

Fuwei Films (Holdings), Co. Ltd.
Form 20-F/A
July 10, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F/A

(Amendment No. 1)

(Mark One)

**..REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES
EXCHANGE ACT OF 1934**

OR

**x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934**

For the fiscal year ended December 31, 2014

OR

**..TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934**

For the transition period from _____ to _____

OR

..

**SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

OR

Date of event requiring this shell company report _____

Commission file number: 001-33176

Fuwei Films (Holdings) Co., Ltd.

(Exact name of Registrant as specified in its charter)

(Translation of Registrant's name into English)

Cayman Islands

(Jurisdiction of incorporation or organization)

No. 387 Dongming Road

Weifang Shandong

People's Republic of China, Postal Code: 261061

(Address of principal executive offices)

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(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class Name of each exchange on which registered

Ordinary Shares NASDAQ Global Market

Securities registered or to be registered pursuant to Section 12(g) of the Act. None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act. None

As of December 31, 2014, there were 13,062,500 ordinary shares outstanding.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

.. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

.. Yes No

Note - Checking the box will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

 Yes .. No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

If “Other” has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Explanatory Note

This Annual Report on Form 20-F/A (“Form 20-F/A”) is being filed as Amendment No. 1 to our Annual Report on Form 20-F for the year ended December 31, 2014 (“Form 20-F”), which was originally filed with the Securities and Exchange Commission (the “SEC”) on April 9, 2015. This Form 20-F/A amends and restates the following Items of the Form 20-F: Item 5. Operating and Financial Review and Prospects, Item 15. Controls and Procedures and Item 19. Exhibits.

TABLE OF CONTENTS

DESCRIPTION	PAGE
<u>PART I</u>	
Item 5 <u>Operating and Financial Review and Prospects</u>	4
<u>PART II</u>	
Item 15 <u>Controls and Procedures</u>	18
<u>PART III</u>	
Item 19 <u>Exhibits</u>	20

Item 5. Operating and Financial Review and Prospects

MANAGEMENT'S DISCUSSION AND

ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our consolidated financial statements included in this Annual Report beginning on page F-1. The consolidated financial statements have been prepared in accordance with U.S. GAAP. The following discussion and analysis contain forward-looking statements that involve risks and uncertainties.

Overview

We develop, manufacture and distribute high quality plastic film using the biaxially oriented stretch technique, otherwise known as BOPET film. Since the establishment of the Company, a substantial portion of our revenues has been derived from the sales of BOPET film. We sell majority of our BOPET film products to domestic customers in China with minority of them sold to Europe, Asia, North America and other overseas markets.

Our Corporate Structure and Operating History

The diagram below illustrates our corporate structure:

Shandong Fuwei, our PRC operating subsidiary, was formed on January 28, 2003, as a Sino-foreign equity joint venture under the name Weifang Fuwei Plastic Co., Ltd. In July 2003, this company began production of BOPET film, initially renting the necessary fixed assets from Shandong Neo-Luck, a company involved in BOPET film production in which Mr. Xiaoming Wang, our current executive officer, served as executive officer at the time.

Shandong Fuwei subsequently acquired these fixed assets through two auction proceedings, the first in October of 2003 and the second in December 2004. At the first auction proceeding in October 2003, Shandong Fuwei acquired

assets related to the Brückner production line that it had been renting from Shandong Neo-Luck. This line had been previously mortgaged by Shandong Neo-Luck to Bank of China, Weifang city branch as security for several loans extended to Shandong Neo-Luck's affiliates. When these loans went into default, Bank of China brought a series of legal actions in Weifang Municipal People's Court that resulted in the assets securing the loans being sold at a public auction. Following its successful bid at an auction on October 9, 2003, Shandong Fuwei acquired the Brückner production line and facilities (with an appraised value of approximately RMB169 million) for RMB156 million.

