

Fuwei Films (Holdings), Co. Ltd.  
Form 6-K  
November 28, 2016

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, DC 20549**

**FORM 6-K**

**REPORT OF FOREIGN PRIVATE ISSUER**

**PURSUANT TO RULE 13a-16 OR 15d-16 UNDER**

**THE SECURITIES EXCHANGE ACT OF 1934**

**For September 30, 2016**

**Commission File No. 001-33176**

**Fuwei Films (Holdings) Co., Ltd.**

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No. 387 Dongming Road

Weifang Shandong

People's Republic of China, Postal Code: 261061

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(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F x      Form 40-F ``

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Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule

101(b)(1): ☐

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule

101(b)(7): ☐

Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934:

Yes ☐ No ☒

If "Yes" marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):  
82-\_\_\_\_\_

## EXPLANATORY NOTE

This Report of Foreign Private Issuer on Form 6-K (this “Form 6-K”) contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934. These statements relate to future events or the future financial performance of Fuwei Films (Holdings) Co., Ltd. (the “Company”). The Company has attempted to identify forward-looking statements by terminology, including, but not limited to, “anticipates”, “believes”, “expects”, “can”, “continue”, “could”, “estimates”, “intends”, “may”, “plans”, “potential”, “should” or “will” or the negative of these terms or other comparable terminology.

The forward-looking statements included in this Form 6-K are subject to risks, uncertainties and assumptions about the Company’s businesses and business environments. These statements reflect the Company’s current views with respect to future events and are not a guarantee of future results, operations, levels of activity, performance or achievements. Actual results of the Company’s results, operations, levels of activity, performance or achievements may differ materially from information contained in the forward-looking statements as a result of risk factors. They include, among other things, trends affecting the global economy, including the devaluation of the RMB by China in August 2015, significant competition in the BOPET film industry, especially the significant oversupply of BOPET films resulting from the rapid growth of the Chinese BOPET industry capacity, changes in the international market and trade barriers, especially the adverse impact of the antidumping investigation and imposition of an anti-dumping duty on imports of the BOPET films originating from the People’s Republic of China (“China”) conducted by certain major importing countries; fluctuations of RMB exchange rate, the reduce in demand for the Company’s products or the loss of main customers which may result in the decrease of sales, and negatively influencing the Company’s financial performance, uncertainty as to the future profitability, uncertainty as to the Company’s ability to successfully obtain additional funds to meet the working capital needs of the new BOPET production line, uncertainty as to the Company’s ability to continuously develop new BOPET film products to be produced by the third production line and keep up with changes in BOPET film technology, risks associated with possible defects and errors in its products including complaints and claims from clients, uncertainty as to its ability to protect and enforce its intellectual property rights, uncertainty as to its ability to attract and retain qualified executives and personnel, and uncertainty in acquiring raw materials on time and on acceptable terms, particularly in light of the volatility in the prices of petroleum products in recent years, instability of power and energy supply, and the uncertainty regarding the future operation of the Company in connection with the changes in the labor law in China, the measures taken by the Chinese government to save energy and reduce emissions, and the complaints from nearby residents and local government about the noise caused by our production as well as the uncertainty of the impact of major shareholder transfer that have substantial influence over the Company and the Company’s business operation including possible overlap of our BOPET products, customers and market orientation with an BOPET film manufacturer, which is controlled by the same individual who has control over the shares of our major shareholder. The Company’s expectations are as of the date of filing of this Form 6-K, and the Company does not intend to update any of the forward-looking statements after the date this Form 6-K is filed to confirm these statements to actual results, unless required by law.

On November 28, 2016, the Company announced its unaudited consolidated financial results for the nine-month period ended September 30, 2016.



**FUWEI FILMS (HOLDINGS) CO., LTD. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****AS OF SEPTEMBER 30, 2016 AND DECEMBER 31, 2015**

(amounts in thousands except share and per share value)

(Unaudited)

|                                          | Notes | September 30, 2016 |        | December 31,<br>2015 |
|------------------------------------------|-------|--------------------|--------|----------------------|
|                                          |       | RMB                | US\$   | RMB                  |
| <b>ASSETS</b>                            |       |                    |        |                      |
| Current assets                           |       |                    |        |                      |
| Cash and cash equivalents                |       | 15,679             | 2,351  | 14,355               |
| Restricted cash                          |       | 70,741             | 10,608 | 43,215               |
| Accounts and bills receivable, net       | 3     | 22,595             | 3,388  | 10,046               |
| Inventories                              | 4     | 26,832             | 4,024  | 29,574               |
| Advance to suppliers                     |       | 8,220              | 1,233  | 5,640                |
| Prepayments and other receivables        |       | 9,303              | 1,395  | 20,334               |
| Deferred tax assets – current            |       | 1,799              | 270    | 1,438                |
| Total current assets                     |       | 155,169            | 23,269 | 124,602              |
|                                          |       |                    |        |                      |
| Property, plant and equipment, net       | 5     | 421,571            | 63,218 | 431,021              |
| Construction in progress                 | 6     | 407                | 61     | 1,700                |
| Lease prepayments, net                   | 7     | 17,488             | 2,622  | 17,882               |
| Advance to suppliers - long term, net    |       | 1,918              | 288    | 1,440                |
| Other Assets                             | 8     | -                  | -      | 11,607               |
| Deferred tax assets - non current        |       | 15,342             | 2,301  | 15,519               |
|                                          |       |                    |        |                      |
| Total assets                             |       | 611,895            | 91,759 | 603,771              |
| <b>LIABILITIES AND EQUITY</b>            |       |                    |        |                      |
| Current liabilities                      |       |                    |        |                      |
| Short-term borrowings                    | 9     | 45,000             | 6,748  | -                    |
| Long-term loan, current portion          | 9     | 3,350              | 502    | 3,350                |
| Due to related parties                   | 10    | 120,680            | 18,097 | 143,080              |
| Accounts payables                        |       | 33,299             | 4,993  | 32,760               |
| Notes payable                            | 11    | 109,833            | 16,470 | 85,780               |
| Advance from customers                   |       | 2,617              | 392    | 2,247                |
| Accrued expenses and other payables      |       | 7,321              | 1,098  | 8,682                |
| Obligations under capital leases-current | 12    | -                  | -      | 302                  |
| Total current liabilities                |       | 322,100            | 48,300 | 276,201              |

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|                                                                                                                 |   |           |           |           |
|-----------------------------------------------------------------------------------------------------------------|---|-----------|-----------|-----------|
| Long-term loan                                                                                                  | 9 | 1,625     | 244       | 3,300     |
| Deferred tax liabilities                                                                                        |   | 5,098     | 764       | 5,406     |
| Total liabilities                                                                                               |   | 328,823   | 49,308    | 284,907   |
| Equity                                                                                                          |   |           |           |           |
| Shareholders' equity                                                                                            |   |           |           |           |
| Registered capital (of US\$0.129752 par value; 20,000,000 shares authorized; 13,062,500 issued and outstanding) |   | 13,323    | 1,998     | 13,323    |
| Additional paid-in capital                                                                                      |   | 311,907   | 46,773    | 311,907   |
| Statutory reserve                                                                                               |   | 37,441    | 5,615     | 37,441    |
| Retained earnings                                                                                               |   | (79,702 ) | (11,952 ) | (44,022 ) |
| Cumulative translation adjustment                                                                               |   | 961       | 146       | 1,049     |
| Total shareholders' equity                                                                                      |   | 283,930   | 42,580    | 319,698   |
| Non-controlling interest                                                                                        |   | (858 )    | (129 )    | (834 )    |
| Total equity                                                                                                    |   | 283,072   | 42,451    | 318,864   |
| Total liabilities and equity                                                                                    |   | 611,895   | 91,759    | 603,771   |

The accompanying notes are an integral part of these unaudited condensed consolidated statements.

