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)

Interim Report 2008

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FINANCIAL AND BUSINESS SUMMARY

FINANCIAL SUMMARY

	For the six months ended 30 June		
	2008	2007	Change
	RMB million	RMB million	%
Revenue	**668.5**	1,017.6	-34.3
Gross profit	**15.5**	78.8	-80.3
Operating (loss)/profit	**(27.2)**	32.7	-183.2
Share of loss of a jointly controlled entity	**(22.9)**	(25.2)	-9.1
Loss attributable to equity holders of the Company	**(83.3)**	(26.8)	+210.8
Loss per share (RMB per share)	**(0.10)**	(0.03)	+233.3
Gross profit margin	**2.3%**	7.7%	-70.1
Loss margin	**(12.5)%**	(2.6)%	+380.8
	As at 30 June 2008	As at 31 December 2007	
Current ratio	**0.94**	1.02	-21.7
Gearing ratio	**61.1%**	62.3%	-1.9

FINANCIAL AND OPERATION HIGHLIGHTS

- Revenue was approximately RMB668 million for the first half of 2008, representing a decrease of approximately 34.3% as compared with the same period in 2007.
- Loss attributable to equity holders of the Company was approximately RMB83.3 million, as compared to approximately RMB26.8 million with the same period in 2007.
- Acrylic staple fibre was the best selling product for the first half of 2008. The sales revenue and sales volume of acrylic staple fibre represented approximately 39% and 40% of the Company's total revenue and sales volume respectively for the first six months of 2008.
- Production plant was operated at a utilisation rate of approximately 56% for the first six months of 2008.
- Sales volume and production volume of Jimont (a joint venture owned by the Company as to 50%) were 34,074 tons and 28,829 tons respectively for the first half of 2008, representing a sales-to-production ratio of 118%. The utilisation rate of the production plant of Jimont for the first half of 2008 was approximately 58%.

MAJOR OPERATIONAL DATA

1. Revenue

	For the six months ended 30 June			
	2008		2007	
	RMB million	**%**	RMB million	%
Acrylic top	**259.8**	**38.9**	341.8	33.6
Acrylic tow	**146.3**	**21.9**	308.1	30.3
Acrylic staple fibre	**260.4**	**39.0**	364.7	35.8
Others*	**2.0**	**0.2**	3.0	0.3
Total	**668.5**	**100.0**	1,017.6	100.0

2. Sales volume

	For the six months ended 30 June			
	2008		2007	
	Tons	**%**	Tons	%
Acrylic top	**15,711**	**37.5**	19,789	32.4
Acrylic tow	**9,250**	**22.1**	18,801	30.7
Acrylic staple fibre	**16,759**	**40.0**	22,125	36.3
Others*	**178**	**0.4**	314	0.6
Total	**41,898**	**100.0**	61,029	100.0

3. Average selling price and gross profit margin

	For the six months ended 30 June			
	2008		2007	
	Average selling price RMB/ton	**Gross profit margin %**	Average selling price RMB/ton	Gross profit margin %
Acrylic top	**16,536**	**3.4**	17,274	7.8
Acrylic tow	**15,816**	**2.1**	16,388	8.0
Acrylic staple fibre	**15,538**	**1.6**	16,485	7.4
Overall gross profit margin		**2.3**		7.7

* *Refer to acrylic fibre scrap*

REVIEW AND OUTLOOK

Market review

During the first half of 2008, the rising international crude oil price resulted in the price of acrylonitrile, a by-product of crude oil, remained high. International crude oil price increased by approximately 57% from approximately US$90 per barrel in January 2008 to approximately US$141 per barrel in June 2008. Due to the rising crude oil price, the selling price of acrylonitrile, the primary raw material for the production of acrylic fibre, increased by 10.4% from approximately RMB12,309 per ton in January 2008 to approximately RMB13,594 per ton in June 2008. The high raw material cost kept on exerting pressure on the entire acrylic fibre industry in the PRC.

During the first half of 2008, domestic demand for acrylic fibre product was stagnant because of the unfavorable impact on the market resulted from the reduction in tax rebate for textile exports and the appreciation of Renminbi. Consequently, the average selling price of acrylic fibre products has decreased by approximately 4.3%.

Meanwhile, the rapid development of ABS and polyacrylamide increased the demand of acrylonitrile, leading to further shortage in the supply of acrylonitrile. In addition, the reduction in tax rebate for textile exports, appreciation of Renminbi, tightened monetary policy, the increase in labor costs due to the implementation of new labour law in the PRC and the policies to support farmers, as well as factors in relation to energy and environmental protection all posed pressures on the operation environment of acrylic fibre manufacturers in the PRC.