In November 2003, Shandong Fuwei's shares were sold to Shenghong Group Co., Ltd. ("Shenghong Group") and Shandong Baorui for an aggregate consideration of RMB98.2 million. Tongju Zhou, a former director of the Company, and Duo Wang each indirectly own 50% of Easebright Investments Limited ("Easebright"), one of our principal shareholders, and are both officers and directors of Shandong Baorui. Jun Yin and Duo Wang own 17.5% and 4.6%, respectively, of Shandong Baorui. In 2004, Messrs. Zhou and Wang, along with Jun Yin established several offshore holding companies in the British Virgin Islands and the Cayman Islands to acquire and hold these shares. In October 2004, Fuwei (BVI) entered into a sale and purchase agreement with Shenghong Group and Shandong Baorui pursuant to which Fuwei (BVI) acquired the respective equity interest of Shenghong Group and Shandong Baorui in Shandong Fuwei for an aggregate consideration of RMB91 million. Shandong Fuwei thereafter became a wholly-owned subsidiary of Fuwei (BVI) and was converted into a wholly-foreign owned enterprise pursuant to PRC law.

As a result of its ongoing financial difficulties, Shandong Neo-Luck was declared bankrupt by the Weifang Municipal People's Court in the PRC on September 24, 2004. Prior to the bankruptcy, Shandong Neo-Luck's then major operating asset, the DMT production line, had been pledged by Shandong Neo-Luck to Weifang City Commercial Bank. When Shandong Neo-Luck was declared bankrupt, the Shandong Branch of Bank of China seized the production line by order of the Qingdao Intermediate People's Court and the Qingdao Southern District People's Court while the Weifang Branch of Bank of Communications did so through Weifang Intermediate People's Court. As such, the effectiveness of the pledge in favor of Weifang City Commercial Bank was under dispute. Subsequently, pursuant to the decision from Weifang Intermediate People's Court, Weifang City Commercial Bank ranked senior in terms of the right of claims.

The pledged DMT production line was put up for public auction by the Shandong Neo-Luck Liquidation committee on October 22, 2004. In view of the above complexities, the auction was deemed to be tremendously risky at that time, and therefore, our PRC operating subsidiary did not directly participate in the first auction, which began with a bid price of approximately RMB53 million by reference to an independent valuation performed on a forced sale basis. However, due to the potential tremendous risk involved, the auction had been withdrawn twice and the starting bid price had been further reduced to approximately RMB34 million and was finally purchased by Beijing Baorui, a company indirectly controlled by Shandong Baorui. When the DMT production line was put for public auction by Beijing Baorui three months later, our PRC operating subsidiary purchased it for approximately RMB119 million, which was supported by an independent valuation performed on a going concern basis. We understood that acquiring the DMT production line from Beijing Baorui through the first auction would be an effective way to minimize the risk associated with the uncertainties arising from the bankruptcy of Shandong Neo-Luck. The price difference of approximately RMB85 million represented a risk premium paid to Beijing Baorui, which bore the ultimate risks of recourse from creditors of Shandong Neo-Luck.

Subsequent to the auction for several years, the PRC government conducted an investigation into the conduct of certain individuals in connection with such transactions. In March 2009, Messrs. Yin, Wang and Zhou committed the crime of corruption by verdict of the Jinan Intermediate People's Court in the city of Jinan, Shandong Province. In November 2009, the Company became aware of the final verdict issued by the Supreme People's Court of Shandong Province. The Supreme People's Court upheld the initial verdict issued by the Intermediate court in March 2009. The March 2009 initial verdict sentenced Mr. Yin to death, with a stay of execution for two years, and the other two defendants, Mr. Zhou and Mr. Wang, each received life imprisonment. All of the personal property of the three individuals will be confiscated.

At the time of the Company's initial public offering, we had obtained an opinion of PRC counsel with respect to the validity of the auction proceedings under PRC law, although you should read the description of the opinion and the subsequent development in March 2009 described under the title "*Risk Factors — The circumstances under which we acquired ownership of our main productive assets may jeopardize our ability to continue as an operating business*". Certain of the assumptions relied upon in providing that opinion have been called into question by the verdict referred to above.

On May 9, 2011, the Company received a notification 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 ownership of controlling shareholders.