**FUWEI FILMS (HOLDINGS) CO., LTD. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)****FOR THE THREE- AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2016 AND 2015**

(amounts in thousands except share and per share value)

(Unaudited)

|                                        | Notes | The Three-Month Period<br>Ended September 30, |          |           | The Nine-Month Period<br>Ended September 30, |          |           |
|----------------------------------------|-------|-----------------------------------------------|----------|-----------|----------------------------------------------|----------|-----------|
|                                        |       | 2016                                          |          | 2015      | 2016                                         |          | 2015      |
|                                        |       | RMB                                           | US\$     | RMB       | RMB                                          | US\$     | RMB       |
| Net sales                              |       | 61,560                                        | 9,231    | 65,670    | 183,023                                      | 27,446   | 185,155   |
| Cost of sales                          |       | 60,504                                        | 9,073    | 61,876    | 170,752                                      | 25,606   | 188,899   |
| Gross profit (loss)                    |       | 1,056                                         | 158      | 3,794     | 12,271                                       | 1,840    | (3,744 )  |
| Operating expenses                     |       |                                               |          |           |                                              |          |           |
| Selling expenses                       |       | 3,193                                         | 479      | 3,771     | 9,482                                        | 1,422    | 10,124    |
| Administrative expenses                |       | 9,497                                         | 1,424    | 10,774    | 32,694                                       | 4,903    | 26,264    |
| Total operating expenses               |       | 12,690                                        | 1,903    | 14,545    | 42,176                                       | 6,325    | 36,388    |
| Operating loss                         |       | (11,634 )                                     | (1,745 ) | (10,751 ) | (29,905 )                                    | (4,485 ) | (40,132 ) |
| Other income (expense)                 |       |                                               |          |           |                                              |          |           |
| - Interest income                      |       | 200                                           | 30       | 207       | 552                                          | 83       | 945       |
| - Interest expense                     |       | (2,030 )                                      | (304 )   | (2,145 )  | (5,491 )                                     | (823 )   | (6,558 )  |
| - Others income (expense), net         |       | 26                                            | 4        | 530       | (1,328 )                                     | (199 )   | 4,982     |
| Total other expense                    |       | (1,804 )                                      | (270 )   | (1,408 )  | (6,267 )                                     | (939 )   | (631 )    |
| Loss before provision for income taxes |       | (13,438 )                                     | (2,015 ) | (12,159 ) | (36,172 )                                    | (5,424 ) | (40,763 ) |
| Income tax benefit (expense)           | 13    | 10                                            | 1        | (97 )     | 492                                          | 74       | (1,141 )  |
| Net loss                               |       | (13,428 )                                     | (2,014 ) | (12,256 ) | (35,680 )                                    | (5,350 ) | (41,904 ) |
|                                        |       | -                                             | -        | (3 )      | -                                            | -        | (3 )      |

|                                                                                    |    |            |            |            |            |            |            |
|------------------------------------------------------------------------------------|----|------------|------------|------------|------------|------------|------------|
| Net loss attributable to noncontrolling interests                                  |    |            |            |            |            |            |            |
| Net loss attributable to the Company                                               |    | (13,428 )  | (2,014 )   | (12,253 )  | (35,680 )  | (5,350 )   | (41,901 )  |
| Other comprehensive income (loss)                                                  |    |            |            |            |            |            |            |
| - Foreign currency translation adjustments attributable to noncontrolling interest |    | (2 )       | -          | (21 )      | (24 )      | (4 )       | (21 )      |
| - Foreign currency translation adjustments attributable to the Company             |    | (9 )       | (1 )       | (55 )      | (88 )      | (13 )      | (104 )     |
| Comprehensive loss attributable to non-controlling interest                        |    | (2 )       | -          | (24 )      | (24 )      | (4 )       | (24 )      |
| Comprehensive loss attributable to the Company                                     |    | (13,437 )  | (2,015 )   | (12,308 )  | (35,768 )  | (5,363 )   | (42,005 )  |
| Loss per share, Basic and diluted                                                  | 14 | (1.03 )    | (0.15 )    | (0.94 )    | (2.73 )    | (0.41 )    | (3.21 )    |
| Weighted average number ordinary shares, Basic and diluted                         |    | 13,062,500 | 13,062,500 | 13,062,500 | 13,062,500 | 13,062,500 | 13,062,500 |

The accompanying notes are an integral part of these unaudited condensed consolidated statements.

**FUWEI FILMS (HOLDINGS) CO., LTD. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2016 AND 2015**

(amounts in thousands except share and per share value)

(Unaudited)

|                                                                            | The Nine-Month Period Ended September 30, |          |           |
|----------------------------------------------------------------------------|-------------------------------------------|----------|-----------|
|                                                                            | 2016                                      |          | 2015      |
|                                                                            | RMB                                       | US\$     | RMB       |
| Cash flow from operating activities                                        |                                           |          |           |
| Net loss                                                                   | (35,680 )                                 | (5,351 ) | (41,904 ) |
| Adjustments to reconcile net loss to net cash used in operating activities |                                           |          |           |
| - Depreciation of property, plant and equipment                            | 32,122                                    | 4,817    | 33,659    |
| - Amortization of intangible assets                                        | 393                                       | 59       | 393       |
| - Deferred income taxes                                                    | (492 )                                    | (74 )    | 1,141     |
| - Bad debt (recovery) expense                                              | 1,670                                     | 250      | (4,309 )  |
| -Inventory provision                                                       | (226 )                                    | (34 )    | -         |
| Changes in operating assets and liabilities                                |                                           |          |           |
| - Accounts and bills receivable                                            | (14,219 )                                 | (2,132 ) | (3,350 )  |
| - Inventories                                                              | 2,968                                     | 445      | (10,655 ) |
| - Advance to suppliers                                                     | (2,580 )                                  | (387 )   | (1,520 )  |
| - Prepaid expenses and other current assets                                | 79                                        | 12       | (1,140 )  |
| - Accounts payable                                                         | 540                                       | 81       | 3,025     |
| - Accrued expenses and other payables                                      | (1,450 )                                  | (217 )   | 1,980     |
| - Advance from customers                                                   | 370                                       | 55       | 1,704     |
| - Tax payable                                                              | 10,952                                    | 1,642    | (1,401 )  |
| Net cash used in operating activities                                      | (5,553 )                                  | (834 )   | (22,377 ) |
| Cash flow from investing activities                                        |                                           |          |           |
| Purchases of property, plant and equipment                                 | (11,064 )                                 | (1,659 ) | (233 )    |
| Restricted cash related to trade finance                                   | (27,521 )                                 | (4,127 ) | (2,455 )  |
| Advance to suppliers - non current                                         | (478 )                                    | (72 )    | (376 )    |
| Amount change in construction in progress                                  | 1,293                                     | 194      | (923 )    |
| Refund of long-term deposit                                                | -                                         | -        | 21,000    |
| Net cash provided by (used in) investing activities                        | (37,770 )                                 | (5,664 ) | 17,013    |
| Cash flow from financing activities                                        |                                           |          |           |
| Principal payments of bank loans                                           | (1,675 )                                  | (251 )   | (1,675 )  |

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|                                                                       |           |          |          |
|-----------------------------------------------------------------------|-----------|----------|----------|
| Proceeds from short-term bank loans                                   | 45,000    | 6,748    | -        |
| Proceeds from related party                                           | (22,401 ) | (3,359 ) | 15,510   |
| Payment of capital lease obligation                                   | (302 )    | (45 )    | (6,602 ) |
| Change in notes payable                                               | 24,053    | 3,607    | 2,727    |
| Net cash provided by financing activities                             | 44,675    | 6,700    | 9,960    |
| Effect of foreign exchange rate changes                               | (28 )     | (67 )    | (47 )    |
| Net increase in cash and cash equivalent                              | 1,324     | 135      | 4,549    |
| Cash and cash equivalent                                              |           |          |          |
| At beginning of period/year                                           | 14,355    | 2,216    | 9,020    |
| At end of period/year                                                 | 15,679    | 2,351    | 13,569   |
| SUPPLEMENTARY DISCLOSURE:                                             |           |          |          |
| Interest paid                                                         | 5,491     | 823      | 6,558    |
| Income tax paid                                                       | -         | -        | -        |
| SUPPLEMENTARY SCHEDULE OF NONCASH INVESTING AND FINANCIAL ACTIVITIES: |           |          |          |
| Account payable for plant and equipment:                              | 2,172     | 326      | 2,237    |
| Obligations for acquired equipment under capital lease:               | -         | -        | 1,960    |

The accompanying notes are an integral part of these unaudited condensed consolidated statements.

