

CME GROUP INC.  
Form 4  
February 10, 2009

**FORM 4**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

OMB APPROVAL

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**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person \*  
**SHEPARD WILLIAM R**

(Last) (First) (Middle)  
**20 S. WACKER DRIVE**  
  
(Street)  
  
**CHICAGO, IL 60606**

(City) (State) (Zip)

2. Issuer Name and Ticker or Trading Symbol  
**CME GROUP INC. [CME]**

3. Date of Earliest Transaction  
(Month/Day/Year)  
**02/06/2009**

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

Director  10% Owner  
 Officer (give title below)  Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)  
 Form filed by One Reporting Person  
 Form filed by More than One Reporting Person

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price
Common Stock Class B1	02/06/2009		P	1	A	189	2
							<u>(1)</u>

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned (e.g., puts, calls, warrants, options, convertible securities)**



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attributable to non-controlling interest	41	7	(2)	(4)	Comprehensive (loss) income attribute to the
Company	(58,927)	(9,734)	(54,435)	21,125	(Loss) Earnings per share, Basic and
diluted	26	(4.51)	(0.74)	(4.17)	1.61 Weighted average number ordinary shares, Basic and
diluted	13,062,500	13,062,500	13,062,500	13,062,500	

See accompanying notes to the consolidated financial statements.

F-4

**FUWEI FILMS (HOLDINGS) CO., LTD and SUBSIDIARIES****CONSOLIDATED STATEMENTS OF EQUITY**

For the Years Ended December 31, 2013, 2012 and 2011

(amounts in thousands, except share data)

	Ordinary Shares		Additional paid-in capital	Statutory reserve	Retained earnings	Accumulated other comprehensive income	Total shareholders' equity	Non-controlling interest	Total equity
	Number of shares	Amount RMB							
Balance as of December 31, 2010	13,062,500	13,323	311,907	35,195	190,933	1,186	552,544	(794 )	551,750
Net income (loss)	-	-	-	-	21,081	-	21,081	(43 )	21,038
Transfer to statutory reserve	-	-	-	2,246	(2,246 )	-	-	-	-
Foreign currency translation adjustment	-	-	-	-	-	44	44	39	83
Balance as of December 31, 2011	13,062,500	13,323	311,907	37,441	209,768	1,230	573,669	(798 )	572,871
Net income (loss)	-	-	-	-	(54,427 )	-	(54,427 )	(10 )	(54,437 )
Foreign currency translation adjustment	-	-	-	-	-	(8 )	(8 )	8	-
Balance as of December 31, 2012	13,062,500	13,323	311,907	37,441	155,341	1,222	519,234	(800 )	518,434

Explanation of Responses:

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Net income (loss)	-	-	-	-	(58,971 )	-	(58,971 )	19	(58,952 )
Foreign currency translation adjustment	-	-	-	-	-	44	44	22	66
Balance as of December 31, 2013	13,062,500	13,323	311,907	37,441	96,370	1,266	460,307	(759 )	459,548
Balance as of December 31, 2013 US\$	13,062,500	2,201	51,523	6,185	15,919	210	76,038	(125 )	75,913

See accompanying notes to the consolidated financial statements.

F-5

**FUWEI FILMS (HOLDINGS) CO., LTD and SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the Years Ended December 31, 2013, 2012 and 2011

	The Years Ended December 31,			
	2013		2012	2011
	RMB	US\$	RMB	RMB
Cash flow from operating activities				
Net (loss) income	(58,952 )	(9,738 )	(54,437 )	21,038
Adjustments to reconcile net (loss) income to net cash provided by(used in) operating activities				
- Loss on disposal of property, plant and equipment	33	5	10	-
- Loss on goodwill impairment	-	-	10,276	-
- Depreciation of property, plant and equipment	48,161	7,956	48,709	43,783
- Amortization of intangible assets	524	87	524	454
- Deferred income taxes	(10,007 )	(1,653 )	(7,727 )	165
- Bad debt (recovery) expense	(1,744 )	(288 )	1,026	(354 )
- Inventory provision	-	-	-	3,533
Changes in operating assets and liabilities				
- Accounts and bills receivable	13,615	2,249	31,460	(26,620 )
- Inventories	(4,164 )	(688 )	7,483	7,270
- Advance to suppliers	7,909	1,306	(6,351 )	2,167
- Prepaid expenses and other current assets	(398 )	(66 )	29,192	(30,180 )
- Accounts payable	4,658	769	9,579	5,021
- Accrued expenses and other payables	38	6	789	(7,185 )
- Advance from customers	2,952	488	(162 )	(25,415 )
- Tax payable	465	77	(23,920 )	(7,695 )
Net cash provided by (used in) operating activities	3,090	510	46,451	(14,018 )
Cash flow from investing activities				
Purchases of property, plant and equipment	(4,416 )	(729 )	(5,285 )	(35,943 )
Restricted cash related to trade finance	(19,974 )	(3,299 )	80,752	(100,915)
Advanced to suppliers - non current	3,165	523	57,500	(273 )
Amount change in construction in progress	(8,785 )	(1,451 )	(207,432)	17,806
Interest capitalization related to CIP	(2,059 )	(340 )	(11,174 )	-
Proceeds from sale of property, plant and equipment	-	-	250	-
Net cash used in investing activities	(32,069 )	(5,296 )	(85,389 )	(119,325)
Cash flow from financing activities				
Principal payments of short-term bank loans	(110,000)	(18,171)	(168,501)	(142,000)
Proceeds from short-term bank loans	105,000	17,345	110,000	148,501
Payment of capital lease obligation	(8,123 )	(1,342 )	-	-

Explanation of Responses:

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Change in notes payable	43,691	7,217	38,299	-
Proceeds from sale-leaseback equipment	5,000	826	20,000	-
Net cash (used in) provided by financing activities	35,568	5,875	(202 )	6,501
Effect of foreign exchange rate changes	(17 )	20	(26 )	(213 )
Net increase(decrease) in cash and cash equivalent	6,572	1,109	(39,166 )	(127,055)
Cash and cash equivalent				
At beginning of period/year	5,006	804	44,172	171,227
At end of period/year	11,578	1,913	5,006	44,172
SUPPLEMENTARY DISCLOSURE:				
Interest paid	12,153	2,008	11,174	10,227
Income tax paid	-	-	-	9,654
SUPPLEMENTARY SCHEDULE OF NONCASH INVESTING AND FINANCIAL ACTIVITIES:				
Account payable for plant and equipment:	7,466	1,233	6,003	1,730
Obligations for acquired equipment under capital lease:	16,877	2,788	20,000	-

See accompanying notes to the consolidated financial statements

F-6

## **FUWEI FILMS (HOLDINGS) CO., LTD and SUBSIDIARIES**

### **Notes to Consolidated Financial Statements**

(amounts in thousands, except per share data)

#### **(1) Principal Activities and Reorganization**

Fuwei Films (Holdings) Co., Ltd and its subsidiaries (the “Company” or the “Group”) are principally engaged in the production and distribution of BOPET film, a high quality plastic film widely used in packaging, imaging, electronics, electrical and magnetic products in the People’s Republic of China (the “PRC”). The Company is a holding company incorporated in the Cayman Islands, established on August 9, 2004 under the Cayman Islands Companies Law as an exempted company with limited liability. The Company was established for the purpose of acquiring shares in Fuwei (BVI) Co., Ltd (“Fuwei (BVI)”), an intermediate holding company established for the purpose of acquiring all of the ownership interest in Fuwei Films (Shandong) Co., Ltd.

On April 23, 2009, Fuwei Films USA, LLC was set up and co-invested by Fuwei Films (Holdings) Co., Ltd. and Newell Finance Management Co., Ltd. Fuwei Films USA, LLC has a registered capital of US\$10 and total investment amount of US\$100. Fuwei Films (Holdings) Co., Ltd. and Newell Finance Management Co., Ltd. own 60% and 40% of the total shares of Fuwei Films USA, LLC, respectively.