According to the notification, the former controlling shareholders of the Company, Messrs. Jun Yin, Duo Wang and Tong Ju Zhou, had transferred their entire ownership in several intermediate holding companies to the Administration Company, Ms. Qing Liu and Mr. Zhixin Han. As a result of the transfers, and based on the information provided by the Administration Company, 52.90% of its outstanding ordinary shares are controlled indirectly by the Administration Company and 12.55% of its outstanding ordinary shares are jointly controlled indirectly by Ms. Liu and Mr. Han.

The Company received a second notification dated May 17, 2011 (the “Second Notification”) from the Administration Company regarding the transfer of ownership of Fuwei stock previously controlled by the Company’s major shareholders.

As discussed in the Second Notification, Ms. Qing Liu and Mr. Zhixin Han transferred their entire ownership in the intermediate holding company, Easebright Investments Limited, to the Administration Company. As a result of the transfer, and based on the information provided by the Administration Company, 65.45% of its outstanding ordinary shares were controlled indirectly by the Administration Company and the sole director of each of the intermediate holding companies, Mr. Zheng Min.

On August 14, 2013, the Company received the first notice from the its controlling shareholder, the Weifang State-owned Assets Operation Administration Company, a wholly-owned subsidiary of Weifang State-owned Asset Management and Supervision Committee (collectively, the “Administration Company”) indicating that the Administration Company had determined to place control over 6,912,503 (or 52.9%) of its outstanding ordinary shares up for sale at a public auction to be held in China. Four public auctions were held in Jinan, Shandong Province, China. The Company learned that they failed due to a lack of bidders registered for the auction. On March 25, 2014, the fifth public auction was held in Jinan, Shandong Province, China and the Company became aware that the fifth public auction has resulted in the acceptance of a successful bid. Shandong SNTON Optical Materials Technology Co., Ltd. (“Shandong SNTON”), the successful bidder in the fifth public auction of 6,912,503 (or 52.9%) of the Company’s outstanding ordinary shares (the “Shares”) held on March 25, 2014, was entrusted by Hongkong Ruishang International Trade Co., Ltd., a Hong Kong corporation, (“Hongkong Ruishang”) to handle all the formalities and procedure in connection with the public auction. As a result of the entrusted arrangement, Hongkong Ruishang is the party controlling the Shares acquired in the fifth public auction. According to publicly available information in the People’s Republic of China, Shandong SNTON is a wholly owned subsidiary of Shandong SNTON Group Co., Ltd (“SNTON Group”). Mr. Xiusheng Wang, the chairman of the Board of Directors of SNTON Group, is also Hongkong Ruishang’s chairman. This disclosure is based solely on information contained in a Schedule 13D amendment filed by Hongkong Ruishang with the SEC on November 12, 2014.

On May 14, 2014, the Company announced that it received a notification from Shandong Fuhua Investment Company Limited. (“Shandong Fuhua”) with respect to an entire ownership transfer of the Company’s 12.55% outstanding ordinary shares from the Administration Company to Shandong Fuhua. The Administration Company originally held these shares indirectly through an intermediate holding company, Easebright Investments Limited (“Easebright”). As a result of this transfer, Shandong Fuhua indirectly owns 12.55% of the outstanding ordinary shares of the Company through Easebright. Mr. Jingang Yang has been appointed as the director of Easebright. This disclosure is based solely on information contained in a Schedule 13D filed by Shandong Fuhua with the SEC on December 30, 2014.

In November 2014, certain of our directors and officers, namely, Messrs. Xiaoan He (our former chief executive officer), Xiuyong Zhang, Yong Jiang, and Xiaoming Wang, and Mr. Xuehua Li (who was appointed as the Vice President of Fuwei Films (Shandong) Co., Ltd. in July 2014) caused the transfer of an aggregate of 187,200 ordinary shares of the Company that they collectively own through Everise Investment Management Co., Ltd., a Hong Kong corporation (“Everise Investment”), to Ms. Guo Jing, who is currently the sole director of Everise Investment.

