assets	21	**83,780**	80,354
Prepayments	12	**11,023**	6,068
		2,053,760	1,885,043
Current assets			
Inventories	13	**354,014**	257,516
Trade and other receivables	14	**407,785**	463,929
Current income tax recoverable		**1,893**	1,893
Restricted bank deposits	15	**123,647**	70,790
Cash and cash equivalents	15	**109,228**	264,127
		996,567	1,058,255
Total assets		**3,050,327**	2,943,298
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	16(a)	**866,250**	866,250
Share premium	16(b)	**142,477**	142,477
Other reserves	17	**31,919**	31,919
Accumulated losses	17	**(214,206)**	(27,639)
Total equity		**826,440**	1,013,007

	Notes	2012 RMB'000	2011 RMB'000
LIABILITIES			
Non-current liabilities			
Long-term bank borrowings	18	307,500	364,500
Deferred income	19	82,216	82,567
		389,716	447,067
Current liabilities			
Trade and other payables	20	487,769	300,197
Short-term bank borrowings	18	1,271,969	991,800
Current portion of long-term bank borrowings	18	56,500	173,500
Current income tax liabilities		933	202
Derivative financial instrument	22	17,000	17,525
		1,834,171	1,483,224
Total liabilities		2,223,887	1,930,291
Total equity and liabilities		3,050,327	2,943,298
Net current liabilities		(837,604)	(424,969)
Total assets less current liabilities		1,216,156	1,460,074

The notes on pages 45 to 118 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 38 to 118 were approved by the Board of Directors on 28 March 2013 and were signed on its behalf.

Wang Jinjun
Chairman

Wang Changsheng
Director

STATEMENT OF FINANCIAL POSITION OF THE COMPANY

AS AT 31 DECEMBER 2012

	Notes	2012 RMB'000	2011 RMB'000
ASSETS			
Non-current assets			
Land use rights	7	86,016	22,934
Property, plant and equipment	8	1,262,202	1,103,246
Intangible assets	9	8,205	16,411
Investment in a subsidiary	10	385,000	215,000
Investment in a jointly controlled entity	11	225,000	225,000
Deferred income tax assets	21	59,652	60,429
Prepayments	12	10,826	3,269
		2,036,901	1,646,289
Current assets			
Inventories	13	277,845	214,125
Trade and other receivables	14	369,421	593,915
Current income tax recoverable		1,893	1,893
Restricted bank deposits	15	123,647	69,368
Cash and cash equivalents	15	100,991	219,493
		873,797	1,098,794
Total assets		2,910,698	2,745,083
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	16(a)	866,250	866,250
Share premium	16(b)	142,477	142,477
Other reserves	17	31,919	31,919
(Accumulated losses) /retained profits	17	(107,951)	23,665
Total equity		932,695	1,064,311

	Notes	2012 RMB'000	2011 RMB'000
LIABILITIES			
Non-current liabilities			
Long-term bank borrowings	18	157,500	184,500
Deferred income	19	65,341	69,755
		222,841	254,255
Current liabilities			
Trade and other payables	20	469,193	263,692
Short-term bank borrowings	18	1,241,969	991,800
Current portion of long-term bank borrowings	18	27,000	153,500
Derivative financial instrument	22	17,000	17,525
		1,755,162	1,426,517
Total liabilities		1,978,003	1,680,772
Total equity and liabilities		2,910,698	2,745,083
Net current liabilities		(881,365)	(327,723)
Total assets less current liabilities		1,155,536	1,318,566

The notes on pages 45 to 118 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 38 to 118 were approved by the Board of Directors on 28 March 2013 and were signed on its behalf.

Wang Jinjun
Chairman

Wang Changsheng
Director

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 RMB'000	2011 RMB'000
Revenue	6	1,391,844	2,096,909
Cost of sales		(1,375,781)	(1,881,773)
Gross profit		16,063	215,136
Distribution costs		(35,914)	(41,997)
Administrative expenses		(73,393)	(74,706)
Other income	23	482,099	461,911
Other expenses	23	(411,535)	(403,522)
Other gains/losses - net	24	(5,314)	(17,034)
Operating (loss) /profit		(27,994)	139,788
Finance income	27	2,100	2,715
Finance costs	27	(123,221)	(105,638)
		(149,115)	36,865
Share of (loss) /profit of a jointly controlled entity	11	(40,147)	36,151
(Loss) /profit before income tax	25	(189,262)	73,016
Income tax credit /(expense)	28	2,695	(7,824)
(Loss) /profit and total comprehensive income for the year attributable to the owners of the Company	29	(186,567)	65,192
Earnings per share for (loss) /profit attributable to the owners of the Company during the year (expressed in RMB per share)			
– basic and diluted	30	(0.22)	0.08
Dividend	31	—	—

The notes on pages 45 to 118 are an integral part of these consolidated financial statements.

	Attributable to owners of the Company				
	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2011	866,250	142,477	31,919	(92,831)	947,815
Profit for the year	—	—	—	65,192	65,192
At 31 December 2011 and 1 January 2012	866,250	142,477	31,919	(27,639)	1,013,007
Loss for the year	—	—	—	(186,567)	(186,567)
At 31 December 2012	866,250	142,477	31,919	(214,206)	826,440

The notes on pages 45 to 118 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 RMB'000	2011 RMB'000
Cash flows from operating activities			
Cash (used in) /generated from operations	32(a)	(105,732)	288,182
Income tax paid		—	(2,107)
Net cash (used in) /from operating activities		(105,732)	286,075
Cash flows from investing activities			
Purchases of property, plant and equipment		(53,820)	(317,801)
Purchases of land use rights		—	(6,543)
Decrease in restricted bank deposits		—	95,267
Government grants received		6,610	7,320
Interest received		1,864	1,987
Net cash used in investing activities		(45,346)	(219,770)
Cash flows from financing activities			
Proceeds from borrowings		1,548,800	1,668,800
Repayments of borrowings		(1,445,600)	(1,421,000)
Increase in restricted cash for other borrowings		—	(25,000)
Interests and guarantee fees paid		(107,021)	(101,038)
Net cash (used in) /from financing activities		(3,821)	121,762
Net (decrease) /increase in cash and cash equivalents		(154,899)	188,067
Cash and cash equivalents at beginning of year		264,127	76,060
Cash and cash equivalents at end of year	15	109,228	264,127

The notes on pages 45 to 118 are an integral part of these consolidated financial statements.

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 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 incorporated in the PRC and a state-owned enterprise controlled 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 of the Company on 28 March 2013.

2. BASIS OF PREPARATION

2.1 Basis of preparation and going concern assumption

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

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

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

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

(c) The ultimate parent company, JCF Groupco, a state-owned enterprise, has confirmed and has ability to provide continuing financial support to the Company and the Group so as to enable it to meet its liabilities as and when they fall due and to carry on its business for the foreseeable future.

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

2. BASIS OF PREPARATION – *continued*

2.1 Basis of preparation and going concern assumption – *continued*

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The consolidated financial statements also include the applicable disclosure requirements of the Hong Kong Company Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of the derivative financial instrument being categorised as financial assets/liabilities at fair value through profit or loss (Note 22).

The Group has not prepared a separate consolidated income statement because it is identical to the consolidated statement of comprehensive income.

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 – first effective on 1 January 2012

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

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

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

Amendments to HKFRS 7 – Disclosures – Transfers of Financial Assets

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

2. BASIS OF PREPARATION – *continued*

2.2 Adoption of new/revised HKFRSs – first effective on 1 January 2012 – *continued*

The Group has discounted certain of its bills receivables with recourse (Note 14). As the Group retained the significant risks and rewards of ownership of the discounted bills, the transfer transactions did not meet the requirements of HKAS 39 for de-recognition. The discounted bills remained as the Group's financial assets with the cash received being recognised as asset-backed borrowings (Note 18). The consolidated financial statements for the current period include additional disclosures describing the nature of the relationship between the discounted bills and the associated financial liabilities, including restrictions on the Group's use of the debts arising from the discounting arrangements.

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

The HKICPA has also issued the following new or revised standards, amendments or interpretations which may be applicable to the Group but not yet effective for the financial year beginning 1 January 2012:

		Effective for accounting periods beginning on or after
HKFRSs (Amendments)	Annual Improvements 2009-2011 Cycle	1 January 2013
Amendments to HKAS 1 (Revised)	Presentation of Items of Other Comprehensive Income	1 July 2012
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities	1 January 2014
Amendments to HKFRS 7	Offsetting Financial Assets and Financial Liabilities	1 January 2013
Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	Investment Entities	1 January 2014
HKFRS 9	Financial Instruments	1 January 2015
HKFRS 10	Consolidated Financial Statements	1 January 2013
HKFRS 11	Joint Arrangements	1 January 2013
HKFRS 12	Disclosure of Interests in Other Entities	1 January 2013
HKFRS 13	Fair Value Measurement	1 January 2013
HKAS 27 (2011)	Separate Financial Statements	1 January 2013
HKAS 28 (2011)	Investments in Associates and Joint Ventures	1 January 2013

The Group has not early adopted the abovementioned new or revised standards and amendments in these consolidated financial statements and will apply these new or revised standards and amendments in accordance with their respective effective dates.

2. BASIS OF PREPARATION – *continued*

2.3 New/revised HKFRSs that have been issued but are not yet effective – *continued*

Information on new and revised HKFRSs that are expected to affect the Group are as follows:

HKFRSs (Amendments) – Annual Improvements 2009-2011 Cycle

The improvements made amendments to the following standards.

(i) HKAS 1 Presentation of Financial Statements

The amendments clarify that the requirement to present a third statement of financial position when an entity applies an accounting policy retrospectively or makes a retrospective restatement or reclassification of items in its financial statements is limited to circumstances where there is a material effect on the information in that statement of financial position. The date of the opening statement of financial position is the beginning of the preceding period and not, as at present, the beginning of the earliest comparative period. The amendments also clarify that, except for disclosures required by HKAS 1.41-44 and HKAS 8, the related notes to the third statement of financial position are not required to be presented. An entity may present additional voluntary comparative information as long as that information is prepared in accordance with HKFRS. This may include one or more statements and not a complete set of financial statements. Related notes are required for each additional statement presented.

(ii) HKAS 16 Property, Plant and Equipment

The amendments clarify that items such as spare parts, stand-by equipment and servicing equipment are recognised as property, plant and equipment when they meet the definition of property, plant and equipment. Otherwise, such items are classified as inventory.

(iii) HKAS 32 Financial Instruments: Presentation

The amendments clarify that income tax relating to distributions to holders of an equity instrument and the transaction costs of an equity transaction should be accounted for in accordance with HKAS 12 Income Taxes. Depending on the circumstances these items of income tax might be recognised in equity, other comprehensive income or in profit or loss.