**FUWEI FILMS (HOLDINGS) CO., LTD. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(amounts in thousands except share and per share value)

(Unaudited)

**NOTE 1 – BACKGROUND**

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. (“Shandong Fuwei”).

On August 20, 2004, the Company was allotted and issued one ordinary share of US\$1.00 in Fuwei (BVI) (being the entire issued share capital of Fuwei (BVI)), thereby establishing Fuwei (BVI) as the intermediate investment holding company of the Company.

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.

**NOTE 2 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Accounting Principles

The accompanying unaudited condensed consolidated financial statements have been prepared by the Company, pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (the “SEC”) as applicable to

smaller reporting companies, and generally accepted accounting principles for interim financial reporting. The information furnished herein reflects all adjustments (consisting of normal recurring accruals and adjustments) which are, in the opinion of management, necessary to fairly present the operating results for the respective periods. Certain information and footnote disclosures normally presented in annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") have been omitted pursuant to such rules and regulations. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and footnotes included in the Company's Annual Report on Form 20-F for the year ended December 31, 2015 filed on April 7, 2016 with the SEC. The results of the nine-month period ended September 30, 2016 are not necessarily indicative of the results to be expected for the full year ended December 31, 2016.

#### Principles of Consolidation

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

**FUWEI FILMS (HOLDINGS) CO., LTD. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(amounts in thousands except share and per share value)

(Unaudited)

Use of Estimates

The preparation of the condensed consolidated financial statements in accordance with U.S. GAAP requires management of the Company 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.

Foreign Currency Transactions

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

Fuwei Films (Holdings) Co., Ltd. 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. The financial records of Fuwei Films USA, LLC, a 60% owned subsidiary of the Company, 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. The changes in the translation adjustments for the current period were reported as the line items of other comprehensive income in the consolidated statements of comprehensive income.

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 consolidated statements of comprehensive income.

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.

Commencing 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.

For the convenience of the readers, the third quarter of 2016 RMB amounts included in the accompanying condensed consolidated financial statements in our quarterly report have been translated into U.S. dollars at the rate of US\$1.00 = RMB6.6685, on the last trading day of the third quarter of 2016 (September 30, 2016) as set forth in the H.10 statistical release of the U.S. Federal Reserve Board. 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 September 30, 2016, or at any other date.

#### 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, maintained within the United States as well as in foreign countries to be cash and cash equivalents. The Company maintains balances at financial institutions which, from time to time, may exceed Federal Deposit Insurance Corporation insured limits for the banks located in the United States. Balances at financial institutions within certain foreign countries are not covered by insurance. As of September 30, 2016 and December 31, 2015, the Company had uninsured deposits related to cash deposits in accounts maintained within foreign entities of approximately RMB15,679 (US\$2,351) and RMB14,345, respectively. The Company has not experienced any losses in such accounts.

**FUWEI FILMS (HOLDINGS) CO., LTD. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(amounts in thousands except share and per share value)

(Unaudited)

Restricted cash refers to the cash balance held by bank as deposit for Letters of Credit and Bank Acceptance Bill. The Company has restricted cash of RMB70,741 (US\$10,608) and RMB43,215 as of September 30, 2016 and December 31, 2015, respectively.

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 collectability. 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.

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.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment. 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. They are as follows:

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

**FUWEI FILMS (HOLDINGS) CO., LTD. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(amounts in thousands except share and per share value)

(Unaudited)

Depreciation of property, plant and equipment attributable to manufacturing activities is capitalized as part of the inventory, and expensed to cost of goods sold when inventory is sold. Depreciation related to abnormal amounts from idle capacity is charged to general and administrative expenses for the period incurred.

Construction in progress represents capital expenditures in respect of the BOPET production line. No depreciation is provided in respect of construction in progress.

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.

#### 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 non-current portion and current portion of lease prepayments have been reported in Lease Prepayments, Prepayments and Other Receivables in the balance sheets, respectively.

**FUWEI FILMS (HOLDINGS) CO., LTD. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(amounts in thousands except share and per share value)

(Unaudited)

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.

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.

Revenue Recognition

Sales of plastic films are reported, net of value added taxes (“VAT”), sales returns, and trade discounts. The standard terms and conditions under which the Company 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 identified by the customer; and the customer rejects the non-conforming product and notifies the Company within 30 days of receipt for both PRC and overseas customers. The Company 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 sales price is fixed or determinable.

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

**FUWEI FILMS (HOLDINGS) CO., LTD. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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Income Taxes

Income taxes are accounted for under the asset and liability method. 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 carry forwards. 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.

(Loss) Earnings Per Share

Basic (loss) earnings per share is computed by dividing net earnings by the weighted average number of ordinary shares outstanding during the year. Diluted (loss) earnings per share is calculated by dividing net earnings 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 the Company's stock option plan.

Share-Based Payments

The Company accounts for share based payments under the modified-prospective transition method, which requires companies to measure and recognize the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value.

Non-controlling interest

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

#### Contingencies

In the normal course of business, the Company 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 Company 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 Company may consider many factors in making these assessments including past history and the specifics of each matter.

#### Reclassification

For comparative purposes, the prior year's consolidated financial statements have been reclassified to conform to reporting classifications of the current year periods. These reclassifications had no effect on net loss or total net cash flows as previously reported.

**FUWEI FILMS (HOLDINGS) CO., LTD. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(amounts in thousands except share and per share value)

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**Going Concern Matters**

The accompanying condensed 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 September 30, 2016 and 2015, the Company had a working capital deficiency of RMB166,931 (US\$25,033) and RMB145,923 and accumulated deficit of RMB35,680 (US\$5,350) and RMB41,901 from net losses incurred during the first nine months of 2016 and 2015. 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 loans from financial institutions and a related party and/or generate positive cash flow from operations. The Company accordingly has obtained loans from financial institutions and related party to meet the need of working capital for our operation or debts. At the same time, the Company will continue implementing strict 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.

**Recently Issued Accounting Standards**

***Revenue Recognition***

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers: Topic 606 (ASU 2014-09), to supersede nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the

transaction price and allocating the transaction price to each separate performance obligation. ASU 2014-09 is effective for us in our first quarter of fiscal 2018 using either of two methods: (i) retrospective to each prior reporting period presented with the option to elect certain practical expedients as defined within ASU 2014-09; or (ii) retrospective with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application and providing certain additional disclosures as defined per ASU 2014-09. The adoption of this ASU is not expected to have a material impact on the Company's consolidated financial statements.

### ***Financial Instrument***

In January 2016, the FASB issued ASU No. 2016-01, “Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities” (“ASU 2016-01”). The standard addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. ASU 2016-01 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, and early adoption is not permitted. Accordingly, the standard is effective for us on September 1, 2018. The Company is currently evaluating the impact that the standard will have on the Company’s consolidated financial statements.