On May 9 and 17, 2011, the Company received two notifications from the Weifang State-Owned Assets Operation Administration Company, a wholly-owned subsidiary of Weifang State-Owned Asset Management and Supervision Committee (the “Administration Company”), regarding the transfer of the Company stock previously controlled by the Company’s major shareholders. As a result of the transfer, and based on information provided by the Administration Company, the Company believes that 65.45% of its outstanding ordinary shares are controlled indirectly by the Administration Company and the sole director of each of the intermediate holding companies, Mr. Zheng Min.

#### **(2) Basis of Presentation**

The Group’s consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”).



This basis of accounting differs in certain material respects from that used in the preparation of the books of account of Shandong Fuwei, the Company's principal subsidiary, which are prepared in accordance with the accounting principles and the relevant financial regulations applicable to enterprises limited by shares as established by the Ministry of Finance of the PRC ("PRC GAAP"), the accounting standards used in the country of its domicile. The accompanying consolidated financial statements reflect necessary adjustments not recorded in the books of account of the Company's subsidiaries to present them in conformity with U.S. GAAP.

### **(3) Summary of Significant Accounting Policies and Practices**

#### ***(a) Principles of Consolidation***

The consolidated financial statements include the financial statements of the Company and its three subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

#### ***(b) Foreign Currency Transactions***

The Group's reporting currency is the Chinese Yuan ("Renminbi" or "RMB").

The Company and Fuwei (BVI) operate in Hong Kong as investment holding companies and their financial records are maintained in Hong Kong dollars, being the functional currency of these two entities. Fuwei US company, the wholly owned subsidiaries of the company, their financial records are maintained in US dollars. Assets and liabilities are translated into RMB at the exchange rates at the balance sheet date, equity accounts are translated at historical exchange rates and income, expenses, and cash flow items are translated using the average rate for the period. The translation adjustments are recorded in accumulated other comprehensive income in the statements of equity.

Transactions denominated in currencies other than RMB are translated into RMB at the exchange rates quoted by the People's Bank of China (the "PBOC") prevailing at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies are translated into RMB using the applicable exchange rates quoted by the PBOC at the balance sheet dates. The resulting exchange differences are recorded in the statements of operations.

Commencing from July 21, 2005, the PRC government moved the RMB into a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies.

F-7

For the convenience of the readers, the RMB amounts for the year of 2013 included in the accompanying consolidated financial statements in our annual report has been translated into U.S. dollars at the rate of US\$1.00 = RMB 6.0537, being the noon buy rate for U.S. dollars in effect on December 31, 2013 in the City of New York for cable transfer in RMB per U.S. dollar as certified for custom purposes by the Federal Reserve Bank. No representation is made that the RMB amounts could have been, or could be, converted into U.S. dollar at that rate or at any other certain rate on December 31, 2013, or at any other date.

RMB is not fully convertible into foreign currencies. All foreign exchange transactions involving RMB must take place either through the PBOC or other institutions authorized to buy and sell foreign currency. The exchange rate adopted for the foreign exchange transactions are the rates of exchange quoted by the PBOC which are determined largely by supply and demand.

***(c) Cash and Cash Equivalents and Restricted Cash***

For statements of cash flow purposes, the Company considers all cash on hand and in banks, including accounts in book overdraft positions, certificates of deposit and other highly-liquid investments with maturities of three months or less, when purchased, to be cash and cash equivalents.

As of December 31, 2013 and 2012, there were cash and cash equivalents of RMB11,578 (US\$1,913) and RMB5,006, respectively.

As of December 31, 2013 and 2012, there were restricted cash of RMB41,422 (US\$6,842) and RMB21,457, respectively, as deposit in bank for letters of credit and banker's acceptance bill.

***(d) Trade Accounts Receivable***

Trade accounts receivable are recorded at the invoiced amount after deduction of trade discounts, value added taxes and allowances, if any, and do not bear interest. The allowance for doubtful accounts is the Group's best estimate of the amount of probable credit losses in the Group's existing accounts receivable. The Group determines the allowance based on historical write-off experience, customer specific facts and economic conditions.

The Group reviews its allowance for doubtful accounts monthly. Past due balances over 90 days and over a specified amount are reviewed individually for collectibility. All other balances are reviewed on a pooled basis by aging of such balances. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

***(e) Inventories***

Inventories are stated at the lower of cost or market value as of balance sheet date. Inventory valuation and cost-flow is determined using Moving Weighted Average Method basis. The Group estimates excess and slow moving inventory based upon assumptions of future demands and market conditions. If actual market conditions are less favorable than projected by management, additional inventory write-downs may be required. Cost of work in progress and finished goods comprises direct material, direct production cost and an allocated portion of production overheads based on normal operating capacity.

***(f) Property, Plant and Equipment***

Property, plant and equipment are stated at cost less accumulated depreciation.

Depreciation on property, plant and equipment is calculated on the straight-line method (after taking into account their respective estimated residual values) over the estimated useful lives of the assets as follows:

	Years
Buildings and improvements	25 – 30
Plant and equipment	10 – 15
Computer equipment	5
Furniture and fixtures	5
Motor vehicles	5

Depreciation related to abnormal amounts from idle capacity is charged to cost of goods sold for the period incurred. Total depreciations for the years ended December 31, 2013, 2012 and 2011 were RMB48,161 (US\$7,956), RMB48,709 and RMB43,783 respectively, of which 86.7%, 86.1% and 84.6% was recorded in cost of goods sold and 13.3%, 13.9% and 15.4% was recorded in administrative and selling expenses, respectively.

Construction in progress represented capital expenditure in respect of the BOPET productions line. No depreciation is provided in respect of construction in progress.

F-8

*(g) Leased Assets*

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Classification of assets leased to the Group. Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under capital leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

Assets acquired under capital leases. Where the Group acquires the use of assets under capital leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under capital leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset. Finance charges implicit in the lease payments are charged to the consolidated income statement over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to the consolidated income statement in the accounting period in which they are incurred.

Operating lease charges. Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the consolidated income statement in equal installments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognized in the consolidated income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the consolidated income statement in the accounting period in which they are incurred.

Sale and leaseback transactions. Gains or losses on equipment sale and leaseback transactions which result in capital leases are deferred and amortized over the terms of the related leases. Gains or losses on equipment sale and leaseback transactions which result in operating leases are recognized immediately if the transactions are established at fair value. Any loss on the sale perceived to be a real economic loss is recognized immediately. However, if a loss is compensated for by future rentals at a below-market price, then the artificial loss is deferred and amortized over the period that the equipment is expected to be used. If the sale price is above fair value, then any gain is deferred and amortized over the useful life of the assets.

***(h) Lease Prepayments***

Lease prepayments represent the costs of land use rights in the PRC. Land use rights are carried at cost and charged to expense on a straight-line basis over the respective periods of rights of 30 years. The current portion of lease prepayments has been included in prepayments and other receivables in the balance sheet.

***(i) Goodwill***

Goodwill represents the excess of purchase price and related costs over the value assigned to the net tangible and identifiable intangible assets of businesses acquired. Goodwill is not amortized but is tested for impairment annually, or when circumstances indicate a possible impairment may exist. Impairment testing is performed at a reporting unit level. An impairment loss generally would be recognized when the carrying amount of the reporting unit exceeds the fair value of the reporting unit, with the fair value of the reporting unit determined using a discounted cash flow (DCF) analysis. A number of significant assumptions and estimates are involved in the application of the DCF analysis to forecast operating cash flows, including the discount rate, the internal rate of return, and projections of realizations and costs to produce. Management considers historical experience and all available information at the time the fair values of its reporting units are estimated. Goodwill was determined to be fully impaired during the year ended December 31, 2012.

