ANNUAL REPORT 2016

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)

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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. Wu Song

Independent Non-executive Directors

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

SUPERVISORS

Ms. Sun Yujing
Mr. Xu Jiawei
Mr. Shao Baozhong
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. Xu Xuezhi

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

Unit 1715, 17/F.,
Concordia Plaza,
No.1 Science Museum Road,
Tsimshatsui, Kowloon

AUDITORS

Moore Stephens CPA Limited

LEGAL ADVISOR AS TO HONG KONG LAW

Luk & Partners

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

Boardroom Share Registrars (HK) Limited
31/F, 148 Electric Road
North Point
Hong Kong

FINANCIAL SUMMARY

	Year ended 31 December				
	2016	2015	2014	2013	2012
	RMB million	RMB million	RMB million	RMB million	RMB million
			(Restated)	(Restated)	(Restated)
				(Unaudited)	(Unaudited)
Revenue	**1,571.3**	1,787.1	1,895.9	1,448.9	1,389.6
Gross profit	**224.5**	331.7	149.2	106.7	19.5
Operating expenses	**(143.4)**	(142.7)	(121.9)	(122.6)	(102.3)
Other gains, net Note 2	**80.2**	85.0	121.0	121.8	58.3
Operating profit/(loss)	**161.3**	274.0	148.3	105.9	(24.5)
Finance costs, net	**(61.0)**	(113.5)	(134.0)	(124.9)	(119.9)
Share of result of a joint venture	**10.3**	21.7	(32.4)	(14.9)	(40.2)
Profit/(loss) before income tax	**110.6**	182.2	(18.1)	(33.9)	(184.6)
Income tax (expense)/credit	**(24.1)**	(5.4)	(3.3)	(5.3)	3.9
Profit/(loss) from continuing operations	**86.5**	176.8	(21.4)	(39.2)	(180.7)
Loss from discontinued operations	**—**	(44.6)	(50.8)	(53.3)	(5.9)
Profit/(loss) attributable to owners of the Company	**86.5**	132.2	(72.2)	(92.5)	(186.6)
Earnings/(loss) per share (RMB per share)	**0.10**	0.15	(0.08)	(0.11)	(0.22)
Dividend per share (RMB per share)	**—**	—	—	—	—
Gross profit margin	**14.3%**	18.6%	7.9%	7.4%	1.4%
Net profit/(loss) margin	**5.51%**	7.4%	(3.8%)	(6.4%)	(13.4%)

	As at 31 December				
	2016	2015	2014	2013	2012
	RMB million	RMB million	RMB million	RMB million	RMB million
Non-current assets	**1,461.2**	1,328.7	1,705.0	1,908.2	2,053.8
Current assets	**1,064.0**	1,144.3	1,214.0	1,139.4	996.6
Total assets	**2,525.2**	2,473.0	2,919.0	3,047.6	3,050.4
Non-current liabilities	**110.3**	156.0	369.7	437.0	389.7
Current liabilities	**1,534.4**	1,523.0	1,887.5	1,876.6	1,834.2
Total liabilities	**1,644.7**	1,679.0	2,257.2	2,313.6	2,223.9
Total equity	**880.5**	794.0	661.8	734.0	826.5
Current ratio	**0.69**	0.75	0.64	0.61	0.54
Gearing ratio [Note 1]	**65.1%**	67.9%	77.3%	75.9%	72.9%

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 joint venture (collectively, the "Group") for the financial year ended 31 December 2016 (the "Year").

ANNUAL RESULTS

During the Year, the Group's revenue amounted to approximately RMB1.6 billion, representing a decrease of approximately 12% as compared to RMB1.8 billion in the previous year. Profit attributable to the owners of the Company for the Year amounted to approximately RMB86.5 million, decreased from a profit of approximately RMB132.2 million for the year ended 31 December 2015.

BUSINESS REVIEW

The Group is principally engaged in the production and sale of acrylic fiber products. In July 2016, the Ministry of Commerce of the PRC decided to impose anti-dumping duties on imported acrylic fibers originated in Japan, South Korea and Turkey in favour of the acrylic fiber industry in China, imported acrylic fiber decreased during the year. However, the profitability of the acrylic fiber industry narrowed and the cost pressures soared due to the expected increase of new acrylic fiber production capacity in China and the increasing trend of raw material prices commencing from the second half of 2016.

OUTLOOK

Looking forward, the Group will continue to expand its market share by enhancing marketing and sales of acrylic fiber products, strive to achieve further growth by solidifying its leading position in the PRC's acrylic fiber industry 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
29 March 2017

MAJOR OPERATIONAL DATA

1. Revenue

	Year ended 31 December			
	2016		2015	
Continuing operations	RMB million	%	RMB million	%
Acrylic top	657.7	41.9	731.9	41.0
Acrylic tow	515.8	32.8	371.2	20.8
Acrylic staple fiber	369.2	23.5	661.6	37.0
Others*	28.6	1.8	22.4	1.2
Total	1,571.3	100.0	1,787.1	100.0

	2016		2015	
Discontinued operations	RMB million	%	RMB million	%
Carbon fiber precursor (Note)	N/A	N/A	46.6	100.0

2. Sales volume

	Year ended 31 December			
	2016		2015	
Continuing operations	Tons	%	Tons	%
Acrylic top	53,918	39.3	52,908	38.4
Acrylic tow	34,071	24.8	29,788	21.6
Acrylic staple fiber	47,651	34.7	53,494	38.8
Others*	1,726	1.2	1,682	1.2
Total	137,366	100.0	137,872	100.0

	2016		2015	
Discontinued operations	Tons	%	Tons	%
Carbon fiber precursor	N/A	N/A	1,043	100.0

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

Note:

On 26 June 2015, the Group entered into an equity transfer agreement with Jilin City Guosheng Asset Management Co., Ltd. (the "Purchaser"), pursuant to which, the Group agreed to dispose its 100% entire interest in Jilin Tangu Carbon Fiber Co., Ltd. ("Tangu") at a contract amount of RMB158,840,000. On 30 June 2015, the equity transfer agreement became effective under the approval of the disposal by the State-owned Assets Supervision & Administration Commission of the People's Government of Jilin City. Tangu was engaged in the development, production, and sales of carbon fiber products in the PRC.

3. Average selling price and gross profit margin

	Year ended 31 December			
	2016		2015	
Continuing operations	**Average selling price RMB/ton**	**Gross profit margin %**	Average selling price RMB/ton	Gross profit margin %
Acrylic top	**12,199**	**16.78**	13,834	20.58
Acrylic tow	**10,835**	**12.99**	12,462	15.71
Acrylic staple fiber	**10,824**	**12.51**	12,367	18.01
Average gross profit margin		**14.29**		18.56

	2016		2015	
Discontinued operations	**Average selling price RMB/ton**	**Gross profit margin %**	Average selling price RMB/ton	Gross profit margin %
Carbon fiber precursor	**N/A**	**N/A**	44,703	15.40

REVIEW AND OUTLOOK

Market Review

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

Sales Review

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

Production Management

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

Employees

As at 31 December 2016, the Group's continuing operations had 1,719 employees, representing a slight decrease of 14 employees as compared to 1,733 employees as at 31 December 2015. The Group's staff remuneration packages were determined with reference to the prevailing market practices (including a performance-based incentive bonus). The Group also provided continuous training to employees at all levels. During the Year, the Group provided its employees with numerous training opportunities corresponding to the various functions of their positions including product quality control, production safety and environmental protection. The Group also conducted performance evaluations of all employees. The Group was in compliance with all relevant PRC laws and regulations regarding occupational health and safety in all material aspects.

Environmental Policies and Performance

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

OUTLOOK

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

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

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

FINANCIAL ANALYSIS

Operating results

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

Operating expenses (distribution costs and administrative expenses)

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

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

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

Net finance costs

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

Share of result of a joint venture

The Group's share of 50% of the profit of its joint venture, Jilin Jimont Acrylic Fiber Co., Ltd. ("Jimont"), under the equity method of accounting amounted to approximately RMB10.3 million for the Year (2015: profit of RMB21.7 million). The decrease in the profit of Jimont was primarily resulted from the market conditions as described in this 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 2016, the Group's total assets and total liabilities were approximately RMB2.53 billion and RMB1.64 billion, respectively (2015: RMB2.47 billion and RMB1.68 billion respectively). As of 31 December 2016, the Group's net current liabilities amounted to approximately RMB470.4 million (2015: RMB378.7 million) and its current ratio, calculated by dividing its current assets by its current liabilities as of 31 December 2016, was approximately 0.69 (2015: 0.75). The Group had cash in hand and at bank and restricted bank deposits of approximately RMB40.3 million and RMB14.6 million, respectively, as of 31 December 2016 (2015: RMB67.6 million and RMB62.2 million respectively). As of 31 December 2016, the total bank borrowings of the Group amounted to approximately RMB1.15 billion (2015: RMB1.28 billion), out of which approximately RMB1.04 billion (2015: RMB1.06 billion) was short-term bank borrowings, approximately RMB38.7 million (2015: RMB102.5 million) was current portion of long-term borrowings and approximately RMB76.5 million (2015: RMB115.2 million) was the non-current portion of long term bank borrowings. Approximately 60% (2015: 61%) of the Group's bank borrowings bear floating interest rates. The bank borrowings were mainly used for the expansion of production facilities and the construction of the thermal power plant as well as the development of the carbon fiber precursor project in the previous years. The net decrease in bank borrowings was approximately RMB124 million during the Year. All of the Group's bank borrowings are denominated in Renminbi. Therefore, the management believes that the Group is exposed to minimal foreign exchange risks and has not made any foreign currency hedging arrangement. As of 31 December 2016, the Group's gearing ratio, calculated by dividing total liabilities by total assets, was approximately 65.1% (2015: 67.9%).

CAPITAL STRUCTURE

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

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

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

As at the date of this annual report, none of the Non-H Foreign Shares have been converted.

INVESTMENT REVIEW

Joint venture

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

In 2016, the sales volume and production volume of the joint venture reached 145,255 tons and 144,620 tons (2015: 117,005 tons and 114,528 tons), respectively, representing a sales-to-production ratio of approximately 100% (2015: 102%). The utilisation rate of the joint venture production plant was 106% (2015: 104%). The profit of the joint venture was approximately RMB20.6 million in the year ended 31 December 2016 (2015: profit of RMB 43.4 million). The decrease in the profitability of the joint venture was mainly due to impact of the market conditions described in the section headed "Market Review".

Bank deposits

As of 31 December 2016, the Group did not hold deposits under trusts in any financial institutions in the PRC. All of the Group's cash was held in commercial banks in the PRC in accordance with applicable laws and regulations. Except for restricted bank deposits of approximately RMB14.6 million (2015: RMB62.2 million), the Group had no bank deposits which cannot be withdrawn upon maturity.

Pledged assets

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

Contingent liabilities

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

Dividend

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

DIRECTORS

Executive Directors

Mr. Song Dewu, aged 45, 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 21 years of experience in the chemical fiber industry. He graduated from Jilin Institute of Chemical Technology 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 52, 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 28 years of 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 47, is an excutive Director and 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 51, is a non-executive Director of the Company. 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 26 years of experience in the chemical fiber industry and is a qualified senior engineer in the PRC.

Mr. Jiang Junzhou, aged 58, is a non-executive Director of the Company. He first became a Director of the Company on 28 June 2007. Mr. Jiang joined JCF Groupco in 1978 and has over 36 years of experience in education, imports and exports as well as management.

Ms. Pang Suet Mui, aged 47, is a non-executive Director. She is currently the head of fund investment and management division 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. Wu Song, aged 45, is currently the deputy general manager of Shenzhen Taiping Investment Co., Ltd. and the director and general manager of Taiping Investment Holdings Co., Ltd.. Prior to joining Shenzhen Taiping Investment Co., Ltd.* in May 2014, Mr. Wu had worked at various departments in the central government of the PRC since July 2000. Mr. Wu graduated from Peking University with a bachelor's degree in history in 1994, and also obtained a master 's degree and doctor's degree in law from Peking University in 1997 and 2000, respectively.

Independent non-executive Directors

Mr. Lv Xiaobo, aged 51, 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 21 years of experience in the accounting industry.

Mr. Li Yanxi, aged 46, is an independent non-executive Director. Mr. Li currently serves as the professor at Dalian University of Technology. Mr. Li has over 24 years of experience in finance and accounting and is a Certified Public Accountant and a Certified Public Valuer in the PRC. 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 53, 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 32 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 41, 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 14 years of 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 51, is a supervisor of the Company ("Supervisor"). She is currently the 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 23 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 40, a Supervisor, joined Jilin Chemical Fiber Group Co., Ltd. in 1996. Mr Xu has over 20 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 general office of the Company, director of the security department of of the Company and head of the general and audit department of Jilin Chemical Fiber Group 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. Mr Xu. is a senior political personnel in the PRC.