(iv) HKAS 34 Interim Financial Reporting

The amendments clarifies that in interim financial statements, a measure of total assets and liabilities for a particular reportable segment need to be disclosed when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total assets and liabilities for that segment from the amount disclosed in the last annual financial statements.

2. BASIS OF PREPARATION – *continued*

2.3 New/revised HKFRSs that have been issued but are not yet effective – *continued*

Amendments to HKAS 1 (Revised) – Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 (Revised) require the Group to separate items presented in other comprehensive income into those that may be reclassified to profit and loss in the future (e.g. revaluations of available-for-sale financial assets) and those that may not (e.g. revaluations of property, plant and equipment). Tax on items of other comprehensive income is allocated and disclosed on the same basis. The amendments will be applied retrospectively.

Amendments to HKAS 32 – Offsetting Financial Assets and Financial Liabilities

The amendments clarify the offsetting requirements by adding appliance guidance to HKAS 32 which clarifies when an entity "currently has a legally enforceable right to set off" and when a gross settlement mechanism is considered equivalent to net settlement.

Amendments to HKFRS 7 – Offsetting Financial Assets and Financial Liabilities

HKFRS 7 is amended to introduce disclosures for all recognised financial instruments that are set off under HKAS 32 and those that are subject to an enforceable master netting agreement or similar arrangement, irrespective of whether they are set off under HKAS 32.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – Investment Entities

The amendments apply to a particular class of businesses that qualify as investment entities. An investment entity's business purpose is to invest funds solely for returns from capital appreciation, investment income or both. It evaluates the performance of its investments on a fair value basis. Investment entities could include private equity organisations, venture capital organisations, pension funds and investment funds.

The amendments provide an exception to the consolidation requirements in HKFRS 10 Consolidated Financial Statements and require investment entities to measure particular subsidiaries at fair value through profit or loss rather than to consolidate them. The amendments also set out the disclosure requirements for investment entities. The amendments are applied retrospectively subject to certain transitional provisions.

2. BASIS OF PREPARATION – *continued*

2.3 New/revised HKFRSs that have been issued but are not yet effective – *continued*

HKFRS 9 – Financial Instruments

Under HKFRS 9, financial assets are classified into financial assets measured at fair value or at amortised cost depending on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains or losses will be recognised in profit or loss except for those non-trade equity investments, which the entity will have a choice to recognise the gains and losses in other comprehensive income. HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities that are designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of that liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

HKFRS 10 – Consolidated Financial Statements

HKFRS 10 introduces a single control model for consolidation of all investee entities. An investor has control when it has power over the investee (whether or not that power is used in practice), exposure or rights to variable returns from the investee and the ability to use the power over the investee to affect those returns. HKFRS 10 contains extensive guidance on the assessment of control. For example, the standard introduces the concept of "de facto" control where an investor can control an investee while holding less than 50% of the investee's voting rights in circumstances where its voting interest is of sufficiently dominant size relative to the size and dispersion of those of other individual shareholders to give it power over the investee. Potential voting rights are considered in the analysis of control only when these are substantive, i.e. the holder has the practical ability to exercise them. The standard explicitly requires an assessment of whether an investor with decision making rights is acting as principal or agent and also whether other parties with decision making rights are acting as agents of the investor. An agent is engaged to act on behalf of and for the benefit of another party and therefore does not control the investee when it exercises its decision making authority. The implantation of HKFRS 10 may result in changes in those entities which are regarded as being controlled by the Group and are therefore consolidated in the financial statements. The accounting requirements in the existing HKAS 27 on other consolidation related matters are carried forward unchanged. HKFRS 10 is applied retrospectively subject to certain transitional provisions.

2. BASIS OF PREPARATION – *continued*

2.3 New/revised HKFRSs that have been issued but are not yet effective – *continued*

HKFRS 11 – Joint Arrangements

Joint arrangements under HKFRS 11 have the same basic characteristics as joint ventures under HKAS 31. Joint arrangements are classified as either joint operations or joint ventures. Where the Group has rights to the assets and obligations for the liabilities of the joint arrangement, it is regarded as a joint operator and will recognise its interests in the assets, liabilities, income and expenses arising from the joint arrangement. Where the Group has rights to the net assets of the joint arrangement as a whole, it is regarded as having an interest in a joint venture and will apply the equity method of accounting. HKFRS 11 does not allow proportionate consolidation. In an arrangement structured through a separate vehicle, all relevant facts and circumstances should be considered to determine whether the parties to the arrangement have rights to the net assets of the arrangement. Previously, the existence of a separate legal entity was the key factor in determining the existence of a jointly controlled entity under HKAS 31. HKFRS 11 will be applied retrospectively with specific restatement requirements for a joint venture which changes from proportionate consolidation to the equity method and a joint operation which changes from equity method to accounting for assets and liabilities.

HKFRS 12 – Disclosure of Interests in Other Entities

HKFRS 12 integrates and makes consistent the disclosures requirements about interests in subsidiaries, associates and joint arrangements. It also introduces new disclosure requirements, including those related to unconsolidated structured entities. The general objective of the standard is to enable users of financial statements to evaluate the nature and risks of a reporting entity's interests in other entities and the effects of those interests on the reporting entity's financial statements.

HKFRS 13 – Fair Value Measurement

HKFRS 13 provides a single source of guidance on how to measure fair value when it is required or permitted by other standards. The standard applies to both financial and non-financial items measured at fair value and introduces a fair value measurement hierarchy. The definitions of the three levels in this measurement hierarchy are generally consistent with HKFRS 7 "Financial Instruments: Disclosures". HKFRS 13 defines fair value as 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 (i.e. an exit price). The standard removes the requirement to use bid and ask prices for financial assets and liabilities quoted in an active market. Rather the price within the bid-ask spread that is most representative of fair value in the circumstances should be used. It also contains extensive disclosure requirements to allow users of the financial statements to assess the methods and inputs used in measuring fair values and the effects of fair value measurements on the financial statements. HKFRS 13 can be adopted early and is applied prospectively.

2. BASIS OF PREPARATION – *continued*

2.3 New/revised HKFRSs that have been issued but are not yet effective – *continued*

The Group is in the process of making an assessment of the potential impact of these pronouncements. The directors so far concluded that the adoption of the amendments to HKFRS 1 and HKAS 34 as part of the Annual Improvements 2009-2011 Cycle will have no impact on the Group's annual financial statements. In respect of the other new pronouncements, the directors anticipate that more disclosures would be made but are not yet in a position to state whether they would have material financial impact on the Group's consolidated financial statements.

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 comprises of the Company and its subsidiary. The Group also has an investment in a jointly controlled entity.

Subsidiary is fully consolidated from the date on which control is transferred to the Group and is de-consolidated from the date that control ceases. Inter-company transactions, balances and unrealised gains/losses on transactions between group companies are eliminated.

Investment in the jointly controlled entity 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 jointly control entity for the year and the consolidated statement of financial position includes the Group's share of net assets of the jointly controlled entity. Unrealised gains on transactions between the Group and its jointly controlled entity are eliminated to the extent of the Group's interest in the jointly controlled entity. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the assets transferred.

Accounting policies of the subsidiary and the jointly controlled entity have been changed where necessary in the consolidated financial statements to ensure consistency with the policies adopted by the Group.

(a) Subsidiary

Subsidiary is an entity over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.1 Group accounting – *continued*

(b) Jointly controlled entity

A jointly controlled entity is a joint venture established as a corporation, partnership or other entity in which the ventures have their respective interests and establish a contractual arrangement among them to define joint control over the economic activity of the entity.

In the Company's statement of financial position, the investment in the jointly controlled entity is stated at cost less provision for impairment losses (if any). The result of the jointly controlled entity 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 jointly controlled entity 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 or costs'. All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within 'other gains/losses – net'.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

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	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 have been 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 gains/losses – net'.

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 – Technical know-how and licenses

Separately acquired technical know-how and licenses are shown at historical cost and amortised using the straight-line method over their estimated useful lives of 8 to 15 years. Technical know-how and licenses are stated at cost less accumulated amortisation and impairment losses (if any).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

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: at fair value through profit or loss, loans and receivables and available-for-sale. 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.

As at the end of the reporting period, the Group only has financial assets in the category of loans and receivables. The Group has entered into an interest rate swap contract which is not designated as hedge and therefore has been categorised as financial asset/liability at fair value through profit or loss. The related interest rate swap contract is a financial liability of the Group as at 31 December 2012 (Note 22).

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.

Financial assets at fair value through profit or loss are financial assets held for trading. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current. Assets in this category are initially recognised and subsequently measured at their fair values, and transaction costs are expensed in profit or loss. Gains or losses arising from changes in the fair values of financial assets at fair value through profit or loss are recognised in profit or loss in the period in which they arise.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

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 asset/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 gains/losses – net'.

3.10 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.

3.11 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.12 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.

3.13 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

3.14 Cash and cash equivalents

Cash and cash equivalents includes 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).

3.15 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 3.23 below.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.16 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.

3.17 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.

3.18 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.

3.19 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. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.20 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.

3.21 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 and the jointly controlled entity operate and generate 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 date 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 jointly controlled entity, 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.22 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.

3.23 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 collectability of the related receivables is reasonably assured.

(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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.23 Recognition of revenue and income – *continued*

(d) Interest income

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

(e) Dividend income

Dividend income is recognised when the right to receive payment is established.

3.24 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 non-current 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.

3.25 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors.

3.26 Contingent liabilities and contingent assets

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 5.7% (2011: 7.6%) of the Group's revenue was denominated in United State dollars ("US dollar"). The net exchange loss for the current year of RMB9,000 (2011: RMB1,253,000) was primarily associated with such US dollar denominated sales.

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

As at 31 December 2012, except for trade receivables of RMB28,020,000 (2011: RMB49,761,000) which are denominated in US dollars, all of the Group's financial assets/liabilities are denominated in RMB.

Management considers that the foreign exchange risk associated with the Group's financial assets and liabilities will not be significant as the Group does not have significant assets or liabilities denominated in currencies other than RMB as at 31 December 2012. Management considers that the possible appreciation of RMB in future periods may have an unfavourable implication on the Group's sales and costs of production but the potential impacts cannot be quantified.

4. FINANCIAL RISK MANAGEMENT – *continued*

4.1 Financial risk factors – *continued*

(a) Market risk – continued

Interest rate risk

As the Group has no significant interest bearing assets (other than cash and cash equivalents and restricted cash), 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 and derivative financial instrument.