***(j) Impairment of Long-lived Assets***

The Company recognizes an impairment loss when circumstances indicate that the carrying value of long-lived assets with finite lives may not be recoverable. Management's policy in determining whether an impairment indicator exists, a triggering event, comprises measurable operating performance criteria at an asset group level as well as qualitative measures. If an analysis is necessitated by the occurrence of a triggering event, the Company uses assumptions, which are predominately identified from the Company's strategic long-range plans, in determining the impairment amount. In the calculation of the fair value of long-lived assets, the Company compares the carrying amount of the asset group with the estimated future cash flows expected to result from the use of the assets. If the carrying amount of the asset group exceeds the estimated expected undiscounted future cash flows, the Company measures the amount of the impairment by comparing the carrying amount of the asset group with their estimated fair value. We estimate the fair value of assets based on market prices (i.e., the amount for which the asset could be bought by or sold to a third party), when available. When market prices are not available, we estimate the fair value of the asset group using discounted expected future cash flows at the Company's weighted-average cost of capital. Management believes its policy is reasonable and is consistently applied. Future expected cash flows are based upon estimates that, if not achieved, may result in significantly different results. No impairment was determined to exist as of December 31, 2013 and 2012.

***(k) Revenue Recognition***

Sales of plastic flexible packaging materials are reported, net of value added taxes (“VAT”), sales returns, trade discounts. The standard terms and conditions under which the Group generally delivers allow a customer the right to return product for refund only if the product does not conform to product specifications; the non-conforming product is initially identified by customer, and the customer notifies the Group about the situation. After receiving the Group’s permission, the non-conforming product may be returned for replacement or refund. The Group recognizes revenue when products are delivered and the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sale price is fixed or determinable.

In the PRC, VAT of 17% on invoice amount is collected in respect of the sales of goods on behalf of tax authorities. The VAT collected is not revenue of the Group; instead, the amount is recorded as a liability on the consolidated balance sheet until such VAT is paid to the authorities.

***(l) Research and Development Costs***

Research and development expenditures are expensed as incurred. Research and development costs amounted to RMB10,906(US\$1,802), RMB9,617and RMB10,159 for the year ended December 31, 2013, 2012 and 2011and such costs were recorded in administrative expenses.

***(m) Income Taxes***

Income taxes are accounted for under the asset and liability method. Under guidance contained in FASB ASC 740-10, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. We follow the recognition and disclosure provisions under guidance contained in FASB ASC 740-10-25. Under this guidance, tax positions are evaluated for recognition using a more-likely-than-not threshold, and those tax positions requiring recognition are measured as the largest amount of tax benefit that is greater than fifty percent likely of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. Our policy is to record interest and penalties relating to uncertain tax positions in income tax expense.



***(n) Earnings (loss) per Share***

Basic earnings (loss) per share is computed by dividing net earnings (loss) by the weighted average number of ordinary shares outstanding during the year. Diluted earnings (loss) per share is calculated by dividing net earnings (loss) by the weighted average number of ordinary and dilutive potential ordinary shares outstanding during the year. Diluted potential ordinary shares consist of shares issuable pursuant to stock option plan.

***(o) Use of Estimates***

The preparation of the consolidated financial statements in accordance with U.S. GAAP requires management of the Group to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. On an ongoing basis, management reviews its estimates and assumptions including those related to the recoverability of the carrying amount and the estimated useful lives of long-lived assets, valuation allowances for accounts receivable and realizable values for inventories. Changes in facts and circumstances may result in revised estimates.

***(p) Noncontrolling interest***

Non-controlling interest represents the portion of equity that is not attributable to the Company. The net income (loss) attributable to noncontrolling interests are separately presented in the accompanying statements of income and other comprehensive income. Losses attributable to noncontrolling interests in a subsidiary may exceed the interest in the subsidiary's equity. The related noncontrolling interest continues to be attributed its share of losses even if that attribution results in a deficit of the noncontrolling interest balance.

F-10

***(q) Segment Reporting***

The Group uses the “management approach” in determining reportable operating segments. The management approach considers the internal organization and reporting used by the Group’s chief operating decision maker for making operating decisions and assessing performance as the source for determining the Group’s reportable segments. Management, including the chief operating decision maker, reviews operating results solely by monthly revenue of BOPET film (but not by sub-product type or geographic area) and operating results of Shandong Fuwei, the operating subsidiary in the PRC. As such, the Group has determined that the Group has a single operating segment.

***(r) Contingencies***

In the normal course of business, the Group is subject to contingencies, including legal proceedings and claims arising out of the business that relate to a wide range of matters, including among others, product liability. The Group recognizes a liability for such contingency if it determines it is probable that a loss has occurred and a reasonable estimate of the loss can be made. The Group may consider many factors in making these assessments including past history and the specifics of each matter. As of December 31, 2013 and 2012, the balance of predicted liability was RMB200 (US\$33) and RMB830, respectively, which was estimated liability related to our defective products and included in accrued expenses and other payables as current liabilities on balance sheets.

***(s) Reclassification***

Certain reclassifications have been made to the fiscal year 2013 and 2012 consolidated financial statements to conform to the fiscal 2013 consolidated financial statement presentation. These reclassifications had no effect on net loss or cash flows as previously reported.

***(t) Going Concern Matters***

The accompanying consolidated financial statements have been prepared in conformity with generally accepted accounting principles which contemplate continuation of the company as a going concern. However, as of December 31, 2013, the Company had a working capital deficiency of RMB115,587 (US\$19,094) and accumulated deficit of RMB58,952 (US\$9,738) from net losses incurred during the year of 2013. Confronted with the fierce competition in the BOPET industry in China, the Company may still witness losses over the next twelve months. The ability of the Company to operate as a going concern depends upon its ability to obtain outside sources of working capital and/or generate positive cash flow from operations. The Company accordingly has developed an outside financing plan to

meet the need of working capital for our operation or debts. At the same time, the Company will continue implementing cost reductions on both manufacturing costs and operating expenses to improve profit margins. The accompanying consolidated financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should the Company be unable to continue as a going concern.

***(u) Recently Issued Accounting Standards***

In July 2013, the Financial Accounting Standards Board, or FASB, issued a new accounting standard which will require the presentation of certain unrecognized tax benefits as reductions to deferred tax assets rather than as liabilities in the consolidated balance sheets when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The new standard requires adoption on a prospective basis in the first quarter of 2015; however, early adoption is permitted. We do not expect the adoption will have a significant impact on our consolidated financial statements

In February 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2013-02, which requires entities to present information about significant items reclassified out of accumulated other comprehensive income (loss) by component either on the face of the statement where net income is presented or as a separate disclosure in the notes to the financial statements. This ASU is effective for the Company in the first quarter of fiscal 2014. We do not expect the adoption will have a significant impact on our consolidated financial statements

In July 2012, the FASB issued ASU 2012-02, which amends how companies test for impairment of indefinite-lived intangible assets. The new guidance permits a company to assess qualitative factors to determine whether it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount as a basis for determining whether it is necessary to perform the annual impairment test. The ASU is effective for the Company in the first quarter of fiscal 2014. We do not expect the adoption will have a significant impact on our consolidated financial statements

Other pronouncements issued by the FASB or other authoritative accounting standards group with future effective dates are either not applicable or not significant to the consolidated financial statements of the Company.

F-11

**(4) Accounts and Bills Receivable, net**

Accounts receivable consisted of the following:

	December 31, 2013		December 31, 2012	
	RMB	US\$	RMB	
Accounts receivable	6,868	1,134	11,943	
Less: Allowance for doubtful accounts	(795 )	(131 )	(1,196 )	
	6,073	1,003	10,747	
Bills receivable	2,300	380	10,840	
	8,373	1,383	21,587	

An analysis of the allowance for doubtful accounts for 2013, 2012 and 2011 is as follows:

	December 31, 2013		December 31, 2012		December 31, 2011	
	RMB	US\$	RMB		RMB	
Balance at beginning of year	1,196	197	1,785		2,140	
Bad debt (recovery)expense	(401 )	(66 )	(589 )		(355 )	
Write-offs	-	-	-		-	
Balance at end of year	795	131	1,196		1,785	

The Group has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. These receivables are due within 7 to 90 days from the date of billing. Normally, the Group does not obtain collateral from customers.