Mr. Liu Ming, aged 45, 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 46, 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. Shao Baozhong, aged 44, is currently the deputy manager of the production department of the Company. Mr. Shao joined Jilin Chemical Fiber Co., Ltd. (吉林化纖股份有限公司) as a technician in July 1997. He then joined the Company in October 1997 and has served as a technician and chief engineer before he was promoted to his current position. Mr. Shao received a bachelor's degree in polymer chemical engineering from the Beijing University of Chemical Technology in July 1996. Mr. Shao is a senior engineer.

Ms. Bai Hua, aged 48, 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. Xu Xuezhi, aged 44, 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 Jilin Forestry College in 1991, he also obtained his degree in Philosophy and MBA from Jilin University in 2001 and 2004 respectively.

Mr. Chan Cheung, aged 43, 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 18 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 2016.

PRINCIPAL ACTIVITIES

The Company is principally engaged in the manufacturing and sales of acrylic fiber products. The activity of the joint venture of the Company is set out in note 10 to the consolidated financial statements.

BUSINESS REVIEW

The business review of the Group as at 31 December 2016 is set out under the section headed "Management Discussion and Analysis" of this annual report on pages 7 to 13.

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 55.

The Directors do not recommend the declaration of a dividend for the year ended 31 December 2016.

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five financial years is set out on pages 4 to 5 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group is 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 15(a) to the consolidated financial statements.

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

DIRECTORS

The Directors of the Company in 2016 and up to the date of this report are:

Executive Directors

Mr. Song Dewu
Mr. Yang Xuefeng
Mr. Pan Xianfeng

Non-executive Directors

Mr. Jiang Junzhou
Mr. Ma Jun
Ms. Pang Suet Mui
Mr. Wu Song

Independent non-executive Directors

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

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 Securities 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 effective from 30 June 2014 (except for Mr. Pan Xianfeng and Mr. Lv Xiaobo whose service contracts are effective from 29 January 2015, and Mr. Wu Song whose service contract is effective from 25 June 2015) and expiring 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 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 14 to 16 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 2016, 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 2016, 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 2016, 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
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 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.

POTENTIAL RISKS

1. Risks relating to economic development and government policies

All the assets of the Company are located in domestic China, and 80% of its revenue is from the operations in domestic market. Therefore, the operating results, financial condition and development prospects of the Company may be affected by changes in economic, political and macro policies, laws and regulations in China. As such, the Company will be committed to strengthening technological innovation to increase differentiation of its acrylic products, thus to improve the market share of acrylic products and help the Company to consolidate the market position in acrylic industry.

2. Risks relating to industry development

In recent years, the acrylic industry has been experiencing transformation for upgrade, resulting in successive close of underperforming enterprises with insufficient production capacity and smaller size. Furthermore, the forms of exporting fabric products remain not optimistic. Where the Company fails to respond to market and technology revolution proactively which makes it unable to meet the demands of downstream enterprises for products upgrade, the financial position and operating results of the Company will be inevitably impacted. As such, in addition to focus on quality improvement and consumption reduction, the Company will also intensify R&D and promotion for new acrylic products to continuously propel upgrade both in technology and products, and provide a full range of post-sale service to customers.

3. **Risks relating to market competition**

With intensified market competition, the Company may be forced to adjust downwards selling price of certain normal products or experience decrease in demand. If its competitors successfully cut down products cost or introduce substitute materials, the Company may be adversely affected in sales and profit margin. Therefore, the Company establishes such products strategy with focus on differentiation, aiming to relieve the competition pressure of normal products. Besides, the Company has strengthened the strategic cooperation with its customers to further satisfy demands from both domestic and overseas markets, through constant enhancement of its market competitiveness in terms of brand value and products.

4. **Risks relating to raw materials supply**

Acrylonitrile (a byproduct of petroleum) is the major raw material of the Company. Despite of the substantial increase of production capacity in domestic acrylonitrile market in recent years, raw material supply is subject to increasingly tight with release of the new production capacity of acrylic and rapid development of ABS recently, which in turn makes the Company exposed to risk of insufficient supply of raw materials. In this regard, the Company has developed new domestic and import channels for supply of acrylonitrile while promising normal function of its major supply chain for the same, so as to meet its demands for future development.

MAJOR CUSTOMERS AND SUPPLIERS

The Group maintains a good relationship with its customers. The Group conducted seminars and exhibitions regularly to enhance communications and understand the needs and requirements of its customers. The Group also set up production services teams comprised of production experts to give production advices and solutions to customers.

The Group also maintains a close relationship with its major suppliers. The Group performs annual appraisal of its suppliers and also conducts regular visits to the suppliers.

In 2016, sales to the Group's five largest customers accounted for approximately 46% of the total sales for the year, in which sales to the largest customer represented approximately 16% of the total sales for the year.

Purchases from the Group's five largest suppliers amounted to approximately 75% of the total purchases for the year while total purchases from the largest supplier represented approximately 39% 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 Company

The Company sold goods to Tuopu Textile Industrial Development Co., Ltd ("Tuopu Textile") pursuant to a sales agreement entered into with Tuopu Textile on 15 June 2016 for the year ending 31 December 2016. The transaction was negotiated on arm's length basis and 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 2016, sales to Tuopu Textile by the Company amounted to RMB7.38 million, which is within the approved cap of RMB10.5 million.

Sales of finished goods to Tuopu Textile by Joint Venture

The joint venture sold goods to Tuopu Textile Industrial Development Co., Ltd ("Tuopu Textile") pursuant to a sales agreement entered into with Tuopu Textile on 15 June 2016 for the year ending 31 December 2016. The transaction was negotiated on arm's length basis and 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 2016, sales to Tuopu Textile by the joint venture amounted to RMB12.06 million, which is within the approved cap of RMB12.5 million.

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 2016, utilities and water treatment services provided to Tuopu Textile by the Company amounted to approximately RMBNil million, which was within the approved cap of RMB9.9 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.

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 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 2016, purchase from Jianan by the joint venture amounted to approximately RMB2.0 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 2016, the Company's purchases of sodium bisulfate and other chemical products from Huidong amounted to approximately RMB10.12 million, which was within the approved cap of RMB15.5 million as disclosed in the Company's announcement dated 15 June 2016.

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

The joint venture 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 15 June 2016 for the year ending on 31 December 2016. 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 2016, the joint venture's purchases of sodium bisulfate and other chemical products from Huidong amounted to approximately RMB1.26 million, which was within the approved cap of RMB6.5 million as disclosed in the Company's announcement dated 15 June 2016.

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 2016, repair and maintenance services that the Company purchased from Jianan amounted to approximately RMB1.89 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 14.5% 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 2016, auxiliary materials that the Company purchased from JCFCL amounted to approximately RMB2.71 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 14.5% 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 2016, the Company's lease expense paid to JCFCL for the JCFCL Leased Assets amounted to approximately RMB10.51 million, which was within the approved cap of RMB12.0 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 14.5% 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 2016, provision of Utilities and Water Treatment Services to JCFCL by the Company amounted to approximately RMB202.0 million, which was within the approved cap of RMB446.0 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 2016, the Company's provision of Utilities and Water Treatment Services to Aika amounted to approximately RMB15.16 million, which was within the approved cap of RMB47.0 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 2016, sales to Furunde Textile by the Company amounted to approximately RMB4.53 million, which is within the approved cap of RMB50.0 million as disclosed in the Company's announcement dated 1 September 2016.

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 2016, sales to Furunde Textile by the Joint Venture amounted to approximately RMB21.24 million, which is within the approved cap of RMB50.0 million as disclosed in the Company's announcement dated 1 September 2016.

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 14.5% 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 2016, auxiliary materials that the joint venture purchased from JCFCL amounted to approximately RMB0.62 million, which was within the approved cap of RMB1.0 million as disclosed in the Company's announcement dated 16 January 2014.

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 2016, sales to JCF Group Import Export by the Company amounted to approximately RMB105 million, which is within the approved cap of RMB180 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 2016, sales to JCF Group Import Export by the joint venture amounted to approximately RMB355 million, which is within the approved cap of RMB500 million as disclosed in the Company's announcement dated 1 September 2016.

Purchase of Acrylonitrile from Furunde by the Company

The Company purchased auxiliary materials from Furunde pursuant to the Acrylonitrile Supply Agreement entered into with JCFCL on 25 May 2016, for the year ending on 31 December 2016 and, subject to the compliance with Listing Rules' requirements regarding connected transactions, is 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.

Furunde is a connected person of the Company as Furunde is 100% owned by JCF Groupco which is a substantial shareholder of the Company. Furunde is an associate of JCF Groupco and is therefore a connected person of the Company.

For the year ended 31 December 2016, purchases of acrylonitrile that the Company purchased from Furunde amounted to approximately RMBNil million, which was within the approved cap of RMB20.0 million as disclosed in the Company's announcement dated 25 May 2016.

The Group has entered into the abovementioned continuing connected transactions as set out from pages 24 to 29 (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 24 to 29 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 33 to 41 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

The consolidated financial statements for the year ended 31 December 2016 were audited by Moore Stephens CPA Limited whose term of office will expire upon the annual general meeting. A resolution for the re-appointment of Moore Stephens CPA Limited as the auditor of the Company for the subsequent year will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Song Dewu
Chairman

Jilin City, Jilin Province, The PRC
29 March 2017

The supervisory committee of the Company (the "Supervisory Committee") herewith present the report of the Supervisory Committee for the year ended 31 December 2016.

In 2016, 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 2016 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 2016 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
29 March 2017

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 2016.

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 the 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 2016 are set out below:

	Attendance	
Directors	**Board meetings**	**General meetings**
Executive Directors		
Mr. Song Dewu	8/8	2/2
Mr. Yang Xuefeng	8/8	2/2
Mr. Pan Xianfeng	8/8	2/2
Non-executive Directors		
Mr. Ma Jun (Two board meetings attended by proxy)	8/8	2/2
Ms. Pang Suet Mui (Four board meetings attended by proxy)	8/8	2/2
Mr. Jiang Junzhou (Five board meetings attended by proxy)	8/8	2/2
Mr. Wu Song (Four board meetings attended by proxy)	6/6	0/2
Independent non-executive Directors		
Mr. Li Yanxi	8/8	2/2
Mr. Jin Jie	8/8	2/2
Mr. Lv Xiaobo (One board meeting attended by proxy)	8/8	2/2
Ms. Zhu Ping (Four board meetings attended by proxy)	8/8	2/2

Board Diversity Policy

Pursuant to the Code, the Board adopted a board diversity policy (the "Board Diversity Policy") on 27 August 2013. The Company recognises 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 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 Directors	
Ms. Pang Suet Mui	√
Mr. Wu Song	√
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 24 December 2015. 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, risk management and the internal control procedures of the Company.

The work of the Audit Committee in 2016 includes but not limit to following:

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

The Company held 2 meetings of Audit Committee in 2016 and the details of the attendance are set out below:

Directors	Attendance
Mr. Li Yanxi *(Chairman)*	2/2
Ms. Pang Suet Mui (Two meetings attended by a representative)	2/2
Mr. Lv Xiaobo	2/2

(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 2016 on 30 August 2016. The details of the attendance are set out below:

Directors	**Attendance**
Mr. Lv Xiaobo *(Chairman)*	1/1
Ms. Zhu Ping	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 Board. The members of the Board will then review the qualifications of the relevant candidates for determining the suitability to the Group on the basis of his or her qualifications, experiences and background. Suitable candidates will be recommended by the Board to Shareholders for approval at the general meeting.

The Nomination Committee met once in 2016. The details of the attendance are set out below:

Directors	Attendance
Mr. Lv Xiaobo *(Chairman)*	1/1
Ms. Zhu Ping	1/1
Mr. Jiang Junzhou (Attended by a representative)	1/1

(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. Jin Jie. 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 2016. The details of the attendance are set out below:

Directors	Attendance
Mr. Jin Jie *(Chairman)*	1/1
Mr. Li Yanxi (Attended by a representative)	1/1
Mr. Lv Xiaobo	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	2/2
Mr. Liu Ming	2/2
Mr. Cheng Jianhang	2/2
Mr. Zhang Haiou	2/2
Ms. Bai Hua	2/2
Mr. Shao Baozhong	N/A

RISK MANAGEMENT AND INTERNAL CONTROL

Framework

The Board has overall responsibility in monitoring the process of corporate reporting, control system and risk management throughout the Group. The senior management of the Group reviews and discusses the risk management, reporting 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 risk management internal control system

The system of risk management and 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 information, 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 of the Group's holding company carries out various audits on control procedures and risk management 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 biography are set out on page 16 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.

AUDITOR'S REMUNERATION

Remuneration paid to the Group's external auditors for audit services provided for the year ended 31 December 2016 was RMB0.95 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 company secretary of the Company by mail at No. 516-1, Jiuzhan Street, Jilin City, Jilin Province, the PRC or by email at joccmail@gmail.com. The company secretary 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.

The Environment, Social and Governance Report ("ESG Report") issued by the Company and its subsidiaries (the "Group") indicates the Group's comprehensive implementation of sustainable development and performance of corporate social responsibility. The ESG Report sets out details of the Group's efforts made in 2016 in relation to environment protection, society and sustainable development, and its performance in social governance as well.

