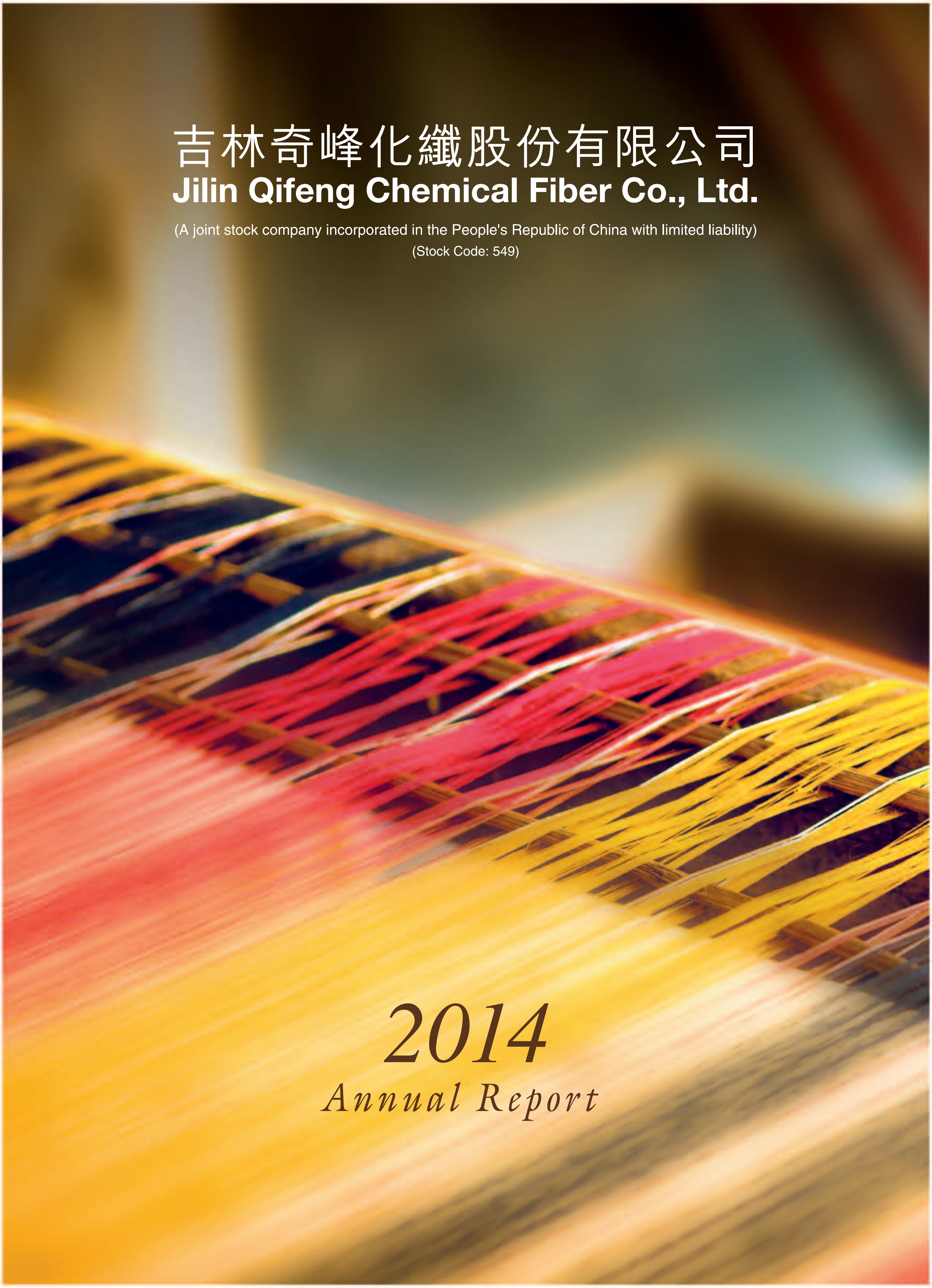

吉林奇峰化纖股份有限公司
Jilin Qifeng Chemical Fiber Co., Ltd.

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

(Stock Code: 549)

2014
Annual Report

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Song Dewu *(Chairman)*
Mr. Yang Xuefeng
Mr. Pan Xianfeng

Non-executive Directors

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

Independent non-executive Directors

Mr. Li Yanxi
Mr. Lv Xiaobo
Mr. Jin Jie
Ms. Zhu Ping

SUPERVISORS

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

AUDIT COMMITTEE

Mr. Li Yanxi *(Chairman)*
Ms. Pang Suet Mui
Mr. Lv xiaobo

BOARD REMUNERATION COMMITTEE

Mr. Lv Xiaobo *(Chairman)*
Mr. Ma Jun
Ms. Zhu Ping

NOMINATION COMMITTEE

Mr. Lv Xiaobo *(Chairman)*
Mr. Jiang Junzhou
Ms. Zhu Ping

CONNECTED TRANSACTIONS COMMITTEE

Mr. Jin Jie *(Chairman)*
Mr. Li Yanxi.
Mr. Lv Xiaobo

BOARD SECRETARY

Mr. Liang Guohui

COMPANY SECRETARY

Mr. Chan Cheung *HKICPA, FCCA*

QUALIFIED ACCOUNTANT

Mr. Chan Cheung *HKICPA, FCCA*

AUTHORISED REPRESENTATIVES

Mr. Pan Xianfeng
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

Room 1003,
10/F, 109-111
Tung Wai Commercial Building
Gloucester Road,
Wanchai,
Hong Kong

AUDITORS

Moore Stephens CPA 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				
	2014 RMB million	2013 RMB million	2012 RMB million	2011 RMB million	2010 RMB million
Revenue	1,941.5	1,468.8	1,391.8	2,096.9	1,501.1
Gross profit	137.5	101.2	16.0	215.1	114.1
Operating expenses	(151.1)	(154.2)	(109.3)	(116.7)	(101.8)
Other gains, net Note 2	123.0	123.5	65.3	41.4	62.3
Operating profit/(loss)	109.4	70.5	(28.0)	139.8	74.6
Finance costs, net	(144.9)	(137.2)	(121.1)	(102.9)	(72.9)
Share of (loss)/profit of a joint venture	(32.4)	(14.9)	(40.2)	36.1	9.5
(Loss)/profit before income tax	(67.9)	(81.6)	(189.3)	73.0	11.2
Income tax (expense)/credit	(4.3)	(10.9)	2.7	(7.8)	1.4
(Loss)/profit attributable to the owners of the Company	(72.2)	(92.5)	(186.6)	65.2	12.6
(Losses)/earnings per share (RMB per share)	(0.08)	(0.11)	(0.22)	0.08	0.01
Dividend per share (RMB per share)	—	—	—	—	—
Gross profit margin	7.1%	6.8%	1.2%	10.3%	7.6%
Net (loss)/profit margin	(3.71%)	(6.3%)	(13.4%)	3.1%	0.8%

	As at 31 December				
	2014 RMB million	2013 RMB million	2012 RMB million	2011 RMB million	2010 RMB million
Current assets	1,214.0	1,139.4	996.6	1,058.3	1,002.2
Non-current assets	1,705.0	1,908.2	2,053.8	1,885.0	1,592.5
Total assets	2,919.0	3,047.6	3,050.4	2,943.3	2,594.7
Current liabilities	1,887.5	1,876.6	1,834.2	1,483.2	1,225.4
Non-current liabilities	369.7	437.0	389.7	447.1	421.5
Total liabilities	2,257.2	2,313.6	2,223.9	1,930.3	1,646.9
Total equity	661.8	734.0	826.5	1,013.0	947.8
Current ratio	0.64	0.61	0.54	0.71	0.82
Gearing ratio Note 1	77.3%	75.9%	72.9%	65.6%	63.5%

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 and gains and other expenses and losses as presented in the consolidated statement of comprehensive income of the Group.

CHAIRMAN'S STATEMENT

Dear shareholders,

On behalf of the Board (the "Board") of Directors (the "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 2014 (the "Year").

ANNUAL RESULTS

During the Year, the Group's revenue amounted to approximately RMB1.9 billion, representing an increase of approximately 32% as compared to RMB1.5 billion in the previous year. Loss attributable to the owners of the Company for the Year amounted to approximately RMB72 million, reduced from a loss of approximately RMB92 million for the year ended 31 December 2013.

BUSINESS REVIEW

The Group is principally engaged in the production and sale of acrylic fiber products and carbon fiber precursors. During the year under review, the Group faced a challenging business environment, the PRC economy continued to grow but in a slower pace and the global market remained stagnated. The continual appreciation of the Renminbi ("RMB") and the increase in production costs in the PRC market which brought adverse impact to the PRC's textile industry and textile export. Under this adverse business environment, the Group strengthened its research and development of new products and enhanced its production techniques to reduce production costs in order to maximize its profits. During the year, the Group recorded a significant increase in sales of both its acrylic fiber and carbon as compared to the previous year.

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, strive to achieve further growth by solidifying its leading position in the PRC's acrylic fiber and carbon fiber precursor industries as well as expand its overseas markets. Meanwhile, the Group is also committed to conducting ongoing product development to meet market demand; stabilising product quality to maintain brand image; and improving profitability through technological innovation and minimising production waste and consumables.

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.

Song Dewu
Chairman

Jilin City, Jilin Province, The PRC
26 March 2015

MAJOR OPERATIONAL DATA

1. Revenue

	Year ended 31 December			
	2014		2013	
	RMB million	%	RMB million	%
Acrylic top	751.1	38.7	600.3	40.9
Acrylic tow	407.8	21.0	351.8	24.0
Acrylic staple fiber	716.9	36.9	484.0	32.8
Carbon fiber precursor	45.6	2.4	20.0	1.4
Others*	20.1	1.0	12.7	0.9
Total	1,941.5	100.0	1,468.8	100.0

2. Sales volume

	Year ended 31 December			
	2014		2013	
	Tons	%	Tons	%
Acrylic top	45,802	37.9	37,667	39.8
Acrylic tow	26,458	21.9	23,680	25.0
Acrylic staple fiber	46,359	38.3	31,775	33.6
Carbon fiber precursor	1,111	0.9	506	0.5
Others*	1,189	1.0	1,077	1.1
Total	120,919	100.0	94,705	100.0

3. Average selling price and gross profit margin

	Year ended 31 December			
	2014		2013	
	Average selling price RMB/ton	Gross profit margin %	Average selling price RMB/ton	Gross profit margin %
Acrylic top	16,398	6.93	15,937	6.97
Acrylic tow	15,413	8.79	14,856	7.29
Acrylic staple fiber	15,465	6.56	15,232	7.72
Carbon fiber precursor	41,079	(31.82)	39,526	(36.46)
Average gross profit margin		7.1		6.8

* Refer to sales of acrylic fiber scrap and miscellaneous differentiated acrylic fiber products.

REVIEW AND OUTLOOK

Market Review

The slowing down of the PRC's economic growth and the stagnated global market inevitably exerted an adverse impact to the PRC's textile industry. Coupled with the persistent appreciation of the Renminbi ("RMB") and the increasing production costs in the PRC, the business environment including the textile export of the PRC's textile manufacturers was still challenging. For the Year under review, the average price of acrylonitrile (the major raw material for the production of the Group's products) in the PRC market increased, and the average price of acrylic fiber products also increased. Nevertheless, as a result of a greater magnitude in the increase in average price of acrylonitrile as compared to that of the increase in the average price of acrylic fiber products, the price difference between acrylic fiber products and acrylonitrile reduced, which reduced the profitability of acrylic fiber manufacturers. Though the PRC carbon fiber market is still in its primary stage of development, with the improvement in the product quality of the Group's carbon fiber precursor and the production technology of the downstream carbonization plants, the Group expects that the market demand of the Group's carbon fiber precursor will accelerate.

Sales Review

The Group's revenue was approximately RMB1.9 billion for the Year, representing an increase of approximately 32% as compared to approximately RMB1.5 billion for the previous year. The sales volume of the Group's acrylic fiber and carbon fiber products amounted to 120,919 tons, increased by approximately 28% from 94,705 tons for the previous year. The average unit selling price of acrylic fiber products for the Year was RMB15,813 per ton, increased slightly by approximately 3% 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 RMB3,796 per ton for the Year, representing a decrease of approximately 17% from RMB4,591 per ton in the previous year. The total volume of the acrylic fiber products produced by the Group (together with its joint venture) in the Year was 227,635 tons, accounting for about 32% of the total production volume of the domestic acrylic fiber market in PRC. Sales of the Group's carbon fiber products were 1,111 tons for the Year (2013: 506 tons), represented an increase of approximately 120% as compared to the previous year. The revenue of the Group's carbon fiber products still accounted for an insignificant part of the Group's overall revenue.

Production Management

The Group's total production output was approximately 123,646 tons for the Year, representing an increase of 31% as compared to that for the previous year. Production output of carbon fiber products in 2014 was about 1,271 tons (2013: 619 tons). During the Year, the Group continued to implement stringent cost control measures and adhere to order-based production and inventory level control in order to further enhance operating efficiency. The Group has also conducted continual technical reform, quality improvement and waste reduction projects, which set up a solid foundation to stabilise production process, improve production quality and reduce production cost.

Employees

As at 31 December 2014, the Group had 2009 employees, representing a decrease of 161 employees as compared to 2,170 employees as at 31 December 2013. 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 capacity 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 drivers for the future development of the acrylic fiber industry in China. The Group will enhance the marketing and promotion of the anti-pilling acrylic fiber, highlight acrylic fiber and high strength acrylic fiber which 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.

3. Favorable raw material supply condition: Due to the production expansion of several PRC acrylonitrile manufacturers, the total supply of the Group's major raw material, acrylonitrile, in China is expected to increase substantially in the foreseeable future. Coupled with the significant decline in the international crude oil price since recently, the Group expects the shortage in supply of acrylonitrile will be alleviated and the price of acrylonitrile will decline accordingly.

FHFINANCIAL ANALYSIS

Operating results

The revenue of the Group amounted to approximately RMB1.9 billion for the Year, representing an increase of approximately 32% from approximately RMB1.5 billion for the year ended 31 December 2013. The increase in overall revenue was mainly due to the increase in the sales volume of the Group's products by approximately 28% in 2014. During the Year, the Group's total sales volume was 120,919 tons and total production volume was 123,646 tons, representing a sales-to-production ratio of approximately 98% (2013: 100%). Loss attributable to the owners of the Company for the Year was approximately RMB72 million, reduced significantly from a loss of approximately RMB92 million for year 2013. The substantial decrease in loss of the Group for the Year was mainly attributable to the increase in sales volume of the products of the Group. During the Year, the gross profit margin of the Group increased to 7.1% from 6.8% in 2013, which was primarily due to the substantial increase in sales volume which reduced the average unit cost of the Group's products.

Operating expenses (distribution costs and administrative expenses)

Distribution costs increased from approximately RMB37.6 million for the year ended 31 December 2013 to approximately RMB47.4 million for the Year. The increase in distribution costs was primarily resulted from the increase in transportation costs due to the increase in sales volume during the Year. Administrative expenses decreased from approximately RMB116.6 million for the year ended 31 December 2013 to approximately RMB103.6 million for the Year due to the full amortisation of the Group's intangible asset in the previous year and the general decrease in expenses as a result of the Group's cost saving measure.