Key Factors Affecting Our Results of Operation

The following are key factors that affect our financial condition and results of operations and we believe them to be important to the understanding of our business:

Raw Material Prices

For the years ended 2014, 2013 and 2012, the total cost of raw materials made up approximately 67.8%, 71.4% and 73.0% of production cost, respectively. The primary raw materials used in our production of BOPET film are polyethylene terephthalate (or PET) resin and additives, which made up approximately 80.0% and 20.0%, respectively, of our total cost of raw materials in 2014. PET resin trades as a commodity and its market price is influenced significantly by global energy prices, including the price of crude oil. In addition, PET resin is mainly used in textile industry and accordingly the demand from that industry will also affect the price of PET resin.

Although we try to pass on all increases in our raw material costs to our customers, we can only pass on a portion of the increase to our customers due to the increased supply than demand in the market. We obtain a significant amount of the PET resin used at our facilities from one supplier, who has agreed to supply us fixed quantities of PET resin monthly at the prevailing market price. We have not engaged in any hedging transactions to limit our exposure to fluctuations in the market prices of these raw materials or their components.

Prices of Our Products

Our BOPET film products generally fall into two categories: commodity products and specialty products. The price of commodity products, such as printing films, stamping and transfer films and metallized films, is typically driven by supply and demand conditions in the market. We have more control over pricing for our specialty products, such as dry films.

As selling prices are generally higher for those types of BOPET film products which require higher technical expertise, our revenue will be affected, to certain extent, by our product mix. Our product mix is dependent on, among other things, our production facilities, R&D abilities and new product commercialization.

Demand for Our Products

We have been able to expand our product range and markets by introducing new products required by customers. We believe that our technical expertise is important in introducing products that are in demand.

Our BOPET film products are mostly sold to customers in the flexible packaging industry for consumer products such as food, pharmaceutical products, cosmetics, tobacco, alcohol and beverage. Recently, the sales of the light-resistant dry film which is used in printed circuit board also significantly increased. In the fiscal years ended December 31, 2014, 2013 and 2012, approximately 84.9%, 86.3% and 81.1%, respectively, of our total revenue was derived from the PRC. The demand for our products is therefore, to a large extent, affected by the general economic conditions in the PRC. A significant improvement in the economic environment in the PRC will likely improve consumer spending and increase the demand for our products. However, the economic downturn of the PRC market will impact our customers' demand and will decrease the demand for our products.

Production Capacity and Utilization Rates

Our sales volume is limited by our operational annual production capacity.

As we grow our business in the future, our ability to fulfill more and larger orders will be dependent on our ability to increase our production capacity. As our business is capital-intensive, our ability to expand our production capacity will depend on, *inter alia*, the availability of capital to meet our needs of expansion or upgrading of production lines.

Competition

We believe that we are currently one of the few producers of BOPET films in the PRC with research and development capability. Our past financial performance is attributable to our market position in the industry. Over time, there may be new investors into our industry, and the current BOPET film manufacturers may expand their production capacity. We believe that currently our major competitors in the BOPET manufacturing market in the PRC include Dupont Hongji Films Foshan Co., Ltd., Yihua Toray Polyester Film Co., Ltd., and Ningbo Shunsu Film Co., Ltd.

Our ability to enhance existing products, introduce new products to meet customers' demand, deliver quality products to our customers and maintain our established industry reputation will affect our competitiveness and market position.

Our ability to compete against new and existing competitors to maintain or improve our market position and secure orders will affect our revenue and financial performance.

Description of Certain Statements of Income Line Items

Revenues

Revenue from the sale of our domestic BOPET film products is recognized when significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognized if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods, or when the amount of revenue and costs incurred or to be incurred in respect of the transaction cannot be measured reliably. In respect of our overseas sales, we ship directly to the destinations of our overseas customers and our revenue is recognized at the time when we receive customs clearance of our exports. Most of our overseas sales are conducted on a Cost, Insurance and Freight (or "CIF") basis, meaning that we pay the costs and freight necessary to get the products to the port of destination, and the risk of loss is transferred from us to the buyer when the goods pass the ship's rail at the port of destination. In addition, we have to procure marine insurance against the buyer's risk of loss of damage to the goods during the carriage. Most of our sales invoices are denominated in the Chinese Yuan (Renminbi), although certain of our overseas sales are denominated in US dollars.