**FUWEI FILMS (HOLDINGS) CO., LTD. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(amounts in thousands except share and per share value)

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***Leases***

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) (“ASU 2016-2”), which provides guidance on lease amendments to the FASB Accounting Standard Codification. This ASU will be effective for us beginning in May 1, 2019. The Company is currently in the process of evaluating the impact of the adoption of ASU 2016-2 on the Company’s consolidated financial statements.

***Stock-based Compensation***

In March 2016, the FASB issued ASU 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting (ASU 2016-09). ASU 2016-09 changes how companies account for certain aspects of stock-based awards to employees, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. ASU 2016-09 is effective for us in the first quarter of 2018, and earlier adoption is permitted. We are still evaluating the effect that this guidance will have on our consolidated financial statements and related disclosures.

***Financial Instruments - Credit Losses***

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): The amendments in this Update require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The amendments broaden the information that an entity must consider in developing its expected credit loss estimate for assets measured either collectively or individually. The use of forecasted information incorporates more timely information in the estimate of expected credit loss, which will be more decision useful to users of the financial statements. ASU 2016-13 is effective for the Company for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is allowed as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is still evaluating the effect that this guidance will have on the Company’s consolidated financial statements

and related disclosures.

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.

### NOTE 3 - ACCOUNTS AND BILLS RECEIVABLES

Accounts and bills receivables consisted of the following:

|                                       | September 30, 2016 |        | December 31, 2015 |
|---------------------------------------|--------------------|--------|-------------------|
|                                       | RMB                | US\$   | RMB               |
| Accounts receivable                   | 18,758             | 2,813  | 7,861             |
| Less: Allowance for doubtful accounts | (2,417 )           | (362 ) | (747 )            |
|                                       | 16,341             | 2,451  | 7,114             |
| Bills receivable                      | 6,254              | 937    | 2,932             |
|                                       | 22,595             | 3,388  | 10,046            |

**FUWEI FILMS (HOLDINGS) CO., LTD. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(amounts in thousands except share and per share value)

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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. Generally, the Group does not obtain collateral from customers. Bills receivable are banker's acceptance bills, which are guaranteed by the bank.

**NOTE 4-INVENTORIES**

Inventories consisted of the following:

|                             | September 30, 2016 |        | December 31, 2015 |
|-----------------------------|--------------------|--------|-------------------|
|                             | RMB                | US\$   | RMB               |
| Raw materials               | 15,865             | 2,379  | 16,819            |
| Work-in-progress            | 1,144              | 172    | 1,667             |
| Finished goods              | 13,991             | 2,098  | 15,483            |
| Consumables and spare parts | 612                | 92     | 611               |
| Inventory--impairment       | (4,780 )           | (717 ) | (5,006 )          |
|                             | 26,832             | 4,024  | 29,574            |

**NOTE 5-PROPERTY, PLANT AND EQUIPMENT, NET**

Property, plant and equipment consisted of the following:

| September 30, 2016 |      | December 31, 2015 |
|--------------------|------|-------------------|
| RMB                | US\$ | RMB               |

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|                                         |           |           |            |
|-----------------------------------------|-----------|-----------|------------|
| Buildings                               | 68,261    | 10,236    | 68,261     |
| Plant and equipment                     | 798,726   | 119,776   | 774,546    |
| Computer equipment                      | 2,525     | 379       | 2,449      |
| Furniture and fixtures                  | 14,638    | 2,195     | 13,730     |
| Motor vehicles                          | 2,093     | 314       | 2,094      |
|                                         | 886,243   | 132,900   | 861,080    |
| Less: accumulated depreciation          | (457,453) | (68,599 ) | (422,840 ) |
| Less: impairment of plant and equipment | (7,219 )  | (1,083 )  | (7,219 )   |
|                                         | 421,571   | 63,218    | 431,021    |

Total depreciation for the nine-month periods ended September 30, 2016 and 2015 was RMB32,122 (US\$4,817) and RMB33,659, respectively. For the three-month periods ended September 30, 2016 and 2015, depreciation expenses were RMB10,758 (US\$1,602) and RMB10,583, respectively.

**FUWEI FILMS (HOLDINGS) CO., LTD. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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(Unaudited)

**NOTE 6 - CONSTRUCTION IN PROGRESS**

Construction-in-progress represents capital expenditure in respect to the BOPET production line. Construction in progress was RMB407 (US\$61) ended September 30, 2016, and RMB1,700 ended December 31, 2015, respectively.

**NOTE 7 - 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.

Lease prepayments consisted of the following:

|                                | September 30, 2016 |       | December 31, 2015 |
|--------------------------------|--------------------|-------|-------------------|
|                                | RMB                | US\$  | RMB               |
| Lease prepayment - non current | 17,488             | 2,622 | 17,882            |
| Lease prepayment - current     | 524                | 79    | 524               |
|                                | 18,012             | 2,701 | 18,406            |

Amortization of land use rights for the nine months ended September 30, 2016 and 2015 was RMB393 (US\$59) and RMB393, respectively. Amortization of land use rights for the three months ended September 30, 2016 and 2015 was RMB132 (US\$20) and RMB131, respectively.

Estimated amortization expenses for the next five years after September 30, 2016 are as follows:

|               | RMB    | US\$  |
|---------------|--------|-------|
| 1 year after  | 524    | 79    |
| 2 years after | 524    | 79    |
| 3 years after | 524    | 79    |
| 4 years after | 524    | 79    |
| 5 years after | 524    | 79    |
| Thereafter    | 15,392 | 2,306 |

As of September 30, 2016, the amount of RMB524 (US\$78) will be charged into amortization expenses within one year, and is classified as current asset under the separate line item captioned as Prepayments and Other Receivables on balance sheets.

#### **NOTE 8 – 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 February 2016, the Company has fulfilled all the obligations under the sale-leaseback arrangement and related additional supplemental agreements between the Company and International Far Eastern Leasing Co., Ltd. As a result, International Far Eastern Leasing Co., Ltd. has transferred the ownership of objects under the sale-leaseback arrangement to the Company. The balance of deferred loss should be reversed based on the facts. As of September 30, 2016 and December 31, 2015, the total amount of the other assets was zero and RMB11,607, respectively.

**FUWEI FILMS (HOLDINGS) CO., LTD. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(amounts in thousands except share and per share value)

(Unaudited)

**NOTE 9 - SHORT-TERM BORROWINGS AND LONG-TERM LOAN**

Short-term borrowings and long-term loan consisted of the following:

| Lender                                                   | Interest rate<br>per annum | September 30, 2016 |          | December 31,<br>2015 |
|----------------------------------------------------------|----------------------------|--------------------|----------|----------------------|
|                                                          |                            | RMB                | US\$     | RMB                  |
| <b>BANK LOANS</b>                                        |                            |                    |          |                      |
| Bank of Weifang.                                         |                            |                    |          |                      |
| - July 15, 2016 to July 15, 2017                         | 7.5%                       | 19,500             | 2,924    | -                    |
| - July 15, 2016 to July 15, 2017                         | 7.5%                       | 15,000             | 2,249    | -                    |
| - July 20, 2016 to July 20, 2017                         | 7.5%                       | 6,400              | 960      | -                    |
| - July 20, 2016 to July 20, 2017                         | 7.5%                       | 1,800              | 270      | -                    |
| - July 20, 2016 to July 20, 2017                         | 7.5%                       | 2,300              | 345      | -                    |
| Weifang Dongfang State-owned Assets Management Co., Ltd. |                            |                    |          |                      |
| - October 19, 2009 to October 18, 2017                   | 4.41%                      | 4,975              | 746      | 6,650                |
|                                                          |                            | 49,975             | 7,494    | 6,650                |
| Less: long-term loan, current portion; short-term loan   |                            | (48,350 )          | (7,250 ) | (3,350 )             |
| Long-term Loan                                           |                            | 1,625              | 244      | 3,300                |

The Company obtained five short-term loans from Bank of Weifang in July 2016 for the total amount of RMB45,000 (US\$6,748). The principal amounts of the above short-term loans are repayable at the end of the loan period, and are secured by property, plant and equipment, and lease prepayments.