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 RMB123.0 million, as compared to that of approximately RMB123.5 million for the year ended 31 December 2013. The decrease in net other gains in the Year was primarily due to the decrease in other income from the provision of utilities.

Net finance costs

Net finance costs increased from approximately RMB137.2 million for the year ended 31 December 2013 to approximately RMB144.9 million for the Year. The increase in net finance costs was primarily resulted from the increase in borrowing costs of the Group.

Share of loss of a joint venture

The Group's share of 50% of the loss of its joint venture, Jilin Jimont Acrylic Fiber Co., Ltd. ("Jimont"), under the equity method of accounting amounted to approximately RMB32.4 million for the Year (2013: loss of RMB14.9 million). The increase in the loss of Jimont was primarily resulted from the market conditions as described in this annual report, which also had a similar impact on the financial performance of Jimont during the Year.

Financial resources, liquidity and liability position

As of 31 December 2014, the Group's total assets and total liabilities were approximately RMB2.92 billion and RMB2.26 billion, respectively. As of 31 December 2014, the Group's net current liabilities amounted to approximately RMB674 million and its current ratio, calculated by dividing its current assets by its current liabilities as of 31 December 2014, was approximately 0.64 (2013: 0.61). The Group had cash in hand and cash at bank and restricted bank deposits of approximately RMB57.8 million and RMB143.7 million, respectively as of 31 December 2014. As of 31 December 2014, the total bank borrowings of the Group amounted to approximately RMB1.74 billion, out of which approximately RMB1.31 billion was short-term bank borrowings, approximately RMB120.6 million was current portion of long-term borrowings and approximately RMB307.7 million was the non-current portion of long term bank borrowings. Approximately 77.8% 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 decrease in bank borrowings was approximately RMB47.1 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 2014, the Group's gearing ratio, calculated by dividing total liabilities by total assets, was approximately 77.3% (2013: 75.9%)

INVESTMENT REVIEW

Joint venture

Our joint venture, Jimont, was established on 21 December 2005 with a total registered share capital of RMB450 million. The Group holds 50.00% equity interest in the joint venture, whereas Montefibre S.p.A ("Montefibre") 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 joint venture prior to 2007. The joint venture is principally engaged in the production and sales of acrylic fiber products. As disclosed in the announcement of the Company dated 18 December 2013, the Company has been notified by Montefibre of its intention to enter into voluntary winding up, and that as part of its proposed voluntary winding up, Montefibre will make its investment in Jimont available for sale. On 27 February 2015, pursuant to the JV Contract, Montefibre served a formal notice of the proposed sale of the Sale Equity (for itself and on behalf of SIMEST) to the Company of its intention to transfer 50% of the equity interest in Jimont to a third party purchaser (the "Purchaser"), which is a company established in the PRC, for a consideration of more than RMB100,000,000. Montefibre has, through this formal notice, also sought the Company's decision as to whether it would exercise its Right of First Refusal to acquire the 50% equity interest in Jimont at a price equal to or higher than RMB100,000,000. The Board resolved not to exercise the Right of First Refusal and notified Montefibre of its decision in writing on 13 March 2015.

In 2014, the sales volume and production volume of the joint venture reached 105,261 tons and 105,260 tons, respectively, representing a sales-to-production ratio of approximately 100%. The utilisation rate of the joint venture production plant was 100%. The loss of the joint venture was approximately RMB64.8 million in the year ended 31 December 2014 (2013: loss of RMB29.9 million). The decrease in the profitability of the joint venture was mainly due to impact of the market conditions described in the section headed "Market Review".

Bank deposits

As of 31 December 2014, 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 RMB143.7 million, the Group had no bank deposits which cannot be withdrawn upon maturity.

Pledged assets

As of 31 December 2014, certain properties, plants and equipment, trade and other receivables with a net book value of approximately RMB416.1 million and RMB172.3 million, respectively (as of 31 December 2013: RMB277.1 million and RMB50.0 million, respectively) were pledged as securities for bank borrowings of approximately RMB313 million (as of 31 December 2013: RMB356 million). In addition, bank deposits of approximately RMB89 million and RMB7 million (2013: RMB30.0 million and RMB0.1 million respectively) were pledged for the issue of certain trade and bills payables and letters of credit, respectively, for the Group's purchases of raw materials, plant and machinery from certain overseas suppliers.

Contingent liabilities

The Group had no material contingent liabilities as of 31 December 2014.

Dividend

The Board does not recommend the declaration of a dividend for the year ended 31 December 2014 (2013: Nil).

DIRECTORS

Executive Directors

Mr. Song Dewu, aged 43, is an executive Director and Chairman of the Board. Currently, he is also the chairman of the board of directors and the general manager 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 Jimont. He has held various senior management positions in JCF Groupco and its subsidiaries since he joined JCF Groupco in July 1995. Mr. Song has over 19 years of experience in the chemical fiber industry. He graduated from Jilin Institute of Chemical Technology (吉林化工學院) in the PRC with a bachelor's degree in chemical engineering. He also obtained a master 's degree in industrial engineering from Jilin University in the PRC and is a qualified senior engineer in the PRC.

Mr. Yang Xuefeng, aged 50, is an executive Director and the General Manager of the Company. Prior to joining the Group, he had been the general manager of Jimont. Mr. Yang has 26 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. Pan Xianfeng, aged 45, is currently the director of the finance department of the Company. Mr. Pan joined the workforce in November 1987, and has held positions as the deputy director of the finance department of Jilin Chemical Fiber Co., Ltd., deputy director of the finance department of the Company, and the director of the finance department of Jilin Jimont Acrylic Fiber Co., Ltd.. Mr. Pan graduated from Jilin Agricultural College in accounting and statistics. He also obtained a postgraduate education in business administration from Jilin University in 2001 and is a qualified accountant in the PRC.

Non-executive Directors

Mr. Ma Jun, aged 49, is a 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 24 years of experience in the chemical fiber industry and is a qualified senior engineer in the PRC.

Mr. Jiang Junzhou, aged 56, is a non-executive Director and 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 34 years of experience in education, imports and exports as well as management.

Ms. Pang Suet Mui, aged 45, 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 45, 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. Lv Xiaobo, aged 49, is a Certified Public Accountant and Certified Public Valuer in the PRC. He joined the workforce in March 1989, and has held positions as the section member of Jilin Municipal Finance Bureau, the project manager of Jilin Municipal Accounting Firm, the project manager of Jilin Hualun Accounting Firm, and the assistant chief account of Jilin Huatai Accounting Firm Limited. Mr. Lv graduated from Jilin Municipal Party School majoring in business administration. He has over 20 years of experience in the accounting industry.

Mr. Li Yanxi, aged 44, is an independent non-executive Director. Mr. Li currently serves as the dean and professor at the School of Economics at Dalian University of Technology. Mr. Li has over 22 years of experience in finance and accounting and is a Certified Public Accountant and a Certified Public Valuer in the PRC. Mr. Li is also currently the independent non-executive director of Liaoning Chengda Co., Ltd, a company listed on the Shanghai Stock Exchange (stock code: 600739), and Fushun Special Steel Co., Ltd, a company listed on the Shanghai Stock Exchange (stock code: 600399). Mr. Li graduated from Dalian University of Technology in the PRC with a major in technology information. He also received a doctoral degree in management science and engineering from Dalian University of Technology.

Mr. Jin Jie, aged 51, an independent non-executive Director. Mr. Jin currently serves as the deputy chief engineer at China Northeast Petroleum Refinery Engineering Company Jilin Petrochemical Engineering Co., Ltd*. Mr. Jin has over 30 years of experience in the chemical industry. He graduated from the Jilin Institute of Chemical Technology with a bachelor degree in chemical engineering and is a senior engineer in the PRC

Ms. Zhu Ping, aged 39, has been an independent non-executive Director since 9 July 2012. She currently serves as the finance manager of Shanghai Shenghang Kangcheng International Logistics Co., Ltd. She has 12 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 49, is a supervisor of the Company ("Supervisor"). She is currently the vice chief accountant and director of finance 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 head of the audit and supervisory department. Ms. Sun has 21 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. Xu Jiawei, aged 38, a Supervisor, joined Jilin Chemical Fiber Group Co., Ltd. in 1996 and he currently serves as head of the general and audit department at Jilin Chemical Fiber Group Co., Ltd. Mr Xu has over 18 years of experience in the chemical industry. His previous work experiences include being a technician of Jilin Chemical Fiber Group Industrial Development Co., Ltd*, deputy director of the generaloffice (綜合處) of the Company, director of the security department of Jilin Qifeng Chemical Fiber Group Co., Ltd., and office manager of Jilin Chemical Fiber Co., Ltd. In 2004, Mr Xu studied at a professional program at the Party School of the Central Committee of CPC majoring in economics and management (經濟管理). Mr Xu. is a senior political personnel in the PRC.

Mr. Liu Ming, aged 43, 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 44, 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 43, is a Supervisor. He is currently the director of the manufacturing department of the Company. Mr. Zhang worked as a technician in the spinning workshop of Jilin Chemical Fibre Joint Stock Company 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 December 2010, 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 with a bachelor's degree in chemical engineering in July 1995.

Ms. Bai Hua, aged 46, 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, the predecessor of Jilin Chemical Fiber Co., Ltd., 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

Mr. Liang Guohui, aged 39, is the secretary to the Board and the director of the integrated management department of the Company. Prior to joining the Group in November 2013, he served as a director of the purchasing centre of JCF Groupco. He graduated from Changchun Tax Institute with a bachelor degree in accountancy in 1999, he also obtained his master's degree in management and business administrative from Hainan University in 2007 and he is a senior economist.

Mr. Chan Cheung, aged 41, who joined the Group in January 2008, is the 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 16 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 presents their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2014.

PRINCIPAL ACTIVITIES

The Company is principally engaged in the manufacturing and sales of acrylic fibre products. The activities of the subsidiary and the joint venture of the Company 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 46.

The Directors do not recommend the declaration of a dividend for the year ended 31 December 2014.

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 2014 are set out in notes 16(b) and 17 to the consolidated financial statements. As at 31 December 2014, 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 2014, neither the Company nor any of its subsidiary, joint venture and fellow subsidiaries purchased, sold or redeemed any of the Company's listed securities.

DIRECTORS

The Directors of the Company in 2014 and up to the date of this report are:

Executive Directors
Mr. Song Dewu
Mr. Yang Xuefeng
Mr. Pan Xianfeng (appointed 29 January 2015)
Mr. Wang Changsheng (resigned on 2 December 2014)

Non-executive Directors
Mr. Jiang Junzhou
Mr. Ma Jun
Ms. Pang Suet Mui
Mr. Sun Haichao

Independent non-executive Directors
Ms. Zhu Ping
Mr. Li Yanxi (appointed on 30 June 2014)
Mr. Jin Jie (appointed on 30 June 2014)
Mr. Lv Xiaobo (appointed 29 January 2015)
Mr. Ye Yongmao (resigned on 2 December 2014)
Mr. Mao Fengge (retired on 30 June 2014)
Mr. Lee Ka Chung, J.P. (retired on 30 June 2014)

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 2014 and expiring on the conclusion of the annual general meeting of the Company for the year 2016, except for Mr. Pan Xianfeng and Mr. Lv Xiaobo whose service contract is effective from 29 January 2015 and will expire on the conclusion of the annual general meeting of the Company for the year 2016. All Directors and Supervisors will retire and offer themselves for re-election at the annual general meeting of the Company for the year 2016.

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 joint venture, any of its fellow subsidiaries or its parent company was a party and in which a Director and/or a Supervisor 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 10 to 13 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 2014, 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 2014, 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 2014, 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
吉林市城市建設控股集團有限公司 (Jilin City Construction Holdings Group 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. Jilin City Construction Holdings Group Co., Ltd. is a state-owned enterprise in the PRC.

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. Song Dewu, Mr. Ma Jun and Mr. Yang Xuefeng are also directors of the joint venture, 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 2014, sales to the Group's five largest customers accounted for approximately 45% of the total sales for the year, in which sales to the largest customer represented approximately 17% of the total sales for the year.

Purchases from the Group's five largest suppliers amounted to approximately 85% of the total purchases for the year while total purchases from the largest supplier represented approximately 68% 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 by the joint venture

The joint venture of the Company, Jilin Jimont Acrylic Fiber Co., Ltd, sold goods to Tuopu Textile Industrial Development Co., Ltd ("Tuopu Textile") at the price determined by the joint venture with reference to the market price and no less than the price of the acrylic fiber products sold by the joint venture to independent third parties pursuant to a sales agreement entered into with Tuopu Textile on 8 August 2007. Subject to the compliance with Listing Rules' requirements regarding connected transactions, the agreement was further renewed for a term of three years commencing on 1 January 2013 and ending on 31 December 2015.

Jimont 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 joint venture, 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 joint venture 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 joint venture 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 2014, sales to Tuopu Textile by the joint venture amounted to RMB38,218, which is within the approved cap of RMB4 million as disclosed in the Company's announcement dated 7 January 2013.

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 27 September 2013, for an initial term commencing from 1 January 2014 and ending on 31 December 2016 and, subject to the compliance with Listing Rules' requirements regarding connected transactions, is automatically renewable for a term of three years thereafter. The transaction was negotiated on arm's length basis and the prices were determined in line with normal commercial terms.

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 2014, utilities and water treatment services provided to Tuopu Textile by the Company amounted to approximately RMB5.2 million, which was within the approved cap of RMB8.2 million as disclosed in the Company's announcement dated 27 September 2013.

Purchases repair and maintenance services from Jianan by Joint Venture

The joint venture purchased repair and maintenance services from Jilin Chemical Fiber Construction and Installation Engineering Co., Ltd. ("Jianan") pursuant to a repair and maintenance contract entered into with Jianan on 27 September 2013, for an initial term commencing from 1 January 2014 and ending on 31 December 2016 and, subject to the compliance with Listing Rules' requirements regarding connected transactions, is automatically renewable for a term of three years thereafter. The transaction was negotiated on arm's length basis and the prices were determined in line with normal commercial terms.

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 2014, purchase from Jianan by the joint venture amounted to approximately RMB2.7 million, which was within the approved cap of RMB2.8 million as disclosed in the Company's announcement dated 27 September 2013.

Purchase of sodium bisulfate and other chemical products from Huidong by the Company

The Company purchased sodium bisulfite and other chemical products from Jilin Huidong Chemical Industry Co., Ltd. ("Huidong") pursuant to a huidong purchase agreement entered into with Huidong on 31 December 2013, for an initial term commencing from 1 January 2014 and ending on 31 December 2016 and, subject to the compliance with Listing Rules' requirements regarding connected transactions, is automatically renewable for a term of three years thereafter. The transaction was negotiated on arm's length basis and the prices were determined in line with normal commercial terms.

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 2014, the Company's purchases of sodium bisulfate and other chemical products from Huidong amounted to approximately RMB7.5 million, which was within the approved cap of RMB7.5 million as disclosed in the Company's announcement dated 16 January 2014.