Cost of Goods Sold

Our cost of goods sold comprises mainly of materials costs, energy expenses, factory overheads, packaging materials and direct labor. The breakdown of our cost of goods sold in percentage is as follows:

	Year Ended December 31, 2014		Year Ended December 31, 2013		Year Ended December 31, 2012	
Materials costs	67.8	%	71.4	%	73.0	%
Energy expense	9.9	%	9.0	%	8.3	%
Factory overhead	16.4	%	14.6	%	13.9	%
Packaging materials	2.8	%	2.7	%	3.0	%
Direct labor	3.1	%	2.3	%	1.8	%

Material Costs

As noted above, the raw materials used in our BOPET film production are PET resin and additives, which made up approximately 80.0% and 20.0%, respectively of our total materials costs in 2014.

Energy expense

Energy expense includes electricity, gas and water costs, in which electricity is the main energy consumed.

Factory Overhead

Factory overhead comprises primarily of depreciation, electricity and water charges, and repair and maintenance of our machinery and equipment, etc. In 2014, the depreciation expense and repair and maintenance expenditure accounted for 79.9% and 13.7% of factory overhead, respectively.

Packaging Materials

Our packaging materials mainly comprise of, among other things, packaging pallets and carton cores, used for the packaging of our BOPET film products for delivery to customers. Generally, our unit cost of packaging materials does not fluctuate significantly and our total costs for packaging materials typically vary in line with our sales volume.

Direct Labor

Direct labor cost includes salaries, wages, bonuses and other payments to our employees in the PRC who are involved in the production of our products. The main factors affecting our direct labor cost are CPI, the changes of any government policies or laws and the demand and supply of skilled labor.

Operating Expenses

Our operating expenses comprise of administrative expenses, distribution expenses and other operating expense.

Our administrative expenses comprise mainly of administrative staff salaries and related welfare costs, research and development expenses, depreciation charges of office equipment, furniture and fixtures, amortization charges relating to land use rights, allowance for doubtful trade receivables, professional fees, government duties and fees, insurance expenses, rental expenses, travel expenses, entertainment expenses, office expenses and miscellaneous expenses.

Our distribution expenses comprise mainly of freight costs, travel expenses, marketing and promotion expenses as well as salaries and commission paid to our sales and marketing personnel.

Other operating expenses comprise mainly of loss on disposal of property, plant and equipment and miscellaneous expenses.

Finance Costs

Finance costs comprise mainly of interest expense relating to our loans, capital lease obligations, exchange deficit and bank charge.

Income Tax Expense

For the period from January 28, 2003 to December 31, 2004, Shandong Fuwei was granted certain tax relief under which it was exempted from PRC income tax. As of January 2005, Shandong Fuwei has been a wholly foreign-owned enterprise under the laws of the PRC. Accordingly, Shandong Fuwei is entitled to tax concessions whereby the profit for the first two financial years beginning with the first profit-making year (after setting off tax losses carried forward from prior years) is exempt from income tax in the PRC and the profit for each of the subsequent three financial years is taxed at 50% of the prevailing tax rates set by the relevant tax authorities.

On March 16, 2007, the National People's Congress of the PRC passed the Enterprise Income Tax Law of the People's Republic of China, which law took effect on January 1, 2008 (the "New Tax Law"). Under the New Tax Law, domestic enterprises and foreign-invested enterprises will generally become subject to a unified enterprise income tax rate of 25%, except that enterprises incorporated prior to March 16, 2007 may continue to enjoy existing preferential tax treatments until January 1, 2013. In addition, certain qualifying "High Technology Enterprises" may still benefit from a preferential tax rate of 15% under the New Tax Law if they meet the definition of "Government Advocated High Technology Enterprise" to be set forth in the more detailed implementing rules when they become adopted. Shandong Fuwei was designated as a High-and-New Tech Enterprise in December 2008 and will retain its status as a high-tech enterprise for three years commencing from 2011 enjoying a favorable corporate tax rate of 15% during the term from January 1, 2011 to December 31, 2013 pursuant to Enterprise Income Tax Law. In December 2014, Shandong Fuwei failed to be designated as a High Technology Enterprise and it became subject to a standard enterprise income tax at a rate of 25%.

