



Interim Report 06

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

(A Joint stock company incorporated in the People's Republic of China with limited liability)  
(Stock Code: 549)

# CONTENTS

2	Chairman's Statement
3	Financial and Business Highlights
4	Management Discussion and Analysis
10	Information of Share Capital and Substantial Shareholders
13	Other Information
14	Condensed Interim Balance Sheet
16	Condensed Interim Income Statement
17	Condensed Interim Statement of Changes in Equity
18	Condensed Interim Cash Flow Statement
19	Selected Notes to the Condensed Interim Financial Information
34	Corporate Information

## CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of directors (the "Board"), I am pleased to announce the unaudited interim results of Jilin Qifeng Chemical Fiber Co., Ltd. (the "Company") for the six months ended 30 June 2006. The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 21 June 2006.

For the first half of 2006, the domestic economy of the PRC grew steadily. Gross domestic product reached RMB9,144.30 billion, increased by approximately 10.9% as compared with same period last year. According to the National Bureau of Statistics of China, the gross output value of PRC acrylic fibre industry reached RMB4.11 billion from January to June 2006, representing an increase of approximately 38.6% as compared with same period last year. The acrylic fibre industry has benefited from the PRC growing economy, and in turn contributed to the development of different sectors of the PRC economy, as evidenced by the sustained growth of its total output.

The increase in raw materials costs during the first half of 2006 posed pressure on the profit margin of the entire acrylic fibre industry. To cope with this challenging condition, we continued to upgrade our technology and develop new products applying to our strengths in producing quality products and pricing. Thus, despite the many challenges presented to the global acrylic fibre industry during the first half of 2006, the Company recorded a net profit of RMB58.2 million.

During the first half of 2006, the Company continued to improve production technology and completed twelve technical renovation projects to increase production efficiency. We also focused on cost control and staff training to increase operational efficiency and profitability.

In the second half of 2006, our Company will continue to improve its business strategies and focus on increasing the differential fibre in the product mix in order to improve our overall profit margin. Moreover, the sales centre jointly established by our Company, Jilin Jimont Acrylic Fiber Co., Ltd. (the "New Joint Venture") and Montefibre S.p.A. ("Montefibre") is expected to commence operations in September 2006. When the sales centre is in operation, we will be able to enjoy synergies and economies of scale between our Company, the New Joint Venture and Montefibre in respect of procurement and sales. The Company will have much-strengthened bargaining power in the PRC acrylic fibre market. In October 2006, the New Joint Venture will commence operation as scheduled. At the same time, the Company's self-owned thermal power plant will also swing into action and contribute to lowering production costs and increasing cost competitiveness of the Company. In addition, with the persistent development of the PRC economy and textile industry as well as the sustained domestic supply deficit of acrylic fibre products, we believe that the macro economic environment of the PRC acrylic fibre industry will remain positive in the foreseeable future.

*Chairman*

**Wang Jinjun**

Jilin, the PRC

31 August 2006

	<b>For the six months ended 30 June</b>		
	<b>2006 RMB million</b>	2005 RMB million	Change %
Turnover	<b>1,060.6</b>	1,028.1	3.2
Gross profit	<b>151.9</b>	173.7	-12.5
Profit attributable to equity holders of the Company	<b>58.2</b>	78.5	-25.9
Earnings per share (RMB per share)	<b>0.09</b>	0.12	-25.0
Interim dividend	—	—	N/A
Gross profit margin	<b>14.3%</b>	16.9%	-15.4
Net profit margin	<b>5.5%</b>	7.6%	-27.6
	<b>As at 30 June 2006</b>	As at 31 December 2005	
Current ratio	<b>1.18</b>	0.93	26.9
Gearing ratio	<b>56.1%</b>	65.7%	-14.6

- Sales volume reached 67,599 tonnes for the first half of 2006, representing an increase of 5.5% as compared with the same period in 2005.
- Sales-to-production ratio recorded 96.9% for the first half of 2006, representing an increase of 2.8% as compared with the same period in 2005.
- In terms of turnover and sales volume, acrylic top was the best selling product for the first half of 2006.
- Production plant was operated at full capacity during the first half of 2006, maintaining an utilization rate of approximately 100%.
- The New Joint Venture and thermal power plant are developing on schedule and expected to commence operation in October 2006.

## MANAGEMENT DISCUSSION AND ANALYSIS

### MAJOR OPERATIONAL DATA

#### 1. Turnover

##### For the six months ended 30 June

	2006		2005	
	RMB million	%	RMB million	%
Acrylic top	415.9	39.2	352.2	34.2
Acrylic tow	369.2	34.8	394.8	38.4
Acrylic staple fibre	270.6	25.5	276.1	26.9
Others*	4.9	0.5	5.0	0.5
<b>Total</b>	<b>1,060.6</b>	<b>100.0</b>	<b>1,028.1</b>	<b>100.0</b>

\* Refer to acrylic fibre scrap which are not counted towards our sales volume.

#### 2. Sales volume

##### For the six months ended 30 June

	2006		2005	
	Tonnes	%	Tonnes	%
Acrylic top	25,800	38.2	21,333	33.3
Acrylic tow	24,035	35.5	25,045	39.1
Acrylic staple fibre	17,764	26.3	17,722	27.6
<b>Total</b>	<b>67,599</b>	<b>100.0</b>	<b>64,100</b>	<b>100.0</b>

#### 3. Average selling price and gross profit margin

##### For the six months ended 30 June

	2006		2005	
	Average selling price RMB/tonne	Gross profit margin %	Average selling price RMB/tonne	Gross profit margin %
Acrylic top	16,122	14.3	16,510	17.1
Acrylic tow	15,359	15.4	15,763	18.0
Acrylic staple fibre	15,231	12.8	15,579	15.0
<b>Overall gross profit margin</b>		<b>14.3</b>		<b>16.9</b>

## REVIEW AND OUTLOOK

### Market review

In the first half year of 2006, international crude oil prices continued to fluctuate and remained high, and that drove up the prices of acrylonitrile. International crude oil prices rose from approximately US\$61.0/barrel in January 2006 to approximately US\$73.9/barrel in June 2006, representing an increase of approximately 21.1%. Due to surging crude oil prices, the selling price of acrylonitrile, the principal raw material used in the production of acrylic fibre, increased from approximately RMB10,631 per tonne in January 2006 to approximately RMB11,832 per tonne in June 2006, representing an increase of 11.3%. Such increase in raw material cost exerted pressure on the entire PRC acrylic fibre industry.

### Operations review

For the first half of 2006, the Company adhered to its strategies of improving operational efficiency by implementing stringent internal management control measures. These measures have proven effective for the Company in various areas.