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 27 September 2013, for an initial term commencing from 1 January 2014 and ending on 31 December 2016 and, subject to the compliance with Listing Rules' requirements regarding connected transactions, is automatically renewable for a term of three years thereafter. The transaction was negotiated on arm's length basis and the prices were determined in line with normal commercial terms.

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

For the year ended 31 December 2014, repair and maintenance services that the Company purchased from Jianan amounted to approximately RMB4.5 million, which was within the approved cap of RMB8.0 million as disclosed in the Company's announcement dated 27 September 2013.

Purchases of auxiliary materials from JCFCL by the Company

The Company purchased auxiliary materials from JCFCL pursuant to the Auxiliary Materials Purchase Agreement entered into with JCFCL on 31 December 2013, for an initial term commencing from 1 January 2014 and ending on 31 December 2016 and, subject to the compliance with Listing Rules' requirements regarding connected transactions, is automatically renewable for a term of three years thereafter. The transaction was negotiated on arm's length basis and the prices were determined in line with normal commercial terms.

JCFCL is a connected person of the Company as JCFCL is approximately 11.22% owned by JCF Groupco which is a substantial shareholder and one of the promoters of the Company. JCFCL is an associate of JCF Groupco and is therefore a connected person of the Company.

For the year ended 31 December 2014, auxiliary materials that the Company purchased from JCFCL amounted to approximately RMB1.7 million, which was within the approved cap of RMB4.0 million as disclosed in the Company's announcement dated 16 January 2014.

Agreement relating to lease of the JCFCL Leased Assets to the Company by JCFCL

Pursuant to the Lease Agreement entered into between the Company and JCFCL on 27 September 2013, JCFCL leased the JCFCL Leased Assets to the Company for an initial term commencing from 1 January 2014 and ending on 31 December 2016 which, subject to compliance with Listing Rules' requirements regarding connected transactions, is automatically renewable for a term of three years thereafter. The transaction was negotiated on arm's length basis and the prices were determined in line with normal commercial terms.

JCFCL is a connected person of the Company as JCFCL is approximately 11.22% owned by JCF Groupco which is a substantial shareholder and one of the promoters of the Company. JCFCL is an associate of JCF Groupco and is therefore a connected person of the Company.

For the year ended 31 December 2014, the Company's lease expense paid to JCFCL for the JCFCL Leased Assets amounted to approximately RMB10.9 million, which was within the approved cap of RMB12 million as disclosed in the Company's announcement dated 27 September 2013.

Provision of Utilities and Water Treatment Services to JCFCL by the Company

The Company provided Utilities and Water Treatment Services to JCFCL pursuant to the Utilities and Water Treatment Services Agreement entered into between the Company and JCFCL on 27 September 2013, for an initial term commencing from 1 January 2014 and ending on 31 December 2016 and, subject to the compliance with Listing Rules' requirements regarding connected transactions, is automatically renewable for a term of three years thereafter. The transaction was negotiated on arm's length basis and the prices were determined in line with normal commercial terms.

JCFCL is a connected person of the Company as JCFCL is approximately 11.22% owned by JCF Groupco which is a substantial shareholder and one of the promoters of the Company. JCFCL is an associate of JCF Groupco and is therefore a connected person of the Company.

For the year ended 31 December 2014, provision of Utilities and Water Treatment Services to JCFCL by the Company amounted to approximately RMB174.6 million, which was within the approved cap of RMB320 million as disclosed in the Company's announcement dated 27 September 2013.

Provision of Utilities and Water Treatment Services to Aika by the Company

The Company provided Utilities and Water Treatment Services to Jilin Aika Viscose Fiber Co., Ltd. ("Aika") pursuant to Utilities and Water Treatment Services Agreement entered into between the Company and Aika on 27 September 2013, for an initial term commencing from 1 January 2014 and ending on 31 December 2016 and, subject to the compliance with Listing Rules' requirements regarding connected transactions, is automatically renewable for a term of three years thereafter. The transaction was negotiated on arm's length basis and the prices were determined in line with normal commercial terms.

Aika is owned as to 70% by JCFCL. As JCFCL is a connected person of the Company, Aika, being a subsidiary of JCFCL, is also a connected person of the Company.

For the year ended 31 December 2014, the Company's provision of Utilities and Water Treatment Services to Aika amounted to approximately RMB31.8 million, which was within the approved cap of RMB39 million as disclosed in the Company's announcement dated 27 September 2013.

Sales of finished goods to Furunde Textile by the Company

The Company sold goods to Jilin Chemical Fiber Furunde Textile Co. Ltd. ("Furunde Textile") (Formerly known as Jilin Kailin Trading Co. Ltd.) at the price determined by the Company with reference to the market price less agreed discount 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 Furunde Textile on 27 September 2013. Subject to the requirements of Listing Rules in relation to connected transactions, the agreement is automatically renewable for a term of three years thereafter.

JCF Groupco is a substantial shareholder of the Company holding approximately 50.01% of its share capital and a connected person of the Company. Furunde 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 2014, sales to Furunde Textile by the Company amounted to approximately RMB2.1 million, which is within the approved cap of RMB10 million as disclosed in the Company's announcement dated 27 September 2013.

Purchases of auxiliary materials from JCFCL by the joint venture

The joint venture purchased auxiliary materials from JCFCL pursuant to the Auxiliary Materials Purchase Agreement entered into with JCFCL on 31 December 2013, for an initial term commencing from 1 January 2014 and ending on 31 December 2016 and, subject to the compliance with Listing Rules' requirements regarding connected transactions, is automatically renewable for a term of three years thereafter. The transaction was negotiated on arm's length basis and the prices were determined in line with normal commercial terms.

JCFCL is a connected person of the Company as JCFCL is approximately 11.22% owned by JCF Groupco which is a substantial shareholder of the Company. JCFCL is an associate of JCF Groupco and is therefore a connected person of the Company.

For the year ended 31 December 2014, auxiliary materials that the joint venture purchased from JCFCL amounted to approximately RMB0.6 million, which was within the approved cap of RMB1.8 million as disclosed in the Company's announcement dated 16 January 2014.

Agreement relating to lease of the garage to the Company by Tuopu Textile

Pursuant to the Lease Agreement entered into between the Company and Tuopu Textile on 31 December 2013, Tuopu Textile leased the garage to the Company for an initial term commencing from 1 January 2014 and ending on 31 December 2016 which, subject to compliance with Listing Rules' requirements regarding connected transactions, is automatically renewable for a term of three years thereafter. The transaction was negotiated on arm's length basis and the prices were determined in line with normal commercial terms.

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 2014, the Company's lease expense paid to Tuopu Textile for the garage amounted to RMB391,541, which was within the approved cap of RMB391,541 as disclosed in the Company's announcement dated 31 December 2013.

Agreement relating to lease of the storage to the Company by Tuopu Textile

Pursuant to the Lease Agreement entered into between the Company and Tuopu Textile on 31 December 2013, Tuopu Textile leased the storage to the Company for an initial term commencing from 1 January 2014 and ending on 31 December 2016 which, subject to compliance with Listing Rules' requirements regarding connected transactions, is automatically renewable for a term of three years thereafter. The transaction was negotiated on arm's length basis and the prices were determined in line with normal commercial terms.

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 2014, the Company's lease expense paid to Tuopu Textile for the storage amounted to RMB960,000, which was within the approved cap of RMB960,000 as disclosed in the Company's announcement dated 31 December 2013.

Agreement relating to lease of the storage of building number 1 to the subsidiary by Tuopu Textile

Pursuant to the lease agreement entered into between the subsidiary and Tuopu Textile on 31 December 2013, Tuopu Textile leased the storage of building number 1 to the subsidiary of the Company, Jilin Tangu Carbon Fiber Co., Ltd., for an initial term commencing from 1 January 2014 and ending on 31 December 2016 which, subject to compliance with Listing Rules' requirements regarding connected transactions, is automatically renewable for a term of three years thereafter. The transaction was negotiated on arm's length basis and the prices were determined in line with normal commercial terms.

JCF Groupco is a substantial shareholder of the subsidiary's 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 2014, the subsidiary's lease expense paid to Tuopu Textile for the storage amounted to RMB240,000, which was within the approved cap of RMB240,000 as disclosed in the Company's announcement dated 31 December 2013.

Agreement relating to lease of the storage of building number 2 to the subsidiary by Tuopu Textile

Pursuant to the lease agreement entered into between the subsidiary and Tuopu Textile on 31 December 2013, Tuopu Textile leased the storage of building number 2 to the subsidiary for an initial term commencing from 1 January 2014 and ending on 31 December 2016 which, subject to compliance with Listing Rules' requirements regarding connected transactions, is automatically renewable for a term of three years thereafter. The transaction was negotiated on arm's length basis and the prices were determined in line with normal commercial terms.

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 2014, the subsidiary's lease expense paid to Tuopu Textile for the storage amounted to RMB600,000, which was within the approved cap of RMB600,000 as disclosed in the Company's announcement dated 31 December 2013.

Agreement relating to lease of garage to the joint venture by Tuopu Textile

Pursuant to the Lease Agreement entered into between the joint venture and Tuopu Textile on 31 December 2013, Tuopu Textile leased the garage to the joint venture for an initial term commencing from 1 January 2014 and ending on 31 December 2016 which, subject to compliance with Listing Rules' requirements regarding connected transactions, is automatically renewable for a term of three years thereafter. The transaction was negotiated on arm's length basis and the prices were determined in line with normal commercial terms.

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 2014, the joint venture's lease expense paid to Tuopu Textile for the garage amounted to RMB85,843, which was within the approved cap of RMB92,565 as disclosed in the Company's announcement dated 31 December 2013.

Agreement relating to lease of the storage to the joint venture by Tuopu Textile

Pursuant to the Lease Agreement entered into between the joint venture and Tuopu Textile on 31 December 2013, Tuopu Textile leased the storage to the joint venture for an initial term commencing from 1 January 2014 and ending on 31 December 2016 which, subject to compliance with Listing Rules' requirements regarding connected transactions, is automatically renewable for a term of three years thereafter. The transaction was negotiated on arm's length basis and the prices were determined in line with normal commercial terms.

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 2014, the joint venture's lease expense paid to Tuopu Textile for the storage amounted to RMB0.6 million, which was within the approved cap of RMB0.6 million as disclosed in the Company's announcement dated 31 December 2013.

Sales of finished goods to JCF Group Import Export by the Company

The Company sold goods to Jilin Chemical Fiber Group Import Export Co., Ltd. ("JCF Group Import Export") at the price determined by the Company with reference to the market price less agreed discount 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 JCF Group Import Export on 1 September 2014. Subject to the requirements of Listing Rules in relation to connected transactions, the agreement is automatically renewable for a term of three years thereafter.

JCF Groupco is a substantial shareholder of the Company holding approximately 50.01% of its share capital and a connected person of the Company. JCF Group Import Export, 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 2014, sales to JCF Group Import Export by the Company amounted to approximately RMB0.9 million, which is within the approved cap of RMB55 million as disclosed in the Company's announcement dated 7 July 2014.

Sales of finished goods to JCF Group Import Export by the joint venture

The joint venture sold goods to JCF Group Import Export at the price determined by the joint venture with reference to the market price less agreed discount 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 JCF Group Import Export on 1 September 2014. Subject to the requirements of Listing Rules in relation to connected transactions, the agreement is automatically renewable for a term of three years thereafter.

JCF Groupco is a substantial shareholder of the Company holding approximately 50.01% of its share capital and a connected person of the Company. JCF Group Import Export, 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 2014, sales to JCF Group Import Export by the joint venture amounted to approximately RMB2.6 million, which is within the approved cap of RMB82 million as disclosed in the Company's announcement dated 7 July 2014.

Sales of finished goods to Tuopu Textile by the joint venture

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. Subject to the compliance with Listing Rules' requirements regarding connected transactions, the agreement was further renewed for a term of three years commencing on 1 January 2013 and ending on 31 December 2015.

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 2014, sales to Tuopu Textile by the Company amounted to nil, which is within the approved cap of RMB4 million as disclosed in the Company's announcement dated 7 January 2013.

Sales of finished goods to Furunde Textile by the Joint Venture

The Joint Venture sold goods to Jilin Chemical Fiber Furunde Textile Co. Ltd. ("Furunde Textile") (formerly known as Jilin Kailin Trading Co. Ltd.) at the price determined by the Joint Venture with reference to the market price less agreed discount and no less than the price of the acrylic fiber products sold by the Joint Venture to independent third parties pursuant to a sales agreement entered into with Furunde Textile on 27 September 2013. Subject to the requirements of Listing Rules in relation to connected transactions, the agreement is automatically renewable for a term of three years thereafter.

JCF Groupco is a substantial shareholder of the Company holding approximately 50.01% of its share capital and a connected person of the Company. Furunde 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 2014, sales to Furunde Textile by the Company amounted to nil, which is within the approved cap of RMB10 million as disclosed in the Company's announcement dated 27 September 2013.

Purchases of repair and maintenance services from Jianan by the Subsidiary

The subsidiary of the Company, Jilin Tangu Carbon Fiber Co., Ltd purchased repair and maintenance services from Jianan pursuant to a repair and maintenance contract entered into with Jianan on 27 September 2013, for an initial term commencing from 1 January 2014 and ending on 31 December 2016 and, subject to the compliance with Listing Rules' requirements regarding connected transactions, is automatically renewable for a term of three years thereafter. The transaction was negotiated on arm's length basis and the prices were determined in line with normal commercial terms.

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

For the year ended 31 December 2014, repair and maintenance services that the subsidiary of Company purchased from Jianan amounted to approximately nil, which was within the approved cap of RMB1.5 million as disclosed in the Company's announcement dated 27 September 2013.

The Group has entered into the abovementioned continuing connected transactions as set out from pages 19 to 27 (the "Continuing Connected Transactions") with connected persons and have complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules in respect of the Continuing Connected Transactions. 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, the subsidiary and the joint venture (as applicable);

(ii) either on normal commercial terms or, on terms no less favourable to the Company, the subsidiary and the joint venture (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 joint venture 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 19 to 27 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.

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 31 to 39 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

Moore Stephens CPA Limited will retire and offer themselves for re-election. A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint Moore Stephens CPA Limited as auditor of the Company.

On behalf of the Board

Song Dewu
Chairman

Jilin City, Jilin Province, The PRC
26 March 2015

The supervisory committee of the Company (the "Supervisory Committee") herewith present the report of the Supervisory Committee for the year ended 31 December 2014.

In 2014, 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 2014 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 2014 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
26 March 2015

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 year.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Group has adopted the Model Code contained in Appendix 10 of the Listing Rules as the code of conduct for securities transactions by the Company's Directors. The Directors have confirmed, following specific enquiry by the Group that they have complied with the required standards set out in the Model Code for the year ended 31 December 2014.