Reporting scope

The ESG Report mainly focuses on the core businesses of the Group in relation to their performance in environment and social responsibility from 1 January 2016 to 31 December 2016 (the "Year").

Reporting standards

The ESG Report is prepared according to Appendix 27 ESG Reporting Guidelines Index of the Rules Governing the Listing of Securities of the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Participation by holders

Preparation of the ESG Report is attributable to a highly degree of participation by all of our staff, which enables us to be more clear about our existing status in development of environment and society. The information collected by us is not only the summarization of the completion status of our policies and targets set for this Year during the beginning year of the 13th Five-Year Plan period, but also serves as the foundation for us to set the policies and targets for the next year.

Information and feedback

For further details of the environment and corporate governance activities of the Company, please refer to the official website of the Company and its annual reports (http://www.jlcfc.com). The Group pays much attention to your comments on this report. For any opinion or advice on this report, you are welcome to send email to dxb7551@163.com or serve a letter to the principal place of business of the Company in Hong Kong.

The Group and environment

Facrylonitrile, the major raw material used by the Group for production, is a byproduct of petroleum, which is mainly sourced from PetroChina Jilin Petrochemical Company. PetroChina Jilin Petrochemical Company is a large central enterprise in mainland China which owns stable supply chain. With years of expansion and growth, the Group has developed a well-established production model and possessed modern acrylic production lines while consolidating its corporate culture, which makes it the most competitive player in domestic acrylic production industry.

Pursuant to relevant laws and regulations including (but not limited to) the Water Pollution Prevention and Control Law of the People's Republic of China, Air Pollution Prevention and Control Law of the People's Republic of China, Law of the People's Republic of China on the Prevention and Control of Environmental Pollution Caused by Solid Waste, Cleaner Production Promotion Law of the People's Republic of China and the Environment Protection Law of the People's Republic of China, the Group has established a three-level supervision system consisting of random inspection within the Group, monthly inspection within special function offices and weekly inspection within workshops. The Company continues to effectively improve its environment performance by virtue of regular supervision and inspection and random review by government authorities.

POLLUTANTS EMISSION

Treatment of wastes

The Group complies with applicable national requirements in subsequent treatment of harmful wastes which would be reclaimed by our designated garbage collectors to ensure no occurrence of further pollution. The Group only cooperates with such enterprises which are capable of collecting wastes and further utilizing the same. For example, with respect to the wastes collected by us, slag ashes would be delivered to brick manufacturers for treatment, whereas those electronic garbage and ink cartridge are just delivered to computer companies for treatment. Since the utilization of the above wastes is very popular in domestic market, the Group has been donating such wastes to those enterprises in need for free, so as to minimize emission of wastes.

Waster water management

Sewage treatment: the acrylic sewage treatment facilities were established by the Group in May 1998 with designed capacity of $400m^3/h$. It mainly processes sewage arising from production of acrylic fabric by adopting the conventional secondary activated sludge method. Besides, the Group made two technology reforms for these facilities in 2006 and 2011, respectively, thereby improving the treatment capacity thereof to $600m^3/h$. Acrylic sewage, upon completion of the aforesaid treatment, would be flowed into the major sewage system with designed capacity of $60,000m^3/d$ for further treatment. A/O secondary biochemical treatment craft has been adopted by the major sewage system.

Air emission

Boiler flu gas: our phase II boiler facility was put into operation in November 1996 with the existing capacity of 465t/h, including five vertical whirlwind boilers with capacity of 75t/h each and one vertical whirlwind boiler with capacity of 90t/h. The Group adopts pulse filter bag dust removers to handle flu gas dust removal, wet limestone-gypsum method for desulfurization, and SCR craft for denitrification, to ensure emission of flu gas meets the relevant standards. The phase III boiler facility was put into operation in 2007 with the existing capacity of 480t/h, including two high temperature and high pressure 迴圈流化床鍋爐 with capacity of 240t/h. The Group adopts pulse filter bag dust removers to handle dust removal, wet limestone-gypsum method for desulfurization, and SNCR craft for denitrification, to ensure emission of flu gas meets the relevant standards.

Compliance with laws relating to environment protection

The Company ensures its compliance with relevant laws and regulations and meets relevant emission standards through implementation of the following systems and standards: Waste Water Discharge Management System, Waste Air Discharge Management System, Noise Discharge Management System, Solid Waste Comprehensive Management System, Environment Protection Management Standards, Environment Protection Contingency Plan of Qifeng, Safety and Technology Operation Rules Applicable for Workshops in Boiler Facilities, Safety and Technology Operation Rules Applicable for Water Supply and Drainage Workshops and Environment Protection Contingency Plan of Power Plants of Qifeng.

The Group and employees

The Group has carefully complied with relevant employment laws and regulations including Law of the People's Republic of China on Employment Contracts, Law of the People's Republic of China on Employment, Law of the People's Republic of China on Social Insurance, Administration Rules Governing Employment of Foreign-invested Enterprises and Trade Union Law of the People's Republic of China, and established its own Work Attendance System and Awards & Punishment System. Besides, it endeavors to provide a full rage of benefits as required by laws. Also, the Group takes an active role in participation in major public welfares such as "Learn from Lei Feng", "15 March" and "A Good Guy in Jilin" to reflect the employee's social value.

In terms of employment, the Group has an established system of recruitment through which the Group formulates its personnel working plans according to the needs of different departments, to identify and attract outstanding talents for all levels of the Group from time to time. All candidates will be treated fairly in job interviews only if they meet with relevant job requirements, without any implementation of discriminatory policies against gender, age, race, religion belief or physical disability. In considering whether a candidate meets with relevant job requirements in a job interview, we mainly consider his/her expertise, attitude, working experience etc. According to the Provisions on the Prohibition of Using Child Labor (《禁止使用童工規定》), all newly employed staff will be carefully checked for their identities prior to starting employment in a way to ensure the Group would not use any child labor. Meanwhile, the Group would never force any employee to work by means of violence, threats or illegal restriction on personal freedom. The Group provides a safe and comfortable working environment for the employees. The employees will accept a three-level safety education at the corporate level, workshop level, team level in the year of entry and can only get on his/her post after passing the exams. After probation, those candidates who are qualified would be employed as formal staff. During each year, the Group through activities including On-post Vanguard, Labour Competition for All Staff, Team Leader Forum, Master Craftsman Forum for all the employees, with a view to motivating them to continuously improve work methods and effectiveness. We also establish a reasonable and fair competition mechanism to improve the staff's sense in work planning and responsibility and make payment adjustments and provide promotion opportunity according to personal abilities so that we can promote and retain potential talents.

The Group implements standard working hours of eight hours per day and no more than forty hours per week. In addition to statutory holidays, employees are also entitled to other holidays including home leave, marriage and compassionate leave, maternity leave and paid annual leave. According to state regulations, the Group also contributes social insurance for its employees. Prior to joining the Group, employees need to pass the health examinations prepared by the Group. In order to help the employees strike a balance between work and health, the Group also held sports meetings and celebration parties for its employees and organized health examinations for its employees, helping them maintain their physical and psychological health.

Health and safety

In order to enhance the Group's occupational health and safety, improve its working conditions, safeguard its employees' vital interests and ensure their lives and property security, the Group has formulated its own Production Safety Regulations in line with the Prevention and Control of Occupational Diseases Law of the PRC (《中華人民共和國職業病防治法》), the PRC Production Safety Law (《中華人民共和國安全生產法》), the Provisions on the Administration of Labor Protective Articles (《勞動防護用品管理規定》) and the Provisions on Labor Protection for Female Staff and Workers (《女職工勞動保護規定》), and has established the Responsibility Mechanism for Safe Production (《安全生產責任制》) for various posts. The Group has been committed to a principle of "Safety and Prevention as Priorities" which requires that our productions should be subject to safety, with an aim to ensuring a safe and civilized production. Under such principle, the Group maintains continuous improvement in production site and strives to create a safe environment for our production. Through regular and irregular joint inspection, the Group immediately rectifies the hidden risks which have been identified, and always bears in mind the objectives of safe production.

In respect of positions that may cause occupational hazards, the Group has set up a sound responsibility system for occupational diseases prevention to improve its management on occupational diseases prevention. In order to minimize occupational hazards, the Group provides annual health examination as well as health and safety trainings for its employees, and keeps a record of their examination results. The Group has adopted certain measures to prevent accidents, such as equipping our employees with protective gears, monitoring and maintaining various production sites from time to time, and enhancing its safety management and relevant technology and education safety. During the Year, the Group has offered trainings on the Prevention and Control of Occupational Diseases Law of the PRC to certain employees, and has publicized and implemented relevant national laws and regulations, so as to achieve good results for the Group's occupational health and inspection work. The Group has identified a variety of hazard sources, developed effective prevention and control measures towards major hazard sources, and organized employees to carry out emergency drills and evaluations, to eliminate all kinds of unacceptable risks.

Development and Training

As human resources training is the top priority for the management of the Group, the Group develops training programs for all the employees each year to improve their overall quality. The Group improves their professional ethics by providing education and training on professional ethics and related rules and regulations. Amongst the training plans for this year were, among others, on-boarding training for new employees and corporate management system education, which aimed to further their understanding of the culture, philosophy as well as the rules and regulations of the company.

In addition, the Group provided employees with trainings designed for the needs of various positions, such as those related to business technology and occupational safety and health. Such trainings involved acrylic production knowledge, production technology, safety production, fire protection and safety, among others. The training of professional knowledge helped the employees to improve the professional skills and basic knowledge and understand the requirements of the job. The Group also offered Job Description to employees of different positions to ensure the awareness of the responsibilities and authorities of their jobs. New trainings were provided during this year, including reciprocal learning on upstream and downstream process, training between different types of jobs as well as PLC training, which increased the staff participation and training effect.

During the year, the Group has organized, among others, the symposiums for model workers, model team leaders, quality controllers, intellectuals as well as middle-level cadres, to provide opportunities to know how the employees think. Communication with the staff closed the gap between corporate and staff, bosses and subordinates, and employees, enhancing the sense of belonging.

Products and Services

The Group has been researching, developing and updating new products for further diversification. The Group has successfully developed the differentiated acrylic fiber products which met customer needs and filled the domestic gap in this field. As to the sale model, the Group has optimized the traditional sale channels on an ongoing basis while actively developing and expanding the e-commerce model of online consumption in recent years. The marketing strategy of sales first, controllable risks and quick collection of payment made the industry and the customer closer. The Group also understood the needs and expectations of customers through, among others, technical staff directly accessing customers, symposium for users and visiting of customers. The Group carefully analyzed, investigated and dealt with the feedback from customers to give a satisfactory reply in a timely manner.

Supplier Management

The Group has always pursuing honesty and trustworthiness. In order to manage the potential risks of suppliers, the Group would, before signing contract with the supplier, inspect and document the supplier's supplying stability, product quality and other aspects to create supplier archives for future reference. At least one month prior to the completion of the contract, the Group would evaluate the supplier again and decide whether to continue the cooperation with it.

Rigorous Production Process

The production process of the Italian Munters Two-Step Wet-Process (義大利蒙特濕法兩步法) was introduced into the production equipment of the Group, which adopted DCS distributed control system, providing the Group with a modern production line and a complete detection system. The Group was capable of producing the dyed fiber, oerlikon fiber, high shrinkage staple and other special fibers.

Attentive to Quality

The Group attaches great importance to the quality of products. With a quality management team under strict leadership, the Group has made multiple breakthroughs in quality during the year, committed to improving the inherent quality of fiber and enhance its performance. The Group has strengthened the process control, and eliminated any quality defect by refining and managing every stage of the production process. Professional quality testing agency was engaged to detect the new products and issue test reports. The Group randomly tested the raw materials to be used in the plant, which would be usable after passing the test. The goods in process were timely tested and a rework was required for the unqualified ones which was forbidden to be passed.

Attentive to Safety

Pursuant to the Safe Production Law of the People's Republic of China, the Group has formulated the safety technology operation procedures for the staff to comply with, provided staff with safety technology training, and organized not less than two examinations for such procedures during the year. The Group has formulated a number of safety management regulations, such as the Safety Management System for Working at Height, the Fire Management System and the Safety Management System for Working in Tank. All these were designed to protect the safety of the working staff and remove the unacceptable risks.

Attentive to Reputation

The Group has always been attentive to the concept of "win-win with customers". The Group has formulated the Maintaining and Handling Rules, by which the staff shall properly and carefully maintain and handle the confidential data of the customers and shall not disclose it to a third party. Meanwhile, the Group regulated the system of accessing and leaving the factory, by which the coming personnel and vehicles must be registered to ensure that the assets of customers and the company would not be easily leaked.