### Production management

During the first half of 2006, by focusing on production management and quality and continuing to upgrade its production technology, the Company smoothly and systematically implemented various technology innovations and renovations. For the six months ended 30 June 2006, the Company completed a total of twelve technical renovation projects and raised the efficiency of different production aspects.

For the six months ended 30 June 2006, the Company's production plant operated at full capacity, reaching an approximate 100% utilization rate.

### Internal control

The Company acquired ISO 14001 "Environmental Management System" and other certifications in 2002. These achievements have strengthened our commitment to improving internal management control. In June 2006, the Company has passed the annual review for ISO and other certifications in aspects including product quality, environmental protection, occupational safety and health.

### Employees

As at 30 June 2006, the Company had 1,316 employees, representing a 1.3% increase as compared to 1,299 employees as at 31 December 2005. The staff remuneration packages are determined with reference to prevailing market practices and include a performance-based incentive bonus. The Company also provides continuous training to its staff at all levels. For the six months ended 30 June 2006, the Company had provided training to its staff in areas of production technology, product quality control, production safety and environmental protection.



### Outlook

Looking forward, the management expects PRC acrylic fibre market conditions to remain challenging in the second half of 2006. Nevertheless, braced by the continuous growth of the PRC economy and textile industry as well as the Company's New Joint Venture and thermal power plant set to commence operation, the Company sees new opportunities and advances for its business as stated below:

1. **Domestic supply deficit:** As the textile industry in the PRC continues to grow, demand for acrylic fibre products has also been growing in recent years. In 2005, the domestic demand of acrylic fibre products cannot be fully satisfied by domestic production, with approximately 40% of domestic demand fulfilled by imported products. The management of the Company believes that domestic supply deficit will persist in the foreseeable future, a condition favourable for the future development of the Company.
2. **Clearer export conditions:** The future of PRC textile products export have become clearer with the PRC reaching textiles trading agreements with the United States and European Union. PRC textile exports are expected to continue to grow, and exports of non-restricted regions are also expected to grow in 2006. Such development will drive the growth in demand for acrylic fibre in the PRC.
3. **Development of differential fibre:** The Company will put more effort into developing differential fibre products to increase its competitiveness in the PRC acrylic fibre market. The Company produces four types of differential acrylic fibres, namely fine fibre, highly absorbent fibre, low pill fibre and dyed fibre currently and has been engaging in research and development of different types of product to cater for market needs and maximize returns for the Company. The management believes that the development of differential acrylic fibre products will be a major driving force of the acrylic fibre industry in the PRC in the future. The Company is prepared to seize the ample business opportunities to boost its profitability.
4. **Optimized capital structure:** Following the successful listing of the Company on the Main Board of The Stock Exchange of Hong Kong Limited on 21 June 2006, the proceeds raised will be used for the establishment of New Joint Venture, repayment of short-term bank loans and for general working capital purposes. The Company's gearing ratio decreased from 65.7% as at 31 December 2005 to 56.1% as at 30 June 2006 after receipt of listing proceeds. The proceeds from listing will help the Company to optimize its capital structure and reduce its finance costs, thereby improve the profitability of the Company.
5. **Synergies with New Joint Venture:** The New Joint Venture jointly set-up with Montefibre is expected to commence trial production in October 2006. The aggregate annual production capacity of the Company and the New Venture will reach 236,000 tonnes and become the fourth largest acrylic fibre producer in the world. By capitalising on the close relationship between the New Joint Venture and Montefibre, the third largest acrylic fibre producer in the world with strong technical expertise, the Company believes it will be able to further strengthen its market position in the PRC. Riding on the strategic alliance with Montefibre, the Company and the New Joint Venture will strive to leverage the synergies and economies of scale in the area of procurement and in turn boost its market influence and bargaining power with suppliers. In addition, the newly established sales centre will be located near Jiangsu province where the textiles manufacturers cluster so as to capture opportunities conducive to the Company's development in the future.
6. **Self-owned thermal power plant:** The Company's self-owned thermal power plant and the New Joint Venture are expected to commence production simultaneously in October 2006. The thermal power plant will enable the Company to support its own needs for electricity and steam for production, thereby reduce its production costs. It will enable the Company to maintain cost competitive and give strong support for the development of the Company.

The management of the Company will actively capture the opportunities mentioned above. By pushing on with reducing cost and developing new products, and with the New Joint Venture and thermal power plant scheduled to commence operation in October 2006, the Company is confident of strengthening its leadership in the PRC acrylic fibre industry and maximize returns to its shareholders.

### FINANCIAL ANALYSIS

#### Operation results

For the six months ended 30 June 2006, the Company's turnover amounted to approximately RMB1.06 billion, representing an increase of approximately 3.2% as compared with approximately RMB1.03 billion for the corresponding period in 2005. The increase was mainly due to a 5.5% increase in sales volume of acrylic fibre products as compared with the corresponding period in 2005, benefited from sustained development of the PRC acrylic fibre market in 2006. During the first half of 2006, the total production volume and sales volume were 69,733 tonnes and 67,599 tonnes respectively, representing a sales-to-production ratio of 96.9% (Six months ended 30 June 2005: 94.3%).

Profit attributable to equity holders of the Company for the first half of 2006 was approximately RMB58.2 million, decreased by approximately 25.9% as compared with approximately RMB78.5 million for the corresponding period in 2005. The decrease was mainly attributable to the decrease in the overall gross profit margin from 16.9% in the first half of 2005 to 14.3% in the corresponding period of 2006. The price of acrylonitrile, the major raw material, increased significantly in the first six months of 2006 as a result of increase in price of crude oil in the same period. In addition, there was a moderate approximately 2.2% decrease in average selling price of acrylic fibre products when compared with the corresponding period in 2005, attributable to the increased competition arising from new manufacturers in the market at the end of 2005 and the increase in selling price of acrylic fibre products lagging behind the increase in selling price of acrylonitrile. As a result, the price differential between the average selling price of the Company's acrylic fibre products and the average purchase price of acrylonitrile for the first half of 2006 was approximately RMB4,371 per tonne, representing a decrease of approximately 10.1% as compared with approximately RMB4,860 per tonne for the same period in 2005.

#### Operating expenses

To counter the pressure brought by rising material cost during the six months ended 30 June 2006, the Company continuously focused on cost control. Operating expenses increased from approximately RMB50.3 million for the six months ended 30 June 2005 to approximately RMB59.0 million for the same period in 2006. The increase was mainly attributable to an increase in distribution expenses due to an increase in sales volume, as well as an increase in administrative expenses resulted from an increase in salaries of management staff.