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. Song Dewu 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 2014 are set out below:

	Attendance	
Directors	**Board meetings**	**General meetings**
Executive Directors		
Mr. Song Dewu	6/6	2/2
Mr. Yang Xuefeng	6/6	2/2
Mr. Wang Changsheng	5/5	1/2
Mr. Pan Xianfeng	1/1	—
Non-executive Directors		
Mr. Ma Jun (Two board meetings attended by proxy)	4/6	1/2
Ms. Pang Suet Mui (One board meetings attended by proxy)	6/6	1/2
Mr. Jiang Junzhou	6/6	2/2
Mr. Sun Haichao (Three board meetings attended by proxy)	6/6	0/2
Independent non-executive Directors		
Mr. Li Yanxi	4/4	0/2
Mr. Jin Jie	4/4	0/2
Mr. Lv Xiaobo	1/1	—
Mr. Ye Yongmao (One board meeting attended by proxy)	5/5	1/2
Mr. Mao Fengge (One board meeting attended by proxy)	2/2	0/2
Mr. Lee Ka Chung, J.P.	2/2	0/2
Ms. Zhu Ping (Two board meetings attended by proxy)	6/6	1/2

Board Diversity Policy

Pursuant to the Code, the Board adopted a board diversity policy (the "Board Diversity Policy") on 27 August 2013. The Company recognizes and embraces the benefits of diversity of Board members. While all Board appointments will continue to be made on a merit basis, the Company will ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the needs of the Company's business. In accordance with the Board Diversity Policy, selection of candidates of Board member will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge.

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	Read articles and journals on the economy, general business and regulatory matters
Executive Directors	
Mr. Song Dewu	√
Mr. Yang Xuefeng	√
Mr. Pang Xianfeng	√
Non-executive Director	
Ms. Pang Suetmui	√
Mr. Sun Haichao	√
Mr. Jiang Junzhou	√
Mr. Ma Jun	√
Independent non-executive Directors	
Mr. Li Yanxi	√
Mr. Jin Jie	√
Mr. Lv Xiaobo	√
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. Li Yanxi , Mr. Lv Xiaobo and one non-executive Director Ms. Pang Suet Mui. The chairman of the Audit Committee is Mr. Li Yan Xi who possesses recognised professional qualification in finance and accounting. The terms of reference of the Audit Committee are in compliance with the Code. The Board has adopted the latest 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 2014 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 3 meetings of Audit Committee in 2014 and the details of the attendance are set out below:

Directors	Attendance
Mr. Li Yanxi *(Chairman)*	2/2
Ms. Pang Suet Mui (One meeting attended by proxy)	2/2
Mr. Lv Xiaobo	N/A
Mr. Lee Ka Chung, J.P.	1/2
Mr. Ye Yongmao	3/3
Mr. Jiang Junzhou	1/1

(b) Board Remuneration Committee

The Board Remuneration Committee consists of two independent non-executive Directors, namely Lv Xiaobo and Zhu Ping and one non-executive Director, Mr. Ma Jun. The terms of reference of the Board Remuneration Committee are in compliance with the Code. The chairman of the Board Remuneration Committee is Mr. Lv Xiaobo. The committee meets at least once a year. The Board has adopted the latest 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 2014 on 29 August 2014. The details of the attendance are set out below:

Directors	**Attendance**
Mr. Lv Xiaobo *(Chairman)*	N/A
Ms. Zhu Ping	1/1
Mr. Ye Yongmao	1/1
Mr. Ma Jun (Attended by a representative)	1/1

(c) Nomination Committee

The Nomination Committee consists of two independent non-executive Directors, namely Mr. Lv Xiaobo and Ms. Zhu Ping and one non-executive Director Mr. Jiang Junzhou. The chairman of the Nomination Committee is Mr. Lv Xiaobo. The terms of reference of the Nomination Committee are in compliance with the Code. The Committee meets at least once a year. The Board has adopted the latest 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 twice in 2014. The details of the attendance are set out below:

Directors	Attendance
Mr. Lv Xiaobo *(Chairman)*	N/A
Ms. Zhu Ping	2/2
Mr. Mao Fengge	1/1
Mr. Ye Yongmao	1/1
Mr. Jiang Junzhou	2/2

(d) Connected Transactions Committee

The Connected Transactions Committee consists of three independent non-executive Directors, namely Mr. Jin Jie, Mr. LI Yanxi and Mr. Lv Xiaobo. 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 2014 on 28 March 2014. The details of the attendance are set out below:

Directors	Attendance
Mr. Jin Jie *(Chairman)*	N/A
Mr. Li Yanxi	N/A
Mr. Lv Xiaobo	N/A
Mr. Mao Fengge	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. Xu Jiawei	1/1
Mr. Liu Ming	2/2
Mr. Cheng Jianhang	2/2
Mr. Zhang Haiou	2/2
Ms. Bai Hua	2/2
Mr. Zhang Jiaku (retired on 30 June 2014)	1/1

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 SECRETARY

The Company Secretary's biographies are set out on page 13 of this report. The Company Secretary 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 Company Secretary 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 2014 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.

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

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

DIRECTORS' RESPONSIBILTIY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to note 2.1 to the consolidated financial statements, which indicates that the Group incurred a net loss of RMB72,170,000 during the year ended 31 December 2014 and, as of that date, the Group's current liabilities exceeded its current assets by RMB673,585,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. As explained in note 2.1 to the consolidated financial statements, these consolidated financial statements have been prepared on a going concern basis, the validity of which is dependent on the Group's ability to renew its bank borrowings upon maturity, to improve its business operation to generate adequate cash flows, and to source financing from its ultimate parent company to meet the Group's financial obligations as and when they fall due in the foreseeable future.

OTHER MATTER

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

Moore Stephens CPA Limited
Certified Public Accountants

Chan King Keung
Practising Certificate Number: P06057

Hong Kong, 26 March 2015

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2014

	Notes	2014 RMB'000	2013 RMB'000 (Restated)
ASSETS			
Non-current assets			
Land use rights	7	80,735	84,633
Property, plant and equipment	8	1,426,090	1,591,495
Intangible assets	9	—	—
Interest in a joint venture	11	127,304	159,418
Deferred income tax assets	21	68,129	72,426
Prepayments	12	2,785	248
		1,705,043	1,908,220
Current assets			
Inventories	13	345,256	404,804
Trade and other receivables	14	663,323	563,991
Land use rights	7	3,898	3,898
Current income tax recoverable		—	1,893
Restricted bank deposits	15	143,657	74,013
Cash and cash equivalents	15	57,814	90,813
		1,213,948	1,139,412
Total assets		2,918,991	3,047,632
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	(378,848)	(306,678)
Total equity		661,798	733,968

	Notes	2014 RMB'000	2013 RMB'000 (Restated)
LIABILITIES			
Non-current liabilities			
Long-term bank borrowings	18	**307,697**	364,122
Deferred income	19	**61,963**	67,637
Derivative financial instrument	22	**—**	5,158
		369,660	436,917
Current liabilities			
Trade and other payables	20	**445,617**	443,312
Deferred income	19	**7,274**	7,274
Short-term bank borrowings	18	**1,309,099**	1,315,390
Current portion of long-term bank borrowings	18	**120,551**	104,902
Derivative financial instrument	22	**4,992**	5,869
		1,887,533	1,876,747
Total liabilities		**2,257,193**	2,313,664
Total equity and liabilities		**2,918,991**	3,047,632
Net current liabilities		**(673,585)**	(737,335)
Total assets less current liabilities		**1,031,458**	1,170,885

The notes on pages 49 to 124 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 42 to 124 were approved by the Board of Directors on 26 March 2015 and were signed on its behalf.

Song Dewu
Chairman

Pan Xianfeng
Director

STATEMENT OF FINANCIAL POSITION OF THE COMPANY

AS AT 31 DECEMBER 2014

	Notes	2014 RMB'000	2013 RMB'000 (Restated)
ASSETS			
Non-current assets			
Land use rights	7	74,421	78,286
Property, plant and equipment	8	1,011,618	1,152,327
Intangible assets	9	—	—
Investment in a subsidiary	10	385,000	385,000
Investment in a joint venture	11	225,000	225,000
Deferred income tax assets	21	51,674	54,962
Prepayments	12	2,785	248
		1,750,498	1,895,823
Current assets			
Inventories	13	254,213	317,297
Trade and other receivables	14	816,391	635,187
Land use rights	7	3,865	3,865
Current income tax recoverable		—	1,893
Restricted bank deposits	15	93,657	74,013
Cash and cash equivalents	15	52,605	84,945
		1,220,731	1,117,200
Total assets		2,971,229	3,013,023
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	(101,606)	(126,296)
Total equity		939,040	914,350

	Notes	2014 RMB'000	2013 RMB'000 (Restated)
LIABILITIES			
Non-current liabilities			
Long-term bank borrowings	18	**217,697**	244,122
Deferred income	19	**48,838**	53,262
Derivative financial instrument	22	**—**	5,158
		266,535	302,542
Current liabilities			
Trade and other payables	20	**370,488**	413,947
Deferred income	19	**6,024**	6,024
Short-term bank borrowings	18	**1,289,099**	1,295,389
Current portion of long-term bank borrowings	18	**95,051**	74,902
Derivative financial instrument	22	**4,992**	5,869
		1,765,654	1,796,131
Total liabilities		**2,032,189**	2,098,673
Total equity and liabilities		**2,971,229**	3,013,023
Net current liabilities		**(544,923)**	(678,931)
Total assets less current liabilities		**1,205,575**	1,216,892

The notes on pages 49 to 124 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 42 to 124 were approved by the Board of Directors on 26 March 2015 and were signed on its behalf.

Song Dewu
Chairman

Pan Xianfeng
Director

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	2014 RMB'000	2013 RMB'000 (Restated)
Turnover	6	**1,941,549**	1,468,845
Cost of sales		**(1,804,065)**	(1,367,619)
Gross profit		**137,484**	101,226
Other income and gains	23	**488,841**	512,034
Distribution costs		**(47,399)**	(37,577)
Administrative expenses		**(103,620)**	(116,575)
Other expenses and losses	24	**(365,888)**	(388,534)
Operating profit		**109,418**	70,574
Finance income	27	**2,532**	2,900
Finance costs	27	**(147,436)**	(140,130)
		(35,486)	(66,656)
Share of loss of a joint venture	11	**(32,387)**	(14,926)
Loss before income tax	25	**(67,873)**	(81,582)
Income tax expense	28	**(4,297)**	(10,890)
Loss and total comprehensive loss for the year attributable to the owners of the Company		**(72,170)**	(92,472)
Loss per share attributable to the owners of the Company (expressed in RMB per share)			
– basic and diluted	30	**(0.08)**	(0.11)

The notes on pages 49 to 124 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2014

	Attributable to owners of the parent				
	Share capital	**Share premium**	**Other reserves**	**Accumulated losses**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note 16(a))	(Note 16(b))	(Note 17)		
At 1 January 2013	866,250	142,477	31,919	(214,206)	826,440
Loss and total comprehensive loss for the year	—	—	—	(92,472)	(92,472)
At 31 December 2013 and 1 January 2014	866,250	142,477	31,919	(306,678)	733,968
Loss and total comprehensive loss for the year	—	—	—	(72,170)	(72,170)
At 31 December 2014	866,250	142,477	31,919	(378,848)	661,798

The notes on pages 49 to 124 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	2014 RMB'000	2013 RMB'000 (Restated)
Cash flows from operating activities			
Cash generated from/(used in) operations	32	177,629	(17,007)
Income tax refund/(paid)		1,893	(469)
Net cash from/(used in) operating activities		179,522	(17,476)
Cash flows from investing activities			
Purchases of property, plant and equipment		(23,561)	(22,150)
Government grants received		1,600	—
Proceeds from disposal of PPE		154	—
Interest received		2,532	2,965
(Decrease)/increase in restricted bank deposit		(69,644)	49,634
Net cash (used in)/from investing activities		(88,919)	30,449
Cash flows from financing activities			
Proceeds from borrowings		2,763,000	2,344,290
Repayments of borrowings		(2,819,166)	(2,242,876)
Interests and guarantee fees paid		(147,436)	(110,802)
Proceeds from bill payable		80,000	—
Repayments of bill payable		—	(22,000)
Net cash used in financing activities		(123,602)	(31,388)
Net decrease in cash and cash equivalents		(32,999)	(18,415)
Cash and cash equivalents at beginning of year		90,813	109,228
Cash and cash equivalents at end of year	15	57,814	90,813

1. GENERAL INFORMATION

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

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

In the opinion of the Company's directors, the ultimate parent company of the Company is Jilin Chemical Fiber Group Co., Ltd. ("JCF Groupco"), a limited liability company 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 (the "Board") of the Company on 26 March 2015.

2. BASIS OF PREPARATION

2.1 Basis of preparation and going concern assumption

During the year ended 31 December 2014, the Group incurred a net loss of RMB72,170,000 (2013: RMB92,472,000) and, as of that date, the Group's current liabilities exceeded its current assets by RMB673,585,000 (2013: RMB737,335,000) and the bank borrowings as included in the Group's current liabilities amounted to RMB1,429,650,000 (2013: RMB1,420,292,000) respectively. These conditions indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and therefore, the Group may not be able to realise its assets and discharge its liabilities in the normal course of business.

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

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

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

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

2. BASIS OF PREPARATION – *continued*

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

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

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

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) and accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance, which for this financial year and the comparative period continue to be those of the predecessor Hong Kong Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the new Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The consolidated financial statements have been prepared under the historical cost convention, except for derivative financial instrument being categorised as financial liabilities at fair value through profit or loss (Note 22).

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. BASIS OF PREPARATION – *continued*

2.2 Adoption of new/revised HKFRSs – effective on 1 January 2014

The Group has adopted the following new and revised HKFRSs and one new interpretation issued by the HKICPA, which are mandatory for the first time for the financial year beginning 1 January 2014:

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	Investment entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount disclosures for Non-Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK (IFRIC) 21	Levies
HKAS 28 (2011)	Investments in Associates and Joint Ventures

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. The adoption of the abovementioned amendments did not result in any substantial changes to the Group's significant accounting policies and presentation of the consolidated financial statements.

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

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

HKFRS 9	Financial Instruments[1]
HKFRS 14	Regulatory Deferral Accounts[2]
HKFRS 15	Revenue from Contracts with Customers[3]
Amendments to HKAS 1	Disclosure Initiative[5]
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[5]
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants[5]
Amendments to HKAS 19 (2011)	Defined Benefit Plans: Employee Contributions[4]
Amendments to HKAS 27	Equity Method in Separate Financial Statements[5]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception[5]
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations[5]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010–2012 Cycle[6]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011–2013 Cycle[4]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012–2014 Cycle[5]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group
3 Effective for annual periods beginning on or after 1 January 2017
4 Effective for annual periods beginning on or after 1 July 2014
5 Effective for annual periods beginning on or after 1 January 2016
6 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions

2. BASIS OF PREPARATION – *continued*

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

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

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

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

HKFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations; changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. The Group expects to adopt HKFRS 15 on 1 January 2017. The Group is currently assessing the impact of HKFRS 15 upon adoption.

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

2. BASIS OF PREPARATION – *continued*

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

The Annual Improvements to HKFRSs 2010-2012 Cycle issued in January 2014 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2015. None of the amendments are expected to have a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

(a) HKFRS 3 Business Combinations: Clarifies that all contingent consideration arrangements arising from a business combination that is not classified as equity should be subsequently measured at fair value through profit or loss whether or not it falls within the scope of HKFRS 9.