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 2012, the Group's fixed rates borrowings and floating rates borrowings amounted to RMB706,969,000 (2011: RMB548,000,000) and RMB929,000,000 (2011: RMB981,800,000) respectively.

With all other variables held constant, the Group's finance costs (net of amounts capitalised in construction in progress) on the floating rates borrowings will increase/decrease by approximately RMB3,632,500 (2011: RMB4,545,000) if the interest rate is 50 basis points higher/lower.

The Group has entered into an interest rate swap contract with a financial institution which is remained in an open position as at 31 December 2012 (Note 22). Pursuant to the terms of the interest rate swap contract, the Group has to pay interests to the financial institution at an interest rate of 6.84% per annum based on the outstanding notional principal amount of RMB98,800,000 (2011: RMB109,200,000), with original notional principal amount of RMB130,000,000, while the Group is entitled to receive interest payments from the financial institution at the rate of 7.84% per annum for the period when the 30-year US dollar Constant Maturity Swap Rate (the "30-year USD CMS Rate") is higher than or equal to 3.85% and at the same time the 6-month US dollar London Inter-bank Offered Rate (the "6-month LIBOR") is lower than or equal to 7.00%. Any interest payments or receipts associated with the interest rate swap contract are settled with the financial institution on a net basis semi-annually.

As at 31 December 2012, the 6-month LIBOR is 0.51%, which is far below the rate of 7.00% as specified in the interest rate swap contract. Therefore, management considers that the Group's interest rate risk associated with the interest rate swap contract should be more dependent on the future trends of the 30-year USD CMS Rate. As at 31 December 2012, the 30-year USD CMS Rate is 2.74%, which is below the rate of 3.85% as specified in the interest rate swap contract. With all other variables held constant, the net loss/gain on fair value change of the interest rate swap contract will not be significant even if the 30-year USD CMS Rate is 50 basis points lower/higher.

4. FINANCIAL RISK MANAGEMENT – *continued*

4.1 Financial risk factors – *continued*

(b) Credit risk

The Group's credit risks are primarily attributable to trade and other receivables (including bills receivables), derivative financial instrument 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.

As at 31 December 2012, the Group has certain concentration of credit risk because approximately 79% (2011: 80%) of the total trade receivables (gross amount before any impairment provision) was due from five of the Group's customers (the "Top Five Debtors"). The aging analysis of the balances due from the Top Five Debtors are as below:

	2012 RMB'000	2011 RMB'000
Receivables from the Top Five Debtors:		
Within 30 days	**54,577**	15,135
31 - 90 days	**4,512**	45,156
91 - 365 days	**23,875**	17,450
Over 365 days	**9,331**	14,845
	92,295	92,586

4. FINANCIAL RISK MANAGEMENT – *continued*

4.1 Financial risk factors – *continued*

(b) Credit risk – continued

As at 31 December 2012, no provision for receivable impairment 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 derivative financial instrument and 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.

Bills receivables are all to be settled by reputable commercial banks or state-owned banks and therefore the management considers that they will not expose the Group to any significant credit risk.

At the end of the reporting period, the Group does 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. At 31 December 2012, the Group has interest bearing bank balances of RMB109,218,000 (2011: 264,124,000) that are expected to be readily for use in managing liquidity risk.

4. FINANCIAL RISK MANAGEMENT – *continued*

4.1 Financial risk factors – *continued*

(c) Liquidity risk – continued

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 RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000
At 31 December 2012				
Long-term bank borrowings	80,308	79,868	180,398	122,116
Short-term bank borrowings	1,301,531	—	—	—
Financial liabilities as included in trade and other payables	438,425	—	—	—
Net settled derivative financial instrument	6,580	5,868	4,552	—
	1,826,844	85,736	184,950	122,116

	On demand or less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000
At 31 December 2011				
Long-term bank borrowings	180,441	80,698	202,944	188,735
Short-term bank borrowings	1,031,373	—	—	—
Financial liabilities as included in trade and other payables	221,304	—	—	—
Net settled derivative financial instrument	6,626	4,597	6,302	—
	1,439,744	85,295	209,246	188,735

4. FINANCIAL RISK MANAGEMENT – *continued*

4.1 Financial risk factors – *continued*

(c) Liquidity risk – continued

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 paid to equity holders, return capital 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 65% (2011: 65%). The debt-to-total capital ratios at 31 December 2012 and 2011 were as follows:

	2012 RMB'000	2011 RMB'000
Total borrowings (Note 18)	**1,635,969**	1,529,800
Less: Cash and cash equivalents (Note 15)	**(109,228)**	(264,127)
Net debt	**1,526,741**	1,265,673
Total equity	**826,440**	1,013,007
Total capital	**2,353,181**	2,278,680
Debt-to-total capital ratio	**65%**	56%

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

4. FINANCIAL RISK MANAGEMENT – *continued*

4.3 Fair value estimation

Except for the interest rate swap contract as mentioned in notes 4.1(a) and 22, 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 has been categorised to the level 2 of the fair value measurement hierarchy as set out in the HKFRS 7 "Financial Instruments: Disclosures" 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 yield curves.

The carrying value less impairment provision of receivable and payable balances are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

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.

5.1 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) Impairment of non-current key operating assets

Land use rights, property, plant and equipment and intangible assets 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 RMB142,291,000 and RMB47,458,000 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.

(b) Write-down of inventories to net realisable value

In determining the net realisable value of inventories, the management is required to estimate the subsequent selling price of the inventories, the estimated costs to completion for work in progress and selling expenses. The management made the estimates by reference to the latest market condition and the historical experience of manufacturing and sales of similar products in the past.

If the estimated net realisable values of inventories had been 5% lower than the estimates as adopted by the management, the Group is still not required to recognise any provision for impairment on the inventories for its acrylic fiber products segment (representing approximately 78% of the Group's total inventories) whereas the Group would have to recognise an additional provision for impairment on the inventories for its carbon fiber products segment of approximately RMB2,015,000.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS – *continued*

5.1 Critical accounting estimates and assumptions – *continued*

(c) Impairment of interest in jointly controlled entity

Management tests whether the interest in jointly controlled entity has suffered any impairment in accordance with the accounting policy as stated in note 3.7. The management has assessed the recoverable amount of the interest in jointly controlled entity based on value-in-use calculations which require the use of estimates on the projections of cash inflows from the operation of the jointly controlled entity 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 amount of the interest in jointly controlled entity will be reduced by approximately RMB38,184,000 and RMB27,750,000 respectively. Even the recoverable amount of the interest in jointly controlled entity is reduced by the abovementioned respective amounts, the adjusted recoverable amounts of the interest in jointly controlled entity are still higher than its carrying amount as of the end of reporting period.

5.2 Critical judgements in applying the Group's significant accounting policies

(a) Going concern consideration

The assessment of the 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 major events or conditions, which may give rise to business risks, that individually or collectively may cast doubt about the going concern assumption are set out in note 2.1 to the consolidated financial statements.

(b) 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 which the recognised temporary differences (including tax losses) can be utilised. 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 2012, the Group has recognised deferred income tax assets of RMB83,780,000 (2011: RMB80,354,000) (Note 21). The Company's directors consider that the Group is capable to generate sufficient taxable profit from its future business operations for utilising the recognised temporary differences.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS – *continued*

5.2 Critical judgements in applying the Group's significant accounting policies – *continued*

(c) 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 2012, the Group has trade receivables which are past due but not impaired of RMB41,884,000 (Note 14(b)) and trade receivables of RMB7,775,000 which are being considered as doubtful debts and partially provided for (Note 14(c)). In addition, the Group has also requested a fellow subsidiary to pledge certain of its production equipment as the securities for the repayment of the related trade and other receivables of RMB23,800,000 (Note 14(b)).

As at 31 December 2012, the Group has overdue balance of RMB37,459,000 due from a related company in respect of the provision of utilities as set out in note 14(e). As of the dates of these consolidated financial statements, the related company has subsequently settled a portion of the overdue balance of RMB5,000,000 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 would be arising from the overdue balance.

Management considers that the provision for impairment of trade and other receivables of RMB12,537,000 as at 31 December 2012 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 has commenced its first phase of operation in August 2009.

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

6. SEGMENT INFORMATION – *continued*

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

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

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

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

Segment revenue and results

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

6. SEGMENT INFORMATION – *continued*

Segment revenue and results – *continued*

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

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

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

Note:

As disclosed in note 34(a)(iii), 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, jointly controlled entity, Jilin Chemical Fibre Co., Ltd. ("JCFCL"), related parties and third parties at rates to be determined amongst the parties concerned. The adjusted segment results as disclosed above for the acrylic fiber products segment included an amount of RMB81,107,000 (2011: RMB76,537,000), representing the related income net of direct outgoings (other than depreciation charge), which is attributable to the provisions of surplus utilities to fellow subsidiaries, jointly controlled entity, JCFCL, related parties and third parties.

6. SEGMENT INFORMATION – *continued*

Segment assets and liabilities

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

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

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

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

6. SEGMENT INFORMATION – *continued*

Segment assets and liabilities – *continued*

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

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

Information about major customers

Revenues of approximately RMB590,255,000 (2011: RMB966,056,000) are derived from two (2011: 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:

	2012		2011	
Customer name	**Revenue RMB'000**	**Proportion to the total revenues**	Revenue RMB'000	Proportion to the total revenues
Shanghai Taiyi Textile Co., Ltd.	436,985	31%	697,341	33%
Qinhuangdao Aipurui Chemical Co., Ltd.	153,270	11%	268,715	13%
Total	590,255	42%	966,056	46%

7. LAND USE RIGHTS

The Group's interests in land use rights represent prepaid operating lease payments for lands in the PRC which are held on leases of between 10 to 50 years.

Movements in the land use rights are analysed as below:

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**29,477**	24,816	**22,934**	24,816
Additions	**64,964**	6,543	**64,964**	—
Amortisation charge	**(2,012)**	(1,882)	**(1,882)**	(1,882)
At 31 December	**92,429**	29,477	**86,016**	22,934

As at 31 December 2011, land use rights of the Group and the Company with carrying amount of RMB5,354,000 have been pledged as securities for certain bank borrowings of the Group and the Company (Note 18). The pledge has expired during the year ended 31 December 2012.

As at 31 December 2012, the Group is in the process of obtaining the land use right certificates for the land in the PRC with carrying amount of RMB6,543,000 (2011: RMB6,543,000) from the relevant government authorities.

8. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings RMB'000	Machinery and equipment RMB'000	Electronic and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2011						
Cost	476,272	1,735,147	2,756	11,711	64,963	2,290,849
Accumulated depreciation	(154,320)	(846,181)	(2,333)	(8,538)	—	(1,011,372)
Net book amount	321,952	888,966	423	3,173	64,963	1,279,477
Year ended 31 December 2011						
Opening net book amount	321,952	888,966	423	3,173	64,963	1,279,477
Additions	—	1,966	78	810	394,098	396,952
Transfer	—	13,197	—	—	(13,197)	—
Depreciation	(24,211)	(112,507)	(83)	(840)	—	(137,641)
Closing net book amount	297,741	791,622	418	3,143	445,864	1,538,788
At 31 December 2011						
Cost	476,272	1,750,310	2,834	12,521	445,864	2,687,801
Accumulated depreciation	(178,531)	(958,688)	(2,416)	(9,378)	—	(1,149,013)
Net book amount	297,741	791,622	418	3,143	445,864	1,538,788
Year ended 31 December 2012						
Opening net book amount	297,741	791,622	418	3,143	445,864	1,538,788
Additions	126,227	48,128	303	1,738	106,478	282,874
Disposals	—	(297)	—	(64)	—	(361)
Transfer	52,835	405,289	—	—	(458,124)	—
Depreciation	(24,152)	(111,928)	(88)	(881)	—	(137,049)
Closing net book amount	452,651	1,132,814	633	3,936	94,218	1,684,252
At 31 December 2012						
Cost	655,334	2,202,063	3,137	14,169	94,218	2,968,921
Accumulated depreciation	(202,683)	(1,069,249)	(2,504)	(10,233)	—	(1,284,669)
Net book amount	452,651	1,132,814	633	3,936	94,218	1,684,252

8. PROPERTY, PLANT AND EQUIPMENT – *continued*

Company

	Buildings RMB'000	Machinery and equipment RMB'000	Electronic and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2011						
Cost	476,272	1,665,643	2,625	11,711	17,818	2,174,069
Accumulated depreciation	(154,320)	(837,886)	(2,316)	(8,538)	—	(1,003,060)
Net book amount	321,952	827,757	309	3,173	17,818	1,171,009
Year ended 31 December 2011						
Opening net book amount	321,952	827,757	309	3,173	17,818	1,171,009
Additions	—	1,626	36	806	62,504	64,972
Transfer	—	13,197	—	—	(13,197)	—
Depreciation	(24,211)	(107,618)	(66)	(840)	—	(132,735)
Closing net book amount	297,741	734,962	279	3,139	67,125	1,103,246
At 31 December 2011						
Cost	476,272	1,680,466	2,661	12,517	67,125	2,239,041
Accumulated depreciation	(178,531)	(945,504)	(2,382)	(9,378)	—	(1,135,795)
Net book amount	297,741	734,962	279	3,139	67,125	1,103,246
Year ended 31 December 2012						
Opening net book amount	**297,741**	**734,962**	**279**	**3,139**	**67,125**	**1,103,246**
Additions	**126,227**	**92,650**	**234**	**1,394**	**72,896**	**293,401**
Disposals	—	**(297)**	—	**(64)**	—	**(361)**
Transfer	—	**45,803**	—	—	**(45,803)**	—
Depreciation	**(24,152)**	**(108,968)**	**(83)**	**(881)**	—	**(134,084)**
Closing net book amount	**399,816**	**764,150**	**430**	**3,588**	**94,218**	**1,262,202**
At 31 December 2012						
Cost	**602,499**	**1,817,255**	**2,895**	**13,821**	**94,218**	**2,530,688**
Accumulated depreciation	**(202,683)**	**(1,053,105)**	**(2,465)**	**(10,233)**	—	**(1,268,486)**
Net book amount	**399,816**	**764,150**	**430**	**3,588**	**94,218**	**1,262,202**

8. PROPERTY, PLANT AND EQUIPMENT – *continued*

Notes:

(a) As at 31 December 2012, property, plant and equipment of the Group and the Company with carrying amount of RMB112,873,000 (2011: RMB546,971,000) have been pledged as securities for certain bank borrowings of the Group and the Company (Note 18). One of the pledges has expired during the year ended 31 December 2012.

(b) As at 31 December 2012, the Group is in the process of obtaining the certificates of ownership in respect of certain buildings of the Group and the Company with carrying amount of RMB179,062,000 (2011: Nil) and RMB126,227,000 (2011: Nil) respectively from the relevant government authorities.

(c) Depreciation expenses of RMB105,360,000 (2011: RMB104,262,000), RMB7,578,000 (2011: RMB6,523,000) and RMB24,111,000 (2011: RMB26,856,000) have been charged in cost of sales, administrative expenses and other expenses respectively.

(d) As the Group's financial performance for the current year is lower than those originally budgeted, management has re-assessed the recoverable amounts of the Group's key operating assets (comprise of land use rights, property, plant and equipment and intangible assets). For the purpose of the impairment assessment, the management had identified two cash generating units ("CGU") namely the Acrylic Fiber Product Segment and the Carbon Fiber Product Segment. The recoverable amounts of the key operating assets of these two CGUs had been determined based on value-in-use calculations which used pre-tax cash flow projections based on financial budgets approved by the management covering a five-year period (the "Projection Period").

The key assumptions as adopted in the impairment assessment are summarised as below:

	Acrylic Fiber Product Segment	Carbon Fiber Product Segment
Gross margin (Note i)	10% to 14%	-25% to 30%
Discount rate	16.3%	15.7%
Growth rate within the Projection Period (Note ii)	1.5% to 23%	11% to 670%
Growth rate beyond the Projection Period	0%	0%

(i) For the Acrylic Fiber Product Segment, management expects that the gross margin will be increased to 14% from year 2017 onwards. For the Carbon Fiber Product Segment, management assumes that the Group will only be able to achieve the expected gross margin of 30% over the Projection Periods gradually, considering that it may take time for the Group to optimise the efficiency from the operations of this business segment as the new production lines were officially launched in January 2013.

(ii) Management expects that the sales of carbon fiber products will significant increase due to the launch of the new production lines in January 2013. In view of this, management has projected a relatively high growth rates for the Carbon Fiber Product Segment within the Projection Period.

8. PROPERTY, PLANT AND EQUIPMENT – *continued*

Notes: – *continued*

(d) – *continued*

(iii) The end products of the Group's acrylic fiber products are primarily with respect to warm keeping clothes, blanket and materials which do not have close substitutes or subject to technology changes. Similarly, the end products of the Group's carbon fiber products can be widely used for the production of many carbonised products in different areas which do not have close substitutes or subject to technology changes. Therefore, management believes that the Group's operations in the Acrylic Fiber Product Segment and Carbon Fiber Product Segment can be carried on perpetually on a going concern basis.

In assuming the perpetual operations of the key operating assets for the Acrylic Fiber Product Segment and the Carbon Fiber Product Segment, management has assumed an annual capital expenditure to be incurred for maintenance and replacement at an amount which approximates the estimated annual depreciation charge of the related key operating assets.

(iv) Management has assumed no further growth in the cash flows beyond the Projection Periods.

In determining the budgeted gross margin, management has made reference to the past performance of the Group and also their expectations for the market development in the upcoming few years. The discount rate used is pre-tax and reflects the specific risks relating to the relevant operating segments.

Based on the impairment assessment, management has concluded that the estimated recoverable amounts of the Group's key operating assets are higher than their carrying amounts and hence no provision for impairment is required to be recognised as at 31 December 2012.

(e) During the year ended 31 December 2012, the Group has capitalised borrowing costs of RMB15,459,000 (2011: RMB14,398,000) on qualifying assets (Note 27). Borrowing costs were capitalised at the weighted average rate of its specific borrowings of 6.8% (2011: 6.5%).

9. INTANGIBLE ASSETS – TECHNICAL KNOW-HOW AND LICENSES

Group and Company

	RMB'000
At 1 January 2011	
Cost	102,624
Accumulated amortisation	(78,006)
Net book amount	24,618
Year ended 31 December 2011	
Opening net book amount	24,618
Amortisation charge	(8,207)
Closing net book amount	16,411
At 31 December 2011	
Cost	102,624
Accumulated amortisation	(86,213)
Net book amount	16,411
Year ended 31 December 2012	
Opening net book amount	**16,411**
Amortisation charge	**(8,206)**
Closing net book amount	**8,205**
At 31 December 2012	
Cost	**102,624**
Accumulated amortisation	**(94,419)**
Net book amount	**8,205**

10. INVESTMENT IN A SUBSIDIARY

	Company	
	2012	2011
	RMB'000	RMB'000
Unlisted investment, at cost	385,000	215,000

Notes:

(a) In July 2012, the Company had contributed cash of RMB170,000,000 to the subsidiary as its capital contribution.

(b) Details of the subsidiary are as follows:

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of registered and paid up capital		Interest directly held	
			2012 RMB	2011 RMB	2012	2011
Jilin Tangu Carbon Fiber Co., Ltd ("Tangu")	PRC, limited liability company	Development, production and sales of carbon fiber products in the PRC	360,000,000	190,000,000	100%	100%

(c) As the subsidiary's major new production lines are still under trial production period during the year, its financial performance for the current year is lower than that originally budgeted. Considering the recoverable amounts of the CGU of Carbon Fiber Product Segment as determined based on the management's assessment as described on note 8(d) is higher than the aggregate carrying amounts of the key operating assets of the Carbon Fiber Product Segment and the Company's investment costs in the subsidiary, the management has concluded that no provision for impairment on the Company's investment in the subsidiary is required to be recognised as at 31 December 2012.

11. INTEREST/INVESTMENT IN A JOINTLY CONTROLLED ENTITY

	Group	
	2012	2011
	RMB'000	RMB'000
At 1 January	**213,945**	177,521
Share of (loss) /profit	**(40,147)**	36,151
Others	**273**	273
At 31 December	**174,071**	213,945

	Company	
	2012	2011
	RMB'000	RMB'000
Unlisted investment, at cost	225,000	225,000
Less: provision for impairment (Note b)	—	—
	225,000	225,000

Notes:

(a) The Group has a 50% equity interest in a jointly controlled entity, 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 2012 and 2011, 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%, 39.36% and 10.64% respectively.

(b) As Jimont's financial performance for the current year is lower than that originally budgeted, management has re-assessed the carrying amounts of the interest in a jointly controlled entity of the Group and the investment in a jointly controlled entity of the Company. The recoverable amounts had been determined based on value-in-use calculations which used pre-tax cash flow projections based on financial budgets approved by the management of Jimont covering a five-year period (the "Projection Period"). The key assumptions as adopted in the impairment assessment are summarised as below:

Gross margin of the jointly controlled entity	11% to 16%
Discount rate	16.7%
Growth rate beyond the Projection Period	0%

In determining the budgeted gross margin, management has made reference to the past performance of the jointly controlled entity and also their expectations for the market development in the next few years. Management expects that the gross margin of the jointly controlled entity will increase to 16% from 2017 onwards. The discount rate used is pre-tax and reflects the specific risks relating to the jointly controlled entity.