#### Finance costs

Finance costs increased from approximately RMB33.9 million for the six months ended 30 June 2005 to approximately RMB 35.0 million for the same period in 2006. Such increase was mainly due to an increase in interest expenses in relation to additional bank loans drawn for the construction of the thermal power plant and an overall increase in borrowing interest rate during the six months ended 30 June 2006.



### Financial resources, liquidity and liability position

For the six months ended 30 June 2006, the Company maintained a healthy financial position by adopting prudent financial policies.

As at 30 June 2006, the Company's total assets and total liabilities were RMB2.62 billion and RMB1.47 billion, respectively. As at 30 June 2006, the Company's net current assets amounted to RMB136.7 million, or a current ratio of 1.18 (31 December 2005: 0.93). In addition, the Company had cash at bank and in hand of RMB420.5 million. The improvement in current ratio was mainly due to an increase in cash as a result of receipt of listing proceeds.

Total bank loans of the Company as at 30 June 2006 amounted to RMB1.17 billion, of which short-term bank loans were RMB558.8 million and long-term bank loans were RMB614.3 million. The bank loans were mainly borrowed for the expansion of production facilities in previous years and construction of the thermal power plant scheduled for completion in October 2006.

All bank loans of the Company were arranged on a floating interest rate basis. Except for a bank loan of RMB37.6 million which is denominated in United States dollar, all of the Company's bank loans are denominated in RMB, therefore, the management believes the Company is exposed to minimal foreign exchange risks and has not made any foreign currency hedging arrangement.

As at 30 June 2006, the Company's gearing ratio, calculated by dividing total liabilities by total assets, was 56.1% (31 December 2005: 65.7%). The improvement on the Company's gearing ratio was mainly due to the receipt of proceeds from the listing of the Company.

### Investment status

#### *New Joint Venture*

The New Joint Venture was established on 21 December 2005. Its total registered share capital is RMB450.0 million and is equally owned between the Company and Montefibre. The New Joint Venture will be principally engaged in the manufacture and sales of acrylic fibre products. It will have an annual production capacity of approximately 100,000 tonnes when phase one of the project is completed in October 2006. The implementation of the phase two of the project, which can further increase the total annual production capacity of the New Joint Venture to 150,000 tonnes, will depend on future market conditions, and the Company does not have any concrete timetable for implementing the phase two of the project up to the date of this report.

The total investment in phase one of the project was approximately RMB1.15 billion which was mainly financed by bank loans and capital contribution from the joint venture partners. As at 30 June 2006, a total amount of RMB225.0 million and RMB169.4 million were contributed by the Company and Montefibre, respectively, representing 87.6% of total registered share capital of the New Joint Venture. The remaining share capital to be contributed by Montefibre is expected to be injected before the end of October 2006.

The New Joint Venture is developing on schedule. Trial production is expected to commence in October 2006. The management believes that the New Joint Venture will bring encouraging financial contribution to the Company, particularly after it commences full scale operation in 2007.

### ***Thermal power plant***

The total investment in the thermal power plant was approximately RMB417.0 million. The project is expected to be completed as scheduled and commence production together with the New Joint Venture in October 2006. The thermal power plant will enable the Company to support its own needs for electricity and steam for production. The resulting savings in electricity and steam costs would help to lower production cost and thus, enhance our profit margin.

### **Use of listing proceeds**

The Company was listed on the Main Board of the Stock Exchange on 21 June 2006 and the net listing proceeds raised amounted to approximately RMB378.6 million and will be applied according to the plan as disclosed in the prospectus issued by the Company on 9 June 2006. RMB157.5 million has been injected into the New Joint Venture as capital contribution by the Company. In addition, RMB190.0 million will be used to repay the Company's short-term bank loans when they fall due in August and November 2006 so as to further improve the Company's capital structure and to reduce interest expenses. The remaining RMB31.1 million will be used as general working capital purposes.

### **Entrusted deposits and matured time deposits**

As at 30 June 2006, the Company had not held any deposits under trusts in any financial institutions in the PRC. All of the Company's cash was held in commercial banks in the PRC in accordance with applicable laws and regulations. The Company had no bank deposits which cannot be withdrawn upon maturity.

### **Pledged assets**

As at 30 June 2006, certain property, plant and equipment and land use rights of net book value amounted to RMB1.14 billion and RMB24.8 million respectively (31 December 2005: RMB1.19 billion and RMB25.7 million respectively) were pledged as securities for bank loans of RMB617.6 million (31 December 2005: RMB652.5 million).

### **Contingent liabilities**

The Company had no material contingent liabilities as at 30 June 2006.

### **Interim dividend**

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2006.

## INFORMATION OF SHARE CAPITAL AND SUBSTANTIAL SHAREHOLDERS

### SHARE CAPITAL

As at 30 June 2006, there was a total issued share capital of 866,250,000 shares of the Company (the “Shares”) which include:

	Number of Shares	Approximate percentage of share capital of the Company
Domestic Shares	437,016,596	50.45%
Non-H Foreign Shares	169,358,404	19.55%
H Shares	259,875,000	30.00%
Total	<u>866,250,000</u>	<u>100.00%</u>

### SUBSTANTIAL SHAREHOLDER

As at 30 June 2006, the following persons (not being director, supervisor or chief executive of the Company), so far as are known to any Director, has an interest or short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (“SFO”):

Name of shareholders	Number of Shares directly and indirectly held	Class of shares	Approximate percentage in relevant class of Shares (%)			Approximate percentage in total issued share capital (%)		
			Direct interests	Indirect interests	Aggregate interests	Direct interests	Indirect interests	Aggregate interests
吉林化纖集團有限責任公司 (Jilin Chemical Fiber Group Co., Ltd.)	433,229,558	Domestic Shares	99.1	—	99.1	50.0	—	50.0
吉林市國有資產 經營有限責任公司 (Jilin Municipal State-owned Assets Administration Company Limited)	433,229,558 <sup>(1)</sup>	Domestic Shares	—	99.1	99.1	—	50.0	50.0
中國信達資產管理公司 (China Cinda Asset Management Corporation)	433,229,558 <sup>(1)</sup>	Domestic Shares	—	99.1	99.1	—	50.0	50.0
Ronsace Company Limited	94,841,726	Non-H Foreign Shares	56.0	—	56.0	10.9	—	10.9
Bank of China Group Investment Limited	94,841,726 <sup>(2)</sup>	Non-H Foreign Shares	—	56.0	56.0	—	10.9	10.9
Bank of China Limited	94,841,726 <sup>(2)</sup>	Non-H Foreign Shares	—	56.0	56.0	—	10.9	10.9