(b) HKFRS 8 Operating Segments: Clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria in HKFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are similar. The amendments also clarify that a reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker.

In addition, the Hong Kong Companies Ordinance (Cap. 622) will affect the presentation and disclosure of certain information in the consolidated financial statements for the year ending 31 December 2015. So far it has concluded that the impact is unlikely to be significant and will primarily only affect the presentation and disclosure of information in the 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 joint venture.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.1 Group accounting – *continued*

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

(a) Subsidiary

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

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

(b) Joint arrangements

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

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

- The structure of the joint arrangement;
- The legal form of joint arrangements structured through a separate vehicle;
- The contractual terms of the joint arrangement agreement; and
- Any other facts and circumstances (including any other contractual arrangements).

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.2 Segment reporting

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

3.3 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

3.4 Property, plant and equipment

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.4 Property, plant and equipment – *continued*

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 income and gains' and 'other expenses and losses'.

3.5 Land use rights

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

3.6 Intangible assets – 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).

3.7 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.8 Financial assets

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

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

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

3.9 Derivative financial instruments

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.10 Fair value measurement

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

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

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

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

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

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

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

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

3.11 Offsetting financial instruments

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.12 Impairment of financial assets carried at amortised costs

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

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

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

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

3.13 Financial liabilities

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

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

3.14 Derecognition of financial assets and liabilities

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.15 Inventories

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

3.16 Cash and cash equivalents

Cash and cash equivalents 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).

3.17 Leases

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

(a) Leases – where the Group as the lessee

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

(b) Leases – where the Group as the lessor

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

3.18 Share capital

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

3.19 Provisions

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.20 Trade payables

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

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

3.21 Borrowings

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

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

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

3.22 Borrowing costs

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

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

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

3.23 Current and deferred income tax

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

Current income tax is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Group 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.23 Current and deferred income tax – *continued*

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

3.24 Employee benefits

(a) Retirement benefits costs

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

(b) Bonus plans

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.25 Recognition of revenue and income

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

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

(a) Sales of goods

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

(b) Operating lease rental income

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

(c) Income from provision of utilities

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

(d) Interest income

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

3.26 Government grants

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.27 Contingent liabilities

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

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

4. FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

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

(a) Market risk

Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions settle in RMB, only with approximately 11.6% (2013: 11.6%) of the Group's revenue was denominated in United State dollars ("US dollar").

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

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

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 bank deposits), the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest rate risk primarily arises from bank borrowings 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 2014, the Group's fixed rates borrowings and floating rates borrowings amounted to RMB384,849,000 (2013: RMB150,000,000) and RMB1,352,498,000 (2013: RMB1,634,414,000) 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 RMB3,088,000 (2013: RMB4,268,600) 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 2014 (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 RMB78,000,000 (2013: RMB93,600,000), 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 2014, the 6-month LIBOR is 0.36%, 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 2014, the 30-year USD CMS Rate is 2.65%, 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 10 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) 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 2014, the Group has certain concentration of credit risk because approximately 71% (2013: 58%) 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:

	2014 RMB'000	2013 RMB'000
Receivables from the Top Five Debtors:		
Within 30 days	**34,211**	25,247
31 - 90 days	**30,375**	30,764
91 - 365 days	**4,784**	3,483
Over 365 days	**9,899**	—
	79,269	59,494

4. FINANCIAL RISK MANAGEMENT – *continued*

4.1 Financial risk factors – *continued*

(b) Credit risk – continued

As at 31 December 2014, 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 deposits with banks and financial institutions, the Group has limited its credit exposure by restricting their selection of banks and financial institutions on those reputable commercial banks or state-owned banks.

Transfer of financial assets

Transferred financial assets that are not derecognised in their entirety

(i) At 31 December 2014, the Group discounted certain commercial and bankers' acceptance in the Mainland China (the "Endorsed Bills") with a carrying amount of RMB172,256,000 (2013: RMB50,000,000) to certain banks in the Mainland China (the "Discounting"). In the opinion of the directors of the Company, the Group has retained the substantial risks and rewards, which include default risks relating to such Endorsed Bills, and accordingly, it continued to recognise the full carrying amounts of the Endorsed Bills and the associated borrowings. Subsequent to the Discounting, the Group did not retain any rights on the use of the Endorsed Bills, including the sale, transfer or pledge of the Endorsed Bills to any other third parties. The aggregate carrying amount of the borrowings secured by the Endorsed Bills during the year to which the banks have recourse was RMB160,149,000 (2013: RMB50,000,000) as at 31 December 2014.

(ii) As part of its normal business, the Group entered into a letter of credit factoring arrangement (the "Arrangement") and transferred certain trade receivables to a bank. Under the Arrangement, the Group may be required to reimburse the bank for loss of interest and principal if any trade debtors have late or default payment upon maturity. Subsequent to the transfer, the Group did not retain any rights on the use of the letter of credit, including the sale, transfer or pledge of the trade receivables to any other third parties. The original carrying value of the letter of credit transferred under the Arrangement that have not been settled as at 31 December 2014 amounted to RMB75,741,000 (2013: RMBnil). The carrying amount of the assets that the Group continued to recognise as at 31 December 2014 amounted to RMB75,741,000 (2013: RMBnil) and that of the associated borrowings as at 31 December 2014 amounted to RMB54,700,000 (2013: RMBnil).

4. FINANCIAL RISK MANAGEMENT – *continued*

4.1 Financial risk factors – *continued*

(b) Credit risk – continued

Transfer of financial assets – *continued*

Transferred financial assets that are derecognised in their entirety

At 31 December 2014, the Group discounted certain bankers' acceptances to banks in the Mainland China (the "Derecognised Bills") with a carrying amount of RMB52,871,000 (2013: RMB148,981,000). The Derecognised Bills had a maturity of one to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated borrowings. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

At 31 December 2014, the Group, endorsed certain bankers' acceptance in the Mainland China (the "Endorsed Derecognised Bills") to certain of its suppliers in order to settle the trade payables due to such suppliers with a carrying amount in aggregate of RMB172,256,000 (2013: RMB50,000,000). The Endorsed Derecognised Bills had a maturity of one to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Endorsed Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Endorsement Involvement"). In the opinion of the directors of the Company, the Group has transferred substantially all risks and rewards relating to the Endorsed Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Endorsed Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group's Continuing Endorsement Involvement in Endorsed Derecognised Bills and the undiscounted cash flows to repurchase these Endorsed Derecognised Bills equal to their carrying amounts. In the opinion of the directors of the Company, the fair values of the Group's Continuing Involvement in the Endorsed Derecognised Bills are not significant.

During the year ended 31 December 2014, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The endorsement has been made evenly throughout the year.

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.

4. FINANCIAL RISK MANAGEMENT – *continued*

4.1 Financial risk factors – *continued*

(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 2014, the Group has interest bearing bank balances of RMB57,806,000 (2013: RMB90,806,000) that are expected to be readily for use in managing liquidity risk.

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

4. FINANCIAL RISK MANAGEMENT – *continued*

4.1 Financial risk factors – *continued*

(c) Liquidity risk – continued

Group

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

	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	Total RMB'000
At 31 December 2013					
Long-term bank borrowings	137,223	120,381	249,878	68,124	575,606
Short-term bank borrowings	1,357,816	—	—	—	1,357,816
Financial liabilities as included in trade and other payables	354,229	—	—	—	354,229
Net settled derivative financial instrument	5,869	5,158	—	—	11,027
	1,855,137	125,539	249,878	68,124	2,298,678

4. FINANCIAL RISK MANAGEMENT – *continued*

4.1 Financial risk factors – *continued*

(c) Liquidity risk – continued

The Company

	On demend 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	Total RMB'000
At 31 December 2014					
Long-term bank borrowings	81,208	80,315	83,570	51,948	297,041
Short-term bank borrowings	1,334,347	—	—	—	1,334,347
Financial liabilities as included in trade and other payables	298,044	—	—	—	298,044
Net settled derivative financial instrument	4,992	—	—	—	4,992
	1,718,591	80,315	83,570	51,948	1,934,424

	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	Total RMB'000
At 31 December 2013					
Long-term bank borrowings	96,633	81,909	142,934	68,124	389,600
Short-term bank borrowings	1,337,243	—	—	—	1,337,243
Financial liabilities as included in trade and other payables	326,461	—	—	—	326,461
Net settled derivative financial instrument	5,869	5,158	—	—	11,027
	1,766,206	87,067	142,934	68,124	2,064,331

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 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 72% (2013: 70%). The debt-to-total capital ratios at 31 December 2014 and 2013 were as follows:

	2014 RMB'000	2013 RMB'000
Total borrowings (Note 18)	**1,737,347**	1,784,414
Less: Cash and cash equivalents (Note 15)	**(57,814)**	(90,813)
Net debt	**1,679,533**	1,693,601
Total equity	**661,798**	733,968
Total capital	**2,341,331**	2,427,569
Debt-to-total capital ratio	**72%**	70%

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 13 "Fair Value Measurement" because its fair value can be determined by the use of valuation techniques which maximise the use of non-entity specific market data which is observable. The fair value of the interest rate swap contract is calculated at the present value of the estimated future cash flows based on observable interest rate.

At 31 December 2014, the financial liabilities that were classified as Level 2 investments under HKFRS 13 amounted to RMB4,992,000 (31 December 2013: RMB11,027,000). The impact of the fair value change of such investments on the Group's profit or loss is disclosed in notes 23 and 24. During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2013: Nil).

The carrying value less impairment provision of receivable and payable balances are assumed to approximate their fair values.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS – *continued*

5.1 Critical accounting estimates and assumptions – *continued*

(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 would have to recognise an additional provision for impairment on the inventories for its acrylic fiber products segment of approximately RMB5,311,000 and for its carbon fiber products segment of approximately RMB2,592,000.

(c) Impairment of interest in joint venture

Management tests whether the interest in joint venture 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 joint venture based on value-in-use calculations which require the use of estimates on the projections of cash inflows from the operation of the joint venture 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 joint venture will be reduced by approximately RMB65,930,000 and RMB36,010,000 respectively. Even the recoverable amount of the interest in joint venture is reduced by the abovementioned respective amounts, the adjusted recoverable amounts of the interest in joint venture are still higher than its carrying amount as of the end of reporting period.

(d) Depreciation

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

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS – *continued*

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 conditions which indicates the existence of a material uncertainty on 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 2014, the Group has recognised deferred income tax assets of RMB68,129,000 (2013: RMB72,426,000) (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.

(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 2014, the Group has trade receivables which are past due but not impaired of RMB39,815,000 (2013: RMB51,950,000) (Note 14(b)) and trade receivables of RMB5,984,000 (2013: RMB5,554,000) which are being considered as doubtful debts and provided for (Note 14(c)). In 2013, 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 RMB19,320,000 (Note 14(b)).

In 2014, the ultimate parent company confirmed the trade and other receivable of RMB16,690,000 due from the fellow subsidiary would be settled by the fellow subsidiary in 2015.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS – *continued*

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

(c) Impairment of receivables – continued

As at 31 December 2014, the Group has overdue balance of RMB66,377,000 (2013: RMB37,510,000) due from related companies in respect of the provision of utilities as set out in note 14(d). The related companies will settle the overdue balance in accordance with the settlement plan as committed by the related companies. 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 RMB7,870,000 as at 31 December 2014 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.

All of the Group's operations and assets are located in the PRC except that, a portion of the Group's revenue of RMB221,904,000 (2013: RMB170,571,000) 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.

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

Turnover for the year ended 31 December 2014 consists of sales from the acrylic fiber products segment and carbon fiber products segment of RMB1,895,910,000 (2013: RMB1,448,851,000) and RMB45,639,000 (2013: RMB19,994,000) respectively.

The Group does not have any inter-segment sales during the years ended 31 December 2014 and 2013.

6. SEGMENT INFORMATION – *continued*

The segment information provided to the Decision-Makers for the years ended 31 December 2014 and 2013 is as follow:

Segment revenue and results

	Acrylic fiber products RMB'000	Carbon fiber products RMB'000	Total RMB'000
Year ended 31 December 2014			
Total revenue from external customers	1,895,910	45,639	1,941,549
Adjusted segment results (Note)	309,696	5,155	314,851
Impairment on inventories	(2,473)	(10,487)	(12,960)
Share of loss of a joint venture	(32,387)	—	(32,387)
Depreciation and amortisation	(166,167)	(26,686)	(192,853)
Income tax expenses	(3,356)	(941)	(4,297)
	105,313	(32,959)	72,354
Other information:			
Additions to property, plant and equipment	21,603	1,958	23,561
Year ended 31 December 2013			
Total revenue from external customers	1,448,851	19,994	1,468,845
Adjusted segment results (Note)	281,883	3,886	285,769
Impairment on inventories	—	(12,015)	(12,015)
Share of loss of a joint venture	(14,926)	—	(14,926)
Depreciation and amortisation	(175,568)	(27,218)	(202,786)
Income tax expenses	(5,323)	(5,567)	(10,890)
	86,066	(40,914)	45,152
Other information:			
Additions to property, plant and equipment	54,292	43,634	97,926

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 before income tax is provided as follows:

	2014 RMB'000	2013 RMB'000
Adjusted segment results for reportable segments	314,851	285,769
Impairment on inventories	(12,960)	(12,015)
Depreciation and amortization	(192,853)	(202,786)
Net gain/(loss) on derivative financial instrument	380	(394)
Finance costs – net	(144,904)	(137,230)
Share of loss of a joint venture	(32,387)	(14,926)
	(382,724)	(367,351)
Loss before income tax	(67,873)	(81,582)

Note:

As disclosed in note 34(a)(i), the Group has managed and operated certain Utility Facilities and Leased Assets primarily to produce electricity and steam for its own production of acrylic fiber and carbon fiber products at the most cost efficient manner and any surplus of utilities as generated from these Utility Facilities and Leased Assets will be provided to fellow subsidiaries, joint venture, Jilin Chemical Fibre Co., Ltd. ("JCFCL"), other related parties and third parties at rates to be determined amongst the parties concerned. The adjusted segment results as disclosed above for the acrylic fiber products segment included an amount of RMB159,871,000 (2013: RMB163,723,000), representing the related income net of direct outgoings (other than depreciation charge), which is attributable to the provisions of surplus utilities to fellow subsidiaries, joint venture, JCFCL, other related parties and third parties.