In summary, high raw material cost and stagnant demand for acrylic fibre products hampered the growth of the entire acrylic fibre industry in the PRC during the period under review. The Company expects that the existing unfavorable impact on the product costs and the prices of acrylic fibre products is to be temporary.

Sales review

During the first half of 2008, the Company recorded sales volume of 41,898 tons, representing a decrease of 31.3% as compared to that of the same period in 2007, and the average unit selling price of acrylic fibre products decreased approximately by 4.3% from RMB16,674 per ton in the first half of 2007 to RMB15,955 per ton in the first half of 2008.

To cope with the challenging acrylic fibre market, the Company continued its marketing effort through its well established sales network while endeavoured to explore new markets and proactively pursue export sales opportunities. During the period under review, the Company procured overseas sales orders with a total purchases of 1,659 tons of acrylic staple fibre and acrylic top. Such export strategy helped to mitigate the pressure on stagnant domestic sales, also helped to establish a "quality" brand image for the Company's products in the international market and pave the way for the Companys' expansion in its export business.

Operations review

During the first half of 2008, the Company continued to adhere to its strategy of implementing stringent internal control measures with a view to improve its operating efficiency and profitability by controlling costs and expenditures and facilitating staff training.

The Company strives to continuously improve the quality of its products and its production processes by making continuous efforts to improve production technology. The Company successfully implemented a number of technological innovation and renovation projects in a systematic manner in 2008. For the six months ended 30 June 2008, the Company implemented eight technological innovation and renovation projects in total and improved its effectiveness in various production areas.

For the six months ended 30 June 2008, the Company's production plant operated at a utilisation rate of approximately 56% and the Company has produced 4,535 tons of differential acrylic fibre products, representing approximately 12% (2007: 12.9%) of the Company's total production volume. In March 2008, Department of Science and Technology of Jilin Province has issued the Certification For Scientific Technology Achievement for the carbon fibre precursor, a new product developed by the Company with the core technology invention patent entering into review procedure in May 2008. The commercial trial production of the carbon fibre precursor has also been commenced with an annual production capacity of 100 tons.

Human resources

As at 30 June 2008, the Company had 1,158 employees. 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. During the six months ended 30 June 2008, the Company provided training in the areas of production technology, product quality control, production safety and environmental protection to its employees.

Outlook

Looking forward, the management expects the PRC market conditions to remain challenging in the second half of 2008. Nevertheless, it is expected that the continuous development of the economy and the recovery of the textile industry of the PRC and the adjustments to the national macroeconomic policies will bring new opportunities and prospects for its business as stated below:

1. Breakthrough in industrial fibre research: the PAN precursor, self-developed by the Company, has passed evaluation of technological achievement at the provincial level and a target was set to produce 100 tons of carbon fibre in 2008 and an agreement was concluded for the sales of 50 tons of carbon fibre. By the end of June 2008, the Company produced 18.17 tons of carbon fibre. Currently, a project with an annual production capacity of 5,000 tons of carbon fibre is under review by the National Development and Reform Commission. The Company is now actively engaging in the preliminary preparation works for the project (such as process design, materials balance calculation and equipment selection). We believe that the commercialisation of carbon fibre will improve the performance of the Company.

2. Development of differential fibre: the Company will focus more on the development of differential fibre to improve its competitiveness in the domestic acrylic fibre market. At present, the Company produces four types of differential acrylic fibres (namely oerlikon fibre, high shrinkage staple, low pill fibre and dyed fibre) and is now actively developing flame retardant fibre. We believe that the newly issued Fire Control Law of the People's Republic of China will help to improve the market demand for, and the profit margin of, flame retardant fibre. The management believes that differential acrylic fibre products will be a major driver of sales for the acrylic fibre industry in the PRC in the future. The Company is well positioned to seize such opportunities to further boost the profitability of the Company.

3. Exploring overseas market: the acrylic fibre industry in the PRC has become more competitive in the global market after years of development. Some of the products produced by domestic manufacturers can replace imported products and some have become world-leading products in overseas markets. In the past, PRC is a major importer of acrylic fibre and acrylonitrile. However, the rapid development of the PRC's acrylic fibre industry and the switching of the production capacity in developed countries to developing countries have given some room for China to export acrylic fibre products.

The management of the Company will actively seek to capitalise on the above opportunities to improve operating conditions, strengthen the leading position of the Company in the PRC acrylic fibre industry and maximise returns to shareholders.