## INFORMATION OF SHARE CAPITAL AND SUBSTANTIAL SHAREHOLDERS

Name of shareholders	Number of Shares directly and indirectly held	Class of shares	Approximate percentage in relevant class of Shares (%)			Approximate percentage in total issued share capital (%)		
			Direct interests	Indirect interests	Aggregate interests	Direct interests	Indirect interests	Aggregate interests
Sanlink Investments Limited	44,029,105	Non-H Foreign Shares	26.0	—	26.0	5.1	—	5.1
China Insurance Group Investment Limited	44,029,105 <sup>(3)</sup>	Non-H Foreign Shares	—	26.0	26.0	—	5.1	5.1
China Life Insurance Company Limited	44,029,105 <sup>(3)</sup>	Non-H Foreign Shares	—	26.0	26.0	—	5.1	5.1
Halesfield Investment Limited	30,487,573	Non-H Foreign Shares	18.0	—	18.0	3.5	—	3.5
Huang Jia Lin	30,487,573 <sup>(4)</sup>	Non-H Foreign Shares	—	18.0	18.0	—	3.5	3.5
Huang Jia Yuan	30,487,573 <sup>(4)</sup>	Non-H Foreign Shares	—	18.0	18.0	—	3.5	3.5
BOCI Asia Limited	35,437,500	H Shares	13.6	—	13.6	4.1	—	4.1
Central Safe Investments Limited	37,013,500 <sup>(5)</sup>	H Shares	—	14.2	14.2	—	4.3	4.3
Bank of China Limited	37,013,500 <sup>(5)</sup>	H Shares	—	14.2	14.2	—	4.3	4.3
BOC International Holdings Limited	37,013,500 <sup>(5)</sup>	H Shares	—	14.2	14.2	—	4.3	4.3
DWS Investment S.A., Luxembourg	18,338,000	H Shares	7.0	—	7.0	2.1	—	2.1
Deutsche Bank Aktiengesellschaft	24,450,000 <sup>(6)</sup>	H Shares	—	9.4	9.4	—	2.8	2.8
DB Capital Markets (Beuschland) GmbH	24,450,000 <sup>(6)</sup>	H Shares	—	9.4	9.4	—	2.8	2.8
DB Financial Services Holding GmbH	24,450,000 <sup>(6)</sup>	H Shares	—	9.4	9.4	—	2.8	2.8
DWS Holding & Service GmbH	24,450,000 <sup>(6)</sup>	H Shares	—	9.4	9.4	—	2.8	2.8

## INFORMATION OF SHARE CAPITAL AND SUBSTANTIAL SHAREHOLDERS

Name of shareholders	Number of Shares directly and indirectly held	Class of shares	Approximate percentage in relevant class of Shares (%)			Approximate percentage in total issued share capital (%)		
			Direct interests	Indirect interests	Aggregate interests	Direct interests	Indirect interests	Aggregate interests
DWS Investment GmbH	24,450,000 <sup>(6)</sup>	H Shares	—	9.4	9.4	—	2.8	2.8
Deutsche Bank Luxembourg S.A.	24,450,000 <sup>(6)</sup>	H Shares	—	9.4	9.4	—	2.8	2.8
全國社會保障基金理事會 (The National Social Security Fund of the PRC)	23,625,000	H Shares	9.1	—	9.1	2.7	—	2.7

*Notes:*

- 433,229,558 Shares are deemed corporate interests under the SFO indirectly held through Jilin Chemical Fiber Group Co., Ltd.
- 94,841,726 Shares are deemed corporate interests under the SFO indirectly held through Ronsace Company Limited.
- 44,029,105 Shares are deemed corporate interests under the SFO indirectly held through Sanlink Investments Limited.
- 30,487,573 Shares are deemed corporate interests under the SFO indirectly held through Halesfield Investment Limited.
- 37,013,500 Shares are deemed corporate interests under the SFO indirectly held through Bank of China Limited, BOC International Holdings Limited, BOCI Asia Limited and BOCI Financial Products Limited. 35,437,500 Shares of the 37,013,500 Shares were held directly by BOCI Asia Limited and the remaining 1,576,000 Shares of the 37,013,500 Shares were held directly by BOCI Financial Products Limited.
- 24,450,000 Shares are deemed corporate interests under the SFO indirectly held through DB Capital Markets (Beuschland) GmbH, DB Financial Services Holding GmbH, DWS Holding & Service GmbH, DWS Investment GmbH, Deutsche Bank Luxembourg S.A., DWS Investment S.A., Luxembourg and Deutsche Vermögensbildungsgesellschaft mit beschränkter. 18,338,000 Shares of the 24,450,000 Shares were held directly by DWS Investment S.A., Luxembourg and the remaining 6,112,000 Shares of the 24,450,000 Shares were held directly by Deutsche Vermögensbildungsgesellschaft mit beschränkter.

## INTERESTS OF DIRECTORS AND SUPERVISORS

As at 30 June 2006, the Directors and chief executive of the Company did not have any interests and short positions in the shares, the underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) and required to be entered in the register maintained by the Company pursuant to section 352 of the SFO or which were notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (for this purpose, the relevant provisions of the SFO will be interpreted as if they applied to the Supervisors).

## AUDIT COMMITTEE

The Audit Committee reviewed with management the accounting principles and practices adopted by the Company and discussed auditing, internal control and financial report matters including the review of the unaudited interim report for the six months ended 30 June 2006.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

In compliance with rules 3.10(1) and 3.10(2) of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), the Company appointed three independent non-executive Directors and one of them possesses appropriate professional qualifications in accounting and related financial management expertise. The details of the independent non-executive Directors have been disclosed in the prospectus issued by the Company on 9 June 2006.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 June 2006, the Company had not redeemed any of its shares. Neither the Company nor its jointly controlled entity purchased or sold any of the listed securities of the Company during the six months ended 30 June 2006.

## COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

Throughout the six months ended 30 June 2006, the Company has complied with all the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules.

## COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS (THE "MODEL CODE")

During the six months ended 30 June 2006, pursuant to specific enquiries made with all directors and supervisors of the Company, all directors and supervisors of the Company confirmed that they met the standards of the Model Code as set out in Appendix 10 of the Listing Rules regarding the securities transactions by the directors and supervisors of the Company.