Based on the impairment assessment, management has concluded that the estimated recoverable amount of the jointly controlled entity is higher than its carrying amounts and hence no provision for impairment is required to be recognised as at 31 December 2012 (2011: a reversal of provision for impairment on investment in jointly controlled entity of the Company amounting to RMB43,384,000 had been recognised during the year ended 31 December 2011).

11. INTEREST/INVESTMENT IN A JOINTLY CONTROLLED ENTITY – *continued*

Notes: – *continued*

(c) 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 2012		As at 31 December 2011	
	Jimont RMB'000	50% shared by the Group RMB'000	Jimont RMB'000	50% shared by the Group RMB'000
Non-current assets	899,638	449,819	933,543	466,772
Current assets	438,151	219,076	534,056	267,028
Total assets	1,337,789	668,895	1,467,599	733,800
Non-current liabilities	280,000	140,000	370,000	185,000
Current liabilities	702,551	351,276	662,065	331,033
Total liabilities	982,551	491,276	1,032,065	516,033
Jointly controlled entity's capital commitments	–	–	–	–

	Year ended 31 December 2012		Year ended 31 December 2011	
	Jimont RMB'000	50% shared by the Group RMB'000	Jimont RMB'000	50% shared by the Group RMB'000
Revenue	1,362,764	681,382	1,969,150	984,575
Expenses	(1,443,058)	(721,529)	(1,896,849)	(948,424)
Net (loss)/profit for the year	(80,294)	(40,147)	72,301	36,151

(d) There are no contingent liabilities relating to the Group's interest in the jointly controlled entity, and no contingent liabilities of the jointly controlled entity itself.

12. PREPAYMENTS

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

13. INVENTORIES

	Group		Company	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Raw materials	143,960	118,943	141,308	118,267
Work in progress	53,478	65,364	49,268	62,943
Finished goods	156,576	73,209	87,269	32,915
	354,014	257,516	277,845	214,125

As at 31 December 2012, a batch of raw materials and finished goods with costs of RMB8,422,000 and RMB31,696,000 (2011: RMB8,686,000 and RMB21,319,000) respectively were considered as obsolete. Provisions for impairment on the abovementioned raw materials and finished goods of RMB4,587,000 and RMB4,329,000 (2011: RMB4,587,000 and RMB2,889,000) respectively were made as at 31 December 2012.

The provision for impairment on inventories recognised and written off/utilised during the year ended 31 December 2012 amounted to RMB3,302,000 (2011: RMB2,502,000) and RMB1,862,000 (2011: RMB639,000) respectively.

14. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Trade receivables (Note a)	116,210	115,383	110,838	112,108
Less: provision for impairment	(5,021)	(5,021)	(5,021)	(5,021)
Trade receivables – net	111,189	110,362	105,817	107,087
Bills receivables (Note d)	125,022	121,879	122,684	121,279
Amounts due from related parties (Notes e and 34(b))	60,040	163,394	71,418	341,711
Other receivables	90,296	68,286	48,975	25,262
Less: provision for impairment	(7,516)	(7,516)	(7,516)	(7,516)
Other receivables – net	82,780	60,770	41,459	17,746
Prepayments	28,754	7,524	28,043	6,092
	407,785	463,929	369,421	593,915

14. TRADE AND OTHER RECEIVABLES – *continued*

Notes:

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

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
0 – 30 days	**66,719**	31,639	**66,591**	30,324
31 – 90 days	**7,700**	47,739	**7,043**	45,958
91 – 365 days	**28,441**	17,698	**23,879**	17,675
Over 365 days	**13,350**	18,307	**13,325**	18,151
	116,210	115,383	**110,838**	112,108

(b) Trade receivables with aging less than 30 days are not considered as past due. As at 31 December 2012, the following trade receivables were past due but not 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:

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
31 – 90 days past due	**7,282**	44,688	**6,625**	42,907
91 – 365 days past due	**25,220**	17,455	**20,657**	17,450
Over 365 days past due	**9,382**	14,870	**9,357**	14,845
	41,884	77,013	**36,639**	75,202

Included in the trade receivables that were past due but not impaired as set out above, an amount of RMB13,715,000 (2011: RMB14,845,000) were due from a fellow subsidiary. The Group has also provided utilities (such as electricity and steam) to this fellow subsidiary and the receivables in respect of provision of utilities amounted to RMB10,085,000 (2011: 5,634,000). Therefore, the total trade and other receivables due from this fellow subsidiary amounted to RMB23,800,000 as at 31 December 2012 (2011: RMB20,479,000). This fellow subsidiary has pledged certain of its production equipment to the Company as securities for its repayment of the amounts due to the Group. The management does not expect any significant loss from the non-performance by this fellow subsidiary and hence no provision for impairment has been made as at 31 December 2012 (2011: Nil).

14. TRADE AND OTHER RECEIVABLES – *continued*

Notes: – *continued*

(c) As at 31 December 2012, trade receivables of RMB7,775,000 (2011: RMB6,731,000) were considered as doubtful debts and were partially provided for. The amount of the provision was RMB5,021,000 (2011: RMB5,021,000) as at 31 December 2012. The individually impaired receivables mainly relate to customers which are in unexpected difficult economic situations. It was assessed that a portion of the receivables is expected to be recovered.

The aging of these partially impaired receivables is as follows:

	Group		Company	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
0 – 30 days	168	—	168	—
31 – 90 days	418	3,051	418	3,051
91 – 365 days	3,221	243	3,221	225
Over 365 days	3,968	3,437	3,968	3,306
	7,775	6,731	7,775	6,582

(d) Included in bills receivables, an amount of RMB2,969,000 (2011: Nil) were banker's acceptances, which have been discounted to the financial institutions with recourse. These banker's acceptances are issued to the Group and are due within 3 to 6 months from the date of issuance. Banks issuing the banker's acceptances are the primary obligors for payment on due date of such banker's acceptances. In the event of default, the Group is obliged to pay the financial institutions the amount in default. Late interest would be charged by the financial institutions until the amount has been settled. The Group is therefore exposed to the credit risk and late payment risk in respect of the discounted bills. The proceeds of the discounting transactions are included in borrowings as asset-backed financing (Note 18) until the discounted bills were matured or settled.

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

	Group		Company	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
0 – 30 days	16,224	14,438	16,387	14,438
31 – 90 days	16,027	40,534	19,583	218,853
91 – 365 days	2,374	103,090	10,033	103,088
Over 365 days	25,415	5,332	25,415	5,332
	60,040	163,394	71,418	341,711

The amounts due from related parties primarily comprise of receivables in respect of the provision of utilities. Included in these amounts, an amount of RMB37,459,000 (2011: RMB143,622,000) has already been past due. According to a settlement plan entered into between the Group and this related company, the amount will be fully repaid by 31 December 2013. 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 2012 (2011: Nil).

(f) Except for the amount due from a jointly controlled entity which bore interests at the one-year basic call rate as pronounced by the People's Bank of China, the amounts due from other related parties are unsecured and interest free.

(g) There are no movements in the provision for impairment of trade and other receivables for the years ended 31 December 2012 and 2011.

(h) The other classes within trade and other receivables do not contain impaired assets.

14. TRADE AND OTHER RECEIVABLES – *continued*

Notes: – *continued*

(i) The carrying amounts of trade and other receivables are all denominated in RMB except that, trade receivables of RMB28,020,000 (2011: RMB49,761,000) are denominated in US dollars.

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

(k) The maximum exposure to credit risk at the reporting date is the carrying amounts of each class of receivables mentioned above.

15. CASH AND CASH EQUIVALENTS/RESTRICTED BANK DEPOSITS

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

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and on hand	**232,875**	334,917	**224,638**	288,861
Less: restricted bank deposits (Note a)	**(123,647)**	(70,790)	**(123,647)**	(69,368)
Cash and cash equivalents	**109,228**	264,127	**100,991**	219,493

Notes:

(a) The Company has drawn down a specific bank borrowing of RMB75,000,000 in July 2010 which can only be used for funding the Company's further capital contribution to its jointly controlled entity. The proceeds from the bank borrowings have 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 Company has utilised a portion of the restricted deposits of RMB31,067,000 for financing the working capital of the Company. As at 31 December 2012 and 2011, the restricted bank deposit in connection with the abovementioned specific borrowing amounted to RMB43,933,000.

In addition, the Company has pledged certain bank deposits with carrying amounts of RMB25,000,000 (2011: RMB25,000,000) to a financial institution for the issuance of certain non-trade bills payable of RMB50,000,000 (2011: RMB50,000,000) (Note 18(a)).

The Company has also pledged certain bank deposits with carrying amounts of RMB32,800,000 (2011: Nil) to a financial institution for the issuance of bills payables in the sum of RMB82,000,000 (Note 20(b)).

Furthermore, bank deposits of RMB21,914,000 (2011: RMB1,857,000) as at 31 December 2012 have been pledged for the issues of certain letters of credit for the Group's purchases of raw materials and machinery from certain overseas suppliers.

(b) The maximum exposure to credit risk at the reporting date is the carrying amounts of the cash and cash equivalents.

16. SHARE CAPITAL AND PREMIUM

(a) Share capital

	Group and Company	
	Number of shares (in thousand)	Nominal values RMB'000
Registered, issued and fully paid		
– Domestic shares of RMB1 each	437,017	437,017
– Non-H foreign shares of RMB1 each	169,358	169,358
– H shares of RMB1 each	259,875	259,875
	866,250	866,250

Notes:

(i) There was no movement in share capital during the years ended 31 December 2012 and 2011.

(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.

17. RESERVES

Group

	Reserve fund RMB'000 (Note a)	Enterprise expansion fund RMB'000 (Note a)	Statutory reserve fund RMB'000 (Note b)	Accumulated losses RMB'000	Total RMB'000
At 1 January 2011	—	—	31,919	(92,831)	(60,912)
Profit for the year	—	—	—	65,192	65,192
At 31 December 2011	—	—	31,919	(27,639)	4,280
Loss for the year	—	—	—	(186,567)	(186,567)
At 31 December 2012	—	—	**31,919**	**(214,206)**	**(182,287)**

Company

	Reserve fund RMB'000 (Note a)	Enterprise expansion fund RMB'000 (Note a)	Statutory reserve fund RMB'000 (Note b)	Retained profits/ (accumulated losses) RMB'000	Total RMB'000
At 1 January 2011	—	—	31,919	(48,042)	(16,123)
Profit for the year	—	—	—	71,707	71,707
At 31 December 2011	—	—	31,919	23,665	55,584
Loss for the year	—	—	—	(131,616)	(131,616)
At 31 December 2012	—	—	**31,919**	**(107,951)**	**(76,032)**

17. RESERVES – *continued*

Notes:

(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 and its subsidiary, 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 determined not to make any appropriations to the reserve fund, enterprise expansion fund and statutory reserve fund for the years ended 31 December 2012 and 2011.