FINANCIAL ANALYSIS

Operation results

For the six months ended 30 June 2008, the Company's revenue amounted to approximately RMB668 million, representing a decrease of approximately 34.3% as compared to approximately RMB1,018 million for the corresponding period in 2007. The decrease in revenue was mainly due to the decrease in sales volume of acrylic fibre products by approximately 31.3% and the decrease in average unit selling price of acrylic fibre products by approximately 4.3%. The decrease in sales volume of acrylic fibre products and average unit selling price were mainly due to the unfavorable impact on the market as a result of the reduction in tax rebate for textile exports and the appreciation of Renminbi. For the first half of 2008, the total annual production volume and sales volume of the Company were 37,795 tons and 41,898 tons respectively, representing a sales-to-production ratio of approximately 111% (2007: 91%). In view of the stagnant market condition and the persistent high price of major raw materials, the Company adopted a conservative production approach to avoid accumulation of inventory.

For the six months ended 30 June 2008, loss attributable to equity holders of the Company was approximately RMB83.3 million, versus a loss attributable to equity holders of the Company of approximately RMB26.8 million for the corresponding period in 2007. The increase in loss attributable to equity holders of the Company was mainly attributable to a decrease in the gross profit of the Company caused by the decrease in both sales volume and the average unit selling price of acrylic fibre products. In addition, loss attributable to equity holders of the Company for the period under review also included share of loss of a jointly controlled entity (50% owned by the Company) of RMB22.9 million, as compared to approximately RMB25.2 million for the same period in 2007.

The overall gross profit margin of the Company decreased from 7.7% in the corresponding period in 2007 to 2.3% for the first six months of 2008. The average unit selling price of acrylic fibre products decreased by approximately 4.3% from RMB16,674 in the first half of 2007 to RMB15,955 in the first half of 2008 due to the stagnant market condition resulting from reduced domestic demand due to the reduction in tax rebate for PRC textile exports and appreciation of Renminbi.

Operating expenses

Distribution costs decreased from approximately RMB26.9 million for the six months ended 30 June 2007 to approximately RMB18.5 million for the same period in 2008. The decrease in distribution costs resulted from the decrease in transportation costs which was in line with the decrease in revenue. Administrative costs increased from approximately RMB27.2 million for the six months ended 30 June 2007 to approximately RMB31.5 million for the same period in 2008. The increase was primarily due to the expenses incurred for research and development of PAN precursor during the period.

Other net income

Other net income increased from approximately RMB8.7 million for the six months ended 30 June 2007 to approximately RMB23.1 milion for the same period in 2008. The increase was mainly due to the net rental income of RMB17.9 million from the leases of certain utilities production facilities, including a thermal power plant to a branch of the ultimate holding company (the "Branch"). The Company started to lease the related assets to the Branch since the second half of 2007.

Other net losses

Other net losses primarily included the unrealised losses recognised in respect of the fair value change of the interest swap contracts which were accounted for as derivative financial instruments.

Finance costs

Net finance costs increased from approximately RMB35.3 million (after netting off the interests capitalised of RMB5.7 million for the six months ended 30 June 2007) to approximately RMB57.7 million for the same period in 2008. The increase in finance costs resulted from the increase in interest expenses on discounted notes receivable by approximately RMB4.2 million and the increase in the overall average bank loan balances of the Company and overall borrowing interest rate when bank loans were renewed.

Share of loss of a jointly controlled entity

The Company's jointly controlled entity, Jilin Jimont Acrylic Fiber Co., Ltd. ("Jimont"), commenced its commercial production in 2007. The Company's share of 50% of the loss of Jimont for the six months ended 30 June 2008 under the equity method amounted to RMB22.9 million (2007: RMB25.2 million). The loss of Jimont was mainly due to high raw material costs and the adverse effects on the market brought by the reduction in tax rebate for textile exports and the appreciation of Renminbi.

Financial resources, liquidity and liability position

As at 30 June 2008, the Company's total assets and total liabilities were RMB2.42 billion and RMB1.48 billion respectively. As at 30 June 2008, the Company's current liabilities exceeded its current assets by RMB38.9 million and its current ratio (calculated by dividing current assets by current liabilities) was approximately 0.94 (31 December 2007: 1.2). The liquidity of the Company is primiarily dependent on its ability to maintain adequate cash inflow from operations and to obtain external financing and refinancing. The Company had cash at bank and in hand of RMB51.4 million as at 30 June 2008.

Total bank loans of the Company as at 30 June 2008 amounted to RMB1.21 billion, of which short-term bank loans together with current portion of long-term bank loans amounted to approximately RMB510 million and non-current portion of long-term bank loans were approximately RMB700 million.

As all of the Company's bank loans are denominated in RMB and the portion of revenue derived from export business is relatively insignificant at this moment, the management believes that the Company is only exposed to minimal foreign exchange risks and thus has not made any foreign currency hedging arrangement.

As at 30 June 2008, the Company's gearing ratio (calculated by dividing total liabilities by total assets) was 61.1% (31 December 2007: 62.3%).