As of September 30, 2016 and December 31, 2015, the balance of short-term loans are RMB45,000 (US\$6,748) and zero, respectively.

On November 20, 2009, the Company signed a long-term loan agreement in the amount of RMB10,000 (US\$1,500) 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\$502) per year with the remaining principal balance of RMB3,300 (US\$495) 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 September 30, 2016 is 4.41%. The loan is guaranteed by Shandong Deqin Investment & Guarantee Co., Ltd. and is used for the Company's projects.

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Long-term bank loans maturity for the next two years after September 30, 2016 are as follows:

|               | RMB   | US\$ |
|---------------|-------|------|
| 1 year after  | 3,350 | 502  |
| 2 years after | 1,625 | 244  |

**NOTE 10 - RELATED PARTY TRANSACTIONS**

**Due to related parties**

In April 2014, the Company obtained a loan for a total amount of RMB105,000 from Shandong SNTON Optical Materials Technology Co., Ltd. (the “Shandong SNTON”) to pay off certain short-term loans due to Bank of Communications Co., Ltd. The interest shall be calculated at the benchmark rate, plus an additional 20% of the said benchmark rate, for the loan of the same term announced by the People’s Bank of China. The interest must be paid quarterly and settled in full at the end of the year. As of December 31, 2014, the principle of this loan and the interest have not been paid. In March 2015, the Company entered into a supplemental agreement with Shandong SNTON pursuant to which the parties agreed that the Company will pay off the principle of this loan plus interest upon availability of new loans from banks or other financial institutions.

As of September 30, 2016, the principle of this loan from Shandong SNTON was RMB104,708 and the interest was RMB15,972.

In May 2014, the Company borrowed RMB15,000 from Shandong SNTON Group Co., Ltd. (the “SNTON Group”) solely to purchase raw materials. The interest shall be calculated at the benchmark rate, plus an additional 20% of the

said benchmark rate, for the loan of the same term announced by the People's Bank of China. The interest shall be paid quarterly and settled in full at the end of the year. The Company has agreed to repay this loan prior to December 31, 2014. As of December 31, 2014, the principle of this loan and the interest have not been paid. In March 2015, the Company entered into a supplemental agreement with SNTON Group pursuant to which that we agreed to pay off the principle of this loan plus interest upon availability of new loans from banks or other financial institutions.

In May 2015, SNTON Group provided the Company with a loan for the amount of RMB10,000.

In August 2016, the Company returned the principle of RMB25,000 together with the interest of RMB1,968 to SNTON Group.

As of September 30, 2016, the total principle of loans and the interest payable from SNTON Group were zero.

As of September 30, 2016, the total balance of principle of loans from related party was RMB104,708 and the interest payable was RMB15,972.

#### **NOTE 11 - NOTES PAYABLE**

As of September 30, 2016 and December 31, 2015, Shandong Fuwei had banker's acceptances opened with a maturity from three to six months totaling RMB109,833 (US\$16,470) and RMB85,780, respectively, for payment in connection with raw materials for a total security deposits of RMB70,741 (US\$10,608) and RMB42,890 made to the SPD Bank and Bank of Weifang, respectively.

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Notes payable consisted of the following:

| Issuing bank    | September 30, 2016 |        | December 31, 2015 |
|-----------------|--------------------|--------|-------------------|
|                 | RMB                | US\$   | RMB               |
| SPD Bank        | 79,865             | 11,976 | 85,780            |
| Bank of Weifang | 29,968             | 4,494  | -                 |
|                 | 109,833            | 16,470 | 85,780            |

**NOTE 12 – 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 leases have terms of 3 years expiring by the end of February 2016. As of September 30, 2016, future payments under these capital leases are as follows:

|                                  | 30-Sep-16                                   |                              |          | 31-Dec-15                                   |                              |          | RMB |
|----------------------------------|---------------------------------------------|------------------------------|----------|---------------------------------------------|------------------------------|----------|-----|
|                                  | RMB                                         | US\$                         | RMB      | RMB                                         | US\$                         | 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                    | -                                           | -                            | -        | 302                                         | 304                          | 2        |     |
| After 1 year but within 2 years  | -                                           | -                            | -        | -                                           | -                            | -        |     |
| After 2 years but within 3 years | -                                           | -                            | -        | -                                           | -                            | -        |     |
| After 3 years                    | -                                           | -                            | -        | -                                           | -                            | -        |     |

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|                                                                     |   |   |   |   |   |   |       |     |   |
|---------------------------------------------------------------------|---|---|---|---|---|---|-------|-----|---|
|                                                                     | - | - | - | - | - | - | 302   | 304 | 2 |
| Less: balance due within one year classified as current liabilities | - | - |   |   |   |   | (302) |     |   |
|                                                                     | - | - |   |   |   |   | -     |     |   |

**FUWEI FILMS (HOLDINGS) CO., LTD. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(amounts in thousands except share and per share value)

(Unaudited)

Details of obligations under capital leases are as follows:

|                                        | September 30, 2016 | December 31, 2015 |
|----------------------------------------|--------------------|-------------------|
|                                        | RMB                | RMB               |
| RMB denominated obligations            |                    |                   |
| Fixed interest rate of 6.49% per annum | -                  | 302               |
|                                        | -                  | 302               |

Guarantee deposit of RMB800 (US\$129) over the capital leased assets concerned and relevant insurance policies were provided to the lessor as collateral and security. In addition, as is customary in the case of capital leases, the Group's obligations 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. Since August 2014, Shandong SNTON Group Co., Ltd. has accepted the responsibility of guarantee for the Group's obligation from Beijing Shiweitong Technology Development Co., Ltd. As of February 2016, the obligations under related agreements have been fulfilled, and the related guarantee contracts above terminated as well.

**NOTE 13- INCOME TAX**

Income tax benefit was RMB492 (US\$74) and income tax expense was RMB1,141 for the nine months ended September 30, 2016 and 2015, respectively.

Income tax benefit was RMB10 (US\$1) and income tax expense was RMB97 for the three months ended September 30, 2016 and 2015, respectively.

**NOTE 14 - LOSS PER SHARE**

Basic and diluted net loss per share was RMB2.73 (US\$0.41) and RMB3.21 for the nine-month period ended September 30, 2016 and 2015, respectively.

Basic and diluted net loss per share was RMB1.03 (US\$0.15) and RMB0.94 for the three-month period ended September 30, 2016 and 2015, respectively.

**NOTE 15 - MAJOR CUSTOMERS AND VENDORS**

There were no major customers who accounted for more than 10% of the total net revenue for the nine-month periods ended September 30, 2016 and 2015.

One vendor provided approximately 64.2% and 56.7% of the Company's purchases of raw materials, supplies and equipment for the nine months ended September 30, 2016 and 2015, respectively. The Company had a RMB5,912 (US\$887) advance to that vendor as of September 30, 2016. Another vendor provided approximately 12.8% and 12.7% of the Company's purchases of raw materials, supplies and equipment for the nine months ended September 30, 2016 and 2015.

References to "dollars" and "US\$" are to United States Dollars. References to "we", "us", the "Company" or "Fuwei Films" include Fuwei Films (Holdings) Co., Ltd. and its subsidiaries, except where the context requires otherwise.

In the third quarter of 2016, we continued to be adversely affected by enhanced competition and increased supply over demand in China's BOPET market. In addition, fierce competition from overseas as well as anti-dumping measures taken by the United States of America and South Korea caused orders from international markets to decrease. The foregoing factors have contributed to significant decreases in sales prices, which resulted in reduced total revenue compared with the third quarter of 2015.