**(5) Inventories**

Inventories consisted of the following:

	December 31, 2013		December 31, 2012	
	RMB	US\$	RMB	
Raw materials	16,322	2,696	19,081	

Explanation of Responses:

Work-in-progress	3,436	568	3,095	
Finished goods	24,114	3,983	17,507	
Consumables and spare parts	693	114	719	
Allowance for obsolescence	(6,111 )	(1,009 )	(6,111 )	
	38,454	6,352	34,291	

**(6) Prepayments and Other Receivables**

Prepayments and other receivables consisted of the following:

	December 31, 2013		December 31, 2012
	RMB	US\$	RMB
Prepayments	593	98	627
Other receivables	25,514	4,215	25,547
	26,107	4,313	26,174

F-12

**(7) Property, Plant and Equipment**

Property, plant and equipment consisted of the following:

	December 31, 2013		December 31, 2012
	RMB	US\$	RMB
Buildings	101,027	16,688	46,280
Plant and equipment	735,831	121,551	453,518
Computer equipment	2,367	391	2,056
Furniture and fixtures	12,201	2,015	9,027
Motor vehicles	2,093	346	2,094
	853,519	140,991	512,975
Less: accumulated depreciation	(328,742)	(54,304)	(279,640)
	524,777	86,687	233,335

All of the Group's buildings are located in the PRC. As of December 31, 2013 and 2012, property, plant and equipment plus land use rights with carrying value totaling RMB262,809 (US\$43,413) and RMB231,501 respectively were pledged to banks as collateral for short-term bank loans and credit limits (see Note 12).

Construction-in-progress represents capital expenditure in respect of the BOPET production line. The interest capitalization was RMB2,059 and RMB11,174 during the years ended December 31, 2013 and 2012, respectively.

**(8) Lease Prepayments**

The balance represents the lease prepayments of land use rights of the Group as follows:

	December 31, 2013		December 31, 2012
	RMB	US\$	RMB
Non-current portion	18,999	3,138	19,523
Current portion - amount charged to expense next year	454	75	454
	19,453	3,213	19,977

As of December 31, 2013, total prepaid land use rights were pledged to banks as collateral for short-term bank loans and credit limit in bank (see Note 12).

Explanation of Responses:

Land use rights amortization for the year ended December 31, 2013, 2012 and 2011 were RMB454 (US\$75), RMB454 and RMB454, respectively.

As of December 31, 2013, prepaid land use rights of the Group included certain parcels of land located in Weifang City, Shandong Province, the PRC, with a net book value of RMB19,453 (US\$3,213). The land use rights for land with area of approximately 43,878 square meters, 5,279 square meters and 25,094 square meters will expire in November 2050, May 2053 and February 2055, respectively.

### **(9) Advance to suppliers**

Historically, we have significant working capital commitments because suppliers of PET resin and additives -based raw materials require us to make prepayments in advance of shipment. Besides, we may make prepayments related to some equipment purchases based on arrangement of contract. Our prepayments to suppliers were recorded either as advances to suppliers, if they are expected to be utilized within 12 months as of balance sheet date, or as long-term prepayments, which was included in the line item “advance to suppliers –long term” in our consolidated balance sheet, if they represented the portion expected to be utilized after 12 months. As of December 12, 2013 and 2012, the current portion of advance to suppliers was RMB6,977 (US\$1,153) and RMB13,543, respectively. The noncurrent portion of advance to suppliers was RMB2,134 (US\$353) and RMB5,299, net of allowance for bad debts of RMB272 (US\$45) and RMB1,616, respectively, as of December 31, 2013 and 2012.

### **(10) Long-term Deposit**

On January 20, 2008, Shandong Fuwei signed a “Letter of Intent of Joyinn Capital Increase and Share Expansion”(“LOI”) with Joyinn Hotel Investment & Management Co., Ltd. (“Joyinn”) and the Shareholder of Joyinn. Joyinn is a legal company of limited liability that registered on May 19, 2006 in Beijing, with registered capital of RMB50,000 (US\$6,236).

According to the LOI, Shandong Fuwei deposited RMB 26,000 (half of the would-be added register capital of RMB52,000), to Joyinn as the prepayment as of June 30, 2008. The prepayment to Joyinn will be regarded as investment payment after all parties enter into the final capital increase and shares expansion agreement during the effective term of this LOI. A share pledging agreement was entered into subsequently on April 9, 2008 between Shandong Fuwei and Shandong Xinmeng Investment Co., Ltd (“Pledger”), which holds 97.6% shares of Joyinn. The Pledger agreed to pledge its 52% interest in Joyinn, as a guarantee to the prepayment on the newly increased register capital made by Shandong Fuwei to Joyinn. Based on the mutual supplementary agreement signed in June 2008, the prepayment was decreased by RMB5,000 and returned to the Company on June 18, 2008.

F-13



On June 23, 2009, Shandong Fuwei and the Pledger, the major shareholder of Joyinn, agreed that the Pledger would pledge another 19% of its interest in Joyinn in addition to the previous pledge of 52% interest in Joyinn as a guarantee to the prepayment on the newly increased register capital made by Shandong Fuwei to Joyinn. As a result, the Pledger's percentage of pledged interest in Joyinn increased from 52% to 71%. In the year 2010, the Company impaired the deposit amount by RMB4,240 (US\$681). The impairment was determined based on an independent appraisal study.

On July 14, 2009, Shandong Fuwei and Joyinn signed "Supplementary Agreement of Letter of Intent of Joyinn Capital Increase and Share Expansion" which extends the duration of former agreement to two (2) years that is, Fuwei has the option right to determine to continue or withdraw the investment prior to January 14, 2010, the expiration date of the agreement.

Upon the expiration of the Supplementary Agreement on January 14, 2010, Shandong Fuwei and the Pledger entered into an agreement pursuant to which the Pledger agreed to transfer a 71% interest in Joyinn to Shandong Fuwei. The transaction is subject to the approval of the authority body of both parties.

On March 9, 2012, Shandong Fuwei and the Pledger agreed that prior to the approval of the foregoing share transfer, all the related agreements and share pledge terms and conditions will remain in full force and effect.

The Pledger's percentage of Joyinn was transferred to Weifang State-Owned Assets Operation Administration Company (the "Administration Company") according to the court order. On December 10, 2012, Shandong Fuwei entered into a Share Pledge Agreement with the major shareholder of Joyinn – the Administration Company, in which the Administration Company agreed all the terms and conditions in LOI and its Supplementary Agreement. The Administration Company, as the new Pledger, agreed to increase the pledged interest by 16.8% to 87.8%.

As of December 31, 2013 and 2012 the total amount of the deposit was RMB16,760 (US\$2,769) and RMB16,760, respectively.

#### **(11) Other assets**

Other assets represent loss on sale-leaseback arrangement with International Far Eastern Leasing Co., Ltd. The loss is treated as compensation for the future rentals paid by Shandong Fuwei at a below-market price. The artificial loss should be deferred and amortized in proportion to the amortization of the related leased assets. As of December 31, 2013 and 2012, the total amount of the other assets was RMB13,244 (US\$2,188) and RMB262, respectively.

**(12) Short-term and Long-term Bank Loans**

Lender	Interest rate per annum	12-31-2013		12-31-2012
		RMB	US\$	RMB
<b>SHORT-TERM LOANS</b>				
Bank of Communications Co., Ltd.				
- May 11, 2012 to May 7, 2013	7.87 %	-	-	10,000
- May 8, 2012 to April 5, 2013	7.87 %	-	-	30,000
- May 9, 2012 to April 15, 2013	7.87 %	-	-	35,000
- May 9, 2012 to April 26, 2013	7.87 %	-	-	35,000
- April 18, 2013 to April 2, 2014	7.20 %	20,000	3,304	-
- April 19, 2013 to April 11, 2014	7.20 %	20,000	3,304	-
- April 23, 2013 to April 16, 2014	7.20 %	25,000	4,129	-
- April 25, 2013 to April 18, 2014	7.20 %	20,000	3,304	-
- May 2, 2013 to April 24, 2014	7.20 %	20,000	3,304	-
<b>LONG-TERM LOANS</b>				
Weifang Dongfang State-owned Assets Management Co., Ltd.				
- October 19, 2009 to October 18, 2017	6.12 %	10,000	1,652	10,000
		115,000	18,997	120,000
Less amounts classified as short-term		(105,000)	(17,345)	(110,000 )
		10,000	1,652	10,000

F-14

## Notes:

The Company has entered into six loan agreements with commercial banks to finance its working capital, R&D investment and construction. The weighted average interest rate of short-term bank loans outstanding as of December 31, 2013 and 2012 was 7.42% and 7.66% per annum, respectively.