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 2014			
Total segment assets	2,218,620	632,242	2,850,862
Total segment assets include:			
Interest in a joint venture	127,304	—	127,304
Total liabilities	425,350	89,504	514,854
As at 31 December 2013			
Total segment assets	2,366,340	606,973	2,973,313
Total segment assets include:			
Interest in a joint venture	159,418	—	159,418
Total liabilities	473,233	44,990	518,223

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:

	2014 RMB'000	2013 RMB'000
Segment assets for reportable segments	2,850,862	2,973,313
Unallocated:		
Deferred income tax assets	68,129	72,426
Current income tax recoverable	—	1,893
	68,129	74,319
Total assets per consolidated statement of financial position	2,918,991	3,047,632

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:

	2014 RMB'000	2013 RMB'000
Segment liabilities for reportable segments	514,854	518,223
Unallocated:		
Borrowings	1,737,347	1,784,414
Derivative financial instrument	4,992	11,027
	1,742,339	1,795,441
Total liabilities per consolidated statement of financial position	2,257,193	2,313,664

Information about major customers

Revenues of approximately RMB572,130,000 (2013: RMB519,640,000) are derived from two (2013: 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:

	2014		2013	
Customer name	Revenue RMB'000	Proportion to the total revenues	Revenue RMB'000	Proportion to the total revenues
Customer A	319,590	16%	362,410	25%
Customer B	252,540	13%	157,230	11%
Total	572,130	29%	519,640	36%

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	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**88,531**	92,429	**82,151**	86,016
Additions	**—**	—	**—**	—
Amortisation charge	**(3,898)**	(3,898)	**(3,865)**	(3,865)
At 31 December	**84,633**	88,531	**78,286**	82,151
Represented by:				
Current portion	**3,898**	3,898	**3,865**	3,865
Non-current portion	**80,735**	84,633	**74,421**	78,286
At 31 December	**84,633**	88,531	**78,286**	82,151

As at 31 December 2014, the Group is in the process of obtaining the land use right certificates for the land in the PRC with carrying amount of RMB6,349,000 (2013: RMB6,413,000) from the relevant government authorities.

Amortisation expenses of RMB3,898,000 (2013: RMB3,898,000) have been charged in administrative expenses.

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 2013						
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
Year ended 31 December 2013						
Opening net book amount	452,651	1,132,814	633	3,936	94,218	1,684,252
Additions	43,073	2,005	39	764	52,045	97,926
Transfer	5,791	28,536	—	—	(34,327)	—
Depreciation	(44,210)	(145,207)	(261)	(1,005)	—	(190,683)
Closing net book amount	457,305	1,018,148	411	3,695	111,936	1,591,495
At 31 December 2013						
Cost	704,198	2,232,604	3,176	14,933	111,936	3,066,847
Accumulated depreciation	(246,893)	(1,214,456)	(2,765)	(11,238)	—	(1,475,352)
Net book amount	457,305	1,018,148	411	3,695	111,936	1,591,495
Year ended 31 December 2014						
Opening net book amount	**457,305**	**1,018,148**	**411**	**3,695**	**111,936**	**1,591,495**
Additions	—	**4,642**	—	—	**18,919**	**23,561**
Disposals	—	—	—	**(11)**	—	**(11)**
Depreciation	**(32,995)**	**(154,912)**	**(302)**	**(746)**	—	**(188,955)**
Closing net book amount	**424,310**	**867,878**	**109**	**2,938**	**130,855**	**1,426,090**
At 31 December 2014						
Cost	**704,198**	**2,237,246**	**3,176**	**14,709**	**130,855**	**3,090,184**
Accumulated depreciation	**(279,888)**	**(1,369,368)**	**(3,067)**	**(11,771)**	—	**(1,664,094)**
Net book amount	**424,310**	**867,878**	**109**	**2,938**	**130,855**	**1,426,090**

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 2013						
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
Year ended 31 December 2013						
Opening net book amount	399,816	764,150	430	3,588	94,218	1,262,202
Additions	—	1,694	39	764	51,795	54,292
Disposals						
Transfer	5,791	28,536	—	—	(34,327)	—
Depreciation	(39,463)	(123,551)	(214)	(939)	—	(164,167)
Closing net book amount	366,144	670,829	255	3,413	111,686	1,152,327
At 31 December 2013						
Cost	608,290	1,847,485	2,934	14,585	111,686	2,584,980
Accumulated depreciation	(242,146)	(1,176,656)	(2,679)	(11,172)	—	(1,432,653)
Net book amount	366,144	670,829	255	3,413	111,686	1,152,327
Year ended 31 December 2014						
Opening net book amount	366,144	670,829	255	3,413	111,686	1,152,327
Additions	—	3,595	—	—	18,008	21,603
Disposal	—	—	—	(11)	—	(11)
Depreciation	(28,248)	(133,118)	(255)	(680)	—	(162,301)
Closing net book amount	337,896	541,306	—	2,722	129,694	1,011,618
At 31 December 2014						
Cost	608,290	1,851,080	2,934	14,361	129,694	2,606,359
Accumulated depreciation	(270,394)	(1,309,774)	(2,934)	(11,639)	—	(1,594,741)
Net book amount	337,896	541,306	—	2,722	129,694	1,011,618

8. PROPERTY, PLANT AND EQUIPMENT – *continued*

Notes:

(a) As at 31 December 2014, property, plant and equipment of the Group and the Company with carrying amount of RMB416,150,000 (2013: RMB64,637,000) have been pledged as securities for certain bank borrowings of the Group and the Company (Note 18).

(b) As at 31 December 2014, 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 RMB100,444,000 (2013: RMB154,055,000) and RMB nil (2013: RMB5,791,000) respectively from the relevant government authorities.

(c) Depreciation expenses of RMB138,796,000 (2013: RMB139,247,000), RMB5,768,000 (2013: RMB5,835,000) and RMB44,391,000 (2013: RMB45,601,000) 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)	11% to 15%	0% to 26%
Discount rate	11.7%	11.8%
Growth rate within the Projection Period (Note ii)	-3.6% to 11.1%	17% to 116%
Growth rate beyond the Projection Period	0%	0%

(i) For the Acrylic Fiber Product Segment, management expects that the gross margin would be 10% from year 2019 onwards. For the Carbon Fiber Product Segment, management assumes that the Group will only be able to achieve the expected gross margin of 26% 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.

(ii) Management expects that the sales of carbon fiber products will significantly increase due to operation of a new production line in 2013 and in view of this, management has projected above 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 2014.

9. INTANGIBLE ASSETS – TECHNICAL KNOW-HOW AND LICENSES

Group and Company

	RMB'000
At 1 January 2013	
Cost	102,624
Accumulated amortization	(94,419)
Net book amount	8,205
Year ended 31 December 2013	
Opening net book amount	8,205
Amortisation charge	(8,205)
Closing net book amount	—
At 31 December 2013	
Cost	102,624
Accumulated amortisation	102,624
Net book amount	—
At 1 January 2014	
Cost	**102,624**
Accumulated amortisation	**102,624**
Net book amount	—
Year ended 31 December 2014	
Opening net book amount	—
Amortisation charge	—
Closing net book amount	—
At 31 December 2014	
Cost	**102,624**
Accumulated amortisation	**102,624**
Net book amount	—

10. INVESTMENT IN A SUBSIDIARY

	Company	
	2014	2013
	RMB'000	RMB'000
Unlisted investment, at cost	385,000	385,000

Notes:

(a) 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	
			2014 RMB	2013 RMB	2014	2013
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	360,000,000	100%	100%

(b) The subsidiary's major new production lines commenced production during the year ended 31 December 2013. 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 2014.

(c) Amount due from the subsidiary is unsecured, non-interest bearing and repayable on demand. The amount is included in trade and other receivables (note 34(b)).

11. INTEREST/INVESTMENT IN A JOINT VENTURE

	Group	
	2014	2013
	RMB'000	RMB'000
At 1 January	159,418	174,071
Share of loss	(32,387)	(14,926)
Others	273	273
At 31 December	127,304	159,418

	Company	
	2014	2013
	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 joint venture, Jilin Jimont Acrylic Fiber Co., Ltd. ("Jimont"), which was established in the PRC on 21 December 2005 and its principal activity is the production and sales of acrylic fiber products. As at 31 December 2014 and 2013, 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 joint venture of the Group and the investment in a joint venture 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 joint venture	16% - 19%
Discount rate	16%
Growth rate beyond the Projection Period	0%

In determining the budgeted gross margin, management has made reference to the past performance of the joint venture and also their expectations for the market development in the next few years. Management expects that the gross margin of the joint venture will increase to 19% from 2019 onwards. The discount rate used is pre-tax and reflects the specific risks relating to the joint venture.

Based on the impairment assessment, management has concluded that the estimated recoverable amount of the joint venture is higher than its carrying amounts and hence no provision for impairment is required to be recognised as at 31 December 2014 and 2013.

11. INTEREST/INVESTMENT IN A JOINT VENTURE – *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 2014		As at 31 December 2013	
	Jimont RMB'000	50% shared by the Group RMB'000	Jimont RMB'000	50% shared by the Group RMB'000
Non-current assets	758,865	379,433	828,248	414,124
Current assets	725,441	362,720	888,967	444,484
Total assets	1,484,306	742,153	1,717,215	858,608
Non-current liabilities	100,000	50,000	200,000	100,000
Financial liabilities, excluding trade and other payable	693,400	346,700	862,208	431,104
Other current liabilities	431,586	215,793	330,912	165,456
Total liabilities	1,224,986	612,493	1,393,120	696,560
Net assets	259,320		324,095	
Reconciliation to the Group's interest in the joint venture:				
Proportion of the Group's ownership	50%		50%	
Group's share of net assets of the joint venture	129,660		162,047	
Carrying amount of the Group's interest in the joint venture	127,304		159,418	
Joint venture's capital commitments	—		—	

	Year ended 31 December 2014		Year ended 31 December 2013	
	Jimont RMB'000	50% shared by the Group RMB'000	Jimont RMB'000	50% shared by the Group RMB'000
Revenue	1,638,522	819,261	1,431,471	715,736
Expenses	(1,703,297)	(851,648)	(1,461,323)	(730,662)
Net loss for the year	(64,775)	(32,387)	(29,852)	(14,926)
Included in the above amounts are:				
Depreciation and amortisation	(72,900)	(36,450)	(72,661)	(36,331)
Interest income	6,257	3,129	4,230	2,115
Interest expense	(72,041)	(36,021)	(67,016)	(33,508)
Income tax expense	(128)	(64)	(5,098)	(2,549)

(d) There are no contingent liabilities relating to the Group's interest in the joint venture, and no contingent liabilities of the joint venture 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	
	2014 RMB'000	2013 RMB'000 (Restated)	2014 RMB'000	2013 RMB'000 (Restated)
Raw materials	123,349	209,450	114,120	205,538
Work in progress	13,142	13,383	12,628	13,168
Finished goods	208,765	181,971	127,465	98,591
	345,256	404,804	254,213	317,297

As at 31 December 2014, a batch of raw materials and finished goods with costs of RMB9,085,000 and RMB29,939,000 (2013: RMB8,057,000 and RMB30,006,000) respectively were considered as long aged with net realisable value lower than the carrying value. Provision for impairment on the abovementioned raw materials and finished goods of RMB4,587,000 and RMB29,304,000 (2013: RMB4,587,000 and RMB16,344,000) respectively were made as at 31 December 2014.

The provision for impairment on inventories recognised and written off/utilised during the year ended 31 December 2014 amounted to RMB12,960,000 (2013: RMB12,015,000) and nil (2013: nil) respectively.

14. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
Trade receivables (Note a)	112,255	102,109	103,681	91,852
Less: provision for impairment	(5,984)	(5,021)	(5,267)	(5,021)
Trade receivables – net	106,271	97,088	98,414	86,831
Bills receivables (Note 4.1(b)(1))	190,123	200,802	185,282	198,661
Amounts due from related parties (Notes e and 34(b))	266,190	188,097	479,210	318,819
Other receivables	76,911	68,673	34,387	26,598
Less: provision for impairment	(1,886)	(7,516)	(1,886)	(7,516)
Other receivables – net	75,025	61,157	32,501	19,082
Prepayments	25,714	16,847	20,984	11,794
	663,323	563,991	816,391	635,187

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	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
0 – 30 days	**66,456**	44,604	**66,385**	43,371
31 – 90 days	**22,183**	33,839	**20,949**	33,839
91 – 365 days	**7,733**	7,442	**7,626**	3,871
Over 365 days	**9,899**	11,203	**3,454**	5,750
	106,271	97,088	**98,414**	86,831

(b) Trade receivables with aging less than 30 days are not considered as past due. As at 31 December 2014, the following trade receivables were past due but not individually or collectively be impaired. These balances relate to a number of independent customers for whom there is no recent history of default. The aging analysis of these trade receivables is as follows:

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
31 – 90 days past due	**22,183**	36,136	**20,948**	33,839
91 – 365 days past due	**7,733**	6,908	**7,626**	3,338
Over 365 days past due	**9,899**	8,906	**3,454**	5,750
	39,815	51,950	**32,028**	42,927

Included in the trade receivables that were past due but not impaired as set out above, an amount of RMB6,119,000 (2013: RMB9,275,000) 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 RMB10,571,000 (2013: RMB10,045,000). Therefore, the total trade and other receivables due from this fellow subsidiary amounted to RMB16,690,000 as at 31 December 2014 (2013: RMB19,320,000). The trade and other receivable due from Toupu Textile was interest bearing at 7.2% and had no fixed terms of repayment. The ultimate parent company confirmed the balance would be settled by Toupu Textile in 2015 or set off against the amount due from the Group to the ultimate parent company and the guarantee fee (note 27) of the Group to the ultimate parent company. 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 2014 (2013: Nil).

14. TRADE AND OTHER RECEIVABLES – *continued*

Notes: – *continued*

(c) As at 31 December 2014, trade receivables of RMB5,984,000 (2013: RMB5,554,000) were considered as doubtful debts and were provided for. The amount of the provision was RMB5,984,000 (2013: RMB5,021,000) as at 31 December 2014. 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 fully/partially impaired receivables is as follows:

	Group		Company	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
0 – 30 days	—	—	—	—
31 – 90 days	—	—	—	—
91 – 365 days	—	2,064	—	2,064
Over 365 days	5,984	3,490	5,267	3,490
	5,984	5,554	5,267	5,554

14. TRADE AND OTHER RECEIVABLES – *continued*

Notes: – *continued*

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

	Group		Company	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
0 – 30 days	143,071	62,531	170,568	192,795
31 – 90 days	43,932	53,299	102,148	52,917
91 – 365 days	46,902	64,590	174,209	64,590
Over 365 days	32,285	7,677	32,285	8,517
	266,190	188,097	479,210	318,819

The amounts due from related parties primarily comprise of receivables in respect of the provision of utilities. Included in these amounts, an amount of RMB66,377,000 (2013: RMB37,510,000) has already been past due. According to settlement plans entered into between the Group and these related companies, the amount will be fully repaid by 31 December 2015. 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 2014 (2013: Nil).

Include in the amounts due from the related companies an amount of RMB47,000,000 (2013: nil) were letter of credit from JCFCL, which have been discounted to a financial institution with recourse. JCFCL is the primary obligors for payment on due date of such commercial acceptances. In the event of default, the Group is obliged to pay the financial institution the amount in default. Late interest would be charged by the financial institution until the amount has been settled. The Group is therefore exposed to the credit risk and late payment risk in respect of the letter of credit. 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 below table reconciles the impairment loss of trade and other receivables for the year:

	Group		Company	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
At 1 January	12,537	12,537	12,537	12,537
Reversal of impairment loss	(3,586)	—	(3,586)	—
Impairment loss recognised	963	—	246	—
Bad debt written off	(2,044)	—	(2,044)	—
At 31 December	7,870	12,537	7,153	12,537

The Group recognised impairment loss on trade and other receivables on individual assessment based on the accounting policy stated in Note 3.11.

(f) The other classes include prepayment and other receiveble within trade and other receivables do not contain impaired assets.