The US entity, Fuwei Films USA, LLC, is headquartered in South Carolina. As of December 31, 2014, the income tax rate is 39%, including 34% of federal income tax rate and 5% of state income tax rate.

Inflation

According to the National Bureau of Statistics of China, the change in the consumer price index in China was 2.0%, 2.6% and 2.6% in 2014, 2013 and 2012, respectively.

Critical Accounting Policies

The SEC defines critical accounting policies as those that are, in management's view, most important to the portrayal of our financial condition and results of operations and those that require significant judgments and estimates. We prepare our financial statements in accordance with the U.S. GAAP, which requires us to make estimates and assumptions that affect the reported amounts of our assets and liabilities, to disclose contingent assets and liabilities on the date of the financial statements, and to disclose the reported amounts of revenues and expenses incurred during the financial reporting period. We continue to evaluate these estimates and assumptions based on the most recently available information, our own historical experience and various other assumptions that we believe to be reasonable under the circumstances. We rely on these evaluations as the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Since the use of estimates is an integral component of the financial reporting process, actual results could differ from those estimates. Some of our accounting policies require higher degrees of judgment than others in their application. We consider the policies discussed below to be critical to an understanding of our financial statements as their application assists management in making their business decisions.

Goodwill Impairment 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.

Collectibility of Accounts Receivable Our management 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. Generally, we offer our customers in the PRC credit terms of up to 30-45 days. Our international sales are settled through telegraphic transfer and letters of credit, which generally have payment terms of between 30 and 60 days.

We offer different credit terms to our customers based on criteria such as working relationship, payment history, creditworthiness and their financial position. All credit terms are to be approved by our finance department, in consultation with our sales and marketing department. For extension of larger credit limits, approvals have to be sought from our credit committee which is made up of members from our finance department, sales department and CFO. Our finance department and sales department review our outstanding debt account on a monthly basis and follow up with customers when payments are due. We do not impose interest charges on overdue account receivable.

As of December 31, 2014, our largest trade debtor was Eternal Electronic Material (Guangzhou) Co., Ltd, a company based in China, The balance of trade receivables from Eternal Electronic Material (Guangzhou) Co., Ltd, was RMB1.89 million.

We make specific allowance for doubtful trade receivables when our management takes the view (taking into account the aging of trade receivables and in consultation with our sales department) that we will not be able to collect the amounts due. Our customers pay by installments, creating long accounts receivable cycles. We provide for an allowance for doubtful accounts based on our best estimate of the amount of losses that could result from the inability or intention of our existing customers not to make the required payments. We generally review the allowance by taking into account factors such as historical experience, age of the accounts receivable balances and economic conditions.

Specific write-off of trade receivables is made when the outstanding trade receivables have been due for more than two years.

The analysis of the allowance for doubtful amounts for 2014, 2013 and 2012 is as follows (in thousands):

	December 31,2014		December 31,2013	December 31,2012
	RMB	US\$	RMB	RMB
Balance at beginning of year	795	128	1,196	1,785
Bad debt expense (recovery)	30	5	(401) (589
Write-offs	-	-	-	-
Balance at end of year	825	133	795	1,196

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.

Results of Operations

The following discussion of our results of operations is based upon our audited consolidated financial statements beginning on page F-1 of this Annual Report.