Status of investments

Joint venture

Jimont was established on 21 December 2005 and was owned by the Company, Montefibre S.p. A and SIMEST S.p. A as to 50%, 39.36% and 10.64% respectively. Jimont commenced its production in early 2007 and is principally engaged in the manufacturing and sales of acrylic fibre products. The annual production capacity of the first phase of Jimont's acrylic fibre project was approximately 100,000 tons. The total annual production capacity of Jimont can be further increased to approximately 150,000 tons. Nevertheless, the Company does not have any present concrete timetable for implementing the second phase of the project.

For the six months ended 30 June 2008, the sales volume and production volume of Jimont reached 34,074 tons and 28,829 tons respectively, representing a sales-to-production ratio of 118%. The utilisation rate of production plant was approximately 58%. The net loss of Jimont for the first half of 2008 amounted to approximately RMB45.9 million which was mainly due to high raw material costs and the unfavorable impact on the market as a result of the reduction in tax rebate for textile exports and the appreciation of Renminbi.

Entrusted deposits and pledged time deposits

As at 30 June 2008, the Company did not hold 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 2008, certain property, plant and equipment and land use rights with an aggregate net book value of approximately RMB667.5 million (31 December 2007: RMB946.7 million) were pledged as securities for bank borrowings of RMB330 million (31 December 2007: RMB380 million).

Contingent liabilities

The Company had no material contingent liabilities as at 30 June 2008.

Dividend

The board of directors of the Company has resolved not to declare any interim dividend for the six months ended 30 June 2008 (30 June 2007: Nil).

INFORMATION OF SHARE CAPITAL AND SUBSTANTIAL SHAREHOLDERS

SHARE CAPITAL

As at 30 June 2008, there was a total issued share capital of 866,250,000 shares of the Company (the "Shares") which include:

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

As at 30 June 2008, the following persons (not being director, supervisor or chief executive of the Company), so far as are known to all directors of the Company have 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"):

			Approximate percentage in relevant class of Shares (%)			Approximate percentage in total issued share capital (%)		
Name of shareholders	Number of Shares directly and indirectly held	Class of Shares	Direct interests	Indirect interests	Aggregate interests	Direct interests	Indirect interests	Aggregate interests
吉林化纖集團有限責任公司 (Jilin Chemical Fiber Group Co., Ltd.)	433,229,558	Domestic Shares	99.13	—	99.13	50.01	—	50.01
吉林市金泰投資（控股）有限責任公司 (Jilin City Jintai Investment (Holdings) Co., Ltd.)	433,229,558(1)	Domestic Shares	—	99.13	99.13	—	50.01	50.01
Ronsace Company Limited	94,841,726	Non-H Foreign Shares	56.00	—	56.00	10.95	—	10.95
Bank of China Group Investment Limited	94,841,726(2)	Non-H Foreign Shares	—	56.00	56.00	—	10.95	10.95
Bank of China Limited	94,841,726(2)	Non-H Foreign Shares	—	56.00	56.00	—	10.95	10.95

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 (%) Direct interests	Indirect interests	Aggregate interests	Approximate percentage in total issued share capital (%) Direct interests	Indirect interests	Aggregate interests
Sanlink Investments Limited	44,029,105	Non-H Foreign Shares	26.00	—	26.00	5.08	—	5.08
China Insurance Group Investment Limited	44,029,105(3)	Non-H Foreign Shares	—	26.00	26.00	—	5.08	5.08
China Life Insurance (Overseas) Company Limited	44,029,105(3)	Non-H Foreign Shares	—	26.00	26.00	—	5.08	5.08
Halesfield Investment Limited	30,487,573	Non-H Foreign Shares	18.00	—	18.00	3.52	—	3.52
Huang Jia Lin	30,487,573(4)	Non-H Foreign Shares	—	18.00	18.00	—	3.52	3.52
Huang Jia Yuan	30,487,573(4)	Non-H Foreign Shares	—	18.00	18.00	—	3.52	3.52
全國社會保障基金理事會 (The National Social Security Fund of the PRC)	23,625,000	H Shares	9.09	—	9.09	2.73	—	2.73

Notes:

1. 433,229,558 Shares are deemed corporate interests under the SFO indirectly held through Jilin Chemical Fiber Group Co., Ltd.
2. 94,841,726 Shares are deemed corporate interests under the SFO indirectly held through Ronsace Company Limited.
3. 44,029,105 Shares are deemed corporate interests under the SFO indirectly held through Sanlink Investments Limited.
4. 30,487,573 Shares are deemed corporate interests under the SFO indirectly held through Halesfield Investment Limited.