The principal amounts of the above short-term loans are repayable at the end of the loan period.

The Company paid off four short-term loans totaling RMB110,000 (US\$18,171) to Bank of Communications Co., Ltd. in April 2013 and then obtained five new short-term loans from Bank of Communications Co., Ltd. in April and May 2013 for a total amount of RMB105,000 (US\$17,345), including: (i) RMB20,000 (US\$3,304) on April 18, 2013, maturing on April 2, 2014; (ii) RMB20,000 (US\$3,304) on April 19, 2013, maturing on April 11, 2014; (iii) RMB25,000 (US\$4,129) on April 23, 2013, maturing on April 16, 2014; (iv) RMB20,000 (US\$3,304) on April 25, 2013, maturing on April 18, 2014; and (v) RMB20,000 (US\$3,304) on May 2, 2013, maturing on April 24, 2014. The annual interest rate of these bank loans is 7.20%. As of December 31, 2013 and 2012, the balance of short-term loans was RMB105,000 (US\$17,345) and RMB110,000, respectively.

On November 20, 2009, we signed a long-term loan agreement of RMB10,000 (US\$1,652) with Weifang Dongfang State-owned Assets Management Co., Ltd., with an eight-year loan term, which became effective on October 19, 2009 and will expire on October 18, 2017. From 2015 to 2016, the Company will make principal installment payments of RMB3,350 (US\$553) per year with the remaining principal balance of RMB3,300 (US\$545) due in 2017. The annual interest rate for the loan is the benchmark interest rate for over five-year loans announced by the People's Bank of China reduced by 10% and the applicable annual interest rate for the period ended December 31, 2013 is 6.12%. The loan is guaranteed by Shandong Deqin Investment & Guarantee Co., Ltd. and is used for our projects.

Bank loans outstanding, which are all denominated in Renminbi, are secured and guaranteed as follows:

	December 31, 2013		December 31, 2012	December 31, 2011
	RMB	US\$	RMB	RMB
Secured by:				
Property plant and equipment, Land use right	105,000	17,345	110,000	150,000
Bills receivable	-	-	-	-
Guarantee company	10,000	1,652	10,000	10,000
Restricted cash	-	-	-	18,501
	115,000	18,997	120,000	178,501

Long-term bank loans maturity for the next five years after December 31, 2013 are as follows:

	RMB	US\$
Fiscal 2014	-	-
Fiscal 2015	3,350	553
Fiscal 2016	3,350	553
Fiscal 2017	3,300	546
Fiscal 2018	-	-

**(13) Notes Payable**

As of December 31, 2013, Shandong Fuwei had banker's acceptances opened with a maturity from three to six months totaling RMB81,990 (US\$13,544) for payment in connection with raw materials on a total deposits of RMB40,998 (US\$6,772) at SPD Bank.

Notes payable consisted of the following:

Issuing bank	December 31, 2013		December 31, 2012
	RMB	US\$	RMB
SPD Bank	81,990	13,544	38,299
	81,990	13,544	38,299

F-15

**(14) Accrued Expenses and Other Payables**

Accrued expenses and other payables consisted of the following:

	December 31, 2013		December 31, 2012
	RMB	US\$	RMB
Other payables	6,577	1,087	6,001
Predicted liability	200	32	830
	6,777	1,119	6,831

As of December 31, 2013 and 2012, the balance of predicted liability was RMB200 (US\$32) and RMB830, respectively, which was estimated liability related to our defective products.

**(15) Obligations under capital leases**

The Group has commitments under capital lease agreements as for a part of new third production line and associated equipment. The lease has terms of 3 years expiring by the end of December, 2015. As of December 31, 2013, future payments under these capital leases are as follows:

	December 31, 2013				December 31, 2012				
	RMB	US\$	RMB	US\$	RMB	US\$	RMB	RMB	RMB
	Present value of the minimum lease payments		Total minimum lease payments		Interest		Present value of the minimum lease payments	Total minimum lease payments	Interest
Within 1 year	8,314	1,373	9,166	1,514	852	141	6,282	7,287	1,005
After 1 year but within 2 years	8,259	1,364	8,555	1,413	296	49	6,637	7,333	696
After 2 years but within 3 years	304	51	306	51	2	-	7,081	7,332	251
After 3 years	-	-	-	-	-	-	-	-	-
	16,877	2,788	18,027	2,978	1,150	190	20,000	21,952	1,952
Less: balance due within one year classified as current liabilities	(8,314)	(1,373)					(6,282)		

Explanation of Responses:

8,563 1,415

13,718

Details of obligations under capital leases are as follows:

	December 31, 2013 RMB	December 31, 2012 RMB
RMB denominated obligations		
Fixed interest rate of 6.49% per annum as of December 31, 2013	16,877	20,000
	16,877	20,000

Guarantee deposit of RMB800 (US\$132) over the capital leased assets concerned and relevant insurance policies were provided to the lessors as collateral and security. In addition, as is customary in the case of capital leases, the Group's obligations are secured by four related parties (see Notes 21).

#### **(16) Revenues**

The Company's revenue is primarily derived from the manufacture and sale of plastic flexible packaging materials.

During the fiscal year ended December 31, 2013, net revenues were RMB304,950 (US\$50,374), compared to RMB372,866 during the same period in 2012, representing a decrease of RMB67,916 or 18.2%, mainly due to the reduction of average sales price by 4.9% and total sales volumes by 14.0%. For further analysis of the factors causing revenue decrease, the reduction of average sales price caused a decrease of RMB15,660 and sales volume factor made a decrease of RMB52,256.

F-16

The following table shows the distribution of the Company's revenue by the geographical location of customers, whereas all the Company's assets are located in the PRC:

	December 31, 2013		December 31, 2012	December 31, 2011
	RMB	US\$	RMB	RMB
Sales in China	263,076	43,457	302,290	392,195
Sales in other countries (principally Europe, Asia and North America)	41,874	6,917	70,576	145,450
	304,950	50,374	372,866	537,645

Overseas sales were RMB41,874 (US\$6,917) or 13.7% of total revenues, compared with RMB70,576 or 18.9% of total revenues in 2012. The decrease in overseas sales was mainly due to enhanced competition as well as anti-dumping measures taken by the USA and South Korea, which led to decrease in orders from the overseas market compared to the same period of 2012.

The Company's revenue by significant types of films for 2013, 2012 and 2011 was as follows:

	December 31, 2013			December 31, 2012		December 31, 2011			
	RMB	US\$	% of Total	RMB	% of Total	RMB	% of Total		
Stamping and transfer film	142,309	23,508	46.7 %	202,029	54.2 %	293,768	54.6 %		%
Printing film	27,852	4,601	9.1 %	42,449	11.4 %	55,218	10.3 %		%
Metallized film	17,686	2,922	5.8 %	18,886	5.1 %	28,205	5.3 %		%
Specialty film	89,382	14,764	29.3 %	92,536	24.8 %	140,491	26.1 %		%
Base film for other applications	27,721	4,579	9.1 %	16,966	4.5 %	19,963	3.7 %		%
	304,950	50,374	100.0 %	372,866	100.0 %	537,645	100.0 %		%

In 2013, sales of specialty films were RMB89,382 (US\$14,764) and 29.3% of our total revenues as compared to RMB92,536 and 24.8% in 2012, which was a decrease of RMB3,154, or 3.4%, as compared to the same period in 2012. The decrease was largely attributable to the decrease in sales prices for films in electronics and high-end packaging.

#### (17) Depreciation and Amortization

Explanation of Responses:

Depreciation of property, plant and equipment and amortization of intangible asset is included in the following captions:

	December 31, 2013		December 31, 2012	December 31, 2011
	RMB	US\$	RMB	RMB
Cost of goods sold	41,771	6,900	41,918	36,988
Selling expenses	33	5	59	53
Administrative expenses	6,357	1,051	6,732	6,742
	48,161	7,956	48,709	43,783

### (18) Freight Costs

The Group records freight costs related to the transporting of the raw materials to the Group's warehouse in cost of raw materials and all other outbound freight costs in selling expenses. For the year ended December 31, 2013, 2012 and 2011, freight costs included in cost of goods sold were RMB3,738 (US\$617), RMB2,527 and RMB2,147, respectively, and RMB11,770 (US\$1,944), RMB10,534 and RMB9,771, respectively, were included in selling expenses.