(g) The carrying amounts of trade and other receivables are all denominated in RMB except that, trade receivables of RMB37,048,000 (2013: RMB35,154,000) are denominated in US dollars.

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

(i) 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	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
Cash at bank and on hand	**201,471**	164,826	**146,262**	158,958
Less: restricted bank deposits (Note a)	**(143,657)**	(74,013)	**(93,657)**	(74,013)
Cash and cash equivalents	**57,814**	90,813	**52,605**	84,945

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 joint venture. 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 2014 and 2013, the restricted bank deposit in connection with the abovementioned specific borrowing amounted to RMB43,933,000.

The Group and the Company have pledged certain bank deposits with carrying amounts of RMB89,035,000 and RMB39,035,000 respectively. (2013: RMB30,000,000 and RMB30,000,000 respectively) to financial institutions for the issuance of certain bank bills payable of RMB140,000,000 (2013: RMB60,000,000) (Note 20).

In addition, the Company and the Group have pledged certain bank deposits with carrying amount of RMB10,000,000 (2013: Nil) as fixed deposit.

Furthermore, bank deposits of RMB677,000 (2013: RMB80,000) as at 31 December 2014 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.

(c) At the end of the reporting period, the cash and bank balances of the Group and the Company denominated in Renminbi ("RMB") amounted to RMB201,463,000 and RMB146,254,000 respectively (2013: RMB164,818,000 and RMB158,950,000 respectively). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

16. SHARE CAPITAL

(a) Share capital

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

Notes:

(i) There was no movement in share capital during the years ended 31 December 2014 and 2013.

(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 2013	—	—	31,919	(214,206)	(182,287)
Loss for the year	—	—	—	(92,472)	(92,472)
At 31 December 2013	—*	—*	31,919*	(306,678)	(274,759)
Loss for the year	—	—	—	(72,170)	(72,170)
At 31 December 2014	**—***	**—***	**31,919***	**(378,848)**	**(346,929)**

* These reserve accounts comprise the combined reserve other reserve of RMB31,919,000 (2013: RMB31,919,000) in the consolidated statement of financial position.

Company

	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 2013	—	—	31,919	(107,951)	(76,032)
Loss for the year	—	—	—	(18,345)	(18,345)
At 31 December 2013	—	—	31,919	(126,296)	(94,377)
Profit for the year	—	—	—	24,690	24,690
At 31 December 2014	**—**	**—**	**31,919**	**(101,606)**	**(69,687)**

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 confirmed not to make any appropriations to the reserve fund, enterprise expansion fund and statutory reserve fund for the years ended 31 December 2014 and 2013.

18. BORROWINGS

Group

	2014			2013		
	Effective interest rate %	Maturity	RMB'000	Effective interest rate %	Maturity	RMB'000
Current						
Bank borrowings	6.54	2015	1,148,950	6.72	2014	1,265,390
Discounted bills with recourse	6.04	2015	160,149	5.70	2014	50,000
Current portions of long term bank loans - secured	6.32	2015	120,551	4.71	2014	104,902
			1,429,650			1,420,292
Non-current						
Bank borrowings	6.47	2016 - 2022	307,697	5.25	2015 - 2022	364,122
			307,697			364,122
Total net borrowings			1,737,347			1,784,414
Representing:						
– secured/guaranteed borrowings (Note a)			1,737,347			1,784,414
Net fixed rate borrowings as a percentage of total net borrowings			22.2%			14.8%

Company

	2014			2013		
	Effective interest rate %	Maturity	RMB'000	Effective interest rate %	Maturity	RMB'000
Current						
Bank borrowings - secured	6.52	2015	1,128,950	6.70	2014	1,245,389
Discounted bills with recourse	6.04	2015	160,149	5.70	2014	50,000
Current portions of long term bank loans - secured	6.12	2015	95,051	3.78	2014	74,902
			1,384,150			1,370,291
Non-current						
Bank borrowings - secured	6.13	2016 - 2022	217,697	4.36	2015 - 2022	244,122
			217,697			244,122
Total net borrowings			1,601,847			1,614,413
Representing:						
– secured/guaranteed borrowings (Note a)			1,601,847			1,614,413
Net fixed rate borrowings as a percentage of total net borrowings			24.0%			7.1%

18. BORROWINGS – *continued*

Notes:

(a) Bank borrowings of RMB1,394,998,000 (2013: RMB1,583,224,000) are guaranteed by the ultimate parent company, out of which, bank borrowing of RMB115,500,000 (2013: RMB150,000,000) and RMB194,977,000 (2013: RMB161,524,000) are also secured by certain self-generated technical know-how as held by the subsidiary and certain property, plant and equipment of the Company with carrying amount of RMB394,703,000 (2013: RMB212,449,000).

Bank borrowings of RMB160,149,000 (2013: RMB50,000,000) are secured by certain bank bills receivable, commercial bills receivables, trade receivable and other receivable of the Company with carrying amounts of RMB172,256,000 (2013: RMB50,000,000) (Note 14).

As at 31 December 2014, bank borrowings of RMB127,500,000 (2013: RMB144,500,000) are secured by certain property, plant and equipment of the Company with carrying amounts of RMB21,447,000 (2013: RMB64,637,000) (Note 8).

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

	Group		Company	
	2014 RMB'000	2013 RMB'000	**2014 RMB'000**	2013 RMB'000
On demand	**308,000**	514,689	**308,000**	514,689
Within 1 year	**1,121,650**	905,602	**1,076,150**	855,602
Between 1 and 2 years	**132,543**	95,348	**102,543**	65,347
Between 2 and 5 years	**132,654**	209,275	**72,654**	119,275
Over 5 years	**42,500**	59,500	**42,500**	59,500
	1,737,347	1,784,414	**1,601,847**	1,614,413

During the years ended 31 December 2014 and 2013, the Group did not meet certain financial covenants specified by banks (including operating cash flow ratio, current ratio and net profit ratio). The lenders have not taken any action and have subsequently renewed the matured bank loans. Accordingly, the full amounts of the bank loans with an aggregate carrying amount of RMB308,000,000 (2013: RMB514,689,000) as at 31 December 2014, which are repayable within one year, are presented as "on demand" time band in the above analysis.

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

(d) As at 31 December 2014, the Group and the Company has fixed interest rates bank borrowings of RMB384,849,000 and RMB384,849,000 (2013: RMB264,476,000 and RMB114,475,000) 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 2013	70,724	11,492	82,216
Amortisation (Note 23)	(5,921)	(1,384)	(7,305)
At 31 December 2013	64,803	10,108	74,911
Additions (Note c)	1,600	—	1,600
Amortisation (Note 23)	(5,890)	(1,384)	(7,274)
At 31 December 2014	**60,513**	**8,724**	**69,237**

	2014 RMB'000	2013 RMB'000
Represented by		
Current portion	7,274	7,274
Non-current portion	61,963	67,637
	69,237	74,911

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 2013	53,849	11,492	65,341
Amortisation	(4,671)	(1,384)	(6,055)
At 31 December 2013	49,178	10,108	59,286
Additions (Note c)	1,600	—	1,600
Amortisation	(4,640)	(1,384)	(6,024)
At 31 December 2014	**46,138**	**8,724**	**54,862**

	2014 RMB'000	2013 RMB'000
Represented by		
Current portion	6,024	6,024
Non-current portion	48,838	53,262
	54,862	59,286

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 2014, the Group received government grants of RMB1,600,000 (2013: nil) for the improvement of certain sewage water facilities of the Group.

20. TRADE AND OTHER PAYABLES

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables (Note a)	**170,540**	210,555	**160,802**	201,405
Bills payables (Note b)	**140,000**	60,000	**90,000**	60,000
Amounts due to related parties (Notes c and 34(b))	**6,992**	13,555	**2,357**	13,498
Other payables and accruals	**128,085**	159,202	**117,329**	139,044
	445,617	443,312	**370,488**	413,947

Notes:

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

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
0 – 30 days	**71,628**	74,059	**69,674**	70,234
31 – 90 days	**41,261**	122,226	**40,367**	121,652
91 – 365 days	**46,533**	3,949	**45,355**	2,942
Over 365 days	**11,118**	10,321	**5,406**	6,577
	170,540	210,555	**160,802**	201,405

(b) Bills payables are secured by certain restricted bank deposits of the Group and the Company with carrying amount of RMB89,035,000 and RMB39,035,000 respectively. (2013: RMB30,000,000 and RMB30,000,000 respectively) (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 2013	6,810	4,250	5,761	3,545	2,229	40,836	7,284	13,065	83,780
(Charged) to the consolidated statement of comprehensive income	(851)	(1,493)	(563)	—	(1,082)	(2,346)	(4,219)	(800)	(11,354)
At 31 December 2013	5,959	2,757	5,198	3,545	1,147	38,490	3,065	12,265	72,426
(Charged)/credited to the consolidated statement of comprehensive income	(852)	(1,509)	(386)	(1,757)	618	—	41	(452)	(4,297)
At 31 December 2014	**5,107**	**1,248**	**4,812**	**1,788**	**1,765**	**38,490**	**3,106**	**11,813**	**68,129**

Company

	Pre-operating expense RMB'000	Fair value loss on derivative financial instrument 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 2013	6,810	4,250	3,545	1,147	40,836	3,064	—	59,652
(Charged) to the statement of comprehensive income	(851)	(1,493)	—	—	(2,346)	—	—	(4,690)
At 31 December 2013	5,959	2,757	3,545	1,147	38,490	3,064	—	54,962
(Charged)/credited to the statement of comprehensive income	(852)	(1,509)	(1,757)	618	—	41	171	(3,288)
At 31 December 2014	**5,107**	**1,248**	**1,788**	**1,765**	**38,490**	**3,105**	**171**	**51,674**

The Group did not recognise deferred income tax assets of RMB6,456,000 (2013: RMB33,685,000) in respect of tax loss amounting to RMB25,824,000 (2013: RMB134,738,000) that can be carried forward against future taxable income. This tax loss will expire in 2018.

22. DERIVATIVE FINANCIAL INSTRUMENT

	Group and Company	
	2014	2013
	RMB'000	RMB'000
		(Restated)
Derivative financial liability		
– Interest rate swap contract	**4,992**	11,027
Represented by:		
Current portion	**4,992**	5,869
Non-current portion	**—**	5,158
	4,992	11,027

Note:

As at 31 December 2014, the derivative financial liability represents an outstanding interest rate swap contract with an outstanding notional amount of RMB78,000,000 (2013: RMB93,600,000), with original notional principal amount of RMB130,000,000 (2013: 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 gain associated with this derivative financial instrument of RMB380,000 (the aggregate of the amount of reversal of fair value loss of RMB6,035,000 and the realised loss of RMB5,655,000 on the contract for the year ended 31 December 2014) (2013: net loss of RMB394,000) have been recognised within other income and gains' in the consolidated statement of comprehensive income for the year ended 31 December 2014 (Note 23).

23. OTHER INCOME AND GAINS

	Notes	2014 RMB'000	2013 RMB'000 (Restated)
Other income			
Rental income		612	139
Income from provision of utilities (Note 34(a)(i))		461,725	503,457
Amortisation of deferred income (Note 19)		7,274	7,305
Sales of raw materials		10,725	—
Subsidy income (Note i)		2,238	620
Inspection fee income (Note ii)		2,251	—
Others		740	240
		485,565	511,761
Other gains			
Gain attributable to equity interests of a joint venture	11	273	273
Reversal of impairment loss on trade and other receivables, net	14(f)	2,623	—
Net gain on derivative financial instrument	22	380	—
		3,276	273
		488,841	512,034

Note:

(i) Subsidy income mainly represents subsidies received from local government in relation to the carbon fiber production business and the subsidy rewards to the Group by local government for the Group has implemented a series of energy control for the past 10 years to improve the energy usage during the year ended 31 December 2014. There are no unfulfilled conditions or contingencies relating to these grants.

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

24. OTHER EXPENSES AND LOSSES

	Notes	2014 RMB'000	2013 RMB'000 (Restated)
Other expenses			
Direct outgoings in respect of provision of utilities		(355,036)	(385,335)
Cost of raw materials		(10,835)	—
Others		(17)	(105)
		(365,888)	(385,440)
Other losses			
Net loss on derivative financial instrument	22	—	(394)
Foreign exchange losses, net		—	(2,506)
Others		—	(194)
		—	(3,094)
		(365,888)	(388,534)

25. LOSS BEFORE INCOME TAX

Loss before income tax is stated after charging:

	2014 RMB'000	2013 RMB'000
Inventories recognised as an expense		
– for production of fiber products	1,791,105	1,355,604
– for provision of utilities	355,036	385,335
– impairment on inventories (Note 13)	12,960	12,015
Depreciation (Note 8)	188,955	190,683
Amortisation of		
– land use rights (Note 7)	3,898	3,898
– intangible assets (included in administrative expenses) (Note 9)	—	8,205
Employee benefit expenses (Note 26)	111,396	96,889
Minimum lease payment	14,664	12,293
Auditors' remuneration		
– audit services	1,315	1,315

26. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2014 RMB'000	2013 RMB'000
Wages and salaries	86,298	75,386
Pension costs – defined contribution plans	8,533	7,704
Other social security costs	16,565	13,799
	111,396	96,889

Directors' remuneration

Directors' remuneration disclosed pursuant to section 78 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), is as follows:

Year ended 31 December 2014

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. SONG Dewu (Note a)	—	61	12	73
Mr. YANG Xuefeng	196	67	13	276
Mr. WANG Changsheng (Note c)	127	61	12	200
	323	189	37	549
Non-executive director				
Mr. MA Jun	—	58	12	70
Mr. JIANG Junzhou	—	60	12	72
Ms. PANG Suet Mui	20	—	—	20
Mr. SUN Hai Chao	20	—	—	20
	40	118	24	182

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

Directors' remuneration – *continued*

Year ended 31 December 2014 – *continued*

Name of director and supervisor	Fees	Salary	Employer's contribution to pension scheme	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Independent non-executive director				
Mr. YE Yongmao (Note c)	50	—	—	50
Mr. MAO Fengge (Note b)	25	—	—	25
Mr. LEE Ka Chung (Note b)	119	—	—	119
Ms. ZHU Ping	46	—	—	46
Mr. LI Yan Xi (Note b)	25	—	—	25
Mr. JIN Jie (Note b)	25	—	—	25
	290	—	—	290
	653	307	61	1,021
Supervisor				
Ms. SUN Yujing	—	47	9	56
Mr. ZHANG Haiou	—	52	10	62
Mr. ZHANG Jiaku	—	29	6	35
Mr. CHENG Jianhang	—	—	—	—
Mr. LIU Ming	20	—	—	20
Ms. BAI Hua	—	52	10	62
Mr. Xu Jiawei	—	42	8	50
	20	222	43	285

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

Directors' remuneration – *continued*

Year ended 31 December 2013

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. SONG Dewu (Note a)	23	—	—	23
Mr. WANG Jinjun (Note a)	427	—	—	427
Mr. YANG Xuefeng	400	—	—	400
Mr. WANG Changsheng (Note c)	350	—	—	350
	1,200	—	—	1,200
Non-executive director				
Mr. MA Jun	20	—	—	20
Mr. JIANG Junzhou	20	—	—	20
Ms. PANG Suet Mui	20	—	—	20
Mr. SUN Hai Chao	20	—	—	20
	80	—	—	80
Independent non-executive director				
Mr. YE Yongmao (Note c)	50	—	—	50
Mr. MAO Fengge (Note b)	50	—	—	50
Mr. LEE Ka Chung (Note b)	240	—	—	240
Ms. ZHU Ping	50	—	—	50
	390	—	—	390
	1,670	—	—	1,670

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

Directors' remuneration – ***continued***

Year ended 31 December 2013 – ***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	30	—	—	30
Mr. ZHANG Haiou	20	50	13	83
Mr. ZHANG Jiaku	20	—	—	20
Mr. CHENG Jianhang	20	—	—	20
Mr. LIU Ming	20	—	—	20
Ms. BAI Hua	20	51	13	84
	130	101	26	257

Notes:

(a) Mr. Wang Jinjun, the then chief executive, resigned on 12 December 2013 and Mr. Song Dewu has been appointed as an executive director and chairman of the Company on the same date. Mr. Song Dewu is the chief executive of the Company.