INTERESTS OF DIRECTORS AND SUPERVISORS

As at 30 June 2008, the directors, supervisors 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 of Hong Kong Limited (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 reviewed the condensed interim financial information for the six months ended 30 June 2008.

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

During the six months ended 30 June 2008, the Company had not redeemed any of its shares. Neither the Company nor its jointly controlled entity has purchased or sold any of the listed securities of the Company during the six months ended 30 June 2008.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

Throughout the six months ended 30 June 2008, to the best knowledge of the directors of the Company, 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 2008, 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 BALANCE SHEET

AS AT 30 JUNE 2008

	Note	Unaudited As at 30 June 2008 RMB'000	Audited As at 31 December 2007 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	5	**1,471,755**	1,535,288
Land use rights		**29,521**	30,462
Intangible assets		**45,134**	49,237
Interest in a jointly controlled entity	6	**139,412**	162,222
Deferred income tax assets		**69,853**	46,218
		1,755,675	1,823,427
Current assets			
Inventories		**208,048**	345,766
Trade and other receivables	7	**400,420**	390,845
Current income tax prepayment		**1,893**	1,893
Cash and cash equivalents		**51,401**	158,406
		661,762	896,910
Total assets		**2,417,437**	2,720,337
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		**866,250**	866,250
Share premium		**142,477**	142,477
Accumulated losses		**(99,566)**	(16,314)
Other reserves		**31,919**	31,919
Total equity		**941,080**	1,024,332

CONDENSED BALANCE SHEET

AS AT 30 JUNE 2008

	Note	Unaudited As at 30 June 2008 RMB'000	Audited As at 31 December 2007 RMB'000
LIABILITIES			
Non-current liabilities			
Long-term bank borrowings	8	**700,000**	870,000
Deferred income on government grants		**75,720**	78,732
		775,720	948,732
Current liabilities			
Trade and other payables	9	**176,399**	224,273
Short-term bank borrowings	8	**230,000**	363,000
Current portion of long-term bank borrowings	8	**280,000**	160,000
Derivative financial instruments	10	**14,238**	—
		700,637	747,273
Total liabilities		**1,476,357**	1,696,005
Total equity and liabilities		**2,417,437**	2,720,337
Net current (liabilities)/assets		**(38,875)**	149,637
Total assets less current liabilities		**1,716,800**	1,973,064

The notes on pages 17 to 32 form an integral part of this condensed interim financial information.

CONDENSED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2008

		Unaudited Six months ended 30 June	
		2008	2007
	Note	**RMB'000**	RMB'000
Revenue	4	**668,478**	1,017,631
Cost of sales		**(652,970)**	(938,823)
Gross profit		**15,508**	78,808
Distribution costs		**(18,497)**	(26,898)
Administrative expenses		**(31,533)**	(27,187)
Other income	11	**42,074**	8,742
Other expenses	11	**(18,913)**	—
Other losses – net	12	**(15,821)**	(779)
Operating (loss)/profit		**(27,182)**	32,686
Finance income		**937**	449
Finance costs		**(57,696)**	(35,712)
Operating loss after finance income and costs		**(83,941)**	(2,577)
Share of loss of a jointly controlled entity		**(22,946)**	(25,207)
Loss before income tax	13	**(106,887)**	(27,784)
Income tax credit	14	**23,635**	1,004
Loss for the period		**(83,252)**	(26,780)
Loss per share for loss attributable to the equity holders of the Company during the period			
– basic and diluted (expressed in RMB per share)	15	**(0.10)**	(0.03)
Dividend	16	**—**	—

The notes on page 17 to 32 form an integral part of this condensed interim financial information.

CONDENSED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2008

	Unaudited				
	Share capital RMB'000	Share premium RMB'000	(Accumulated losses)/ retained earnings RMB'000	Other reserves RMB'000	Total RMB'000
At 1 January 2008	**866,250**	**142,477**	**(16,314)**	**31,919**	**1,024,332**
Loss for the period	**—**	**—**	**(83,252)**	**—**	**(83,252)**
At 30 June 2008	**866,250**	**142,477**	**(99,566)**	**31,919**	**941,080**
At 1 January 2007	866,250	142,477	148,545	34,173	1,191,445
Loss for the period	—	—	(26,780)	—	(26,780)
Dividends relating to 2006 paid in May 2007	—	—	(43,313)	—	(43,313)
At 30 June 2007	866,250	142,477	78,452	34,173	1,121,352

The notes on pages 17 to 32 form an integral part of this condensed interim financial information.