**(19) Interest Expense**

The Group capitalizes interest expense as a component of the cost of construction in progress. The following is a summary of interest cost incurred during the year ended December 31, 2013, 2012 and 2011:

	December 31, 2013		December 31, 2012	December 31, 2011
	RMB	US\$	RMB	RMB
Interest cost capitalized	2,059	341	11,174	-
Interest cost charged to expense	10,094	1,667	-	10,227
	12,153	2,008	11,174	10,227

**(20) Income Taxes**

## Cayman Islands Tax

Under the current Cayman Island laws, the Company is not subject to tax on income or capital gain. In addition, upon payments of dividends by the Company to its shareholders, no Cayman Islands withholding tax is imposed.

## PRC Tax

Shandong Fuwei, being a Hi-Tech Enterprise in the Weifang Hi-Tech Industrial Zone in Shandong, the PRC, has been granted preferential tax treatments by the Tax Bureau of the PRC. According to the PRC Income Tax Law and various approval documents issued by the Tax Bureau, Shandong Fuwei's profit was taxed at a rate of 15%.

If our subsidiary Shandong Fuwei was not entitled to a reduced enterprise income tax, or EIT, rate of 15% for the year ended December 31, 2013, 2012 and 2011, it would have had an EIT rate of 25%, net income and basic and diluted earnings per share would be reduced by the following amounts:

	2013	2012	2011
	RMB	US\$	RMB
Net income	-	-	(2,499)

Explanation of Responses:

Earnings per share				
- Basic	-	-	-	(0.19 )
- Diluted	-	-	-	(0.19 )

The Group had minimal operations in jurisdictions other than the PRC. Net (loss) income before income taxes consists of:

	2013		2012		2011
	RMB	US\$	RMB	RMB	RMB
Cayman Islands	(2,144 )	(354 )	(2,482 )	(2,183 )	
British Virgin Islands	(3 )	(1 )	(3 )	(2 )	
PRC	(66,860)	(11,045)	(59,655)	27,285	
U.S.A	48	8	(25 )	(107 )	
	(68,959)	(11,391)	(62,164)	24,993	

The Company has no material unrecognized tax benefit which would favorably affect the income taxes in future periods and does not believe there will be any significant increases or decreases within the next twelve months. As of December 31, 2013, we do not have any accrued liability for uncertain tax positions.

Shandong Fuwei was designated as a High-and-New Tech Enterprise in December 2008 and retained its status as a high-tech enterprise for three years commencing from 2011 enjoying a favorable corporate tax rate during the term from January 1, 2011 to December 31, 2013 pursuant to the Enterprise Income Tax Law. Accordingly, the deferred taxes as of December 31, 2013 have been calculated employing the statutory rate of Shandong Fuwei of 15%.

Income tax benefit (expense) consists of:

	Current	Deferred	Total
	RMB	RMB	RMB
PRC Income tax			
Year ended December 31, 2011	(3,790 )	(165 )	(3,955 )
Year ended December 31, 2012	-	7,727	7,727
Year ended December 31, 2013	-	10,007	10,007
Year ended December 31, 2013(US\$)	-	1,653	1,653

Income tax expenses reported in the consolidated statements of income differs from the income tax expense amount computed by applying the PRC income tax rate of 15% (the statutory tax rate of the Company's principal subsidiary) for the year ended December 31, 2013, 2012 and 2011 for the following reasons:

	2013		2012		2011
	RMB	US\$	RMB	RMB	RMB
Income (loss) before income taxes	(68,959)	(11,391)	(62,164)	24,993	
Computed "expected" tax expense	(218 )	(36 )	-	(6,604 )	
Non-deductible expenses	-	-	-	(767 )	
Non-taxable income	131	22	-	940	
Tax holiday	87	14	-	2,641	
Tax effect of deferred tax and tax rates differential	10,007	1,653	7,727	(165 )	
Actual income tax benefit (expense)	10,007	1,653	7,727	(3,955 )	

Tax effects of temporary differences that give rise to significant portions of the deferred tax assets (liabilities) as of December 31, 2013 and 2012 are presented below.

	December 31, 2013		December 31, 2012
	RMB	US\$	RMB
Current			
Accounts receivable	119	20	179
Other receivables	636	105	636
Inventory impairment	917	151	917
Estimated Loss due to Product Warranty	30	5	125
	1,702	281	1,857
Non-current			
Property, plant and equipment, principally due to differences in depreciation	1,340	221	1,481
Construction in progress, principally due to capitalized interest	(3,363 )	(555 )	(3,093 )
Lease prepayments, principally due to differences in charges	(373 )	(62 )	(383 )
Allowance for advanced to supplier-long term	41	7	242
Net loss carryforward	19,507	3,222	8,743
	17,152	2,833	6,990
Net deferred income tax assets	18,854	3,114	8,847

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Considering the level of historical performance of Shandong Fuwei, management believes the deferred tax assets are realizable.

**(21) Related Party Transactions**

Name of party	Relationship
Shandong Baorui Investment Co., Ltd ("Shandong Baorui")	Former shareholder (10%) of Shandong Fuwei. Shandong Baorui is 22.1% owned by the Group Founders.
Shenghong Group Co., Ltd ("Shenghong Group")	Former shareholder (90%) of Shandong Fuwei.
Shandong Neo-Luck Plastic Co., Ltd ("Shandong Neo-Luck")	The Group Founders' former employer previously engaged in the business of BOPET film production.

F-19

Weifang Neo-Luck (Group) Co., Ltd ("Weifang Neo-Luck Group")	Major shareholder (59%) of Shandong Neo-Luck. One of the directors of the Company was the general manager of Weifang Neo-Luck Group prior to joining the Company in April 2005.
Weifang State-Owned Assets Operation Administration Company (the "Administration Company")	Shareholder of the Company 65.45%
Everise Investment Management Co., Ltd.	Owned by the Management of the Company
Beijing Shiweitong Technology Development Co., Ltd.	Subsidiary of Weifang State-Owned Assets Operation Administration Company
Joyinn Hotel Investment & Management Co., Ltd.	Subsidiary of Weifang State-Owned Assets Operation Administration Company

During the years ended 2013, 2012 and 2011, we paid approximately RMB164 (USD\$27), RMB153 and RMB120, respectively, to Fuhua Industrial Material Management Co., Ltd. as rental payments in connection with living quarters for our staff.

As of December 31, 2013, the balance due from Joyinn Hotel Investment & Management Co., Ltd. was RMB16,760 (US\$2,769) net of impairment of RMB4,240 (US\$700). The background of the long term deposit is disclosed in Note 10.

Obligations under sale-leaseback transaction amounting to RMB16,877 (US\$2,788) were guaranteed by Weifang State-Owned Assets Operation Administration Company, Beijing Shiweitong Technology Development Co., Ltd., Fuwei Films (Holdings) Co., Ltd., and Fuwei Films (BVI) Co., Ltd., respectively.

## **(22) Pension Plan**

Pursuant to the relevant PRC regulations, the Group is required to make contributions at a rate of 20% of employees' salaries and wages to a defined contribution retirement scheme organized by the local Social Bureau in respect of the retirement benefits for the Group's employees in the PRC. The total amount of contributions of RMB1,047 (US\$173), RMB949 and RMB1,003 for the year ended December 31, 2013, 2012 and 2011 respectively, was charged to administrative expenses in the accompanying consolidated statements of income. The Group has no other obligation to make payments in respect of retirement benefits of the employees.