## CONDENSED INTERIM BALANCE SHEET

	<i>Note</i>	<b>As at 30 June 2006 Unaudited RMB'000</b>	As at 31 December 2005 Audited RMB'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	1,386,853	1,358,804
Land use rights	5	33,202	42,446
Intangible assets	5	61,546	65,729
Interest in a jointly controlled entity	6	219,228	—
Deferred income tax assets		11,411	11,368
		<u>1,712,240</u>	<u>1,478,347</u>
<b>Current assets</b>			
Inventories		277,322	224,547
Trade and other receivables	7	200,086	268,173
Financial assets at fair value through profit or loss	8	9,586	10,172
Current income tax assets		—	3,811
Cash at bank and in hand		420,487	227,047
		<u>907,481</u>	<u>733,750</u>
<b>Total assets</b>		<u><u>2,619,721</u></u>	<u><u>2,212,097</u></u>
<b>EQUITY</b>			
<b>Capital and reserves attributable to the Company's equity holders</b>			
Share capital	9	866,250	630,000
Other reserves		167,251	24,867
Retained earnings		116,893	58,735
Proposed dividend		—	44,100
<b>Total equity</b>		<u>1,150,394</u>	<u>757,702</u>

## CONDENSED INTERIM BALANCE SHEET

	<i>Note</i>	As at 30 June 2006 Unaudited RMB'000	As at 31 December 2005 Audited RMB'000
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Long-term bank loans	10	614,295	578,904
Deferred income on government grants		84,218	87,122
		<u>698,513</u>	<u>666,026</u>
<b>Current liabilities</b>			
Trade and other payables	11	210,497	173,559
Current income tax liabilities		1,533	—
Short-term bank loans	10	558,784	579,053
Dividends payable		—	35,757
		<u>770,814</u>	<u>788,369</u>
<b>Total liabilities</b>		<u>1,469,327</u>	<u>1,454,395</u>
<b>Total equity and liabilities</b>		<u>2,619,721</u>	<u>2,212,097</u>
<b>Net current assets/(liabilities)</b>		<u>136,667</u>	<u>(54,619)</u>
<b>Total assets less current liabilities</b>		<u>1,848,907</u>	<u>1,423,728</u>

The notes on page 19 to page 33 form an integral part of this condensed interim financial information.

## CONDENSED INTERIM INCOME STATEMENT

		Unaudited	
		Six months ended 30 June	
	Note	2006 RMB'000	2005 RMB'000
Turnover	4	1,060,551	1,028,051
Cost of sales	13	(908,626)	(854,363)
<b>Gross profit</b>		<b>151,925</b>	173,688
Other gains – net	12	10,017	3,358
Operating expenses	13	(59,009)	(50,276)
<b>Operating profit</b>		<b>102,933</b>	126,770
Finance costs		(35,045)	(33,854)
Share of loss of a jointly controlled entity		(1,131)	—
<b>Profit before income tax</b>		<b>66,757</b>	92,916
Income tax expense	14	(8,599)	(14,463)
<b>Profit for the half-year</b>		<b>58,158</b>	78,453
<b>Attributable to:</b>			
– Equity holders of the Company		58,158	78,453
<b>Earnings per share for profit attributable to equity holders of the Company</b> (expressed in RMB per share)			
– basic and diluted	15	0.09	0.12
<b>Dividends</b>	16	—	—

The notes on page 19 to page 33 form an integral part of this condensed interim financial information.

## CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY

	<i>Note</i>	Unaudited			Total RMB'000
		Paid-in capital/ Share capital RMB'000	Other reserves RMB'000	Retained earnings RMB'000	
<b>Balance at 1 January 2005</b>		494,080	36,873	73,839	604,792
Profit for the half year		—	—	78,453	78,453
Conversion	9	135,920	(36,873)	(99,047)	—
<b>Balance at 30 June 2005</b>		<u>630,000</u>	<u>—</u>	<u>53,245</u>	<u>683,245</u>
<b>Balance at 1 January 2006</b>		630,000	24,867	102,835	757,702
Profit for the half year		—	—	58,158	58,158
Dividends relating to 2005		—	—	(44,100)	(44,100)
Issuance of shares upon initial public offering	9	236,250	175,616	—	411,866
Share issuing expenses		—	(33,232)	—	(33,232)
<b>Balance at 30 June 2006</b>		<u>866,250</u>	<u>167,251</u>	<u>116,893</u>	<u>1,150,394</u>

The notes on page 19 to page 33 form an integral part of this condensed interim financial information.

## CONDENSED INTERIM CASH FLOW STATEMENT

	Unaudited	
	Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
Cash flows from operating activities – net	22,464	2,611
Cash flows from investing activities – net	(139,256)	(109,504)
Cash flows from financing activities – net	310,232	20,000
<b>Net increase/(decrease) in cash at bank and in hand</b>	<b>193,440</b>	<b>(86,893)</b>
Cash at bank and in hand at 1 January	227,047	328,724
<b>Cash at bank and in hand at 30 June</b>	<b>420,487</b>	<b>241,831</b>

### 1. GENERAL INFORMATION

The Company was established as a sino-foreign equity joint venture enterprise in the People's Republic of China (the "PRC") on 12 December 1995 and became a joint stock limited company on 23 May 2005 by converting its net assets as at 30 September 2004 into 630 million shares of RMB1.00 each. The Company is principally engaged in a single business segment, the production and sales of acrylic fibre and all of its operations and assets are located in Mainland China.

The address of the Company's registered office is Block 4, Zone D, Hengshan West Road, Jilin New and High Technology Development Zone, Jilin City, Jilin Province, PRC.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited.

This condensed interim financial information was approved for issue on 31 August 2006.

### 2. BASIS OF PREPARATION

This condensed interim financial information for the six months ended 30 June 2006 has been prepared in accordance with HKAS 34, "Interim financial reporting". The interim condensed financial information should be read in conjunction with the accountants' report contained in Appendix I to the Company's prospectus dated 9 June 2006 (the "accountants' report").

### 3. ACCOUNTING POLICIES

The accounting policies used in the preparation of the unaudited condensed interim financial information are consistent with those used in the accountants' report.

The following new standards, amendments to standards and interpretations are mandatory for financial year ending 31 December 2006.