18. BORROWINGS

	Group		Company	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Non-current				
Long-term bank borrowings	**364,000**	538,000	**184,500**	338,000
Less: Current portion of long-term bank borrowings	**(56,500)**	(173,500)	**(27,000)**	(153,500)
	307,500	364,500	**157,500**	184,500
Current				
Short-term bank borrowings	**1,219,000**	941,800	**1,189,000**	941,800
Current portion of long-term bank borrowings	**56,500**	173,500	**27,000**	153,500
Discounted bills with recourse (Note 14)	**2,969**	—	**2,969**	—
Other borrowings (Note a)	**50,000**	50,000	**50,000**	50,000
	1,328,469	1,165,300	**1,268,969**	1,145,300
Total bank borrowings	**1,635,969**	1,529,800	**1,426,469**	1,329,800
Representing:				
– secured borrowings (Note b)	**1,635,969**	1,529,800	**1,426,469**	1,329,800

18. BORROWINGS – *continued*

Notes:

(a) Other borrowings represent non-trade bills payable for financing the Group's working capital. As at 31 December 2012, the Group has pledged certain bank deposits of RMB25,000,000 (2011: RMB25,000,000) as securities for the issuance of the abovementioned non-trade notes payable of RMB50,000,000 (2011: RMB50,000,000) (Note 15(a)).

(b) Bank borrowings of RMB1,191,500,000 (2011: RMB1,174,800,000) are guaranteed by the ultimate parent company, out of which, bank borrowing of RMB179,500,000 (2011: RMB200,000,000) is also secured by certain self-generated technical know-how as held by the subsidiary (which was contributed by the Company as part of its capital contribution to the subsidiary in 2008).

Bank borrowings of RMB2,969,000 (2011: Nil) are secured by certain bills receivables of the Company with carrying amounts of RMB2,969,000 (2011: Nil) (Note 14).

As at 31 December 2012, bank borrowings of RMB161,500,000 are secured by certain property, plant and equipment of the Company with carrying amount of RMB112,873,000 (Note 8).

As at 31 December 2011, bank borrowings of RMB305,000,000 are secured by certain property, plant and equipment and land use rights of the Company with carrying amounts of RMB546,971,000 (Note 8) and RMB5,354,000 (Note 7), respectively.

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

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
On demand	**408,000**	—	**408,000**	—
Within 1 year	**920,469**	1,165,300	**860,969**	1,145,300
Between 1 and 2 years	**60,000**	57,000	**30,000**	27,000
Between 2 and 5 years	**141,000**	154,000	**51,000**	64,000
Over 5 years	**106,500**	153,500	**76,500**	93,500
	1,635,969	1,529,800	**1,426,469**	1,329,800

During the year ended 31 December 2012, the Group has failed to attain certain key performance indicators specified by banks (including sales growth rate, current ratio and net profit ratio). The lenders have not taken any action and have subsequently renewed the matured bank loans during the year. Accordingly, the full amounts of the bank loans with an aggregate carrying amount of RMB408,000,000 as at 31 December 2012, which are repayable within one year, are presented as "on demand" time band in the above analysis.

(d) The effective interest rate of the bank borrowings as at the end of the reporting period was 7.06% (2011: 6.27%) per annum.

18. BORROWINGS – *continued*

Notes: – *continued*

(e) The exposure of bank borrowings to interest-rate changes and the contractual repricing dates are as follows:

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 6 months	**532,469**	782,000	**532,469**	782,000
6 – 12 months	**1,103,500**	747,800	**894,000**	547,800
	1,635,969	1,529,800	**1,426,469**	1,329,800

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

(g) As at 31 December 2012, the Group and the Company has fixed interest rates bank borrowings of RMB706,969,000 (2011: RMB548,000,000) 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.

19. DEFERRED INCOME

Group

	Government grant for construction of new facilities RMB'000 (Note a)	Purchases of domestically manufactured equipment RMB'000 (Note b)	Total RMB'000
At 1 January 2011	69,199	14,260	83,459
Additions (Note c)	7,120	—	7,120
Amortisation (Note d)	(6,628)	(1,384)	(8,012)
At 31 December 2011	69,691	12,876	82,567
Additions (Note c)	6,610	—	6,610
Amortisation	(5,577)	(1,384)	(6,961)
At 31 December 2012	**70,724**	**11,492**	**82,216**

19. DEFERRED INCOME – *continued*

Company

	Government grant for construction of new facilities RMB'000 (Note a)	Purchases of domestically manufactured equipment RMB'000 (Note b)	Total RMB'000
At 1 January 2011	54,399	14,260	68,659
Additions (Note c)	7,120	—	7,120
Amortisation	(4,640)	(1,384)	(6,024)
At 31 December 2011	56,879	12,876	69,755
Additions (Note c)	1,610	—	1,610
Amortisation	(4,640)	(1,384)	(6,024)
At 31 December 2012	**53,849**	**11,492**	**65,341**

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 Company 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 2012, the Group received government grants of RMB1,610,000 and RMB5,000,000 respectively for the installation of certain energy recycle facilities of the Company and the construction of carbon fiber production facilities of the subsidiary.

During the year ended 31 December 2011, the Group received government grants of RMB7,120,000 for the constructions of certain bio-chemical sewage treatment facilities.

(d) Included in the amortisation of deferred income during the year ended 31 December 2011, an amount of RMB1,050,000 represents the government grant in connection with the research and development expenses. The amount was recognised in the consolidated statement of comprehensive income as the related expenses were incurred.

20. TRADE AND OTHER PAYABLES

	Group		Company	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Trade payables (Note a)	222,580	124,629	212,486	113,982
Bills payables (Note b)	82,000	—	82,000	—
Advance from customers	23,850	32,968	21,561	31,692
Payable for purchases of property, plant and equipment	26,014	56,315	20,587	34,062
Amounts due to related parties (Notes c and 34(b))	85,311	12,364	84,925	10,311
Other payable and accruals	22,520	27,996	22,140	27,720
Provision for staff welfare	25,319	26,599	25,319	26,599
Other taxes	175	19,326	175	19,326
	487,769	300,197	469,193	263,692

Notes:

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

	Group		Company	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
0 – 30 days	66,715	28,000	65,174	26,025
31 – 90 days	97,963	81,371	96,808	76,758
91 – 365 days	49,117	9,629	44,584	6,616
Over 365 days	8,785	5,629	5,920	4,583
	222,580	124,629	212,486	113,982

(b) Bills payables are secured by certain restricted bank deposits of the Company with carrying amounts of RMB32,800,000 (Note 15).

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

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

21. DEFERRED INCOME TAX

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

Group

	Pre-operating expense RMB'000	Fair value loss on derivative financial instrument RMB'000	Accelerated accounting depreciation RMB'000	Provisions for impairment of receivables RMB'000	Inventories write-down RMB'000	Tax losses RMB'000	Deferred income RMB'000	Others RMB'000	Total RMB'000
At 1 January 2011	8,512	1,059	10,771	3,545	1,404	40,704	4,590	15,485	86,070
(Charged) /credited to the consolidated statement of comprehensive income	(851)	3,322	1,631	—	465	(10,747)	1,283	(819)	(5,716)
At 31 December 2011	7,661	4,381	12,402	3,545	1,869	29,957	5,873	14,666	80,354
(Charged) /credited to the consolidated statement of comprehensive income	(851)	(131)	(6,641)	—	360	10,879	1,411	(1,601)	3,426
At 31 December 2012	6,810	4,250	5,761	3,545	2,229	40,836	7,284	13,065	83,780

Company

	Pre-operating expense RMB'000	Fair value loss on derivative financial instrument RMB'000	Accelerated accounting depreciation RMB'000	Provisions for impairment of receivables RMB'000	Inventories write-down RMB'000	Tax losses RMB'000	Deferred income RMB'000	Others RMB'000	Total RMB'000
At 1 January 2011	8,512	1,059	10,595	3,545	1,147	40,704	890	1,846	68,298
(Charged)/credited to the statement of comprehensive income	(851)	3,322	1,631	—	—	(11,854)	1,780	(1,897)	(7,869)
At 31 December 2011	7,661	4,381	12,226	3,545	1,147	28,850	2,670	(51)	60,429
(Charged)/credited to the statement of comprehensive income	(851)	(131)	(12,226)	—	—	11,986	394	51	(777)
At 31 December 2012	6,810	4,250	—	3,545	1,147	40,836	3,064	—	59,652

Deferred tax assets are recognised for tax losses to the extent that the realisation of the related tax benefits through taxable profits is probable, based on financial budgets approved by the management covering a five-year period. The Group did not recognise deferred income tax assets of RMB26,552,000 (2011: Nil) in respect of tax loss amounting to RMB106,207,000 (2011: Nil) that can be carried forward against future taxable income. This tax loss will expire in 2013.

21. DEFERRED INCOME TAX – *continued*

The deferred income tax assets are expected to be recovered as follows:

	Group		Company	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Within 12 months	3,532	12,247	2,667	12,978
More than 12 months	80,248	68,107	56,985	47,451
	83,780	80,354	59,652	60,429

22. DERIVATIVE FINANCIAL INSTRUMENT

	Group and Company	
	2012 RMB'000	2011 RMB'000
Derivative financial liability		
– Interest rate swap contract	17,000	17,525

Note:

As at 31 December 2012, the derivative financial liability represents an outstanding interest rate swap contract with an outstanding notional amount of RMB98,800,000 (2011: RMB109,200,000), with original notional principal amount of RMB130,000,000. The interest rate swap contract is to mature in November 2015 and the key terms of which have been set out in note 4.1(a). The interest rate swap contract has been recognised in the statement of financial position based on its fair value as at the respective reporting dates.

The management considers that the abovementioned interest rate swap contract does not qualify for hedge accounting and the net loss associated with this derivative financial instrument of RMB6,751,000 (the aggregate of the amount of fair value gain of RMB525,000 and the realised loss of RMB7,276,000 on the contract for the year ended 31 December 2012) (2011: net loss of RMB15,000,000) have been recognised within 'other gains/losses – net' in the consolidated statement of comprehensive income for the year ended 31 December 2012 (Note 24).