In order to establish a long-term relationship with customers, the Group has developed a process of Finished Product Warehouse Management to ensure that products are sold in the best condition through rigorous storage methods. The products were classified to be stored based on the category and were subject to quantitative management. They were inspected and maintained daily and regularly, such as the daily record of the temperature, humidity and other parameters of the warehouse, based on the variety, characteristic and storage condition of products. Careful inspection was carried out to prevent the product from being deteriorated, moldy, expired or damaged. As a responsible entity, the Group would, prior to the shipment, inspect the products again to ensure that they were qualified before sale.

The Group has also developed a return process, by which the raw material would be returned to the supplier in case of quality issues detected during the distribution of raw materials and packing materials, and the non-conforming target materials were forbidden to use. At the same time, in order to be prepared for the worst, the Group would accept the products returned due to quality problems and provide quality services to customers.

Attentive to Management

The Group conducted a comprehensive inspection of, among others, the Company's environmental hygiene and discipline on a regular basis. If violation of rules or disciplines were found during the inspection, the heads of departments would be informed in a timely manner to take measures with a view to strengthen the management of the Group. Meanwhile, the Group maintained frequent communication with the staff and solved problems with them on a face-to-face basis. In addition, it enabled the employees to have rules to follow in their works and justified violation of disciplines with evidences.

The Group also attached great importance to the sale of products as it would regularly send technical staff to visit users and help them solve problems.

Be an Incorrupt Corporate

The Group has strictly complied with the laws and regulations of the Criminal Law of the People's Republic of China, the Regulations of the People's Republic of China on the Administration of Honesty and Self-Regulation and other laws and regulations. It was forbidden for any employee to take advantage of duties to bribe, blackmail or deceive others or seek or illegally accept other people's property. The Group cracked down on any use of public and private accounts to prevent the company from embezzlement and bribery. Based on the "Four Comprehensives" strategic layout, party branches advocates party members, leaders and cadres to set an example to build an incorrupt business environment and pervade the spirits of devotion, dedication, responsibility, innovation and self-discipline.

Charity

During the year, the Group contributed more than RMB400,000 in total for the poverty alleviation of Ma Hutou Village, Changyi District pursuant to the policy of Targeted Poverty Alleviation.

During the year, the Group publicly recruited more than 100 migrant workers to effectively alleviate the local employment pressure.

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大華馬施雲
會計師事務所有限公司

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)

OPINION

We have audited the consolidated financial statements of Jilin Qifeng Chemical Fiber Co., Ltd. (the "Company") and its joint venture (the "Group") set out on pages 54 to 132, which comprise the consolidated statements of financial position as at 31 December 2016, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Impairment assessment of other receivables

The Group's impairment assessment of amount due from Jilin Tangu Carbon Fiber Co., Ltd. ("Tangu") and amount due from 吉林市國興新材料產業投資有限公司 ("Guoxin") included in other receivables of the Group is disclosed in Note 11 and Note 13 to the consolidated financial statements respectively.

Key audit matter	How the matter addressed in our audit
In prior years, the Group provided utilities to Tangu which was a subsidiary of the Group before the Group disposed of it in June 2015. The outstanding balance due from Tangu has been included and presented in "prepayments and other receivable" since the Group's disposal. As at 31 December 2016, the directors of the Group agreed with the management of Tangu to extend the repayment dates to no later than 3 year after 31 December 2016 and charge interest on the receivable amount at market interest rate. As at 31 December 2016, the carrying amount of the receivable was RMB241 million (2015: RMB259 million), being amortised cost. As at 31 December 2016, trade and other receivable included an amount due from Guoxin, the holding company of Tangu, amounting to RMB149 million (2015: RMB161 million) being the consideration receivable and related accrued interest. As the assessment of the recoverability of the amounts due from Tangu and Guoxin is highly judgmental and subjective, we identified the recoverability of the amount due from Tangu and Guoxin as a key audit matter.	Our procedures to address the recoverability of amounts due from Tangu and Guoxin included: • We obtained the agreements entered into between the Group and Tangu and Guoxin regarding the agreed repayment schedules; • We assessed the calculation of the present value of the amounts due from Tangu and Guoxin taking into account the agreed repayment dates and their credit risks and the discount rates being used; • We obtained cash flow forecast prepared by the management of Tangu and discussed as well as evaluated the key assumptions used in the cash flow forecast with the management of Tangu and management of the Group including assessing the discount rate, estimated sales quantity, and sales growth rate etc., to assess the repayment ability of Tangu; • Jilin Chemical Fiber Group Co., Ltd. ("JCF Groupco"), holding company of the Group, a wholly state-owned enterprise and Guoxin, holding company of Tangu, agreed to guarantee the repayment of outstanding receivables due to the Group. We assessed JCF Groupco and Gruoxin's ability to provide such guarantee.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors of the Company are responsible for the other information. The other information comprises the information included in the chairman's statement, management discussion and analysis, directors' report and corporate governance Report included in the 2016 Annual Report but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:-

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the Company.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Moore Stephens CPA Limited
Certified Public Accountants

Cheung Sai Kit
Practising Certificate Number: P05544

Hong Kong, 29 March 2017

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

	Notes	2016 RMB'000	2015 RMB'000
ASSETS			
Non-current assets			
Land use rights	7	**66,206**	70,585
Property, plant and equipment	8	**977,026**	911,730
Intangible assets	9	**3,200**	3,667
Interest in a joint venture	10	**159,807**	149,259
Deferred income tax assets	19	**24,772**	48,914
Prepayments and other receivables	11	**230,216**	144,500
		1,461,227	1,328,655
Current assets			
Inventories	12	**261,715**	208,683
Trade and other receivables	13	**743,568**	802,515
Land use rights	7	**3,834**	3,321
Restricted bank deposits	14	**14,613**	62,151
Cash and cash equivalents	14	**40,275**	67,620
		1,064,005	1,144,290
Total assets		**2,525,232**	2,472,945
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	15(a)	**866,250**	866,250
Share premium	15(b)	**142,477**	142,477
Other reserves		**31,919**	31,919
Accumulated losses		**(160,155)**	(246,668)
Total equity		**880,491**	793,978

	Notes	2016 RMB'000	2015 RMB'000
LIABILITIES			
Non-current liabilities			
Long-term bank borrowings	16	**76,500**	115,154
Deferred income	17	**33,846**	40,872
		110,346	156,026
Current liabilities			
Trade and other payables	18	**451,214**	354,661
Deferred income	17	**7,027**	7,027
Short-term bank borrowings	16	**1,037,500**	1,058,710
Current portion of long-term bank borrowings	16	**38,654**	102,543
		1,534,395	1,522,941
Total liabilities		**1,644,741**	1,678,967
Total equity and liabilities		**2,525,232**	2,472,945
Net current liabilities		**(470,390)**	(378,651)
Total assets less current liabilities		**990,837**	950,004

The notes on pages 59 to 132 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 54 to 132 were approved by the Board of Directors on 29 March 2017 and were signed on its behalf.

Song Dewu
Chairman

Pan Xianfeng
Director

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 RMB'000	2015 RMB'000
Turnover	6	**1,571,255**	1,787,074
Cost of sales		**(1,346,765)**	(1,455,327)
Gross profit		**224,490**	331,747
Other income and gains	20	**483,885**	464,634
Distribution costs		**(56,577)**	(62,001)
Administrative expenses		**(86,763)**	(80,751)
Other expenses and losses	21	**(403,654)**	(379,597)
Operating profit		**161,381**	274,032
Finance income	24	**21,077**	5,510
Finance costs	24	**(82,079)**	(119,000)
		100,379	160,542
Share of result of a joint venture	10	**10,276**	21,682
Profit before income tax	22	**110,655**	182,224
Income tax expense	25	**(24,142)**	(5,429)
Profit after income tax from continuing operations		**86,513**	176,795
Loss for the year from discontinued operations	28	**—**	(44,615)
Profit and total comprehensive income for the year attributable to owners of the Company		**86,513**	132,180
Earnings per share attributable to owners of the Company (expressed in RMB cents per share)	26		
From continuing and discontinued operations			
– basic and diluted		**10.0**	15.2
From continuing operations			
– basic and diluted		**10.0**	20.4

The notes on pages 59 to 132 are an integral part of these consolidated financial statements.

	Attributable to owners of the Company				
	Share capital RMB'000 (Note 15(a))	Share premium RMB'000 (Note 15(b))	Statutory reserve fund RMB'000 (Note)	Accumulated losses RMB'000	Total RMB'000
As at 1 January 2015	866,250	142,477	31,919	(378,848)	661,798
Profit and total comprehensive income for the year	—	—	—	132,180	132,180
As at 31 December 2015 and 1 January 2016	**866,250**	**142,477**	**31,919**	**(246,668)**	**793,978**
Profit and total comprehensive income for the year	—	—	—	**86,513**	**86,513**
As at 31 December 2016	**866,250**	**142,477**	**31,919**	**(160,155)**	**880,491**

Note:

In accordance with the relevant laws and regulations in the PRC and the Articles of Associations, the Company and its subsidiary are 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.

The notes on pages 59 to 132 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 RMB'000	2015 RMB'000
Cash flows from operating activities			
Cash generated from operations	30	**293,696**	476,114
Income tax paid		—	—
Net cash generated from operating activities		**293,696**	476,114
Cash flows from investing activities			
Purchases of property, plant and equipment		**(183,824)**	(30,902)
Purchases of intangible assets		—	(4,000)
Proceeds from disposal of property, plant and equipment		—	11,312
Proceeds from disposal of land use rights		—	4,210
Net cash outflow from disposal of a subsidiary	29	—	(13,853)
Interest received		**21,077**	6,218
Payments of loss arising on derivative financial instrument		—	(5,213)
Decrease in restricted bank deposits		**47,538**	29,305
Net cash used in investing activities		**(115,209)**	(2,923)
Cash flows from financing activities			
Proceeds from borrowings		**1,037,500**	1,042,856
Repayments of borrowings		**(1,161,253)**	(1,382,796)
Interests and guarantee fees paid		**(82,079)**	(123,445)
Net cash used in financing activities		**(205,832)**	(463,385)
Net (decrease)/increase in cash and cash equivalents		**(27,345)**	9,806
Cash and cash equivalents at beginning of year		**67,620**	57,814
Cash and cash equivalents at end of year	14	**40,275**	67,620

The notes on pages 59 to 132 are an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

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

The Company is a limited liability company incorporated in the People's Republic of China (the "PRC") and is listed on The Stock Exchange of Hong Kong Limited (the "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 29 March 2017.

2. BASIS OF PREPARATION

2.1 Basis of preparation and going concern assumption

As at 31 December 2016, the Group's current liabilities exceeded its current assets by RMB470,390,000 (2015: RMB378,651,000) and the bank borrowings as included in the Group's current liabilities amounted to RMB1,076,154,000 (2015: RMB1,161,253,000) respectively. These conditions indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and therefore, the Group may not be able to realise its assets and discharge its liabilities in the normal course of business.

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

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

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

(c) The ultimate parent company, JCF Groupco, a state-owned enterprise, has confirmed it would 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 Group's directors are of the view that there will be sufficient financial resources available to the Group to enable it to meet its liabilities as and when they fall due and to continue as a going concern. Accordingly, the Group's directors have prepared the consolidated financial statements on a going concern basis.

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

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

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

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

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

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

2. BASIS OF PREPARATION – *continued*

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

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

Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27 (2011)	Equity Method in Separate Financial Statements
Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
HKFRS 14	Regulatory Deferral Accounts
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012–2014 Cycle

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

2. BASIS OF PREPARATION – *continued*

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

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

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

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

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

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.

2. BASIS OF PREPARATION – *continued*

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

The amendments to HKFRS 10 and HKAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the re-measurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The Group did not enter into these transactions in the current year. The directors of the Group anticipate that the application of these amendments may have an impact on the Group's consolidated financial statements in future periods should such transactions arise.

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

HKFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. For lessors, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or financial leases, and to account for those two types of leases differently. The standard is mandatorily effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted for entities that apply HKFRS 15 at or before the date of initial application of HKFRS 16.

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

During the year ended 31 December 2015, the Group disposed of its wholly owned subsidiary, Tangu Carbon Fiber Co., Ltd. ("Tangu"). The Group is currently comprises of the Company and an investment in a joint venture.

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

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

(a) Subsidiary

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.1 Group accounting – *continued*

(b) Joint arrangements

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

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

— The structure of the joint arrangement;

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

— The contractual terms of the joint arrangement agreement; and

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

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

3.2 Segment reporting

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

3.3 Foreign currency translation

(a) Functional and presentation currency

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.3 Foreign currency translation – *continued*

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.4 Property, plant and equipment – *continued*

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

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

3.5 Land use rights

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

3.6 Intangible assets – Accounting software

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

3.7 Impairment of non-financial assets

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

3. 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 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*

3.10 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.

3.11 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.12 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.

3.13 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.