- Amendment to HKAS 19, "Actuarial gains and losses, group plans and disclosures", effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant to the Company;
- Amendment to HKAS 39, Amendment to "The fair value option", effective for annual periods beginning on or after 1 January 2006. This amendment does not have any impact on the classification and valuation of the Company's financial instruments classified as at fair value through profit or loss prior to 1 January 2006 as the Company is able to comply with the amended criteria for the designation of financial instruments at fair value through profit and loss;
- Amendment to HKAS 21, Amendment "Net investment in a foreign operation", effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant to the Company;
- Amendment to HKAS 39, Amendment "Cash flow hedge accounting of forecast intragroup transactions", effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant to the Company;



### 3. ACCOUNTING POLICIES – *continued*

- Amendment to HKAS 39 and HKFRS 4, Amendment “Financial guarantee contracts”, effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant to the Company;
- HKFRS 6, “Exploration for and evaluation of mineral resources”, effective for annual periods beginning on or after 1 January 2006. This standard is not relevant to the Company;
- HK(IFRIC)-Int 4, “Determining whether an arrangement contains a lease”, effective for annual periods beginning on or after 1 January 2006. This interpretation is not relevant to the Company;
- HK(IFRIC)-Int 5, “Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds”, effective for annual periods beginning on or after 1 January 2006. This interpretation is not relevant to the Company; and
- HK(IFRIC)-Int 6, “Liabilities arising from participating in a specific market – waste electrical and electronic equipment”, effective for annual periods beginning on or after 1 December 2005. This interpretation is not relevant to the Company.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2006 and have not been early adopted:

- HK(IFRIC)-Int 7, “Applying the Restatement Approach under HKFRS 29”, effective for annual periods beginning on or after 1 March 2006. Management does not expect the interpretation to be relevant to the Company;
- HK(IFRIC)-Int 8, “Scope of HKFRS 2”, effective for annual periods beginning on or after 1 May 2006. Management does not expect the interpretation to be relevant to the Company;
- HK(IFRIC)-Int 9, “Reassessment of Embedded Derivatives”, effective for annual periods beginning on or after 1 June 2006. Management believes that this interpretation should not have a significant impact on the reassessment of embedded derivatives as the Company already assessed if embedded derivative should be separated using principles consistent with HK(IFRIC)-Int 9; and
- HKFRS 7, “Financial instruments: Disclosures”, effective for annual periods beginning on or after 1 January 2007. HKAS 1, “Amendments to capital disclosures”, effective for annual periods beginning on or after 1 January 2007. The Company assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and capital disclosures required by the amendment of HKAS 1. The Company will apply HKFRS 7 and the amendment to HKAS 1 from annual periods beginning 1 January 2007.

## SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

### 4. SEGMENT INFORMATION

The Company is principally engaged in a single business segment, the production and sales of acrylic fibre and all of its operations and assets are located in Mainland China. No sales were related to overseas customers. Therefore, no business segment or geographical segment is presented.

### 5. CAPITAL EXPENDITURE

	<b>Property, plant and equipment</b>	<b>Land use rights</b>	<b>Technical know-how and licences</b>
	RMB'000	RMB'000	RMB'000
<b>Six months ended 30 June 2005</b>			
Opening net book amount as at 1 January 2005	1,309,459	27,360	73,857
Additions	98,365	12,338	—
Depreciation/amortization	(49,327)	(855)	(4,183)
Closing net book amount as at 30 June 2005	<u>1,358,497</u>	<u>38,843</u>	<u>69,674</u>
<b>Six months ended 30 June 2006</b>			
Opening net book amount as at 1 January 2006	1,358,804	42,446	65,729
Additions	89,954	—	—
Disposals	(311)	—	—
Transfer to a jointly controlled entity as capital contribution	(5,971)	(8,327)	—
Depreciation/amortization	(55,623)	(917)	(4,183)
Closing net book amount as at 30 June 2006	<u>1,386,853</u>	<u>33,202</u>	<u>61,546</u>

### 6. INTEREST IN A JOINTLY CONTROLLED ENTITY

	<b>As at 30 June 2006 RMB'000</b>	As at 31 December 2005 RMB'000
Interest in a jointly controlled entity	<u>219,228</u>	<u>—</u>

The Company has 50% interest in a jointly controlled entity, established in the PRC, which manufactures and sells acrylic fibre. The following amounts represent the Company's 50% share of the assets and liabilities and results of the jointly controlled entity. Investments in jointly controlled entities are accounted for using the equity method of accounting and are initially recognised at cost.

## SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

### 6. INTEREST IN A JOINTLY CONTROLLED ENTITY – *continued*

#### Balance Sheet

	As at 30 June 2006 RMB'000	As at 31 December 2005 RMB'000
<b>Non-current assets</b>		
Property, plant and equipment	203,932	78,267
Land use rights	13,240	—
	<u>217,172</u>	<u>78,267</u>
<b>Current assets</b>		
Other receivables	86,080	—
Cash at bank and in hand	173,716	—
	<u>259,796</u>	<u>—</u>
<b>Total assets</b>	<u>476,968</u>	<u>78,267</u>
<b>Equity</b>		
Paid-in capital (a)	197,209	—
Accumulated loss	(1,131)	—
	<u>196,078</u>	<u>—</u>
<b>Liabilities</b>		
Long-term bank loans	275,000	—
Amount due to a joint venture partner	—	78,267
Other payables	5,478	—
Current income tax liabilities	412	—
	<u>280,890</u>	<u>78,267</u>

(a) As at 30 June 2006, the Company and Montefibre S.p.A., another joint venture partner, have contributed RMB225,000,000 and RMB169,416,770, representing 100% and 75% of its shareholdings in the jointly controlled entity respectively.

## SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

### 6. INTEREST IN A JOINTLY CONTROLLED ENTITY – *continued*

#### Income Statement

	Six months ended 30 June	
	2006 RMB'000	2005 RMB'000
Operating expenses	(1,131)	—
Loss after income tax	(1,131)	—
	<b>As at 30 June 2006 RMB'000</b>	<b>As at 31 December 2005 RMB'000</b>
Proportionate interest in the jointly controlled entity's commitments	<u>369,953</u>	<u>22,511</u>

There are no contingent liabilities relating to the Company's interest in the jointly controlled entity as at 30 June 2006 and 31 December 2005, and no contingent liabilities of the jointly controlled entity itself.

### 7. TRADE AND OTHER RECEIVABLES

	<b>As at 30 June 2006 RMB'000</b>	<b>As at 31 December 2005 RMB'000</b>
Trade receivables	80,199	43,391
Less: provisions for impairment of receivables	(1,919)	(1,490)
Trade receivables – net	78,280	41,901
Notes receivable	75,638	29,594
Prepayments	28,999	13,823
Other receivables	14,562	16,453
Due from ultimate holding company	—	232
Due from fellow subsidiaries	425	6,804
Due from a jointly controlled entity	—	156,534
Prepaid expenses	2,182	2,832
	<u>200,086</u>	<u>268,173</u>

## SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

### 7. TRADE AND OTHER RECEIVABLES – *continued*

The Company normally offers credit terms to its customers ranging from cash on delivery to 30 days. As at 30 June 2006 and 31 December 2005, the aging analysis of the trade receivables is as follows:

	<b>As at 30 June 2006 RMB'000</b>	As at 31 December 2005 RMB'000
0 - 30 days	71,744	38,384
31-90 days	256	101
91-365 days	3,959	3,568
Over 365 days	4,240	1,338
	<u>80,199</u>	<u>43,391</u>

### 8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<b>As at 30 June 2006 RMB'000</b>	As at 31 December 2005 RMB'000
Unlisted open investment funds	<u>9,586</u>	<u>10,172</u>

### 9. SHARE CAPITAL

	RMB'000
<b>Six months ended 30 June 2005</b>	
Paid-in capital as at 1 January 2005	494,080
Converted from reserves and retained earnings (a)	<u>135,920</u>
Share capital as at 30 June 2005	<u>630,000</u>
<b>Six months ended 30 June 2006</b>	
Share capital as at 1 January 2006	630,000
Issuance of new shares (b)	<u>236,250</u>
Share capital as at 30 June 2006	<u>866,250</u>

## SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

### 9. SHARE CAPITAL – *continued*

- (a) Pursuant to a board meeting on 16 December 2004, the Company converted its net assets of RMB630,000,000 (after deduction of the 2004 proposed interim dividend) reported under the PRC GAAP as at 30 September 2004 into 630,000,000 shares of RMB1.00 each. Upon the approval of the conversion to a joint stock company and as at 31 December 2005, the authorised, issued and fully paid capital of the Company amounted to RMB630,000,000, divided into 630,000,000 shares at a par value RMB1.00 per share.
- (b) The Company issued 236,250,000 ordinary shares in connection with the Company's listing on the Main Board of The Stock Exchange of Hong Kong Limited on 21 June 2006.

### 10. BANK LOANS

	As at 30 June 2006 RMB'000	As at 31 December 2005 RMB'000
<b>Non-current</b>		
Long-term bank loans	903,079	887,957
Less: Current portion of long-term bank loans	(288,784)	(309,053)
	614,295	578,904
<b>Current</b>		
Short-term bank loans	270,000	270,000
Current portion of long-term bank loans	288,784	309,053
	558,784	579,053
<b>Total bank loans</b>	1,173,079	1,157,957
Representing:		
– unsecured	555,500	435,500
– secured	617,579	722,457
	1,173,079	1,157,957



## SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

### 10. BANK LOANS – *continued*

Movements in bank loans are analysed as follows:

	RMB'000
<b>Six months ended 30 June 2005</b>	
Opening amount as at 1 January 2005	1,150,066
New bank loans drawn down	287,500
Repayments of bank loans	(267,500)
	<u>1,170,066</u>
<b>Closing amount as at 30 June 2005</b>	<u><u>1,170,066</u></u>
<b>Six months ended 30 June 2006</b>	
Opening amount as at 1 January 2006	1,157,957
New bank loans drawn down	270,000
Repayments of bank loans	(254,878)
	<u>1,173,079</u>
<b>Closing amount as at 30 June 2006</b>	<u><u>1,173,079</u></u>

The maturity of the bank loans is as follows:

	<b>As at 30 June 2006 RMB'000</b>	As at 31 December 2005 RMB'000
Within 1 year	<b>558,784</b>	579,053
Between 1 and 2 years	<b>364,295</b>	328,904
Between 2 and 5 years	<b>250,000</b>	250,000
	<u><u>1,173,079</u></u>	<u><u>1,157,957</u></u>

The effective interest rates of the bank loans was 6.00% per annum for the six months ended 30 June 2006 (2005: 5.95%).

Bank loans of approximately RMB617,579,000 as at 30 June 2006 (31 December 2005: RMB652,456,000) were secured by the property, plant and equipment of the Company with the net book value amounted to approximately RMB1,137,334,000 (31 December 2005: RMB1,187,894,000), and by the land use rights of the Company with the net book value amounted to approximately RMB24,797,000 (31 December 2005: RMB25,650,000).

## SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

### 11. TRADE AND OTHER PAYABLES

	<b>As at 30 June 2006 RMB'000</b>	As at 31 December 2005 RMB'000
Trade payables	46,535	46,709
Advances from customers	47,288	15,623
Payable for property, plant and equipment	24,021	31,762
Other payables	50,432	37,104
Due to fellow subsidiaries	5,235	6,898
Provision for staff welfare	36,986	35,463
	<u>210,497</u>	<u>173,559</u>

As at 30 June 2006 and 31 December 2005, the aging analysis of the trade payables is as follows:

	<b>As at 30 June 2006 RMB'000</b>	As at 31 December 2005 RMB'000
0 - 30 days	29,444	36,492
31-90 days	7,626	4,065
91-365 days	4,906	3,089
Over 365 days	4,559	3,063
	<u>46,535</u>	<u>46,709</u>

## SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

### 12. OTHER GAINS – NET

	Six months ended 30 June	
	2006 RMB'000	2005 RMB'000
Interest income	775	880
Net realised and unrealised fair value gains/(losses) of other financial assets at fair value through profit or loss	905	(1)
Amortization of deferred income on government grants	2,904	2,505
Net gains resulting from the Company's contributions of non-monetary assets to a jointly controlled entity	4,642	—
Others	791	(26)
	<u>10,017</u>	<u>3,358</u>

### 13. EXPENSES BY NATURE

Expenses included in cost of sales and operating expenses are analyzed as follows:

	Six months ended 30 June	
	2006 RMB'000	2005 RMB'000
Depreciation	55,623	49,327
Amortization of land use rights	917	855
Amortization of intangible assets	4,183	4,183
Costs of inventories recognised as expenses included in cost of sales	908,626	854,363
Staff costs	17,710	16,492
Provision for/(reversal of) impairments of trade and other receivables	418	(457)
	<u>986,467</u>	<u>881,577</u>

## SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

### 14. INCOME TAX EXPENSE

Income tax has been provided at the applicable PRC statutory tax rate of 15% (six months ended 30 June 2005: 15%) on the estimated assessable profit for the period.

No provision for Hong Kong profits tax has been made as the Company did not carry out any business or generate any assessable profits in Hong Kong.

	Six months ended 30 June	
	2006 RMB'000	2005 RMB'000
Current income tax		
– PRC enterprise income tax	7,331	14,632
Deferred income tax	1,268	(169)
	<u>8,599</u>	<u>14,463</u>

### 15. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	Six months ended 30 June	
	2006	2005
Profit attributable to equity holders of the Company (RMB'000)	58,158	78,453
Weighted average number of ordinary shares in issue (thousand shares)	641,813	630,000
Basic earnings per share (RMB per share)	0.09	0.12

Diluted earnings per share is equal to the basic earnings per share since the Company has no dilutive potential ordinary shares during the six months ended 30 June 2006 and 2005.

## SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

### 16. DIVIDENDS

The board has resolved not to declare any interim dividend in respect of the six months ended 30 June 2006 (six months ended 30 June 2005: Nil).

### 17. COMMITMENTS

	<b>As at 30 June 2006 RMB'000</b>	As at 31 December 2005 RMB'000
Capital commitments for property, plant and equipment		
– Contracted but not provided for	<b>114,800</b>	49,616
– Authorised but not contracted for	<b>128,222</b>	266,845
	<b>243,022</b>	316,461
Investment commitment for a jointly controlled entity	—	225,000

### 18. RELATED PARTY TRANSACTIONS

The Company is controlled by Jilin Chemical Fiber Group Co., Ltd. (“JCF Groupco”, the ultimate holding company), which owns 50% of the Company’s shares.

The ultimate holding company itself is a state-owned enterprise controlled by the PRC government. In accordance with HKAS 24, “Related Party Disclosures”, state-owned enterprises and their subsidiaries directly or indirectly controlled by the PRC government are also defined as related parties of the Company.

## SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

### 18. RELATED PARTY TRANSACTIONS – *continued*

The directors are of the view that the following is a summary of significant related party transactions entered into in the ordinary course of business between the Company and its related parties during the six months ended 30 June 2006 and 2005 and balances arising from related party transactions as at 30 June 2006 and 31 December 2005 indicated below:

#### i) Related party transactions

	Six months ended 30 June	
	2006 RMB'000	2005 RMB'000
Sales of goods to:		
– A shareholder	242,275	239,261
– Other state-owned enterprises	57,191	52,954
Sales of raw materials to:		
– A jointly controlled entity	2,351	—
Interest income:		
– Bank of China	66	231
– Other state-owned banks	659	577
Purchases of raw materials from:		
– Fellow subsidiaries	806	5,085
– Other state-owned enterprises	700,141	763,331
Utility charges paid to:		
– Fellow subsidiaries	70,694	60,090
Engineering maintenance fee paid to:		
– Fellow subsidiaries	1,660	3,822
Other composite service fee paid to:		
– Fellow subsidiaries	343	2,038
Interest expense:		
– Bank of China	1,769	1,568
– Other state-owned banks	31,124	28,127
Drawdown of loans from:		
– Other state-owned banks	170,000	187,500
Purchases of property, plant and equipment from:		
– Other state-owned enterprises	—	19,040

JCF Groupco granted a right to the Company to use of the “Baishan” trademark at nil consideration from the year 2005 to 2007.

The Company permitted JCF Groupco to use the Company’s premises free of rent to operate its staff canteen. The Company is not required to bear the operating cost of the canteen.



## SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

### 18. RELATED PARTY TRANSACTIONS – *continued*

#### ii) Related party balances

	As at 30 June 2006 RMB'000	As at 31 December 2005 RMB'000
Bank deposits		
– Bank of China	35,744	34,639
– Other state-owned banks	363,840	154,027
Trade receivables		
– A shareholder	5,027	3,657
– Other state-owned enterprises	2,999	5,093
Other receivables		
– Due from ultimate holding company	—	232
– Due from fellow subsidiaries	425	6,804
– Due from a jointly controlled entity	—	156,534
– Other state-owned enterprises	2,942	6,679
Trade payables		
– Other state-owned enterprises	7,895	11,996
Other payables		
– Due to fellow subsidiaries	5,235	6,898
– Other state-owned enterprises	3,622	2,206
Short-term bank loans		
– Other state-owned banks	170,000	170,000
Long-term bank loans		
– Bank of China	8,795	23,404
– Other state-owned banks	605,500	555,500
Current portion of long-term bank loans		
– Bank of China	28,784	29,053
– Other state-owned banks	260,000	280,000

Apart from bank deposits and bank loans, the amounts receivable and payable are unsecured, interest free and have no fixed terms of repayment as at 30 June 2006 and 31 December 2005. As at 30 June 2006, the balance of the Company's provision for impairment of receivables from related parties is RMB35,000 (31 December 2005: RMB35,000). The Company's (reversal of)/provision for impairment of receivables from related parties charged to income statement for the six months ended 30 June 2006 and 2005 are Nil.

## SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

### 18. RELATED PARTY TRANSACTIONS – *continued*

#### iii) Key management compensation

	Six months ended 30 June	
	2006 RMB'000	2005 RMB'000
Salaries and other short-term employee benefits	1,858	176
Post-employment benefits	34	33
	<u>1,892</u>	<u>209</u>

#### iv) Guarantee from related parties

As at 30 June 2006 and 31 December 2005, the ultimate holding company provided guarantee to the Company for long term bank loans of nil and RMB70,000,000 respectively.

### DIRECTORS

#### Executive Directors

Mr. Wang Jinjun (*Chairman*)  
Mr. Ma Jun  
Mr. Yang Dexin  
Mr. Wang Changsheng

#### Non-executive Directors

Mr. Hao Peijun  
Mr. Gong Jianzhong  
Mr. Chen Jinkui  
Mr. Chen Shuguo\*

#### Independent non-executive Directors

Mr. Ye Yongmao\*  
Mr. Mao Fengge  
Mr. Lee Ka Chung\*

\* Members of Audit Committee

### SUPERVISORS

Mr. Jiang Yanfeng  
Ms. Sun Yujing  
Mr. Liu Mingzhe  
Mr. Meng Xiangui  
Ms. Feng Shuhua

### JOINT COMPANY SECRETARIES

Ms. Liu Xiangmei  
Mr. Tam Chun Chung

### QUALIFIED ACCOUNTANT

Mr. Tam Chun Chung

### AUTHORISED REPRESENTATIVES

Mr. Wang Changsheng  
Mr. Tam Chun Chung

### PRC REGISTERED OFFICE

Block 4, Zone D,  
Hengshan West Road,  
Jilin New and High Technology Development Zone,  
Jilin City, Jilin Province,  
The PRC

### PRINCIPAL PLACE OF BUSINESS IN HONG KONG

39/F Gloucester Tower,  
The Landmark, 11 Pedder Street,  
Central, Hong Kong

### AUDITORS

PricewaterhouseCoopers

### COMPLIANCE ADVISOR

SBI E2-Capital (HK) Limited

### LEGAL ADVISOR TO HONG KONG LAWS

Coudert Brothers  
in association with Orrick Herrington & Sutcliffe LLP

### PRINCIPAL BANKERS

China Construction Bank  
Jilin City Commercial Bank  
Bank of Communications  
China Minseng Banking Corp. Ltd.

### SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited  
Rooms 1712-1716, 17th Floor,  
Hopewell Centre, 183 Queen's Road East,  
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