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

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

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

In addition to the directions' emoluments as disclosed above, certain directors of the Company received emoluments from JCF Groupco, the ultimate parent company, and its fellow subsidiaries during the year ended 31 December 2014 amounting to RMB297,000 (2013: RMB476,000), 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.

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

Five highest paid individuals

The five individuals whose emoluments were the highest in the Company and its subsidiary for the year ended 31 December 2014 included four (2013: four) directors whose emoluments are reflected in the analysis presented above. The aggregate amounts of emoluments paid and payable to the remaining one (2013: one) individual whose emoluments was the highest in the Group during the year are as follows:

	2014 RMB'000	2013 RMB'000
Basic salaries and allowances	1,185	1,185

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

	Number of individual	
	2014	2013
RMB792,896 to RMB1,189,343 (2013: RMB798,850 to RMB1,198,274) (equivalent to HK$1,000,000 to HK$1,500,000)	1	1

During the years ended 31 December 2014 and 2013, 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:

	2014 No. of individuals	2013 No. of individuals
Nil to RMB792,896 (2013: Nil to RMB798,850) (equivalent to Nil to HK$1,000,000)	21	21
RMB792,896 to RMB1,189,343 (2013: RMB798,850 to RMB1,198,274) (equivalent to HK$1,000,000 to HK$1,500,000)	1	1

27. FINANCE INCOME AND COSTS

	2014 RMB'000	2013 RMB'000 (Restated)
Interest income	(2,532)	(2,900)
Interest expenses on bank borrowings		
– wholly repayable within five years	138,638	115,003
– repayable over five years	7,598	16,010
	146,236	131,013
Bank borrowings guarantee fees to the ultimate parent company (Note 34)	1,200	9,117
Finance costs	147,436	140,130
Finance costs – net	144,904	137,230

Note:

With effect from 1 January 2011, the ultimate parent company has charged guarantee fees on those guaranteed bank borrowings (Note 18(a)) which are calculated at predetermined rates on the daily outstanding principal amounts of the guaranteed bank borrowings. No guarantee fee was charged by the ultimate parent company to the Company for the year ended 31 December 2014.

28. INCOME TAX

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

	2014 RMB'000	2013 RMB'000
Current income tax – PRC corporate income tax		
– over-provision in respect of prior years	—	(464)
	—	(464)
Deferred income tax		
– charge for the year (Note 21)	4,297	11,354
Income tax expenses	4,297	10,890

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 2014 (2013: Nil).

28. INCOME TAX – *continued*

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:

	2014 RMB'000	2013 RMB'000 (Restated)
Loss before income tax	(67,873)	(81,582)
Tax calculated at corporate income tax rate of 25% (2013: 25%)	(16,969)	(20,396)
Tax effects of:		
– income not subject to tax	(1,506)	(1,506)
– expenses not deductible for tax purposes	76	177
– tax losses and other deductible temporary difference not recognised	14,599	21,700
– reversal of tax effect of tax losses and temporary difference previously recognised	—	7,647
– tax effect of share of loss of a joint venture	8,097	3,732
– over-provision of PRC corporate income tax in prior years	—	(464)
Income tax expenses	4,297	10,890

29. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated loss attributable to owners of the Company includes a profit of RMB12,040,000 (2013: loss of RMB18,345,000) which has been dealt with in the financial statements of the Company (loss attributable to owners of the Company RMB18,345,000 in 2013).

30. LOSS PER SHARE

Basic loss per share is calculated by dividing the loss attributable to the owners of the Company for the year by the weighted average number of the Company's shares in issue during the year of 866,250,000 (2013: 866,250,000) shares.

The Company has no potential dilutive shares in issue duning the year ended 31 December 2014 and 2013 and therefore the diluted loss per share is equal to the basic loss per share.

31. DIVIDEND

The Company's directors do not recommend the payment of any dividend for the year ended 31 December 2014 (2013: nil).

32. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Cash generated from operations

	Note	2014 RMB'000	2013 RMB'000 (Restated)
Loss before income tax		(67,873)	(81,582)
Adjustments for:			
– Reversal of impairment on trade and other receivables	23	(2,623)	—
– Depreciation	25	188,955	190,683
– Amortisation of			
– land use rights	25	3,898	3,898
– intangible assets	25	—	8,205
– Amortisation of deferred income	23	(7,274)	(7,305)
– Provision for impairment of inventories	25	12,960	12,015
– Net (gain)/loss on derivative financial instrument	23, 24	(380)	394
– Gain on disposal of property, plant and equipment		(143)	—
– Interest income	27	(2,532)	(2,900)
– Interest and guarantee fee expenses	27	147,436	140,130
– Share of loss of a joint venture	11	32,387	14,926
– Gain attributable to equity interests of a joint venture	23	(273)	(273)
Operating profit before working capital changes		304,538	278,191
Changes in working capital:			
– decrease/(increase) in inventories		46,588	(62,805)
– increase in trade and other receivables		(87,609)	(109,240)
– decrease in trade and other payables		(80,233)	(116,786)
– decrease in derivative financial instruments		(5,655)	(6,367)
Cash generated from/(used) in operations		177,629	(17,007)

33. COMMITMENTS

(a) Capital Commitment

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

	2014 RMB'000	2013 RMB'000
Property, plant and equipment	1,553	2,435

(b) Operating lease commitments

The Group as the lessee

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

	2014 RMB'000	2013 RMB'000
Not later than 1 year		
– Leased assets to JCFCL (Note 34(a)(i))	10,277	11,207
– Leased assets to group entities under JCF Groupco (Note 34(a))	2,192	177
	12,469	11,384
Later than 1 year and not later than 5 years		
– Leased assets to JCFCL (Note 34(a)(i))	10,277	22,415
– Leased assets to group entities under JCF Groupco (Note 34(a))	2,192	—
	12,469	22,415
	24,938	33,799

The Group as the lessor

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

	2014 RMB'000	2013 RMB'000
Land use rights and machinery		
Not later than 1 year	119	119
Later than 1 year and not later than 5 years	167	203
Later than 5 years	66	92
	352	414

34. SIGNIFICANT RELATED PARTY TRANSACTIONS

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

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

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

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

Name of related parties	Relationships
Tuopu Textile Industrial Development Co., Ltd. ("Tuopu Textile")	A subsidiary of JCF Groupco
Jilin Chemical Fiber Construction and Installation Engineering Co., Ltd.	A subsidiary of JCF Groupco
Jilin Huidong Chemical Industry Co., Ltd.	A subsidiary of JCF Groupco
Jilin Aika Viscose Fiber Co., Ltd.	A subsidiary of JCF Groupco
JCFCL	A subsidiary of JCF Groupco
Jilin Chemical Fiber Furunde Textile Co. Ltd	A subsidiary of JCF Groupco
Jilin Chemical Fiber Group Import Export Co., Ltd.	A subsidiary of JCF Groupco

34. SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

(a) Related party transactions

	2014 RMB'000	2013 RMB'000
Sales of goods to:		
– a shareholder of the Company	318,996	363,678
– group entities under JCF Groupco*	2,974	765
Provision of utilities to:		
– a joint venture	169,510	181,416
– group entities under JCF Groupco*	213,244	249,614
Provision of quality inspection services to a joint venture	2,017	1,813
Sales of raw materials to a joint venture	10,389	8,069
Rental expense to JCFCL in respect of the remaining leased asset* (Note (i))	(10,924)	(11,822)
Rental expense to group entities under JCF Groupco*	(2,192)	(1,232)
Bank borrowings guarantee fees to the ultimate parent company (Note (ii))	(1,200)	(9,117)
Repair and maintenance service fee to group entities under JCF Groupco*	(5,653)	(3,781)
Purchases of property, plant and equipment from a fellow subsidiary	(218)	—
Purchases of raw materials from:		
– a joint venture	(249)	(441)
– group entities under JCF Groupco*	(9,399)	(12,825)
Construction costs to group entities under JCF Groupco*	(190)	(3,940)

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

Notes:

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

(ii) JCF Groupco waived the bank borrowing guarantee fees of the Company for the year ended 31 December 2014.

(iii) JCF Groupco allowed the Group to the use of the trademark of "白山" (Baishan) at nil consideration during the years ended 31 December 2014 and 2013.

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

34. SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

(b) Balances with related parties

	Group		Company	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
Trade receivables from				
– a fellow subsidiary	6,119	9,275	6,119	9,275
Advance from customer				
– a shareholder of the company	6,854	16,542	6,854	16,542
Amounts due from				
– fellow subsidiaries	11,750	10,045	11,750	10,885
– a joint venture	19,010	33,748	19,010	33,748
– a related company	62,871	41,539	62,871	41,539
– JCFCL	172,559	102,765	172,559	102,765
– a subsidiary	—	—	213,020	129,882
	266,190	188,097	479,210	318,819
Trade payables to				
– fellow subsidiaries	612	818	612	777
Amounts due to				
– the ultimate parent company	3,075	10,952	1,194	11,835
– fellow subsidiaries	3,418	2,238	1,163	1,663
– JCFCL	499	365	—	—
	6,992	13,555	2,357	13,498

Note:

The trade and other receivable due from Toupu Textile was interest bearing at 7.2% and had no fixed terms of repayment. The ultimate parent company confirmed the balance would be settled by Toupu Textile in 2015 or set off against the amount due from the Group to the ultimate parent company and the guarantee fee (note 27) of the Group to the ultimate parent company.

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

Include in the amounts due from the related companies an amount of RMB47,000,000 (2013: nil) were letter of credit from JCFCL, which have been discounted to a financial institution with recourse. JCFCL is the primary obligors for payment on due date of such commercial acceptances. In the event of default, the Group is obliged to pay the financial institution the amount in default. Late interest would be charged by the financial institution until the amount has been settled. The Group is therefore exposed to the credit risk and late payment risk in respect of the letter of credit. The proceeds of the discounting transactions are included in borrowings as asset-backed financing (Note 18) until the discounted bills were matured or settled.

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 RMB1,217,377,000 (2013: RMB760,373,000).

In addition, approximately 100% and 96% (2013: 62% and 82% respectively) of the Group's bank balances (including restricted bank deposits) and borrowings are deposited/arranged with state-owned banks as at 31 December 2014.

(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:

	2014 RMB'000	2013 RMB'000
Wages, salaries and other short-term employee benefits	2,443	3,363
Pension and social security costs	117	39
	2,560	3,402

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

	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 2014					
Trade and other receivables (excluding prepayments)	637,609	637,609	—	—	—
Cash and cash equivalents	57,814	57,814	—	—	—
Restricted bank deposits	143,657	143,657	—	—	—
Borrowings	—	—	—	(1,737,347)	(1,737,347)
Derivative financial instrument	—	—	(4,992)	—	(4,992)
Trade and other payables (excluding other taxes, advance from customers and provision for staff welfare)	—	—	—	(369,349)	(369,349)
Total	839,080	839,080	(4,992)	(2,106,696)	(2,111,688)

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 2013					
Trade and other receivables (excluding prepayments)	547,144	547,144	—	—	—
Cash and cash equivalents	90,813	90,813	—	—	—
Restricted bank deposits	74,013	74,013	—	—	—
Borrowings	—	—	—	(1,784,414)	(1,784,414)
Derivative financial instrument	—	—	(11,027)	—	(11,027)
Trade and other payables (excluding other taxes, advance from customers and provision for staff welfare)	—	—	—	(354,229)	(354,229)
Total	711,970	711,970	(11,027)	(2,138,643)	(2,149,670)

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 2014					
Trade and other receivables (excluding prepayments)	795,407	795,407	—	—	—
Cash and cash equivalents	52,605	52,605	—	—	—
Restricted bank deposits	93,657	93,657	—	—	—
Borrowings	—	—	—	(1,601,847)	(1,601,847)
Derivative financial instrument	—	—	(4,992)	—	(4,992)
Trade and other payables (excluding other taxes, advance from customers and provision for staff welfare)	—	—	—	(298,044)	(298,044)
Total	941,669	941,669	(4,992)	(1,899,891)	(1,904,883)

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 2013					
Trade and other receivables (excluding prepayments)	623,393	623,393	—	—	—
Cash and cash equivalents	84,945	84,945	—	—	—
Restricted bank deposits	74,013	74,013	—	—	—
Borrowings	—	—	—	(1,614,413)	(1,614,413)
Derivative financial instrument	—	—	(11,027)	—	(11,027)
Trade and other payables (excluding other taxes, advance from customers and provision for staff welfare)	—	—	—	(326,461)	(326,461)
Total	782,351	782,351	(11,027)	(1,940,874)	(1,951,901)

36. COMPARATIVE FIGURE

Comparative figures

Certain 2013 corresponding comparative figures have been reclassified to conform to current year's presentation.

Land use rights of the Group and the Company included in non-current assets, amounting to RMB3,898,000 and RMB3,865,000 respectively, has been reclassified as current assets.

Deferred income of the Group and the Company included in non-current liabilities, amounting to RMB7,274,000 and RMB6,024,000 respectively, has been reclassified to current liabilities.

Derivative financial instrument of the Group and the Company included in current liabilities, amounting to RMB5,158,000 and RMB5,158,000 respectively, has been reclassified to non-current liabilities.

Other gain arising from gain attributable to equity interest of a joint venture has been reclassified to other income and gains.

Other losses arising from net loss on derivative financial instrument, net foreign exchange losses, and other miscellaneous losses has been reclassified to other expense and losses.

36. COMPARATIVE FIGURE – *continued*

Comparative figures – *continued*

Restricted bank deposits in notes to the consolidated statement of cash flows has been reclassified from cash flow from operating activities to cash flow from investing activities.

Proceeds/(Repayments) of bill payable in note to the consolidated statement of cash flows has been reclassified from cash flow from operating activities to financing activities.

Inventories of work in progress of the Group and the Company, amounting to RMB73,305,000 and RMB70,831,000, has been reclassified as inventories of raw materials.

Inventories of work in progress of the Group and the Company, amounting to RMB9,724,000 and RMB9,048,000, has been reclassified as inventories of finished goods.