### **(23) Fair Value of Financial Instruments**

Our accounting for Fair Value Measurement and Disclosures, defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. This topic also establishes a fair value hierarchy which requires classification based on observable and unobservable inputs when measuring fair value. The fair value hierarchy distinguishes between assumptions based on market data (observable inputs) and an entity's own assumptions (unobservable inputs). The hierarchy consists of three levels:

Level one — Quoted market prices in active markets for identical assets or liabilities;

Level two — Inputs other than level one inputs that are either directly or indirectly observable; and

Level three — Unobservable inputs developed using estimates and assumptions, which are developed by the reporting entity and reflect those assumptions that a market participant would use.

Determining which category an asset or liability falls within the hierarchy requires significant judgment. The Company evaluates its hierarchy disclosures each quarter. The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value, such as derivative financial instruments and available-for-sale equity securities. The Company had no assets and liabilities measured at fair value on December 31, 2013.

The carrying amount of cash and cash equivalents, trade accounts receivable, prepayments and other receivables, amounts due from related parties, amounts due to related parties, and accrued liabilities and other payables, approximate their fair values because of the short maturity of these instruments.

The carrying amount of bank loans approximate the fair value based on the borrowing rates currently available for bank loans with similar terms and maturity.

### **(24) Business and Credit Concentrations**

Explanation of Responses:

(a) Almost all of the Group's customers are located in the PRC. There is no individual customer with gross revenue more than 10% of total gross revenue during the year ended December 31, 2013, 2012 and 2011.

F-20

Each amount due from the following customers represented more than 10% of the outstanding accounts receivable on December 31, 2013 and 2012.

	Percentage of accounts receivable outstanding (%)	
	December 31, 2013	
Eternal Electronic Material (Guangzhou) Co., Ltd.	39.0	%

	Percentage of accounts receivable outstanding (%)	
	December 31, 2012	
Eternal Electronic Material (Guangzhou) Co., Ltd.	29.5	%
Kurz Production(M)SDN BHD MY	11.7	%
Celplast Metallized Products Limited	10.6	%
Leonhard Kurz Stiftung &Co. KG	10.4	%

(b) The Group purchased a significant portion of PET resin required for the production of BOPET film from Sinopec Yizheng Chemical Fibre Company Limited (“Sinopec Yizheng”) during the year ended December 31, 2013, 2012 and 2011. The Group believes that there are a limited number of suppliers in the PRC with the ability to consistently supply PET resin that meets the Group’s quality standards and requirements. Currently, the Group has an annual supply agreement with Sinopec Yizheng pursuant to which Sinopec Yizheng has agreed to supply fixed quantities of PET resin to the Group on a monthly basis at the prevailing market prices. The terms of such supply agreement are reviewed annually. Although the Group believes that it maintains a good relationship with its major suppliers, there can be no assurance that Sinopec Yizheng will continue to sell to the Group under normal commercial terms as and when needed.

The following are the vendors that supplied 10% or more of our raw materials for each of the year ended December 31, 2013, 2012 and 2011:

Supplier	Item	Percentage of total purchases (%)		
		2013	2012	2011
Sinopec Yizheng Chemical Fibre Company Limited	PET resin and Additives	56.7	36.4	43.8
Jiangyin Huaxing Compound Co., Ltd.	PET resin	4.1	16.5	11.0

The balance of advance to supplier to Sinopec Yizheng and Jiangyin Huaxing was RMB1,928 and RMB23 as of December 31, 2013, respectively.



The balance of advance to supplier to Sinopec Yizheng and Jiangyin Huaxing was RMB6,202 and RMB3,069 as of December 31, 2012, respectively.

The balance of advance to supplier to Sinopec Yizheng and Jiangyin Huaxing was RMB1,860 and RMB2,473 as of December 31, 2011, respectively.

## **(25) Commitments and Contingencies**

### **(a) Operating lease commitments**

Future minimum lease payments under non-cancelable operating leases as of December 31, 2013 are as follows:

	December 31, 2013	
	RMB	US\$
Operating lease commitments	369	\$61

The Company leases warehouses, staff quarters and offices under operating leases. The leases duration is typically for one to three years, with an option to renew. None of the leases includes contingent rentals.

For the year ended December 31, 2013, 2012 and 2011, total rental expenses for non-cancelable operating leases were RMB410 (US\$68), RMB383 and RMB606, respectively.

### **(b) Capital commitments**

Capital commitments for purchase of property, plant and equipment as of December 31, 2013 were RMB12,019 (US\$1,985).

### **(c) Outstanding bills receivable discounted**

As of December 31, 2013, the Company had not retained any recourse obligation in respect of bills receivable discounted with and sold to banks.

F-21

**(d) Legal Proceedings**

Shandong Fuwei is currently a party to five legal proceedings in China. From time to time, we may be subject to legal actions and other claims arising in the ordinary course of business.

On July 9, 2012, a client (the “Plaintiff”) filed a lawsuit against Shandong Fuwei over the execution of the Procurement Contract between them in Beijing Daxing District People’s Court. Shandong Fuwei raised a jurisdictional objection when filing the pleading and Beijing Daxing District People’s Court overruled the objection. Shandong Fuwei filed an appeal against the judgment in the First Intermediate People’s Court of Beijing. The appeal was then dismissed on January 23, 2013 and the lawsuit will be heard by Beijing Daxing District People’s Court with a claim at RMB953 plus its interest. On May 15, 2013, Beijing Daxing District People’s Court heard the case and then adjourned the hearing due to the fact that plaintiff who failed to provide sufficient evidences. On June 25, 2013, the case was heard in Beijing Daxing District again but it was also adjourned due to Plaintiff’s failure to provide sufficient evidence. The case was then scheduled to be heard on August 7, 2013. However on the day prior to reopening, Fuwei was informed by Beijing Daxing District People’s Court that the hearing was adjourned again for the same reason that the Plaintiff failed to provide sufficient evidences. To date, Shandong Fuwei is still waiting for a court reopening notice from the Beijing Daxing District People’s Court.

On October 29, 2012, another client of Shandong Fuwei (the “Plaintiff”) filed a lawsuit against Shandong Fuwei over the execution of the Procurement Contract between them in Zhejiang Haining People’s Court. Shandong Fuwei raised a jurisdictional objection when filing the pleading and Zhejiang Haining People’s Court sustained the objection and decided that the lawsuit be heard by Weifang High-Tech District People’s Court. The Plaintiff filed an appeal against the judgment in Zhejiang Jiaxing People’s Court. The appeal was then dismissed and the plaintiff withdrew its charges against Shandong Fuwei on March 5, 2013. Soon afterwards, on March 20, 2013, the court unfroze an amount of RMB770 of Shandong Fuwei’s savings, which had been frozen during the hearing of the lawsuit. In early May 2013, this client filed a lawsuit against Shandong Fuwei over the product liability in Zhejiang Haining People’s Court. Pursuant to a court order, an amount of RMB770 of Shandong Fuwei’s savings was frozen. Shandong Fuwei then raised a jurisdictional objection which was overruled. Shandong Fuwei filed an appeal against this judgment. The appeal was then dismissed as a final decision. On October 21, 2013, the Plaintiff and Shandong Fuwei reached a settlement to compensate the Plaintiff by RMB160 or products valued at RMB160 from Shandong Fuwei and the case was closed.

On May 31, 2013, a supplier of Shandong Fuwei (the “Plaintiff”) filed a lawsuit against Shandong Fuwei over the execution of the Construction Contract between them in Weifang High-Tech District People’s Court with a claim at RMB870. On July 8, 2013, Weifang High-Tech District People’s Court heard the case and the Plaintiff offered a settlement. Afterwards, the Plaintiff and Shandong Fuwei failed to reach a settlement. On December 18, 2013, Weifang High-Tech District People’s Court issued a civil judgment that Shandong Fuwei should pay the claim at RMB870 to the Plaintiff. On December 28, 2013, Shandong Fuwei filed an appeal against the judgment in the Intermediate People’s Court of Weifang and the case was heard on February 26, 2014. To date, the case is still in the process of hearing.