The table below sets forth certain line items from our Statement of Income as a percentage of revenues:

	For the year ended December 31,		
	2014	2013	2012
	(% of Total Revenue)		
Gross profit	(6.0)	(5.1)	(0.8)
Operating expenses	(15.3)	(16.1)	(16.3)
Other expense	(4.0)	(1.5)	0.5
Income tax benefit (loss)	0.3	3.3	2.1
Net income (loss)	(25.1)	(19.3)	(14.6)

Fiscal year ended 2014 compared to fiscal year ended 2013

Revenues

Our revenue can be analyzed as follows (in thousands):

	For the year ended December 31,						
	2014			2013			
	RMB	US\$	% of Total	RMB	% of Total		
Stamping and transfer film	118,560	19,108	41.7	% 142,309	46.7	%	
Printing film	32,987	5,317	11.6	% 27,852	9.1	%	
Metallized film	6,397	1,031	2.2	% 17,686	5.8	%	
Specialty film	79,609	12,830	28.0	% 89,382	29.3	%	
Base film for other applications	46,911	7,561	16.5	% 27,721	9.1	%	
	284,464	45,847	100	% 304,950	100.0	%	

During the fiscal year ended December 31, 2014, net revenues were RMB284.5 million (US\$45.8 million), compared to RMB305.0 million during the same period in 2013, representing a decrease of RMB20.5 million or 6.7%, mainly

due to the reduction of average sales price by 8.8% caused by oversupply arising from stronger competition in China and the decrease in the price of main raw materials.

In 2014, sales of specialty films were RMB79.6 million (US\$12.8 million) or 28.0% of our total revenues as compared to RMB89.4 million or 29.3% in 2013, which was a decrease of RMB9.8 million, or 11.0%, as compared to the same period in 2013. For further analysis of the factors causing specialty films revenue decrease, the reduction of average sales price caused a decrease of RMB4.6 million and sales volume factor made a decrease of RMB5.2 million. The decrease was largely attributable to the decrease in sales volume and prices for dry films and heat shrinkable films due to the entrances of new competitors.

Overseas sales were RMB43.0 million or US\$6.9 million, or 15.1% of total revenues, compared with RMB41.9 million or 13.7% of total revenues in 2013. For further analysis of the factors causing overseas sales decrease, the decrease of average sales price caused a decrease of RMB6.6 million and sales volume factor made an increase of RMB7.7 million.

The following is a breakdown of domestic versus overseas sales for the periods ended December 31, 2014 and 2013 (amounts in thousands):

	For the year ended December 31,			2013		
	2014					
	RMB	US\$	% of Total	RMB	% of Total	
Sales in China	241,446	38,914	84.9	% 263,076	86.3	%
Sales in other countries	43,018	6,933	15.1	% 41,874	13.7	%
	284,464	45,847	100.0	% 304,950	100.0	%

Cost of Goods Sold

Cost of goods sold during the year of 2014 totaled RMB301.6 million (US\$48.6 million) as compared to RMB320.4 million in the prior year. This was RMB18.8 million or 5.9% lower than the same period in 2013. For further analysis of the factors causing cost of goods sold decrease, the reduction of unit cost of goods sold caused a decrease of RMB26.2 million and sales volume factor made an increase of RMB7.4 million. The decrease of cost of goods was mainly due to the price reduction of raw materials.

Gross (Loss) Profit

Our gross loss was RMB17.2 million (US\$2.8 million) for the year of 2014, representing a gross margin of (6.0) %, as compared to a gross margin of (5.1) % in 2013. Gross margin decreased by 0.9 percentage points compared to the same period in 2013. Our average unit sales price decreased by 8.8% compared to last year. The unit sales cost decreased by 8% due to the price reduction of main raw materials. Consequently, the decrease in product sales price exceeded that in cost of goods sold per unit during 2014 compared with 2013, which contributed to the decrease in our gross profit.

Operating Expenses

Our operating expenses during the year ended December 31, 2014 were RMB43.5 million, a decrease of RMB5.5 million, or 11.2%, as compared to 2013. The sales expenses decreased by RMB1.7 million mainly due to the reduction of freight. The administrative expense reduced by 3.8 million mainly attributable to the decrease in research and development expenses.