3.14 Cash and cash equivalents

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

3.15 Leases

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

(a) Leases – where the Group as the lessee

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

(b) Leases – where the Group as the lessor

When the Group leases out assets under operating leases, the assets are included in the statement of financial position according to their nature and where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in note 3.4 above. Rental income arising from assets leased out under operating leases is recognised in accordance with the Group's revenue recognition policy as set out in note 3.23 below.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.16 Share capital

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

3.17 Provisions

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

3.18 Trade payables

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

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

3.19 Borrowings

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.20 Borrowing costs

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

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

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

3.21 Current and deferred income tax

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

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

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

3.22 Employee benefits

(a) Retirement benefits costs

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

(b) Bonus plans

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

3.23 Recognition of revenue and income

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

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

(a) Sales of goods

Sales of goods are recognised when the Group has delivered products to the customers; the customers have accepted the products and 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.23 Recognition of revenue and income – *continued*

(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.

3.24 Government grants

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

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

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

3.25 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 management

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency 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 currency risk

The Group is exposed to foreign currency risk related primarily to sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily United States dollars ("US$") and Euro. The Group does not hold or issue any derivative financial instruments for trading purposes or to hedge against fluctuations in foreign exchange rates. The Group mitigates this risk by conducting the sales and purchases transactions in the same currency, whenever possible.

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised monetary assets or liabilities denominated in US$ and Euro, currencies other than the functional currency of the entity to which they relate.

	2016		2015	
	RMB'000	RMB'000	RMB'000	RMB'000
	US$	Euro	US$	Euro
Trade and other receivables	62,919	14,896	47,232	1,672
Trade and other payables	(1,466)	(20)	(7,874)	(42)
Overall net exposure	61,453	14,876	39,358	1,630

As at 31 December 2016, if the RMB had weakened/strengthened 10% against the US dollar with all other variables held constant, the group's profit after tax for the year would have been RMB4,609,000 (2015: RMB2,952,000) higher/lower.

As at 31 December 2016, if the RMB had weakened/strengthened 10% against the Euro with all other variables held constant, the group's profit after tax for the year would have been RMB1,116,000 (2015: RMB122,000) higher/lower.

4. FINANCIAL RISK MANAGEMENT – *continued*

4.1 Financial risk management – *continued*

(a) Market risk – continued

Interest rate risk

The Group's interest bearing assets included cash and cash equivalents, restricted bank deposits and amounts due from 吉林市國興新材料產業投資有限公司 ("Guoxin") and Tangu. The Group's interest rate risk primarily arises from interest bearing assets and bank borrowings.

The amounts due from Guoxin and Tangu are bearing fixed interest rate at 4.35% and 5% (2015: 4.35% and Nil) per annum respectively.

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 2016, the Group's fixed rates borrowings and floating rates borrowings amounted to RMB460,500,000 (2015: RMB492,710,000) and RMB692,154,000 (2015: RMB783,697,000) respectively.

With all other variables held constant, the Group's profit after tax would increase/decrease by approximately RMB2,390,000 (2015: RMB2,452,000) if the interest rate is 50 basis points lower/higher.

(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 90 days from the date of billing.

Except for the financial guarantee given by the Group as set out in Note 32(e), the Group does not provide any other guarantees which would expose the Group to credit risk.

4. FINANCIAL RISK MANAGEMENT – *continued*

4.1 Financial risk management – *continued*

(b) *Credit risk – continued*

As at 31 December 2016, the Group has certain concentration of credit risk because approximately 71% (2015: 73%) of the total trade receivables (gross amount before any impairment provision) was due from five of the Group's debtors (the "Top Five Debtors"). Moreover, approximately 77% (2015: 80%) of the other receivables (gross amount before any impairment provision) are due from Tangu, Guoxin and four related companies of the Group. The aging analysis of the balance due from the related companies is disclosed in note 13(d). The aging analysis of the balances due from the Top Five Debtors are as below:

	2016 RMB'000	2015 RMB'000 (Restated)
Receivables from the Top Five Debtors:		
Within 30 days	34,047	27,647
31 - 90 days	43,588	39,038
91 - 180 days	2,865	—
Over 180 days	6,515	8,369
	87,015	75,054

As at 31 December 2016, no provision for receivable has been made against the Top Five Debtors as these customers have a good track record with the Group and have no recent history of default, thus the management does not expect any significant losses from the non-performance by the abovementioned counterparties.

The amounts due from related companies are primarily comprise of balances arisen from the Group's provision of utilities to fellow subsidiaries of RMB308,060,000 (2015: RMB266,523,000), out of which receivable balances of RMB58,419,000 (2015: RMB40,763,000) have already been past due. The Group has agreed repayment schedules with these related companies as set out in note 13.

The amount due from Tangu arisen from the Group's provision of utilities. The Group agreed to extend the repayment schedule by instalment up to 3 years after 31 December 2016 as set out in note 11. The amount due from Guoxin is consideration receivable arising on disposal of a subsidiary. Its repayment schedule is set out in note 29.

As at 31 December 2016, no provision has been made against Tangu, Guoxin and the related companies as 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.

4. FINANCIAL RISK MANAGEMENT – *continued*

4.1 Financial risk management – *continued*

(b) Credit risk – continued

Transfer of financial assets

Transferred financial assets that are not derecognised in their entirety

(i) As part of its normal business, the Group entered into a letter of credit factoring arrangement (the "Arrangement") and transferred certain trade receivables to a bank. Under the Arrangement, the Group may be required to reimburse the bank for loss of interest and principal if any trade debtors have late or default payment upon maturity. Subsequent to the transfer, the Group did not retain any rights on the use of the letter of credit, including the sale, transfer or pledge of the trade receivables to any other third parties. The original carrying value of the letter of credit transferred under the Arrangement that have not been settled as at 31 December 2015 amounted to RMB45,900,000. The carrying amount of the assets that the Group continued to recognise as at 31 December 2015 amounted to RMB45,900,000 and that of the associated borrowings as at 31 December 2015 amounted to RMB44,840,000. As at 31 December 2016, the Group did not have letter of credit or trade receivable factoring arrangement.

4. FINANCIAL RISK MANAGEMENT – *continued*

4.1 Financial risk management – *continued*

(b) Credit risk – continued

Transfer of financial assets – *continued*

Transferred financial assets that are derecognised in their entirety

(i) As at 31 December 2015, the Group discounted certain bankers' acceptances to banks in the Mainland China (the "Derecognised Bills") with a carrying amount of RMB120,040,000. The Derecognised Bills had a maturity of one to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, the Group has derecognised the full carrying amounts of the Derecognised Bills and the associated borrowings. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills equal to their carrying amounts. In the opinion of the directors of the Company, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant. As at 31 December 2016, the Group did not have such arrangement.

(ii) As at 31 December 2016, 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 RMB374,900,000 (2015: RMB248,731,000). 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.

4. FINANCIAL RISK MANAGEMENT – *continued*

4.1 Financial risk management – *continued*

(b) *Credit risk* – *continued*

Transfer of financial assets – *continued*

Transferred financial assets that are derecognised in their entirety – continued

During the year ended 31 December 2016, the Group did not recognise any gain or loss on the date of transfer of the Derecognised Bills and the Endorsed Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The endorsement was made evenly throughout the year.

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

(c) *Liquidity risk*

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

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

Management also monitors regularly the surplus cash held by the operating entities over and above balance required for working capital management and the Group will invest surplus cash in interest bearing current accounts or deposits, choosing instruments with appropriate maturities or sufficient liquidity, to provide sufficient head-room as determined by the abovementioned forecasts. As at 31 December 2016, the Group has interest bearing bank balances of RMB40,275,000 (2015: RMB67,598,000) 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 management – *continued*

(c) Liquidity risk – continued

	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
As at 31 December 2016					
Long-term bank borrowings	44,287	20,749	63,593	13,964	142,593
Short-term bank borrowings	1,091,456	—	—	—	1,091,456
Financial liabilities as included in trade and other payables	350,466	—	—	—	350,466
	1,486,209	20,749	63,593	13,964	1,584,515

	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 at 31 December 2015					
Long-term bank borrowings	114,786	61,144	74,562	14,892	265,384
Short-term bank borrowings	1,115,073	—	—	—	1,115,073
Financial liabilities as included in trade and other payables	276,301	—	—	—	276,301
	1,506,160	61,144	74,562	14,892	1,656,758

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. FINANCIAL RISK MANAGEMENT – *continued*

4.2 Capital risk management

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

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

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

The Group aims to maintain a manageable debt-to-total capital ratio of not exceeding 70% (2015: 70%). The debt-to-total capital ratios at 31 December 2016 and 2015 were as follows:

	2016 RMB'000	2015 RMB'000
Total borrowings (Note 16)	**1,152,654**	1,276,407
Less: Cash and cash equivalents (Note 14)	**(40,275)**	(67,620)
Net debt	**1,112,379**	1,208,787
Total equity	**880,491**	793,978
Total capital	**1,992,870**	2,002,765
Debt-to-total capital ratio	**56%**	60%

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

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Critical accounting estimates and assumptions

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

(a) Going concern consideration

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

(b) Impairment of non-current key operating assets

Land use rights and property, plant and equipment are the key operating assets for the Group's business operations (collectively the "Key Operating Assets"). The Group assesses at each reporting date whether there is any indication that Key Operating Assets may be impaired. If any such indication exists, the Group estimates the recoverable amount of the assets in accordance with the accounting policy stated in note 3.7.

In assessing whether there is any indication that Key Operating Assets may be impaired, the Group considers indications from both internal and external sources of information such as evidence of obsolescence or decline in economic performance of the assets, changes in market conditions and economic environment. These assessments are subjective and require management's judgements and estimations.

(c) Depreciation

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

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS – *continued*

Critical accounting estimates and assumptions – *continued*

(d) Recoverability of deferred income tax assets

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against the recognised temporary differences (including tax losses). The assessment on the probability of whether the recognised deferred income tax assets can be fully recovered involves the use of judgement and estimates. As at 31 December 2016, the Group has recognised deferred income tax assets of RMB24,772,000 (2015: deferred income tax assets of RMB48,914,000) (Note 19). 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.

(e) Impairment of receivables

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

As at 31 December 2016, the Group has trade receivables which are past due but not impaired of RMB26,420,000 (2015: RMB59,294,000) (Note 13(b)) and trade receivables of RMB8,224,000 (2015: RMB5,589,000) which are being considered as doubtful debts and provided for (Note 13(c)).

As at 31 December 2016, the Group has overdue balance of RMB58,419,000 (2015: RMB40,763,000) due from a related company as set out in note 13(d)(i). The related company will settle the overdue balance in accordance with the settlement plan as agreed with the Group. Based on the progress of the subsequent settlement, the management does not expect a significant loss from the overdue balance.

As at 31 December 2016, the Group has a balance of RMB240,914,000 (2015: RMB 258,645,000) due from Jilin Tangu Carbon Fiber Co., Ltd. ("Tangu"), a former subsidiary of the Company and a subsidiary of a state-owned enterprise controlled by the PRC government. Due to slow repayment of the outstanding balance, the directors of the Company negotiated with the management of Tangu and agreed to extend the repayment schedule by instalment up to 3 years after 31 December 2016. The amount due to Tangu is recognised at fair value and interest bearing at market rate.

Management considers that the provision for impairment of trade and other receivables of RMB30,580,000 as at 31 December 2016 (2015: RMB22,296,000) adequately cover any significant losses arising from any non-performance by the independent and related counter parties.

6. SEGMENT INFORMATION

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

The Group is principally engaged in the development, production and sales of chemical fiber products, namely acrylic fiber and carbon fiber products. The operating segment for carbon fiber products was disposed of on 30 June 2015 and was presented as discontinued operations (Note 28).

All of the Group’s continuing operations and its non-current assets are located in the PRC except that, a portion of the Group’s revenue from continuing operations of RMB308,785,000 (2015: RMB266,784,000) was in connection with sales to overseas customers. Therefore, the Decision-Makers consider the Group’s business from a product perspective, rather than from a geographic perspective. The Decision-Makers assess the performance of the operating segment of acrylic fiber products on a regular basis.

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

Turnover for the year ended 31 December 2016 from continuing operations consists of sales from the acrylic fiber products segment of RMB1,571,255,000 (2015: RMB1,787,074,000).

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

6. SEGMENT INFORMATION – *continued*

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

Segment revenue and results

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

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 profit before income tax is provided as follows:

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

Note:

As disclosed in note 32(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 RMB135,670,000 (2015: RMB138,605,000), representing the related income net of direct outgoings (other than depreciation charge), which is attributable to the provisions of surplus utilities to fellow subsidiaries, joint venture, JCFCL, other related parties and third parties.

6. SEGMENT INFORMATION – *continued*

Information about major customers

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

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

7. LAND USE RIGHTS

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

Movements in the land use rights are analysed as below:

	2016 RMB'000	2015 RMB'000
As at 1 January	73,906	84,633
Disposal	—	(513)
Amortisation	(3,866)	(3,881)
Disposal of a subsidiary (Note 29)	—	(6,333)
As at 31 December	70,040	73,906
Represented by:		
Current portion	3,834	3,321
Non-current portion	66,206	70,585
As at 31 December	70,040	73,906

(a) For the year 31 December 2016, amortization of RMB3,866,000 (2015: RMB3,881,000) was included administrative expenses.