23. OTHER INCOME AND EXPENSES

	2012 RMB'000	2011 RMB'000
Other income		
Rental income	1,025	1,003
Income from provision of utilities (Note 34(a)(iii))	465,896	452,633
Amortisation of deferred income (Note 19)	6,961	8,012
Subsidy income (Note)	6,108	—
Others	2,109	263
	482,099	461,911
Other expenses		
Direct outgoings in respect of provision of utilities	(408,900)	(402,953)
Others	(2,635)	(569)
	(411,535)	(403,522)
	70,564	58,389

Note:

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

24. OTHER GAINS/LOSSES – NET

	2012 RMB'000	2011 RMB'000
Other gains		
Gain attributable to equity interests of a jointly controlled entity	273	273
Gain on disposal of property, plant and equipment	1,222	—
	1,495	273
Other losses		
Net loss on derivative financial instrument (Note 22)	(6,751)	(15,000)
Foreign exchange losses, net	(9)	(1,253)
Others	(49)	(1,054)
	(6,809)	(17,307)
	(5,314)	(17,034)

25. (LOSS) /PROFIT BEFORE INCOME TAX

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

	2012 RMB'000	2011 RMB'000
Inventories recognised as an expense		
– for production of fiber products	1,372,479	1,881,773
– for provision of utilities	408,900	402,953
– impairment on inventories (Note 13)	3,302	—
Depreciation (Note 8)	137,049	137,641
Amortisation of		
– land use rights (Note 7)	2,012	1,882
– intangible assets (included in administrative expenses) (Note 9)	8,206	8,207
Employee benefit expenses (Note 26)	86,470	72,605
Operating lease payment	58,106	49,941
Auditors' remuneration		
– audit services	1,180	1,500
– non-audit services	220	—

26. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2012 RMB'000	2011 RMB'000
Wages and salaries	62,734	51,328
Pension costs – defined contribution plans	9,499	8,119
Other social security costs	14,237	13,158
	86,470	72,605

26. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS) – *continued*

Emoluments of directors and senior management

Details of emoluments paid and payable to the directors and supervisors of the Company are summarised as follows:

Year ended 31 December 2012

Name of director and supervisor	Fees RMB'000	Salary RMB'000	Employer's contribution to pension scheme RMB'000	Total RMB'000
Executive director				
Mr. WANG Jinjun	450	—	—	450
Mr. YANG Xuefeng	400	—	—	400
Mr. WANG Changsheng	350	—	—	350
	1,200	—	—	1,200
Non-executive director				
Mr. MA Jun	20	—	—	20
Mr. CHEN Jinkui (Note a)	10	—	—	10
Mr. JIANG Junzhou	20	—	—	20
Ms. PANG Suet Mui	20	—	—	20
Mr. SUN Haichao (Note a)	10	—	—	10
	80	—	—	80
Independent non-executive director				
Mr. YE Yongmao	50	—	—	50
Mr. MAO Fengge	50	—	—	50
Mr. LEE Ka Chung	244	—	—	244
Ms. ZHU Ping (Note b)	35	—	—	35
	379	—	—	379
	1,659	—	—	1,659

26. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS) – *continued*

Emoluments of directors and senior management – *continued*

Year ended 31 December 2012 – *continued*

Name of director and supervisor	Fees RMB'000	Salary RMB'000	Employer's contribution to pension scheme RMB'000	Total RMB'000
Supervisor				
Mr. SUN Yujing	30	—	—	30
Mr. ZHANG Haiou	20	49	20	89
Mr. ZHANG Jiaku	20	—	—	20
Mr. CHENG Jianhang	20	—	—	20
Mr. LIU Ming	20	—	—	20
Ms. BAI Hua (Note c)	20	49	20	89
Mr. WANG Hongbo (Note c)	—	—	—	—
	130	98	40	268

26. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS) – *continued*

Emoluments of directors and senior management – *continued*

Year ended 31 December 2011

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. WANG Jinjun	450	—	—	450
Mr. YANG Xuefeng (Note d)	200	—	—	200
Mr. WANG Changsheng	350	—	—	350
	1,000	—	—	1,000
Non-executive director				
Mr. MA Jun (Note e)	210	—	—	210
Mr. CHEN Jinkui	20	—	—	20
Mr. JIANG Junzhou	20	—	—	20
Ms. ZHU Ping (Note f)	10	—	—	10
Mr. HAO Peijun (Note f)	10	—	—	10
Mr. ZHANG Yuchen (Note f)	10	—	—	10
Ms. PANG Suet Mui (Note g)	—	—	—	—
Mr. GONG Jianzhong (Note g)	20	—	—	20
	300	—	—	300
Independent non-executive director				
Mr. YE Yongmao	50	—	—	50
Mr. MAO Fengge	50	—	—	50
Mr. LEE Ka Chung	243	—	—	243
	343	—	—	343
	1,643	—	—	1,643

26. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS) – *continued*

Emoluments of directors and senior management – *continued*

Year ended 31 December 2011 – *continued*

Name of director and supervisor	Fees	Salary	Employer's contribution to pension scheme	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Supervisor				
Ms. SUN Yujing	20	—	—	20
Mr. ZHANG Haiou	15	43	18	76
Mr. ZHANG Jiaku (Note h)	10	—	—	10
Mr. CHENG Jianhang (Note h)	10	—	—	10
Mr. LIU Ming (Note h)	10	—	—	10
Mr. JIANG Yanfeng (Note h)	25	—	—	25
Mr. WANG Hongbo (Note h)	5	—	—	5
Mr. MENG Xiangui (Note h)	15	—	—	15
Ms. FENG Shuhua (Note h)	15	—	—	15
	125	43	18	186

Notes:

(a) Mr. Chen Jinkui resigned on 27 June 2012 and Mr. Sun Haichao has been appointed as a non-executive director of the Company on the same date.

(b) Ms. Zhu Ping was a non-executive director of the Company prior to 9 July 2012 and she has been re-designated as an independent non-executive director of the Company on the same date.

(c) Mr. Wang Hongbo resigned on 22 March 2012 and Ms. Bai Hua has been appointed as supervisor on the same date.

(d) Mr. Yang Xuefeng has been appointed as an executive director of the Company on 30 June 2011.

(e) Mr. Ma Jun was an executive director of the Company prior to 30 June 2011 and he has been re-designated as a non-executive director of the Company on 30 June 2011.

(f) Mr. Hao Peijun and Mr. Zhang Yuchen retired on 30 June 2011 and Ms. Zhu Ping has been appointed as a non-executive director of the Company on the same date.

(g) Mr. Gong Jianzhong resigned on 16 December 2011 and Ms. Pang Suet Mui has been appointed as a non-executive director of the Company on the same date.

(h) Mr. Jiang Yanfeng, Mr. Meng Xiangui and Ms. Feng Shuhua resigned on 30 June 2011 and Mr. Zhang Jiaku, Mr. Cheng Jianhang and Mr. Liu Ming have been elected as supervisors of the Company on the same date.

26. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS) – *continued*

Emoluments of directors and senior management – *continued*

In addition to the directors' 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 2012 amounting to RMB672,000 (2011: RMB470,000), 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 2012 included four (2011: four) directors whose emoluments are reflected in the analysis presented above. The aggregate amounts of emoluments paid and payable to the remaining one (2011: one) individual whose emoluments was the highest in the Group during the year are as follows:

	2012 RMB'000	2011 RMB'000
Basic salaries and allowances	1,185	1,068

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

	Number of individual	
	2012	2011
RMB814,730 to RMB1,222,095 (2011: RMB810,700 to RMB1,216,050) (equivalent to HK$1,000,000 to HK$1,500,000)	1	1

During the years ended 31 December 2012 and 2011, 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:

	2012 No. of individuals	2011 No. of individuals
Nil to RMB814,730 (2011: Nil to RMB810,700) (equivalent to Nil to HK$1,000,000)	20	24
RMB814,730 to RMB1,222,095 (2011: RMB810,700 to RMB1,216,050) (equivalent to HK$1,000,000 to HK$1,500,000)	1	1

27. FINANCE INCOME AND COSTS

	2012 RMB'000	2011 RMB'000
Interest income	(2,100)	(2,715)
Interest expenses on bank borrowings		
– wholly repayable within five years	89,093	86,356
– repayable over five years	26,199	9,769
	115,292	96,125
Less: amounts capitalised in construction in progress	(15,459)	(14,398)
	99,833	81,727
Interests on discounted bills	8,158	14,623
Bank borrowings guarantee fees to the ultimate parent company (Note)	15,230	9,288
Finance costs	123,221	105,638
Finance costs – net	121,121	102,923

Note:

With effect from 1 January 2011, the ultimate parent company has charged guarantee fees on those guaranteed bank borrowings (Note 18(b)) which are calculated at predetermined rates on the daily outstanding principal amounts of the guaranteed bank borrowings.

28. INCOME TAX

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

	2012 RMB'000	2011 RMB'000
Current income tax – PRC corporate income tax		
– provision for the year (Note c)	731	—
– under-provision in respect of prior years (Note d)	—	2,108
	731	2,108
Deferred income tax		
– (credit) /charge for the year (Note 21)	(3,426)	5,716
Income tax (credit) /expenses	(2,695)	7,824

28. INCOME TAX – *continued*

Notes:

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

(b) No provision for Hong Kong profits tax has been made as the Group did not carry out any business or generate any assessable profits in Hong Kong for the year ended 31 December 2012 (2011: Nil).

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

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

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:

	2012 RMB'000	2011 RMB'000
(Loss) /profit before income tax	**(189,262)**	73,016
Less: share of loss /(profit) of a jointly controlled entity	**40,147**	(36,151)
	(149,115)	36,865
Tax calculated at corporate income tax rate of 25% (2011: 25%)	**(37,279)**	9,216
Tax effects of:		
– income not subject to tax	**(1,506)**	(4,069)
– expenses not deductible for tax purposes	**846**	569
– utilisation of tax losses previously not recognised	**(400)**	—
– tax losses and other deductible temporary difference not recognised	**35,644**	—
– under-provision of PRC corporate income tax in prior years	**—**	2,108
Income tax (credit) /expense	**(2,695)**	7,824

29. LOSS /PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The loss attributable to owners of the Company is dealt with in the financial statements of the Company to the extent of RMB131,616,000 (2011: profit of RMB71,707,000).

30. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the (loss) /profit attributable to the owners of the Company for the year by the weighted average number of the Company's shares in issue during the year of 866,250,000 (2011: 866,250,000) shares.