We believe that in the remaining quarter of 2016, there will be growing capacity of BOPET films in China and stronger competition in the market. Our ability to retain effective control over the pricing of our products on a timely basis is limited due to the enhanced competition in the BOPET market. As a result, we may continue to witness losses in the short to medium term.

On August 14, 2013, we announced the receipt of the first notice from our 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. We 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. The beneficial ownership of 6,912,503 of our ordinary shares previously owned by the Administration Company through Apex Glory Holdings Limited, a British Virgin Islands corporation, was bid by Shandong SNTON Optical Materials Technology Co., Ltd. ("Shandong SNTON") through the public auction. Shandong SNTON got 6,912,503 (or 52.9%) of our outstanding ordinary shares at a price of RMB101,800,000 (approximately US\$16,572,787) or approximately US\$2.40 per ordinary share.

On May 12, 2014, we announced that we had learned that the successful bidder, Shandong SNTON in the fifth public auction of 6,912,503 (or 52.9%) of our 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, we believe 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. (the "SNTON Group"). Mr. Xiusheng Wang, the chairman of the Board of Directors of Shandong SNTON Group Co., Ltd., is also Hongkong Ruishang's chairman.

On May 14, 2014, we announced that we had received a notification from Shandong Fuhua Investment Company Limited. ("Shandong Fuhua") with respect to an entire ownership transfer of our 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 our outstanding ordinary shares through Easebright. Mr. Jingang Yang has been appointed as the director of Easebright.

On November 22, 2016, we announced a majority of the shareholders of the Company have approved, in principal, a 1-for-4 reverse stock split of our authorized ordinary shares, accompanied by a corresponding decrease in our issued and outstanding ordinary shares and an increase of the par value of each ordinary share from \$0.129752 to US\$0.519008, subject to an extraordinary general meeting of shareholders to be held on December 5, 2016.

On November 23, 2016, we announced receipt of a letter from NASDAQ stating that since we have not regained compliance with Listing Rule 5550(a)(2) regarding our bid price, our ordinary shares will be delisted from the Nasdaq Capital Market. The letter further stated that unless we request an appeal of the staff's determination, trading of our ordinary shares will be suspended at the opening of business on December 1, 2016. We have appealed the staff's determination to a Hearings Panel (the "Panel"). A hearing request will stay the suspension of our ordinary shares pending the Panel's decision.

#### **Results of operations for the nine-month periods ended September 30, 2016 compared to September 30, 2015**

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

|                            | Nine-Month<br>Period<br>Ended<br>September<br>30, 2016<br>(as % of Revenue) | Nine-Month Period Ended<br>September 30, 2015 |   |
|----------------------------|-----------------------------------------------------------------------------|-----------------------------------------------|---|
| Gross profit(loss)         | 6.7                                                                         | (2.0                                          | ) |
| Operating expenses         | (23.0 )                                                                     | (19.7                                         | ) |
| Operating income (loss)    | (16.3 )                                                                     | (21.7                                         | ) |
| Other income (expense)     | (3.4 )                                                                      | (0.3                                          | ) |
| Provision for income taxes | 0.3                                                                         | (0.6                                          | ) |
| Net income (loss)          | (19.5 )                                                                     | (22.6                                         | ) |

#### *Revenue*

Our revenue is primarily derived from the manufacture and sale of plastic films.

Net sales during the nine-month period ended September 30, 2016 were RMB183.0 million (US\$27.4 million), compared to RMB185.2 million, during the same period in 2015, representing a decrease of RMB2.2 million or 1.2%, mainly due to the reduction of average sales price by 4.8% arising from stronger competition in China together with reduction in prices of main raw materials.

In the nine-month period ended September 30, 2016, sales of specialty films were RMB68.0 million (US\$10.2 million) or 37.1% of our total revenues as compared to RMB55.0 million or 29.7% in the same period of 2015, which was an increase of RMB13.0 million, or 23.6% as compared to the same period in 2015. The reduction of average sales price caused a decrease of RMB2.3 million and the increase in the sales volume caused an increase of RMB15.3 million.

The following is a breakdown of commodity and specialty film sales (amounts in thousands):

|                                  | Nine-Month Period Ended<br>September 30, 2016 |        | % of<br>Total |  | Nine-Month Period Ended<br>September 30, 2015 |  | % of<br>Total |
|----------------------------------|-----------------------------------------------|--------|---------------|--|-----------------------------------------------|--|---------------|
|                                  | RMB                                           | US\$   |               |  | RMB                                           |  |               |
| Stamping and transfer film       | 67,436                                        | 10,112 | 36.8 %        |  | 72,463                                        |  | 39.2 %        |
| Printing film                    | 16,231                                        | 2,434  | 8.9 %         |  | 23,362                                        |  | 12.6 %        |
| Metallization film               | 5,280                                         | 792    | 2.9 %         |  | 6,989                                         |  | 3.8 %         |
| Specialty film                   | 67,950                                        | 10,190 | 37.1 %        |  | 55,041                                        |  | 29.7 %        |
| Base film for other applications | 26,126                                        | 3,918  | 14.3 %        |  | 27,300                                        |  | 14.7 %        |
|                                  | 183,023                                       | 27,446 | 100.0 %       |  | 185,155                                       |  | 100.0 %       |

Overseas sales during the nine months ended September 30, 2016 were RMB35.1 million or US\$5.3 million, or 19.2% of total revenues, compared with RMB44.3 million or 23.9% of total revenues in the same period in 2015. This was RMB9.2 million lower than the same period in 2015. The reduction in sales volume resulted in a decrease of RMB5.7 million and the decrease of average sales price caused a decrease of RMB3.5 million.

The following is a breakdown of PRC domestic and overseas sales (amounts in thousands):

|                          | Nine-Month Period Ended<br>September 30, 2016 |        |            |  | Nine-Month Period Ended<br>September 30, 2015 |            |  |
|--------------------------|-----------------------------------------------|--------|------------|--|-----------------------------------------------|------------|--|
|                          | RMB                                           | US\$   | % of Total |  | RMB                                           | % of Total |  |
| Sales in China           | 147,944                                       | 22,185 | 80.8 %     |  | 140,853                                       | 76.1 %     |  |
| Sales in other countries | 35,079                                        | 5,261  | 19.2 %     |  | 44,302                                        | 23.9 %     |  |
|                          | 183,023                                       | 27,446 | 100.0 %    |  | 185,155                                       | 100.0 %    |  |

### *Cost of Goods Sold*

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

|                 | Nine-Month Period Ended<br>September 30, 2016 |   | Nine-Month Period Ended<br>September 30, 2015 |   |
|-----------------|-----------------------------------------------|---|-----------------------------------------------|---|
|                 | % of total                                    |   | % of total                                    |   |
| Materials costs | 67.7                                          | % | 66.0                                          | % |

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|                     |      |   |      |   |
|---------------------|------|---|------|---|
| Factory overhead    | 10.1 | % | 14.4 | % |
| Energy expense      | 12.7 | % | 11.6 | % |
| Packaging materials | 4.4  | % | 3.6  | % |
| Direct labor        | 5.1  | % | 4.4  | % |

Cost of goods sold during the first nine months of 2016 totaled RMB170.8 million (US\$25.6 million) as compared to RMB188.9 million in the same period of 2015. This was RMB18.1 million or 9.6% lower than the same period in 2015, mainly due to the decrease in unit cost largely caused by the price reduction of main raw materials. The decrease of unit cost of goods sold caused a decrease of RMB25.3 million and the increase in sales volumes caused an increase of RMB7.2 million.