(b) As at 31 December 2015, land use rights of the Group with carrying amounts of RMB5,011,000 have been pledged as securities for certain bank borrowings of the Group (Note 16(b)). The loans have been repaid and the pledge of land use rights have been released during the year ended 31 December 2016.

8. PROPERTY, PLANT AND EQUIPMENT

	Buildings and infrastructure 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
As at 1 January 2015						
Cost	704,198	2,237,246	3,176	14,709	130,855	3,090,184
Accumulated depreciation	(279,888)	(1,369,368)	(3,067)	(11,771)	—	(1,664,094)
Net book amount	424,310	867,878	109	2,938	130,855	1,426,090
Year ended 31 December 2015						
Opening net book amount	424,310	867,878	109	2,938	130,855	1,426,090
Additions	5,358	4,469	1,123	4,395	15,557	30,902
Transfer	72,377	54,344	—	—	(126,721)	—
Disposals	—	(1,462)	(22)	—	(5,947)	(7,431)
Depreciation	(39,977)	(90,079)	(215)	(1,368)	—	(131,639)
Disposal of a subsidiary (note 29)	(71,487)	(333,234)	(104)	(206)	(1,161)	(406,192)
Closing net book amount	390,581	501,916	891	5,759	12,583	911,730
As at 31 December 2015						
Cost	680,667	1,880,749	3,633	18,756	12,583	2,596,388
Accumulated depreciation	(290,086)	(1,378,833)	(2,742)	(12,997)	—	(1,684,658)
Net book amount	390,581	501,916	891	5,759	12,583	911,730
Year ended 31 December 2016						
Opening net book amount	390,581	501,916	891	5,759	12,583	911,730
Additions	—	8,188	185	2,269	173,182	183,824
Transfer	—	19,123	—	—	(19,123)	—
Depreciation	(41,005)	(75,927)	(257)	(1,339)	—	(118,528)
Closing net book amount	349,576	453,300	819	6,689	166,642	977,026
As at 31 December 2016						
Cost	680,667	1,908,060	3,818	21,025	166,642	2,780,212
Accumulated depreciation	(331,091)	(1,454,760)	(2,999)	(14,336)	—	(1,803,186)
Net book amount	349,576	453,300	819	6,689	166,642	977,026

8. PROPERTY, PLANT AND EQUIPMENT – *continued*

Notes:

(a) As at 31 December 2016, property, plant and equipment of the Group with carrying amounts of RMB205,532,000 (2015: RMB327,431,000) have been pledged as securities for certain bank borrowings of the Group (Note 16(b)).

(b) As at 31 December 2016, the Group is in the process of obtaining the certificates of ownership in respect of certain buildings of the Group with carrying amounts of RMB16,853,000 (2015: RMB18,432,000) from the relevant government authorities.

(c) Depreciation expenses of RMB40,876,000 (2015: RMB50,601,000), RMB6,925,000 (2015: RMB12,794,000) and RMB70,727,000 (2015: RMB68,244,000) were included in cost of sales, administrative expenses and other expenses respectively.

9. INTANGIBLE ASSETS

	Accounting software RMB'000
Year ended 31 December 2015	
Opening net book amount	—
Additions	4,000
Amortisation charge	(333)
Closing net book amount	3,667
As at 31 December 2015	
Cost	4,000
Accumulated amortisation	(333)
Net book amount	3,667
Year ended 31 December 2016	
Opening net book amount	3,667
Amortisation charge	(467)
Closing net book amount	3,200
As at 31 December 2016	
Cost	4,000
Accumulated amortisation	(800)
Net book amount	3,200

For the year 31 December 2016, amortisation of RMB467,000 (2015: RMB333,000) was included in administrative expenses.

10. INTEREST IN A JOINT VENTURE

	2016 RMB'000	2015 RMB'000
As at 1 January	149,259	127,304
Share of results	10,276	21,682
Others (Note 20)	272	273
As at 31 December	159,807	149,259

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 2016 and 2015, Jimont has a registered and paid-in capital of RMB450,000,000.

As at 31 December 2015, Jimont is jointly owned by the Company, Montefiber S.p.A and SIMEST S.p.A as to 50.00%, 39.38% and 10.62% respectively.

As at 7 September 2016, Montefiber and SIMEST S.p.A. transferred 39.38% and 10.62% of equity interest of Jimont respectively to Jiangsu Zhongxin Resourses Group Co., Ltd. ("Zhongxin"). As at 31 December 2016, Jimont is jointly owned by the Company and Zhongxin, each holds 50% equity interest in Jimont.

10. INTEREST IN A JOINT VENTURE – *continued*

Notes: – continued

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

	As at 31 December 2016		As at 31 December 2015	
	Jimont RMB'000	50% shared by the Group RMB'000	Jimont RMB'000	50% shared by the Group RMB'000
Non-current assets	830,125	415,062	766,122	383,061
Current assets	523,161	261,581	422,563	211,282
Total assets	1,353,286	676,643	1,188,685	594,343
Non-current liabilities	80,000	40,000	25,654	12,827
Financial liabilities, excluding trade and other payable	436,654	218,327	496,417	248,209
Other current liabilities	513,397	256,698	363,931	181,965
Total liabilities	1,030,051	515,025	886,002	443,001
Net assets	323,235		302,683	
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	161,618		151,342	
Carrying amount of the Group's interest in the joint venture	159,807		149,259	
Share of joint venture's capital commitments	21,322		2,880	

	Jimont RMB'000	Jimont RMB'000
Revenue	1,571,877	1,481,929
Expenses	(1,551,324)	(1,438,566)
Net profit for the year	20,553	43,363
Included in the above amounts are:		
Depreciation and amortisation	(80,153)	(70,912)
Interest income	1,413	5,667
Interest expense	(42,718)	(68,407)
Income tax expense	(7,386)	(14,526)

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

11. PREPAYMENTS AND OTHER RECEIVABLES – NON CURRENT

	2016 RMB'000	2015 RMB'000
Trade receivables (Notes 13(a) and 32(b))	—	3,369
Other receivables (Note 13(b))	140,914	10,978
Consideration receivable (Note 29)	89,302	130,153
	230,216	144,500

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

12. INVENTORIES

	2016 RMB'000	2015 RMB'000
Raw materials	194,990	135,322
Work in progress	19,237	14,327
Finished goods	47,488	59,034
	261,715	208,683

As at 31 December 2016, a batch of raw materials with costs of RMB8,468,000 (2015: RMB8,468,000) were considered as long aged with net realisable value lower than the carrying value. Provision for impairment on the abovementioned raw materials of RMB8,468,000 (2015: RMB8,468,000) were made as at 31 December 2016.

13. TRADE AND OTHER RECEIVABLES

	2016 RMB'000	2015 RMB'000 (Restated)
Trade receivables (Note a)	122,356	102,626
Less: provision for impairment	(8,224)	(5,589)
Trade receivables – net	114,132	97,037
Bills receivables (Note 4.1(b)(i))	40,948	85,541
Amounts due from related companies (Notes d and 32(b))	308,060	266,523
Other receivables	201,435	317,113
Less: provision for impairment	(19,475)	(13,406)
Other receivables – net (Note f)	181,960	303,707
Prepayments	101,349	53,008
Less: provision for impairment	(2,881)	(3,301)
Prepayments – net (Note g)	98,468	49,707
	743,568	802,515

Notes:

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

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

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

13. TRADE AND OTHER RECEIVABLES – *continued*

Notes: – *continued*

(b) As at 31 December 2016, 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 based on due date is as follows:

	2016 RMB'000	2015 RMB'000 (Restated)
0 – 30 days past due	**10,227**	38,382
31 – 90 days past due	**4,474**	8,708
91 – 180 days past due	**9,053**	5,798
Over 180 days past due	**2,666**	6,406
	26,420	59,294

Included in the trade receivables that were past due but not impaired as set out above, was an amount of RMB10,251,000 (2015: RMB8,369,000) due from Tuopu Textile Industrial Development Co., Ltd. ("Tuopu Textile"), a wholly owned subsidiary of JCF Groupco, amounting to RMB6,745,000 (2015: RMB8,369,000) and Jilin Chemical Fiber Group Import Export Co., Ltd. ("JCL Group Import Export"), a wholly owned subsidiary of JCF Groupco, amounting to RMB3,506,000 (2015: RMBNil).

Included in other receivables was an amount due from Tuopu Textile of RMB6,385,000 (2015: RMB10,978,000) in relation to provision of utility. As at 31 December 2015, the trade and other receivable due from Tuopu Textile was interest bearing at 4.4% and had a three year repayment term. As at 31 December 2016, due to the improvement of financial position of Tuopu Textile, the Group and Toupu Textile revised the repayment schedule. Toupu agreed to settle the full amount of the trade receivable in 2017. The trade and other receivable due from Toupu was interest free and had a twelve months repayment term.

JCF Groupco confirmed to the Group that it would provide continuing financial support to Tuopu Textile and JCL Group Import Export to the extent necessary to enable them to meet their obligation as and when they fall due. The directors of the Company does not expect any significant loss from the non-performance by Tuopu Textile and JCL Group Import Export and hence no provision for impairment has been made as at 31 December 2015 and 2016.

(c) As at 31 December 2016, trade receivables of RMB8,224,000 (2015: RMB5,589,000) were considered as doubtful debts and were fully provided for. The amount of the provision was RMB8,224,000 (2015: RMB5,589,000) as at 31 December 2016. The individually impaired receivables mainly relate to customers which are in unexpected difficult economic situations.

13. TRADE AND OTHER RECEIVABLES – *continued*

Notes: – *continued*

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

	2016 RMB'000	2015 RMB'000 (Restated)
0 – 30 days	160,040	63,042
31 – 90 days	72,246	46,304
91 – 180 days	—	72,543
Over 180 days	75,774	84,634
	308,060	266,523

(i) The amounts due from related companies primarily comprise of receivables in respect of the provision of utilities, included in these amounts, amounts of RMB58,419,000 (2015: RMB40,763,000) have already been past due. According to settlement plans entered into between the Group and these related companies, the amounts will be fully repaid by 31 December 2017. The management does not expect any significant loss from the non-performance by these related companies and hence no provision for impairment has been made as at 31 December 2015 and 2016.

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

	2016 RMB'000	2015 RMB'000
As at 1 January	22,296	7,870
Impairment loss recognised (Note 21)	8,284	15,143
Disposal of a subsidiary	—	(717)
As at 31 December	30,580	22,296

The Group recognised impairment loss on trade and other receivables on individual assessment based on the accounting policy stated in Note 3.10.

(f) Other receivables included the amounts due from Tangu and Guoxin of RMB100,000,000 and RMB59,618,000 (2015: RMB258,645,000 and RMB31,088,000) respectively.

(g) Prepayments included advance to suppliers for raw materials amounting to RMB91,974,000 (2015: RMB45,263,000).

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

14. CASH AND CASH EQUIVALENTS/RESTRICTED BANK DEPOSITS

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

	2016	2015
	RMB'000	RMB'000
Cash at bank and on hand	**54,888**	129,771
Less: restricted bank deposits (Note a)	**(14,613)**	(62,151)
Cash and cash equivalents	**40,275**	67,620

Notes:

(a) As at 31 December 2016, the Group has pledged certain bank deposits with carrying amounts of RMB11,500,000 (2015: RMB43,940,000) to financial institutions for the issuance of certain bank bills payable of RMB23,000,000 (2015: RMB70,600,000) (Note 18).

As at 31 December 2016, bank deposits of RMB3,113,000 (2015: RMB18,211,000) have been pledged for the issues of certain letters of credit for the Group's purchases of raw materials.

(b) As at 31 December 2016, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to RMB54,888,000 (2015: RMB129,749,000). RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

15. SHARE CAPITAL

(a) Share capital

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

Notes:

(i) There was no movement in share capital during the years ended 31 December 2016 and 2015.

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

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

(b) Share premium

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

16. BORROWINGS

	2016			2015		
	Effective interest rate %	Maturity	RMB'000	Effective interest rate %	Maturity	RMB'000
Current						
Bank borrowings	4.55	2017	1,037,500	5.52	2016	1,058,710
Current portions of long term bank borrowings - secured	4.79	2017	38,654	6.29	2016	102,543
			1,076,154			1,161,253
Non-current						
Bank borrowings - secured	5.01	2017 - 2022	76,500	5.22	2017 - 2022	115,154
			76,500			115,154
Total net borrowings			1,152,654			1,276,407
Representing:						
– guaranteed borrowings (Note a)			1,037,500			953,870
– secured borrowings (Note b)			115,154			322,537

16. BORROWINGS – *continued*

Notes:

(a) As at 31 December 2016, bank borrowings of RMB887,500,000 (2015: RMB953,870,000) are guaranteed by JCF Groupco the ultimate holding company of the Company bearing guarantee fee at 2% (2015: 1.8%) per annum on the total guaranteed amount. The guarantee would expire upon maturity of the bank borrowings.