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

31. DIVIDEND

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

32. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Cash generated from operations

	2012 RMB'000	2011 RMB'000
(Loss) /profit before income tax	(189,262)	73,016
Adjustments for:		
– Depreciation	137,049	137,641
– Amortisation of		
– land use rights	2,012	1,882
– intangible assets	8,206	8,207
– Amortisation of deferred income	(6,961)	(8,012)
– Provision for impairment of inventories	3,302	—
– Unrealised (gain) /loss on derivative financial instrument	(525)	13,289
– Gain on disposal of property, plant and equipment	(1,222)	—
– Interest income	(2,100)	(2,715)
– Interest and guarantee fee expenses	123,221	94,284
– Share of loss /(profit) of a jointly controlled entity	40,147	(36,151)
– Gain attributable to equity interests of a jointly controlled entity	(273)	(273)
Operating profit before working capital changes	113,594	281,168
Changes in working capital:		
– (increase) /decrease in inventories	(99,800)	93,736
– decrease /(increase) in trade and other receivables	59,349	(130,067)
– decrease in trade and other payables	(126,018)	(18,570)
– (increase) /decrease in restricted bank deposits	(52,857)	61,915
Cash (used in) /generated from operations	(105,732)	288,182

32. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS – *continued*

(b) Major non-cash transactions

During the year, the Group has purchased the land use rights and certain property, plant and equipment, amounting to RMB64,965,000 and RMB225,035,000 respectively, from JCFCL (Note 34(a)(iv)). The consideration was settled against the Company's amount due from JCFCL amounting to RMB226,804,000 and the remaining balance of RMB63,196,000 was treated as amount due to JCFCL for the provision of utilities.

33. COMMITMENTS

(a) Capital Commitment

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

	2012 RMB'000	2011 RMB'000
Property, plant and equipment	11,443	3,531

(b) Operating lease commitments

The Group as the lessee

The Group leases the Leased Assets from JCFCL with a lease terms of three years (Note 34(a)(iii)). After the completion of Assets Acquisition on 28 December 2012 as mentioned in note 34(a)(iv), the original lease agreement regarding the Leased Assets has been terminated.

The future aggregate minimum lease payments under non-cancellable operating leases in respect of the Leased Assets are as follows:

	2012 RMB'000	2011 RMB'000
Not later than 1 year	—	47,059
Later than 1 year and not later than 5 years	—	44,878
	—	91,937

33. COMMITMENTS – *continued*

(b) Operating lease commitments – *continued*

The Group as the lessor

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

	2012 RMB'000	2011 RMB'000
Land use rights and machinery		
Not later than 1 year	**919**	919
Later than 1 year and not later than 5 years	**1,894**	1,184
Later than 5 years	**120**	1,749
	2,933	3,852

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", 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.

34. SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

(a) Related party transactions

	2012 RMB'000	2011 RMB'000
Sales of goods to:		
– a shareholder of the Company	436,985	697,341
– a fellow subsidiary (Note i)	1,153	1,152
Disposal of property, plant and equipment to JCFCL	1,334	—
Provision of utilities to:		
– a jointly controlled entity	188,260	172,989
– a fellow subsidiary (Note i)	5,346	4,819
– a fellow subsidiary (Note ii)	569	270
– JCFCL	179,475	204,199
– a related company	20,213	21,946
Provision of quality inspection services to a jointly controlled entity	1,588	1,749
Interest income from a jointly controlled entity	—	729
Sales of raw materials to a jointly controlled entity	7,531	10,871
Rental expense to JCFCL in respect of the Leased Assets (Note iii)	(62,300)	(49,241)
Rental expense to		
– the ultimate parent company (Note ii)	(128)	—
– a fellow subsidiary (Note ii)	(392)	(700)
Bank borrowings guarantee fees to the ultimate parent company (Note ii)	(15,230)	(9,288)
Repair and maintenance service fee to:		
– a fellow subsidiary (Note i)	(4,068)	(3,947)
– JCFCL	(1,402)	(2,042)
Purchases of Leased Assets from JCFCL (Note iv)	(290,000)	—
Purchases of property, plant and equipment from a fellow subsidiary (Note ii)	(479)	—
Purchases of raw materials from:		
– a jointly controlled entity	(2,169)	(92,317)
– a fellow subsidiary (Note i)	(6,849)	(7,911)
– a fellow subsidiary (Note ii)	(9)	(51)
– JCFCL	(4,371)	(4,105)
Construction costs to:	(1,878)	(1,505)
– a fellow subsidiary (Note i)	(1,354)	(1,505)
– a fellow subsidiary (Note ii)	(524)	—

34. SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

(a) Related party transactions– *continued*

Notes:

(i) These transactions also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in the paragraph "Connected transactions" in the report of the directors.

(ii) These transactions also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. These transactions are exempt from the disclosure requirements in Chapter 14A of the Listing Rules.

(iii) 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. The lease agreement has been renewed for another three years until 31 December 2013. 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, jointly controlled entity, other related companies and third parties at the rates to be determined amongst the parties concerned.

(iv) As mentioned in the announcement of the Company dated 10 October 2012, the Company has entered into a conditional assets purchase agreement with JCFCL, pursuant to which the Company agreed to purchase and JCFCL agreed to sell the Leased Assets (the "Assets Acquisition"). The Assets Acquisition was approved by the shareholders on an extraordinary general meeting and duly completed on 28 December 2012. The original lease agreement regarding the Leased Assets has been terminated on the same date.

JCFCL was treated as a connected person for the purpose of the Assets Acquisition and this transaction also constituted a non-exempt connected transaction under Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in the paragraph "Connected transactions" in the report of the directors.

(v) JCF Groupco allowed the Group to the use of the trademark of "白山" (Baishan) at nil consideration during the years ended 31 December 2012 and 2011.

(vi) 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.

34. SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

(b) Balances with related parties

	2012 RMB'000	2011 RMB'000
Trade receivables from		
– a fellow subsidiary	13,715	14,845
– a shareholder of the company	29,145	11,109
	42,860	25,954
Amounts due from		
– fellow subsidiaries	10,085	5,720
– a jointly controlled entity	10,199	—
– a related company	39,756	22,873
– JCFCL	—	134,801
	60,040	163,394
Prepayments to fellow subsidiaries in respect of construction works and purchase of intangible assets	—	3,673
Trade payables to		
– fellow subsidiaries	1,425	1,695
Amounts due to		
– the ultimate parent company	19,781	7,345
– fellow subsidiaries	2,021	2,942
– a jointly controlled entity	—	1,896
– JCFCL	63,509	181
	85,311	12,364

Note:

Except for the amount due from a jointly controlled entity which was interest bearing (Note 14 (f)) and the trade and other receivables due from a fellow subsidiary which was pledged by certain of the plant and equipment of the fellow subsidiary (Note 14(b)), the balances with related parties are unsecured, interest free and have no fixed terms of repayment.

34. SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

(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"). 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 the raw materials/utilities from these state-owned entities of RMB940,089,000 (2011: RMB1,298,365,000).

In addition, approximately 72% and 77% (2011: 90% and 79% respectively) of the Group's bank balances (including restricted bank deposits) and borrowings are deposited/arranged with state-owned banks as at 31 December 2012.

(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:

	2012 RMB'000	2011 RMB'000
Wages, salaries and other short-term employee benefits	3,346	3,112
Pension and social security costs	64	62
	3,410	3,174

35. FINANCIAL INSTRUMENTS BY CATEGORY

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

Group

	Loans and receivables RMB'000	Total RMB'000	Asset/(liabilities) as per consolidated statement of financial position: Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised costs RMB'000	Total RMB'000
At 31 December 2012					
Trade and other receivables (excluding prepayments)	379,031	379,031	—	—	—
Cash and cash equivalents	109,228	109,228	—	—	—
Restricted bank deposits	123,647	123,647	—	—	—
Borrowings	—	—	—	(1,635,969)	(1,635,969)
Derivative financial instrument	—	—	(17,000)	—	(17,000)
Trade and other payables (excluding other taxes, advance from customers and provision for staff welfare)	—	—	—	(438,425)	(438,425)
Total	611,906	611,906	(17,000)	(2,074,394)	(2,091,394)

35. FINANCIAL INSTRUMENTS BY CATEGORY– *continued*

Group – *continued*

	Asset/(liabilities) as per consolidated statement of financial position				
	Loans and receivables RMB'000	Total RMB'000	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised costs RMB'000	Total RMB'000
At 31 December 2011					
Trade and other receivables (excluding prepayments)	456,405	456,405	—	—	—
Cash and cash equivalents	264,127	264,127	—	—	—
Restricted bank deposits	70,790	70,790	—	—	—
Borrowings	—	—	—	(1,529,800)	(1,529,800)
Derivative financial instrument	—	—	(17,525)	—	(17,525)
Trade and other payables (excluding other taxes, advance from customers and provision for staff welfare)	—	—	—	(221,304)	(221,304)
Total	791,322	791,322	(17,525)	(1,751,104)	(1,768,629)

35. FINANCIAL INSTRUMENTS BY CATEGORY– *continued*

Company

	Asset/(liabilities) as per statement of financial position				
	Loans and receivables RMB'000	Total RMB'000	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised costs RMB'000	Total RMB'000
At 31 December 2012					
Trade and other receivables (excluding prepayments)	341,378	341,378	—	—	—
Cash and cash equivalents	100,991	100,991	—	—	—
Restricted bank deposits	123,647	123,647	—	—	—
Borrowings	—	—	—	(1,426,469)	(1,426,469)
Derivative financial instrument	—	—	(17,000)	—	(17,000)
Trade and other payables (excluding other taxes, advance from customers and provision for staff welfare)	—	—	—	(422,138)	(422,138)
Total	566,016	566,016	(17,000)	(1,848,607)	(1,865,607)

35. FINANCIAL INSTRUMENTS BY CATEGORY – *continued*

Company – *continued*

	Asset/(liabilities) as per statement of financial position				
	Loans and receivables RMB'000	Total RMB'000	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised costs RMB'000	Total RMB'000
At 31 December 2011					
Trade and other receivables (excluding prepayments)	587,823	587,823	—	—	—
Cash and cash equivalents	219,493	219,493	—	—	—
Restricted bank deposits	69,368	69,368	—	—	—
Borrowings	—	—	—	(1,329,800)	(1,329,800)
Derivative financial instrument	—	—	(17,525)	—	(17,525)
Trade and other payables (excluding other taxes, advance from customers and provision for staff welfare)	—	—	—	(186,075)	(186,075)
Total	876,684	876,684	(17,525)	(1,515,875)	(1,533,400)