Other Expense

Total other expense is a combination result of interest income, interest expense and others income (expense). Total other expense during the year ended December 31, 2014 was RMB11.4 million (US\$1.8 million), compared to total other income of RMB4.6 million in 2013. Total other expense of 2014 increased comparing to that of 2013, which mainly attributed to increased interest expense. Interest expense totaled RMB12.5 million (US\$2.0 million) during 2014, RMB2.4 million or 23.8% higher than that in 2013, which was mainly due to higher interest payment associated with increased loans from related party .

Income Tax Benefit (Expense)

Income tax benefit during the year ended December 31, 2014 was RMB0.74 million (US\$0.119 million) compared to an income tax benefit of RMB10.0 million during 2013, which was mainly attributable to tax effect of changes in deferred tax during 2014. We did not recognize deferred tax assets for the loss of 2014 after considering the possibility of realizing the benefits under the conservatism principle.

Fiscal year ended 2013 compared to fiscal year ended 2012***Revenues***

Our revenue can be analyzed as follows (in thousands):

	For the year ended December 31,					
	2013			2012		
	RMB	US\$	% of Total	RMB	% of Total	
Stamping and transfer film	142,309	23,508	46.7	% 202,029	54.2	%
Printing film	27,852	4,601	9.1	% 42,449	11.3	%
Metallized film	17,686	2,922	5.8	% 18,886	5.1	%
Specialty film	89,382	14,764	29.3	% 92,536	24.8	%
Base film for other applications	27,721	4,579	9.1	% 16,966	4.5	%
	304,950	50,374	100.0	% 372,866	100	%

During the fiscal year ended December 31, 2013, net revenues were RMB305.0 million (US\$50.3 million), compared to RMB372.9 million during the same period in 2012, representing a decrease of RMB67.9 million 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 RMB15.6 million and sales volume factor made a decrease of RMB52.3 million.

In 2013, sales of specialty films were RMB89.4 million (US\$14.8 million) or 29.3% of our total revenues as compared to RMB92.5 million or 24.8% in 2012, which was a decrease of RMB3.1 million, or 3.4%, as compared to the same period in 2012. For further analysis of the factors causing specialty films revenue decrease, the reduction of average sales price caused a decrease of RMB5.6 million and sales volume factor made an increase of RMB2.5 million. The decrease was largely attributable to the decrease in sales prices for films in electronics and high-end packaging.

Overseas sales were RMB41.9 million or US\$6.9 million, or 13.7% of total revenues, compared with RMB70.6 million or 18.9% of total revenues in 2012. For further analysis of the factors causing overseas sales decrease, the increase of average sales price caused an increase of RMB1.6 million and sales volume factor made a decrease of RMB30.3 million. The decrease in overseas sales was mainly due to the slow growth in demand from 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 and a significant decrease of the sales prices compared to the same period of 2012.

The following is a breakdown of domestic versus overseas sales for the periods ended December 31, 2013 and 2012 (amounts in thousands):

	For the year ended December 31,						
	2013			2012			
	RMB	US\$	% of Total	RMB	% of Total		
Sales in China	263,076	43,457	86.3	% 302,290	81.1	%	
Sales in other countries	41,874	6,917	13.7	% 70,576	18.9	%	
	304,950	50,374	100.0	% 372,866	100.0	%	

Cost of Goods Sold

Cost of goods sold during the year of 2013 totaled RMB320.4 million (US\$52.9 million) as compared to RMB376.0 million in the prior year. This was RMB55.6 million or 14.8% lower than the same period in 2012, mainly due to the decreased sales volume of 14.0% in 2013 compared to the same period in 2012. Additional factors causing a decrease in cost of goods sold included, the reduction of unit cost of goods sold causing a decrease of RMB2.9 million and a decrease of RMB52.7 million in sales volume

Gross (Loss) Profit

Our gross loss was RMB15.4 million (US\$2.5 million) for the year of 2013, representing a gross margin of (5.0)%, as compared to a gross margin of (0.8)% in 2012. Gross margin decrease