As at 31 December 2016, a bank borrowing of RMB150,000,000 (2015: Nil) is guaranteed by an authorised financial institution bearing guarantee fee at 0.653% per annum on the total guaranteed amount. The guarantee would expire upon maturity of the bank borrowing.

(b) As at 31 December 2016, bank borrowings of RMB115,154,000 (2015: RMB277,697,000) are secured by certain property, plant and equipment of the Company with carrying amounts of RMB205,532,000 (2015: RMB327,431,000) (Note 8).

As at 31 December 2015, bank borrowings of RMB44,840,000 were secured by letter of credit held by the Company.

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

	2016 RMB'000	2015 RMB'000
On demand	—	—
Within 1 year	1,076,154	1,161,253
Between 1 and 2 years	17,000	55,654
Between 2 and 5 years	51,000	51,000
Over 5 years	8,500	8,500
	1,152,654	1,276,407

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

(e) As at 31 December 2016, the Group has fixed interest rates bank borrowings of RMB460,500,000 (2015: RMB492,710,000) 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.

17. DEFERRED INCOME

	Government grant for construction of new facilities RMB'000 (Note a)	Purchases of domestically manufactured equipment RMB'000 (Note b)	Total RMB'000
As at 1 January 2015	60,513	8,724	69,237
Amortisation (Note 20)	(6,204)	(1,384)	(7,588)
Disposal of a subsidiary (Note 29)	(13,750)	—	(13,750)
As at 31 December 2015	40,559	7,340	47,899
Amortisation (Note 20)	(5,642)	(1,384)	(7,026)
As at 31 December 2016	**34,917**	**5,956**	**40,873**

	2016 RMB'000	2015 RMB'000
Represented by		
Current portion	**7,027**	7,027
Non-current portion	**33,846**	40,872
	40,873	47,899

Notes:

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

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

18. TRADE AND OTHER PAYABLES

	2016 RMB'000	2015 RMB'000
Trade payables (Note a)	222,379	150,055
Bank bills payables (Note b)	23,000	70,600
Amounts due to related companies (Note c and 32(b))	22,245	10,002
Other payables and accruals (Note d)	183,590	124,004
	451,214	354,661

Notes:

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

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

(b) Bills payables are secured by certain restricted bank deposits of the Group with carrying amount of RMB11,500,000. (2015: RMB43,940,000) (Note 14).

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

(d) Other payables and accruals included advance from customers, payable for construction projects and staff welfare fund amounting to RMB69,796,000, RMB30,947,000 and RMB24,600,000 (2015: RMB35,210,000, RMB15,679,000 and RMB24,600,000) respectively.

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

19. DEFERRED INCOME TAX ASSETS

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

	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
As at 1 January 2015	5,107	1,248	4,812	1,788	1,765	38,490	3,106	11,813	68,129
(Charged)/credited to the consolidated statement of comprehensive income	(838)	(1,248)	(1,852)	3,786	352	(5,275)	(136)	(693)	(5,904)
Disposal of a subsidiary (Note 29)	—	—	(2,960)	—	—	—	—	(10,351)	(13,311)
As at 31 December 2015	4,269	—	—	5,574	2,117	33,215	2,970	769	48,914
(Charged)/credited to the consolidated statement of comprehensive income	(851)	—	—	2,071	—	(25,360)	(226)	224	(24,142)
As at 31 December 2016	**3,418**	—	—	**7,645**	**2,117**	**7,855**	**2,744**	**993**	**24,772**

The PRC tax losses can only be carried forward for a maximum period of five years. Included in the tax losses above is unutilised tax losses recognised as at 31 December 2016 with the amount of RMB31,420,000 (31 December 2015: RMB132,860,000) which will expire in 2020.

As at 31 December 2016, the Group did not further recognise deferred tax assets of RMB23,711,000 (31 December 2015: RMB24,324,000) in respect of tax loss amounting to RMB94,843,000 (2015: RMB97,287,000) as it is not highly probable that future taxable profits against which the losses can be utilised will be sufficiently available in the relevant tax jurisdiction. The tax losses amounting to RMB25,854,000 and RMB68,989,000 will be expired in 2018 and 2020 respectively.

20. OTHER INCOME AND GAINS

	Notes	2016 RMB'000	2015 RMB'000
Continuing operations:			
Other income			
Rental income		**505**	376
Income from provision of utilities	32(a)	**431,354**	420,603
Amortisation of deferred income	17	**7,026**	6,963
Sales of raw materials		**34,693**	15,503
Subsidy income (Note a)		**3,788**	6,165
Inspection fee income (Note b)		**1,546**	1,975
Others		**230**	300
		479,142	451,885
Other gains			
Gain attributable to equity interests of a joint venture	10	**272**	273
Gain on disposal of land use right		—	3,697
Gain on disposal of property, plant and equipment, net		—	3,881
Foreign exchange gain, net		**4,471**	4,898
		4,743	12,749
		483,885	464,634
Discontinued operations:			
Other income			
Amortisation of deferred income	17	—	625
Others		—	15
	29	—	640

Notes:

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

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

21. OTHER EXPENSES AND LOSSES

	Notes	2016 RMB'000	2015 RMB'000
Continuing operations:			
Other expenses			
Direct outgoings in respect of provision of utilities		**(363,745)**	(337,863)
Cost of raw materials		**(31,625)**	(26,370)
		(395,370)	(364,233)
Other losses			
Impairment loss on trade and other receivables, net	13(e)	**(8,284)**	(15,143)
Net loss arising on derivative financial instrument	30	**—**	(221)
		(8,284)	(15,364)
		(403,654)	(379,597)

22. PROFIT BEFORE INCOME TAX

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

	Notes	2016 RMB'000	2015 RMB'000
Continuing operations:			
Inventories recognised as an expense			
– for production of fiber products		**1,346,765**	1,453,920
– provision for impairment on inventories		—	1,407
Depreciation on property, plant and equipment	8	**118,528**	117,664
Amortisation (included in administrative expenses) of			
– land use rights	7	**3,866**	3,866
– intangible assets	9	**467**	333
Employee benefit expenses	23	**132,203**	124,325
Minimum lease payment		**10,802**	13,178
Auditors' remuneration			
– audit services		**950**	1,235
Discontinued operations:			
Inventories recognised as an expense			
– for production of fiber products		—	43,290
– reversal of impairment on inventories		—	(3,842)
Depreciation	8	—	13,975
Amortisation of			
– land use rights	7	—	15
Employee benefit expenses	23	—	4,987
Auditors' remuneration			
– audit services		—	—

23. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2016 RMB'000	2015 RMB'000
Wages and salaries	67,174	73,539
Pension costs – defined contribution plans	8,371	10,088
Other social security costs	56,658	45,685
	132,203	129,312

Directors' remuneration

Directors' remuneration is disclosed as follows:

Year ended 31 December 2016

Name of director and supervisor	Fees RMB'000	Salaries RMB'000	Employer's contributions to pension scheme RMB'000	Total RMB'000
Executive director				
Mr. SONG Dewu (Chairman)	—	200	6	206
Mr. YANG Xuefeng	—	196	10	206
Mr. PAN Xianfeng (Note a)	—	56	5	61
	—	452	21	473
Non-executive director				
Mr. MA Jun	—	140	5	145
Mr. JIANG Junzhou	—	140	5	145
Ms. PANG Suet Mui	20	—	—	20
Mr. WU Song (Note b)	20	—	—	20
	40	280	10	330

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

Directors' remuneration – *continued*

Year ended 31 December 2016 – *continued*

Name of director and supervisor	Fees	Salaries	Employer's contributions to pension scheme	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Independent non-executive director				
Mr. LI Yanxi	50	—	—	50
Mr. JIN Jie	50	—	—	50
Mr. LV Xiaobo (Note c)	50	—	—	50
Ms. ZHU Ping	50	—	—	50
	200	—	—	200
	240	732	31	1,003
Supervisor				
Ms. SUN Yujing	—	140	7	147
Mr. ZHANG Haiou (Note e)	—	52	6	58
Mr. CHENG Jianhang	—	—	—	—
Mr. LIU Ming	—	—	—	—
Ms. BAI Hua	—	56	6	62
Mr. Xu Jiawei	—	—	6	6
Mr. SHAO Baozhong (Note f)	—	4	—	4
	—	252	25	277

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

Directors' remuneration – *continued*

Year ended 31 December 2015

Name of director and supervisor	Fees	Salaries	Employer's contributions to pension scheme	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Executive director				
Mr. SONG Dewu (Chairman)	—	330	6	336
Mr. YANG Xuefeng	—	196	6	202
Mr. PAN Xianfeng (Note a)	—	56	5	61
	—	582	17	599
Non-executive director				
Mr. MA Jun	—	231	6	237
Mr. JIANG Junzhou	—	231	6	237
Ms. PANG Suet Mui	20	—	—	20
Mr. WU Song (Note b)	20	—	—	20
Mr. SUN Hai Chao (Note d)	10	—	—	10
	50	462	12	524
Independent non-executive director				
Mr. LI Yanxi	25	—	—	25
Mr. JIN Jie	50	—	—	50
Mr. LV Xiaobo (Note c)	50	—	—	50
Ms. ZHU Ping	50	—	—	50
	175	—	—	175
	225	1,044	29	1,298

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

Directors' remuneration – *continued*

Year ended 31 December 2015 – *continued*

Name of director and supervisor	Fees	Salaries	Employer's contributions to pension scheme	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Supervisor				
Ms. SUN Yujing	—	180	5	185
Mr. ZHANG Haiou (Note e)	—	57	4	61
Mr. CHENG Jianhang	—	—	—	—
Mr. LIU Ming	20	—	—	20
Ms. BAI Hua	—	56	5	61
Mr. Xu Jiawei	—	108	4	112
	20	401	18	439

Notes:

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

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

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

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

(e) The employees representative supervisor of the Company, Mr. Zhang Haiou, resigned on 29 November 2016.

(f) Mr. Shao Baozhong has been elected as the employees representative supervisor of the Company on 29 November 2016.

In addition to the directors' emoluments as disclosed above, certain directors of the Company received emoluments from JCF Groupco, the ultimate parent company, and its fellow subsidiaries during the year ended 31 December 2016 amounting to RMB643,000 (2015: RMB1,333,000), 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.

The remuneration paid to or for the executive directors are generally emoluments paid or receivable in respect of those persons' other services in connection with the management of the affairs of the Company and its subsidiaries.

23. 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 2016 included three (2015: four) directors and one (2015: Nil) supervisor whose emoluments are reflected in the analysis presented above. The aggregate amounts of emoluments paid and payable to the remaining one (2015: one) individual whose emoluments was the highest in the Group during the year are as follows:

	2016 RMB' 000	2015 RMB' 000
Basic salaries and allowances	840	1,185

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

	Number of individual	
	2016	2015
RMB896,147 to RMB1,344,219 (2015: RMB893,361 to RMB1,340,039) (equivalent to HK$1,000,001 to HK$1,500,000)	—	1

During the years ended 31 December 2016 and 2015, 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:

	2016 No. of individuals	2015 No. of individuals
Nil to RMB896,147 (2015: Nil to RMB893,361) (equivalent to Nil to HK$1,000,000)	20	20
RMB896,147 to RMB1,344,219 (2015: RMB893,361 to RMB1,340,039) (equivalent to HK$1,000,001 to HK$1,500,000)	—	1

24. FINANCE INCOME AND COSTS

	Notes	2016 RMB'000	2015 RMB'000
Continuing operations:			
Bank interest income		**(2,019)**	(2,038)
Interest income on an amount due from Tangu		**(12,991)**	—
Interest income on consideration receivable	29	**(6,067)**	(3,472)
Finance income		**(21,077)**	(5,510)
Interest expenses on bank borrowings		**66,849**	104,125
Bank borrowings guarantee fees (Note)		**15,230**	14,875
Finance costs		**82,079**	119,000
Finance costs – net		**61,002**	113,490
Discontinued operations:			
Interest income	28	—	(708)
Interest expenses on bank borrowings		—	4,445
Finance costs	28	—	4,445
Finance costs – net		—	3,737

Note:

JCF Groupco and an authorised financial institution charged guarantee fees on those guaranteed bank borrowings (Note 16(a)) which are calculated at predetermined rates on the daily outstanding principal amounts of the guaranteed bank borrowings.

25. INCOME TAX EXPENSE

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

	Note	2016 RMB'000	2015 RMB'000
Continuing operations			
Current income tax – PRC corporate income tax		—	—
Deferred income tax			
– charge for the year		24,142	5,429
Income tax expenses		24,142	5,429
Discontinued operations			
Current income tax – PRC corporate income tax		—	—
Deferred income tax			
– charge for the year		—	475
Income tax expenses	28	—	475
Total		24,142	5,904

Notes:

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

(b) No provision for Hong Kong profits tax has been made as the Group did not carry out any business or generate any assessable profits in Hong Kong for the year ended 31 December 2015 and 2016.