#### *Gross Loss*

Our gross profit was RMB12.3 million (US\$1.8 million) for the first nine months ended September 30, 2016, representing a gross profit rate of 6.7%, as compared to a gross loss rate of 2.0% for the same period in 2015. Correspondingly, gross profit rate increased by 8.7 percentage. Our average product sales prices decreased by 4.8% compared to the same period last year while the average cost of goods sold decreased by 12.9% compared to the same period last year. Consequently, the amount of decrease in cost of goods sold was higher than that in sales revenue during the nine months ended September 30, 2016 compared with the same period in 2015, which resulted in an increase in our gross profit.

#### *Operating Expenses*

Operating expenses for the nine months ended September 30, 2016 were RMB42.2 million (US\$6.3 million), compared to RMB36.4 million in the same period in 2015, which was RMB5.8 million or 15.9% higher than the same period in 2015. This increase is mainly due to depreciation charged to general and administrative expenses in the accounting period in which they are incurred as a result of lack of manufacturing from the third production line since April 2015 and increased allowance for doubtful accounts receivable.

#### *Other Expense*

Total other expense is a combination result of interest income, interest expense and other income (expense). Total other expense during the first nine months of 2016 was RMB6.3 million (US\$0.9 million), RMB5.7 million higher than the same period in 2015.

#### *Income Tax Expense*

The income tax benefit was RMB0.5 million (US\$0.1 million) during the nine months ended September 30, 2016, compared to income tax expense of RMB1.1 million during the same period in 2015. This increase of income tax expense was due to changes in deferred tax for the nine months ended September 30, 2016.

*Net Loss*

Net loss attributable to the Company during the first nine-month period of 2016 was RMB35.7 million (US\$5.4 million) compared to net loss attributable to the Company of RMB41.9 million during the same period in 2015, representing a decrease of RMB6.2 million from the same period in 2015 due to the factors described above.

**Results of operations for the three-month periods ended September 30, 2016 compared to September 30, 2015**

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

|                            | Three-Month<br>Period<br>Ended<br>September<br>30, 2016<br>(as % of Revenue) | Three-Month Period Ended<br>September 30, 2015 |
|----------------------------|------------------------------------------------------------------------------|------------------------------------------------|
| Gross profit (loss)        | 1.7                                                                          | 5.8                                            |
| Operating expenses         | (20.6 )                                                                      | (22.1 )                                        |
| Operating income (loss)    | (18.9 )                                                                      | (16.4 )                                        |
| Other income (expense)     | (2.9 )                                                                       | (2.1 )                                         |
| Provision for income taxes | 0.02                                                                         | (0.15 )                                        |
| Net income (loss)          | (21.8 )                                                                      | (18.7 )                                        |

*Revenue*

Net sales during the third quarter ended September 30, 2016 were RMB61.6 million (US\$9.2 million), compared to RMB65.7 million during the same period in 2015, representing a decrease of RMB4.1 million or 6.2%, mainly due to the reduction of average sales price by 5.9% arising from stronger competition in China and large reduction in prices of main raw materials. The reduction of average sales price caused a decrease of RMB3.8 million and the sales volume decrease caused a decrease of RMB0.3 million.

In the third quarter of 2016, sales of specialty films were RMB22.7 million (US\$3.4 million) or 36.8% of our total revenues as compared to RMB18.7 million or 28.5% in the same period of 2015, which was an increase of RMB4.0 million, or 21.4% as compared to the same period in 2015. The reduction in average sales price caused a decrease of RMB0.2 million and the increase in the sales volume caused an increase of RMB4.2 million.

The following is a breakdown of commodity and specialty film sales (amounts in thousands):

| Three-Month<br>Period Ended | % of Total | Three-Month<br>Period Ended | % of Total |
|-----------------------------|------------|-----------------------------|------------|
|-----------------------------|------------|-----------------------------|------------|

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|                                 | September 30, 2016 |       |       |   | September 30, 2015 |       |   |
|---------------------------------|--------------------|-------|-------|---|--------------------|-------|---|
|                                 | RMB                | US\$  |       |   | RMB                |       |   |
| Stamping and transfer film      | 23,715             | 3,555 | 38.4  | % | 26,156             | 39.8  | % |
| Printing film                   | 7,173              | 1,076 | 11.7  | % | 8,196              | 12.5  | % |
| Metallization film              | 1,634              | 245   | 2.7   | % | 3,624              | 5.5   | % |
| Specialty film                  | 22,666             | 3,399 | 36.8  | % | 18,710             | 28.5  | % |
| Base film for other application | 6,373              | 956   | 10.4  | % | 8,984              | 13.7  | % |
|                                 | 61,560             | 9,231 | 100.0 | % | 65,670             | 100.0 | % |

Overseas sales were RMB11.4 million or US\$1.7 million, or 18.4% of total revenues, compared with RMB16.1 million or 24.5% of total revenues in the third quarter of 2015. This is a decrease of RMB4.7 million. The decrease in average sales price caused a decrease of RMB1.4 million and the decrease in sales volume resulted in a decrease of RMB3.3 million.

The following is a breakdown of PRC domestic and overseas sales (amounts in thousands):

|                          | Three-Month<br>Period Ended<br>September 30, 2016 |       | % of Total |   | Three-Month<br>Period Ended<br>September 30, 2015 |       | % of Total |
|--------------------------|---------------------------------------------------|-------|------------|---|---------------------------------------------------|-------|------------|
|                          | RMB                                               | US\$  |            |   | RMB                                               |       |            |
| Sales in China           | 50,205                                            | 7,528 | 81.6       | % | 49,568                                            | 75.5  | %          |
| Sales in other countries | 11,355                                            | 1,703 | 18.4       | % | 16,102                                            | 24.5  | %          |
|                          | 61,560                                            | 9,231 | 100.0      | % | 65,670                                            | 100.0 | %          |

### *Cost of Goods Sold*

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

|                     | Three-Month Period Ended<br>September 30, 2016 |   | Three-Month Period Ended<br>September 30, 2015 |   |
|---------------------|------------------------------------------------|---|------------------------------------------------|---|
|                     | % of total                                     |   | % of total                                     |   |
| Materials costs     | 67.1                                           | % | 67.8                                           | % |
| Factory overhead    | 10.6                                           | % | 11.0                                           | % |
| Energy expense      | 13.2                                           | % | 12.3                                           | % |
| Packaging materials | 4.1                                            | % | 4.1                                            | % |
| Direct labor        | 5.0                                            | % | 4.8                                            | % |

Cost of goods sold during the third quarter of 2016 totaled RMB60.5 million (US\$9.1 million) as compared to RMB61.9 million in the same period of 2015. This was RMB1.4 million or 2.3% lower than the same period in 2015. The reduction in unit cost of goods sold caused a decrease of RMB1.1 million and the decrease in sales volume caused a decrease of RMB0.3 million. The reduction was mainly due to the decrease in unit cost of goods sold.

### *Gross Profit (Loss)*

Our gross profit was RMB1.1 million (US\$0.2 million) for the third quarter ended September 30, 2016, representing a gross profit rate of 1.7%, as compared to a gross profit rate of 5.8% for the same period in 2015. Correspondingly, gross profit rate decreased by 4.1 percentage point compared to the same period in 2015 mainly due to the reduction

of average sales price.

*Operating Expenses*

Operating expenses for the third quarter ended September 30, 2016 were RMB12.7 million (US\$1.9 million), which was RMB1.8 million, or 12.4% lower than the same period in 2015. This decrease was mainly due to decreased expenses on research and development.

### *Other Expense*

Total other expense is a combination result of interest income, interest expense and others income (expense). Total other expense during the third quarter ended September 30, 2016 was RMB1.8 million (US\$0.3 million), RMB0.4 million higher than the same period in 2015, which mainly attributed to change of other income.