On June 5, 2013, a supplier (the "Plaintiff") filed a lawsuit against Shandong Fuwei over the execution of the Procurement Contract between them in Zhangjiagang People's Court, claiming that the quality guaranteed deposit of RMB208 set aside from the total contract payable should be refunded by Shandong Fuwei. Shandong Fuwei declined its claim for the reason of quality problem related to the supplied equipment. On March 7, 2014, Zhangjiagang People's Court heard the case and supported the Plaintiff's claim. Shandong Fuwei filed an appeal against the judgment in the Intermediate People's Court of Suzhou. To date, the case is still in the process of hearing.

On January 21, 2014, an Hong Kong citizen (the "Plaintiff") filed a lawsuit against Shandong Fuwei in the Intermediate People's Court of Weifang to claim a refund of US\$500 (approximately RMB4,138) and related interest of RMB2,332. The plaintiff alleged that according to an oral agreement of purchasing intention for stocks of Fuwei Films (Holdings) Co., Ltd. (the "Fuwei Holdings") between the Plaintiff and Shandong Fuwei in June 2005, the Plaintiff transferred US\$500 to Wellplus Investments Limited, a company registered in Hong Kong, for acquiring stocks of Fuwei Holdings. However, the Plaintiff has not received any stocks of Fuwei Holdings till now. Shandong Fuwei believes that there was not any engagement or agreement about stock purchase between Shandong Fuwei and the Plaintiff and did not be aware of the fact of fund transfer between the Plaintiff and Wellplus Investments Limited. The case was heard by the Intermediate People's Court of Weifang on April 3, 2014. To date, the case is still in the process of hearing.

F-22

**(26) Earnings (Loss) Per Share**

Basic and diluted earnings per share for the period/year ended December 31, 2013, 2012 and 2011 have been calculated as follows:

	2013		2012		2011	
	RMB	US\$	RMB	RMB	RMB	
Net (loss) income available to ordinary shareholders	(58,971 )	(9,741 )	(54,427 )		21,081	
Weighted average number of ordinary shares outstanding	13,062,500	13,062,500	13,062,500	13,062,500		
Dilutive effect of share options	-	-	-	-		
Diluted weighted average number of ordinary shares outstanding	13,062,500	13,062,500	13,062,500	13,062,500		
Basic and diluted earnings (loss)per share	(4.51 )	(0.74 )	(4.17 )		1.61	

**(27) Fuwei Films (Holdings) Co., Ltd (Parent Company)**

Under PRC regulations, the Company's operating subsidiary, Shandong Fuwei may pay dividends only out of its accumulated profits, if any, determined in accordance with the accounting standards and regulations prevailing in the PRC ("PRC GAAP"). In addition, Shandong Fuwei is required to set aside at least 10% of its accumulated profits each year, if any, to fund the statutory general reserve until the balance of the reserve reaches 50% of its registered capital. The statutory general reserve is not distributable in the form of cash dividends to the Company and can be used to make up cumulative prior year losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings, or by increasing the par value of the shares currently held by them, provided that the reserve balance after such issue is not less than 25% of the registered capital. Further, Shandong Fuwei is also required to allocate 5% of the profit after tax, determined in accordance with PRC GAAP, to the statutory public welfare fund which is restricted to be used for capital expenditures for staff welfare facilities owned by the Company. The statutory public welfare fund is not available for distribution to equity owners (except in liquidation) and may not be transferred in the form of loans, advances, or cash dividends. As of December 31, 2013, an aggregate amount of RMB37,441 (US\$6,185) has been appropriated from retained earnings and set aside for statutory general reserve and public welfare fund, by Shandong Fuwei.

As of December 31, 2013, the amount of restricted assets of Shandong Fuwei, which may not be transferred to the Company in the form of loans, advances or cash dividends by the subsidiaries without the consent of a third party, was approximately 48% of the Company's consolidated total assets as discussed above. In addition, the current foreign exchange control policies applicable in the PRC also restrict the transfer of assets or dividends outside the PRC.

The following presents condensed unaudited unconsolidated financial information of the Parent Company only.

**Condensed unaudited Balance Sheet as of December 31, 2013 and 2012**

	2013		2012
	RMB	US\$	RMB
Cash and cash equivalents	67	11	65
Other current assets	262,449	43,353	271,006
Investments in subsidiaries	367	61	378
<b>Total assets</b>	<b>262,882</b>	<b>43,425</b>	<b>271,450</b>
Current liabilities	52,325	8,643	51,842
Total shareholders' equity	210,558	34,782	219,608
<b>Total liabilities and shareholders' equity</b>	<b>262,882</b>	<b>43,425</b>	<b>271,450</b>

**Condensed unaudited Statements of Operations (For the years ended December 31, 2013, 2012 and 2011)**

	2013		2012	2011
	RMB	US\$	RMB	RMB
Interest income (expenses)	(9 )	(1 )	(13 )	(18 )
General and administrative expenses	(2,135 )	(353 )	(2,468 )	(3,281 )
Other income	-	-	-	1,116
Loss before equity in undistributed earnings of subsidiaries	(2,144 )	(354 )	(2,482 )	(2,183 )
Equity in earnings of subsidiaries	(56,808)	(9,384)	(51,956)	22,515
<b>Net income</b>	<b>(58,952)</b>	<b>(9,738)</b>	<b>(54,437)</b>	<b>20,332</b>

F-23

**Condensed unaudited Statement of Cash Flows (For the year ended December 31, 2013, 2012 and 2011)**

	2013		2012		2011	
	RMB	US\$	RMB	RMB	RMB	RMB
Cash flow from operating activities						
Net income	(58,952)	(9,738)	(54,437)		20,332	
Adjustment to reconcile net income(loss) to net cash from operating activities:						
- Equity in earnings of subsidiaries	56,808	9,384	51,956		(22,515)	
- Foreign exchange gain	-	-	-		-	
Changes in operating assets and liabilities:						
- Other current assets	-	-	-		-	
- Other current liabilities	(124 )	(20 )	61		(7,277 )	
Net cash provided by operating activities	(2,268 )	(375 )	(2,420 )		(9,460 )	
Cash flow from financing activities						
Payments to related parties	2,272	375	2,365		9,493	
Proceeds from related parties	-	-	-		-	
Effect of exchange	(2 )	-	(1 )		(4 )	
Net cash provided by(used in) financing activities	2,270	375	2,364		9,489	
Net increase(decrease) in cash	2	0	(56 )		29	
Cash:						
At beginning of year	65	11	121		92	
At end of year	67	11	65		121	

**(28) Unaudited Quarterly Data**

Quarter Ended Fiscal year	March 31		June 30		September 30		December 31		Total	
	RMB	US\$	RMB	US\$	RMB	US\$	RMB	US\$	RMB	US\$
2013										
Revenue	76,577	12,330	77,401	12,611	75,890	12,400	75,082	12,403	304,950	50,374
Gross profit	(1,191 )	(191 )	(2,307 )	(376 )	(9,857 )	(1,611 )	(2,070 )	(342 )	(15,425 )	(2,548 )
Net income	(18,076)	(2,909)	(18,190)	(2,964)	(23,203)	(3,792)	499	82	(58,971)	(9,741)

Explanation of Responses:

Basic and diluted earnings (1.38 ) (0.22 ) (1.39 ) (0.23 ) (1.78 ) (0.29 ) 0.04 0.01 (4.51 ) (0.74 ) per share

## (29) Subsequent Event

On March 25, 2014, a public auction was held by the Company's controlling shareholder, the Weifang State-owned Assets Operation Administration Company which is a wholly-owned subsidiary of Weifang State-owned Asset Management and Supervision Committee, in order to sell over 6,912,503 (or 52.9%) of the Company's outstanding ordinary shares it owned. The public auction resulted in the acceptance of a successful bid from an unrelated party, Shandong SNTON Optical Materials Technology Co., Ltd. (the "Bidder"). The Bidder is expected to receive control over 6,912,503 (or 52.9%) of the Company's outstanding ordinary shares at a price of RMB101,800 (approximately US\$16,573) or approximately US\$2.40 per ordinary share.

The Bidder is an optical BOPET film manufacturer established in August 2011 with registered capital of RMB260,000 (approximately US\$42,328). The parent company of the Bidder is Shandong SNTON Group Co., Ltd., which was founded in January 1987, mainly specializes in metal products, fine chemicals, new materials and real estate development.

F-24