25. INCOME TAX EXPENSE – *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:

	2016 RMB'000	2015 RMB'000
Profit before income tax		
– continuing operations	110,655	182,224
– discontinued operations	—	(7,148)
	110,655	175,076
Tax calculated at corporate income tax rate of 25% (2015: 25%)	27,664	43,769
Tax effects of:		
– income not subject to tax	–	(1,966)
– expenses not deductible for tax purposes	68	4,021
– tax effect of tax losses and other deductible temporary difference not recognised	397	22,308
– utilisation of tax losses/temporary difference previously not recognised	(1,418)	(56,808)
– tax effect of share of result of a joint venture	(2,569)	(5,420)
Income tax expenses	24,142	5,904

26. EARNINGS PER SHARE

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

Profit attributable to owners of the Company

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

Basic earnings per share are calculated by dividing the profit attributable to the owners of the Company for the year by the weighted average number of the Company's shares in issue during the year of 866,250,000 (2015: 866,250,000) shares.

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

27. DIVIDEND

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

28. DISCONTINUED OPERATIONS

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

	Notes	2015 RMB'000
Turnover		46,628
Cost of sales		(39,448)
Gross profit		7,180
Distribution costs		(830)
Administrative expenses		(10,401)
Other income and gains	20	640
Other expenses and losses	21	—
Operating loss		(3,411)
Finance income	24	708
Finance costs	24	(4,445)
Loss before income tax	22	(7,148)
Income tax expenses	25	(475)
Loss after income tax		(7,623)
Loss on disposal of a subsidiary	29	(36,992)
Loss for the year from discontinued operations		(44,615)

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

	2015 RMB'000
Net cash used in from operating activities	(3,593)
Net cash generated from investing activities	36,155
Net cash used in financing activities	(23,918)
Net cash inflows from the discontinued operations	8,644

29. DISPOSAL OF A SUBSIDIARY

	Notes	As at 30 June 2015 RMB'000
Assets disposed of:		
Land use rights	7	6,333
Property, plant and equipment	8	406,192
Deferred income tax assets	19	13,311
Inventories		96,490
Trade and other receivables		65,825
Restricted bank deposits		52,201
Cash and cash equivalents		13,853
Total assets		654,205
Liabilities disposed of:		
Long term bank borrowings		105,000
Deferred income	17	13,750
Short term bank borrowings		16,000
Trade and other payables		324,695
Total liabilities		459,445
Net assets		194,760
Loss on disposal of a subsidiary	28, 30	(36,992)
		157,768
Satisfied by:		
Consideration receivable (Note)		157,768

29. DISPOSAL OF A SUBSIDIARY – *continued*

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

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

Note:

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

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

The movement in the consideration receivable during the year ended 31 December 2015 is as follows:

	RMB'000
Arising on disposal of a subsidiary	157,768
Charged to consolidated statement of comprehensive income:	
– interest income on consideration receivable (Note 24)	3,472
As at 31 December 2015	161,240

30. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Cash generated from operations

	Notes	2016 RMB'000	2015 RMB'000
Profit before income tax			
– Continuing operations		**110,655**	182,224
– Discontinued operations (including loss on disposal of a subsidiary)		—	(44,140)
		110,655	138,084
Adjustments for:			
– Provision for impairment on trade and other receivables	21	**8,284**	15,143
– Depreciation	8, 22	**118,528**	131,639
– Amortisation of			
– land use rights	7, 22	**3,866**	3,881
– intangible assets	9, 22	**467**	333
– Amortisation of deferred income	17, 20	**(7,026)**	(7,588)
– Reversal of provision for impairment of inventories	22	—	(2,435)
– Net loss arising on derivative financial instrument	20, 21	—	221
– Gain on disposal of property, plant and equipment	20	—	(3,881)
– Gain on disposal of land use rights	20	—	(3,697)
– Loss on disposal of a subsidiary	29	—	36,992
– Interest income	24	**(21,077)**	(6,218)
– Interest and guarantee fee expenses	24	**82,079**	123,445
– Share of result of a joint venture	10	**(10,276)**	(21,682)
– Gain attributable to equity interests of a joint venture	10, 20	**(272)**	(273)
Operating profit before working capital changes		**285,228**	403,964
Changes in working capital:			
– (increase)/decrease in inventories		**(53,032)**	42,518
– increase in trade and other receivables		**(35,053)**	(204,107)
– increase in trade and other payables		**96,553**	233,739
Cash generated from operations		**293,696**	476,114

31. COMMITMENTS

(a) Capital Commitment

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

	2016 RMB'000	2015 RMB'000
Property, plant and equipment	**41,240**	17,955

(b) Operating lease commitments

The Group as the lessee

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

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

	2016 RMB'000	2015 RMB'000
Not later than 1 year		
– Leased assets to independent entities	**23**	23
– Leased assets to JCFCL (Note 32(a)(i))	**9,874**	10,277
– Leased assets to group entities under JCF Groupco	—	2,192
	9,897	12,492
Later than 1 year and not later than 5 years		
– Leased assets to independent entities	—	68
– Leased assets to JCFCL (Note 32(a)(i))	**19,029**	—
– Leased assets to group entities under JCF Groupco	**45**	—
	19,074	68
	28,971	12,560

31. COMMITMENTS – *continued*

(b) Operating lease commitments – *continued*

The Group as the lessor

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

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

	2016 RMB'000	2015 RMB'000
Land use rights and machinery		
Not later than 1 year	55	28
Later than 1 year and not later than 5 years	113	112
Later than 5 years	—	29
	168	169

32. 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. As stated below in note 32(c), a portion of the Group's business activities is conducted with other government related entities in the PRC (primarily with respect to provision of utilities, 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.

32. SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

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

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

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

32. SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

(a) Related party transactions

	2016 RMB'000	2015 RMB'000 (Restated)
Sales of goods to:		
– a shareholder of the Company	**257,070**	310,372
– group entities under JCF Groupco*	**117,222**	57,196
Provision of utilities to:		
– a joint venture	**182,138**	160,006
– group entities under JCF Groupco*	**217,444**	206,681
Provision of quality inspection services		
– a joint venture	**2,266**	1,863
Sales of raw materials to a joint venture	**31,711**	9,477
Sales of property, plant and equipment to:		
– a joint venture	**—**	5,947
– group entities under JCF Groupco*	**—**	5
Rental expense to JCFCL in respect of the remaining leased asset* (Note (i))	**(10,509)**	(11,868)
Rental expense to group entities under JCF Groupco*	**(284)**	(1,186)
Bank borrowings guarantee fees to the JCF Groupco	**(15,201)**	(14,875)
Repair and maintenance service fee to group entities under JCF Groupco*	**(2,585)**	(8,015)
Purchases of raw materials from:		
– a joint venture	**(2,618)**	(198)
– group entities under JCF Groupco*	**(13,517)**	(9,392)

* 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. On 1 September 2016. The Group entered into the 2017 Lease Agreement with JCFCL, pursuant to which the JCFCL agreed to continue to lease the Leased Assets to the Company form 1 January 2017 to 31 December 2019 (Note 31(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.

32. SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

(a) Related party transactions – *continued*

Notes: – *continued*

(ii) JCF Groupco allowed the Group to the use of the trademark of "白山" (Baishan) at nil consideration during the years ended 31 December 2016 and 2015.

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

(b) Balances with related parties

	2016 RMB'000	2015 RMB'000 (Restated)
Trade receivables from		
– group entities under JCF Groupco	38,056	6,463
– Tuopu Textile		
– Non current	—	3,369
– Current	11,926	5,000
	49,982	14,832
Advance from customer		
– a shareholder of the Company	4,437	4,967
Amount due from – Non current		
– Tuopu Textile	—	10,978
– group entities under JCF Groupco	75,774	62,182
– a joint venture	109,490	29,708
– JCFCL	122,796	174,633
	308,060	266,523
	308,060	277,501

32. SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

(b) Balances with related parties – *continued*

	2016 RMB'000	2015 RMB'000
Trade payables to		
– group entities under JCF Groupco	**441**	—
Amounts due to		
– JCF Groupco	**11,818**	7,096
– group entities under JCF Groupco	**5,393**	2,906
	17,211	10,002
Advance to supplier		
– group entities under JCF Groupco	—	372

Note:

As at 31 December 2015, the trade and other receivables due from Toupu Textile was interest bearing at 4.4% and had a three year repayment term. JCF Groupco confirmed to provide continuing financial support to Toupu Textile to the extent necessary to enable them to meet their obligation as and when they fall due. As at 31 December 2016, due to the improvement of financial position of Tuopu Textile, the Company and Toupu Textile revised the repayment schedule. Toupu agreed to settle the full amount of the trade receivable in 2017. The trade and other receivable due from Toupu was interest free and had a twelve months repayment term. The directors of the Company does not expect any significant loss from the non-performance by Toupu Textile and hence no provision for impairment has been made as at 31 December 2016. (2015: Nil).

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

32. 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"). Excepted as stated above the Company's directors consider that state-owned entities are independent third parties so far as the Group's business transactions with them are concerned.

During the year, the Group had significant related party transactions and balances conducted with other state-owned entities in the normal course of businesses of the Group for the year are as follows:

	2016 RMB'000	2015 RMB'000
Provision of utilities	**24,035**	5,297
Provision of quality inspection services	**313**	44
Interest income	**19,059**	—
Sales of materials	**549**	102
Purchases of raw materials	**(778,131)**	(693,782)
Purchases of utilities	**(103,750)**	(82,656)
Prepayment	**14,403**	8,210
Other receivables		
– Non current	**159,618**	130,153
– Current	**230,216**	289,733
	389,834	419,886
Trade payables	**—**	3,330

In addition, approximately 100% and 100% (2015: 100% and 94% respectively) of the Group's bank balances (including restricted bank deposits) and borrowings are deposited/arranged with state-owned banks as at 31 December 2016.

32. SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

(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:

	2016 RMB'000	2015 RMB'000
Wages, salaries and other short-term employee benefits	2,114	2,924
Pension and social security costs	63	51
	2,177	2,975

(e) Financial Guarantee Liabilities

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

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

33. FINANCIAL INSTRUMENTS BY CATEGORY

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

	Asset/(liabilities) as per consolidated statement of financial position			
	Loans and receivables RMB'000	Total RMB'000	Financial liabilities at amortised costs RMB'000	Total RMB'000
As at 31 December 2016				
Trade and other receivables (excluding prepayments)	875,316	875,316	—	—
Cash and cash equivalents	40,275	40,275	—	—
Restricted bank deposits	14,613	14,613	—	—
Borrowings	—	—	(1,152,654)	(1,152,654)
Trade and other payables (excluding other taxes, advance from customers and provision for staff welfare)	—	—	(350,466)	(350,466)
Total	930,204	930,204	(1,503,120)	(1,503,120)

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

34. COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	2016 RMB'000	2015 RMB'000
ASSETS		
Non-current assets		
Land use rights	66,206	70,585
Property, plant and equipment	977,026	911,730
Intangible assets	3,200	3,667
Investment in a joint venture	225,000	225,000
Deferred income tax assets	24,158	48,232
Other receivables	230,216	144,500
	1,525,806	1,403,714
Current assets		
Inventories	261,715	208,683
Trade and other receivables	743,568	802,515
Land use rights	3,834	3,321
Restricted bank deposits	14,613	62,151
Cash and cash equivalents	40,275	67,620
	1,064,005	1,144,290
Total assets	2,589,811	2,548,004
EQUITY		
Capital and reserves attributable to owners of the Company		
Share capital	866,250	866,250
Share premium	142,477	142,477
Other reserves	31,919	31,919
Accumulated losses	(95, 576)	(171,609)
Total equity	945,070	869,037

34. COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION – *continued*

	2016 RMB'000	2015 RMB'000
LIABILITIES		
Non-current liabilities		
Long-term bank borrowings	76,500	115,154
Deferred income	33,846	40,872
	110,346	156,026
Current liabilities		
Trade and other payables	451,214	354,661
Deferred income	7,027	7,027
Short-term bank borrowings	1,037,500	1,058,710
Current portion of long-term bank borrowings	38,654	102,543
	1,534,395	1,522,941
Total liabilities	1,664,741	1,678,967
Total equity and liabilities	2,589,811	2,548,004
Net current liabilities	(470,390)	(378,651)
Total assets less current liabilities	1,055,416	1,025,063

Approved and authorised for issue by the board of directors on 29 March 2017.

Song Dewu
Chairman

Pan Xianfeng
Director

34. COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION – *continued*

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

	Statutory reserve fund RMB'000	Accumulated losses RMB'000	Total RMB'000
As at 1 January 2015	31,919	(101,606)	(69,687)
Loss for the year	—	(70,003)	(70,003)
As at 31 December 2015	31,919	(171,609)	(139,690)
Profit for the year	—	76,033	76,033
As at 31 December 2016	**31,919**	**(95, 576)**	**(63,657)**

35. COMPARATIVE FIGURE

Comparative figures

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

Amount due from Tangu is reclassified from amounts due from related companies included in current assets to other receivables included in current assets.

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