### *Income Tax Expense*

The income tax benefit was RMB0.01 million (US\$0.001 million) during the third quarter ended September 30, 2016, compared to income tax expense of RMB0.1 million during the same period in 2015. This decrease of income tax expense was due to changes in deferred tax for the third quarter ended September 30, 2016.

### *Net Loss*

Net loss attributable to the Company during the third quarter ended September 30, 2016 was RMB13.4 million (US\$2.0 million) compared to net loss attributable to the Company of RMB12.3 million during the same period in 2015, representing an increase in loss of RMB1.1 million compared with the same period in 2015.

### *Liquidity and Capital Resources*

Our capital expenditures have been financed primarily through cash generated from our operations and borrowings from related parties, financial institutions, and entering into sale-leaseback transactions. The interest rates of borrowings from financial institutions during the period from the third quarter of 2015 to the third quarter of 2016 ranged from 4.41% to 7.50%.

On November 20, 2009, we signed a long-term loan agreement of RMB10.0 million (US\$1.50 million) 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, we will make principal installment payments of RMB3.35 million (US\$0.50 million) per year with the remaining principal balance of RMB3.30 million (US\$0.495 million) 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 September 30, 2016 is 4.41%. The loan is guaranteed by Shandong Deqin Investment & Guarantee Co., Ltd. and is used for our projects.

In April 2014, we obtained a loan for a total amount of RMB105.0 million from Shandong SNTON Optical Materials Technology Co., Ltd. (the “Shandong SNTON”) to pay off certain short-term loans due to Bank of Communications Co., Ltd. The interest shall be calculated at the benchmark rate, plus an additional 20% of the said benchmark rate, for the loan of the same term announced by the People’s Bank of China. The interest must be paid quarterly and settled in full at the end of the year. As of December 31, 2014, the principle of this loan and the interest have not been paid. In March 2015, we entered into a supplemental agreement with Shandong SNTON pursuant to which the parties agreed that we will pay off the principle of this loan plus interest upon availability of new loans from banks or other financial institutions.

As of September 30, 2016, the principle of this loan from Shandong SNTON was RMB104.71 million and the interest was RMB15.97 million.

As of September 30, 2016, the total balance of principle of loans from related party was RMB104.71 million and the interest payable was RMB15.97 million.

We believe that, after taking into consideration our present and potential future loans from related parties and banking facilities, existing cash and the expected cash flows to be generated from our operations, we will have adequate sources of liquidity to meet our short-term obligations and our working capital requirements.

### **Operating Activities**

Net cash used in operating activities for the nine months ended September 30, 2016 was RMB5.6 million (US\$0.8 million) compared to net cash used in operating activities of RMB22.4 million for the nine months ended September 30, 2015. This decrease in cash flows used in operating activities was primarily attributable to the decrease in current loss and higher inventory levels in the 2015 period.

### **Investing Activities**

Net cash flows used in investing activities for the nine months ended September 30, 2016 was RMB37.8 million (US\$5.7 million) compared to net cash provided by investing activities of RMB17.0 million for the nine months ended September 30, 2015. This increase in cash flows used in investing activities was primarily attributable to the significant increase in restricted cash.

### **Financing Activities**

Net cash provided by financing activities for the nine months ended September 30, 2016 was RMB44.7 million (US\$6.7 million) compared to net cash provided by financing activities of RMB10.0 million for the nine months ended September 30, 2015, which is an increase of RMB34.7 million (US\$5.2 million). This increase in cash flows provided by financing activities was primarily attributable to increased cash resulting from bank loans.

## **Working Capital**

As of September 30, 2016 and December 31, 2015, we had a working capital deficit of RMB166.9 million (US\$25.0 million) and RMB151.6 million, respectively. Working capital deficit increased by RMB15.3 million (US\$2.29 million), or 10.1% compared to the amount as of December 31, 2015. Our main current liability was loans from related party.

## Contractual Obligations

The following table is a summary of our contractual obligations as of September 30, 2016 (in thousands RMB):

| Contractual obligations | Total | Payments due by period |              |              |                      |
|-------------------------|-------|------------------------|--------------|--------------|----------------------|
|                         |       | Less than<br>1 year    | 1-3<br>years | 3-5<br>years | More than<br>5 years |
| Rental obligations      | 224   | 203                    | 21           | -            | -                    |
| Purchase commitment     | 2,172 | 2,172                  | -            | -            | -                    |
| Total                   | 2,396 | 2,375                  | 21           | -            | -                    |

## Third Production Line Update

The third production line started its trial operation at the end of January 2013. Our third production line manufactures high-performance electric insulation film, base film for solar backsheet and TFT-LCD optical film with an annual design capacity of 23,000 metric tons and thickness between 38 and 250 $\mu$ m. It officially started its operation in September 2013. A sample diffusion film (a type of TFT-LCD optical film) was preliminarily accepted by four customers after being delivered to them for testing. We supplied small batches of products according to one of the four customer's purchase order. In addition, a sample base film for solar backsheets was delivered to a customer for initial testing and we received an initial feedback from this customer and are adjusting the formulas accordingly. The third production line has not been able to continue its production since April 2015 due to lack of purchase orders. The total volume of the third production line from January 2015 to March 2015 was 293 Metric Tons.

## Legal Proceedings

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

On July 9, 2012, a client filed a lawsuit in Beijing Daxing District People's Court against Shandong Fuwei claiming RMB953,113 plus interest over disputes arising from a Procurement Contract between the parties. Shandong Fuwei

raised a jurisdictional objection upon filing its plea, 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 dismissed on January 23, 2013. On May 15, 2013, Beijing Daxing District People's Court heard the case and adjourned the hearing due to the fact that plaintiff failed to provide sufficient evidence. On June 25, 2013, the case was heard in Beijing Daxing District People's Court again and it was further 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 re-scheduled hearing, Shandong Fuwei was informed by Beijing Daxing District People's Court that the hearing was adjourned further for the same reason that plaintiff failed to provide sufficient evidence. On April 21, 2014, the case was heard, and the plaintiff failed to provide sufficient evidence and the hearing was further adjourned. On May 28, 2014, the case was heard and the plaintiff provided some evidence. On August 25, 2014, the case was heard again. On November 5, 2014, the court accepted the withdrawal application from the plaintiff. On November 26, 2014, the plaintiff filed a second lawsuit in Beijing Daxing District People's Court against Shandong Fuwei over disputes arising from the Procurement Contract between the parties claiming RMB618,230 plus interest as a result of non-payment. The case was heard on January 26, 2015, where the two parties testified over the relevant evidence. The case was heard on March 3, 2015, October 26, 2015 and May 11, 2016. To date, the case has not been decided.

**Exhibit Index**

Exhibit No. Description

- |      |                                                                                                  |
|------|--------------------------------------------------------------------------------------------------|
| 4.1  | Loan Contract between Fuwei Films (Shandong) Co., Ltd. and Bank of Weifang, dated July 15, 2016. |
| 4.2  | Loan Contract between Fuwei Films (Shandong) Co., Ltd. and Bank of Weifang, dated July 15, 2016. |
| 4.3  | Loan Contract between Fuwei Films (Shandong) Co., Ltd. and Bank of Weifang, dated July 20, 2016. |
| 4.4  | Loan Contract between Fuwei Films (Shandong) Co., Ltd. and Bank of Weifang, dated July 20, 2016. |
| 4.5  | Loan Contract between Fuwei Films (Shandong) Co., Ltd. and Bank of Weifang, dated July 20, 2016. |
| 99.1 | Press Release dated November 28, 2016.                                                           |

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**Fuwei Films (Holdings) Co., Ltd.**

By: /s/ Zengyong Wang

Name: Zengyong Wang

Title: Chairman and Chief Executive Officer

Dated: November 28, 2016