CONDENSED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2008

	Unaudited Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
Net cash from/(used in) operating activities	**149,738**	(56,221)
Net cash used in investing activities	**(21,126)**	(45,170)
Net cash (used in)/from financing activities	**(235,617)**	59,798
Net decrease in cash and cash equivalents	**(107,005)**	(41,593)
Cash and cash equivalents at the beginning of the period	**158,406**	216,469
Cash and cash equivalents at the end of the period	**51,401**	174,876

The notes on pages 17 to 32 form an integral part of this condensed interim financial information.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

1 GENERAL INFORMATION

Jilin Qifeng Chemical Fiber Co., Ltd. (the "Company") is principally engaged in the production and sales of different types of acrylic fibre products in China.

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

The 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, the PRC.

This condensed interim financial information was approved by the board of directors of the Company for issue on 29 August 2008.

2 BASIS OF PREPARATION

At 30 June 2008, the Company's current liabilities exceeded its current assets by RMB38,875,000 and the Company has a net debt of RMB1,158,599,000 (representing total borrowings less cash and cash equivalents). A majority portion of the bank borrowings of RMB160,000,000 and RMB920,000,000 are repayable in the six months ending 31 December 2008 and the year ending 31 December 2009 respectively. The condensed interim financial information has been prepared by the directors on a going concern basis, assuming that the Company will continue to operate as a going concern. The validity of the Company's ability to continue as a going concern depends on the success of the Company's future operations and their ability to obtain necessary funding from banks or the ultimate holding company whenever the Company has any funding or refinancing requirements. The directors believe that the Company could obtain adequate additional bank borrowings or the Company's ultimate holding company will provide sufficient working capital to the Company so that the Company is capable to meet its present obligations as and when they fall due and to continue as a going concern. Consequently, the directors have prepared the condensed interim financial information on a going concern basis.

This condensed interim financial information for the six months ended 30 June 2008 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institutes of Certified Public Accountants ("HKICPA"). The condensed interim financial information should be read in conjunction with the Company's annual financial statements for the year ended 31 December 2007 (the "Annual Financial Statements"), which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

3 ACCOUNTING POLICIES

Except as described below, the accounting policies adopted are consistent with those of the Company's Annual Financial Statements, as described in those Annual Financial Statements.

The Company has entered into certain interest rate swap contacts with banks in the PRC (note 10). The directors consider that these interest rate swap contracts do not quality for hedge accounting and any changes in the fair value of these derivate financial statements are recongised immediately in the income statement as other gains/losses.

The Company has adopted the following interpretations to published standards issued by the HKICPA which are mandatory for the first time for the financial year beginning on or after 1 January 2008:

HK(IFRIC) – Int 11	"HKFRS2 – Group and treasury share transactions"
HK(IFRIC) – Int 12	"Service concession arrangements"
HK(IFRIC) – Int 14	"HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction"

The adoption of the above interpretations to published standards in the current period did not result in any substantial changes to the Company's significant accounting policies and presentation of the condensed interim financial information.

The HKICPA has also issued certain new or revised HKFRS, amendments and interpretations to published standards which are not yet effective for the financial year beginning on or after 1 January 2008. The Company has not early adopted these new or revised HKFRS, amendments and interpretations in this condensed interim financial information and will apply these new or revised HKFRS, amendments and interpretations in accordance with their respective effective dates. The Company has already commenced an assessment of the related impact to the Company but is not yet in a position to state whether any substantial changes to the Company's accounting policies and presentation of the financial statements will be resulted.

4 REVENUE AND SEGMENT INFORMATION

Revenue recognised during the period represents the turnover from sales of acrylic fiber products.

The Company is principally engaged in a single business segment, the production and sales of acrylic fiber products, and all of its operations and assets are located in the PRC. Except for a portion of the Company's revenue of RMB27,461,000 (2007: Nil) which was in connection with sales to overseas customers, the Company's revenue was all in relation to sales of acrylic fiber products to domestic customers in the PRC.

5 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2008, the Company acquired property, plant and equipment of RMB2,307,000 (2007: RMB87,047,000) and there was not any disposal of the Company's property, plant and equipment (2007: Nil).

6 INTEREST IN A JOINTLY CONTROLLED ENTITY

	Unaudited	
	2008	2007
	RMB'000	RMB'000
At 1 January	**162,222**	218,003
Share of losses	**(22,946)**	(25,207)
Others	**136**	136
At 30 June	**139,412**	192,932

The Company has a 50% equity interest in a jointly controlled entity, Jilin Jimont Acrylic Fiber Co., Ltd. (the "Jointly Controlled Entity"), established in the PRC and its principal activity is the manufacturing and sales of acrylic fiber products. The following amounts represent the Company's 50% share of the financial information of the Jointly Controlled Entity:

Balance sheet items

	Unaudited As at 30 June 2008 RMB'000	Audited As at 31 December 2007 RMB'000
ASSETS		
Non-current assets		
Land use rights	**12,666**	12,799
Property, plant and equipment	**499,080**	510,635
Intangible assets	**16,313**	16,783
Deferred income tax assets	**9,939**	3,468
	537,998	543,685
Current assets		
Inventories	**72,109**	116,001
Trade and other receivables	**74,071**	60,609
Cash and cash equivalents	**5,309**	15,510
	151,489	192,120
Total assets	**689,487**	735,805

6 INTEREST IN A JOINTLY CONTROLLED ENTITY – *continued*

	Unaudited As at 30 June 2008 RMB'000	Audited As at 31 December 2007 RMB'000
EQUITY		
Capital and reserves attributable to equity holders		
Paid-in capital	**225,000**	225,000
Accumulated losses	**(80,810)**	(57,864)
	144,190	167,136
LIABILITIES		
Non-current liabilities		
Long-term bank borrowings	**205,000**	330,000
Current liabilities		
Trade and other payables (note a)	**123,706**	118,669
Short-term bank borrowings	**20,000**	20,000
Current portion of long-term bank borrowings	**190,000**	100,000
Derivative financial instruments	**6,591**	—
	340,297	238,669
Total liabilities	**545,297**	568,669
Total equity and liabilities	**689,487**	735,805

6 INTEREST IN A JOINTLY CONTROLLED ENTITY – *continued*

Income statement items

	Unaudited Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
Revenue	**269,882**	238,714
Cost of sales	**(263,775)**	(238,639)
Gross profit	**6,107**	75
Distribution costs	**(7,057)**	(6,404)
Administrative expenses	**(3,668)**	(5,360)
Other (losses)/gains – net	**(8,309)**	128
Operating loss	**(12,927)**	(11,561)
Finance costs – net	**(16,491)**	(13,646)
Loss before income tax	**(29,418)**	(25,207)
Income tax credit	**6,472**	—
Loss for the period	**(22,946)**	(25,207)

Notes:

(a) Trade and other payables included amounts due to the Company of RMB131,963,000 (as at 31 December 2007: RMB117,980,000) which are unsecured, interest free, have no fixed terms of repayment and are primarily arise from the Company's purchases materials and payment of utilities charges on behalf of the jointly controlled entity.

(b) The jointly controlled entity had no commitment as at 30 June 2008. The Company's share of the commitments of the jointly controlled entity at 31 December 2007 amounted to RMB1,325,000.

(c) The jointly controlled entity had no contingent liability as at 30 June 2008 (as at 31 December 2007: Nil).

7 TRADE AND OTHER RECEIVABLES

	Unaudited As at 30 June 2008 RMB'000	Audited As at 31 December 2007 RMB'000
Trade receivables	140,641	124,944
Less: provisions for impairment	(5,546)	(5,670)
Trade receivables – net	135,095	119,274
Notes receivable	105,040	117,269
Prepayments	9,258	17,218
Other receivables		
– ultimate holding company *(note 19)*	—	9,773
– fellow subsidiaries *(note 19)*	3,620	138
– jointly controlled company *(note 19)*	131,963	117,980
– third parties	20,675	14,424
	156,258	142,315
Less: provisions for impairment	(5,231)	(5,231)
Other receivables – net	151,027	137,084
	400,420	390,845

The Company's sales are normally conducted on cash on delivery terms or a credit term of 30 days. Aging analysis of the trade receivables at the respective balance sheet date are as follows:

	Unaudited As at 30 June 2008 RMB'000	Audited As at 31 December 2007 RMB'000
0 - 30 days	38,068	40,387
31 - 90 days	39,982	23,489
91 - 365 days	60,929	59,157
Over 365 days	1,662	1,911
	140,641	124,944

8 BORROWINGS

	Unaudited As at 30 June 2008 RMB'000	Audited As at 31 December 2007 RMB'000
Non-current		
Long-term bank borrowings	**980,000**	1,030,000
Less: Current portion of long-term bank borrowings	**(280,000)**	(160,000)
	700,000	870,000
Current		
Short-term bank borrowings	**230,000**	363,000
Current portion of long-term bank borrowings	**280,000**	160,000
	510,000	523,000
Total borrowings	**1,210,000**	1,393,000

Movements in borrowings are analysed as follows:

	Unaudited RMB'000
Six months ended 30 June 2008	
At 1 January 2008	**1,393,000**
Drawn down	**130,000**
Repayments	**(313,000)**
At 30 June 2008	**1,210,000**
Six months ended 30 June 2007	
At 1 January 2007	1,202,645
Drawn down	363,000
Repayments	(262,645)
At 30 June 2007	1,303,000

8 BORROWINGS – *continued*

The Company's borrowings are repayable as follows:

	Unaudited As at 30 June 2008 RMB'000	Audited As at 31 December 2007 RMB'000
Within 1 year	**510,000**	523,000
Between 1 and 2 years	**570,000**	740,000
Between 2 and 5 years	**—**	35,000
Over 5 years	**130,000**	95,000
	1,210,000	1,393,000

9 TRADE AND OTHER PAYABLES

	Unaudited As at 30 June 2008 RMB'000	Audited As at 31 December 2007 RMB'000
Trade payables	**57,015**	58,428
Advance from customers	**9,047**	11,386
Payable for purchases of property, plant and equipment and accruals	**20,828**	42,891
Other payables and accruals		
– ultimate holding company *(note 19)*	**5,681**	13,559
– fellow subsidiaries *(note 19)*	**13,818**	13,091
– third parties	**33,091**	49,768
	52,590	76,418
Provision for staff welfare	**36,919**	35,150
	176,399	224,273

9 TRADE AND OTHER PAYABLES – *continued*

The aging analysis of the trade payables is as follows:

	Unaudited As at 30 June 2008 RMB'000	Audited As at 31 December 2007 RMB'000
0 – 30 days	**36,124**	33,205
31 – 90 days	**6,600**	7,109
91 – 365 days	**6,746**	12,007
Over 365 days	**7,545**	6,107
	57,015	58,428

10 DERIVATIVE FINANCIAL INSTRUMENTS

	Unaudited As at 30 June 2008 RMB'000	Audited As at 31 December 2007 RMB'000
Derivative financial liabilities		
– Interest rate swap contracts	**14,238**	—

Note:

The notional principal amounts of the related interest rate swap contracts amounted to RMB410,000,000, out of which interest rate swap contracts with notional principal amount of RMB280,000,000 and RMB130,000,000 will be matured in November 2009 and November 2015 respectively.

The directors consider that these derivative financial instruments do not qualify for hedge accounting. Accordingly, derivative financial liabilities of RMB14,238,000 have been recognised in the condensed balance sheet based on the fair value of these interest rate swap contracts as at 30 June 2008, with a corresponding fair value loss of the same amount being recognised as other losses in the condensed income statement for the six months then ended.

11 OTHER INCOME AND EXPENSES

	Unaudited Six months ended 30 June 2008 RMB'000	2007 RMB'000
Other income		
Rental income *(note)*	**35,675**	—
Amortisation of deferred income on government grants	**3,012**	3,012
Others	**3,387**	5,730
	42,074	8,742
Other expenses		
Provision for impairment of trade receivables	**(1,108)**	—
Direct outgoings in respect of rental income *(note)*	**(17,805)**	—
	(18,913)	—
	23,161	8,742

Note:

Pursuant to a leasing agreement dated 8 August 2007 (the "Lease Agreement"), the Company agreed to lease certain utilities (such as water, steam and electricity) production facilities including a thermal power plant (collectively the "Leased Assets") to a branch of the ultimate holding company (the "Branch") at rates as predetermined in the Lease Agreement. The initial term of the Lease Agreement will expire on 31 December 2009 and the term shall be automatically renewable for another three years. For the six months ended 30 June 2008, the rental income received or receivable from the Branch in respect of the leases of the Leased Assets amounted to RMB35,366,000 (2007: Not applicable). Outgoings in respect of the rental income comprise of depreciation on the Leased Assets and business tax on the related rental income of RMB14,780,000 (2007: Not applicable) and RMB3,025,000 (2007: Not applicable) respectively.

In August 2008, the Company has entered into an agreement with the Branch pursuant to which, the Lease Agreement will be terminated subject to the approval of the Company's independent shareholders and the fulfilment of certain conditions precedents as set out thereto (the "Termination Agreement"). After the termination of the Lease Agreement, the Company will manage and operate the Leased Assets to produce electricity and steam for its own manufacturing of acrylic fiber products and also for the provision of utilities to the Company's related companies.

12 OTHER LOSSES - NET

	Unaudited Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
Other gain		
Gain attributable to equity interests of a jointly controlled entity	**137**	137
Other losses		
Fair value losses on derivative financial instruments *(note 10)*	**(14,238)**	—
Exchange losses	**(1,720)**	(916)
	(15,958)	(916)
	(15,821)	(779)

13 LOSS BEFORE INCOME TAX

Loss before income tax is stated after charging the following:

	Unaudited Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
Deprecation	**65,840**	56,673
Amortisation of		
– land use rights	**941**	941
– intangible assets	**4,103**	4,103
Interest expenses on		
– bank borrowings	**52,617**	40,557
– discounted notes receivable	**5,079**	879
Less: interest expenses on bank borrowings capitalised in construction in progress	**—**	(5,724)
	57,696	35,712
Provision for impairment of inventories	**5,686**	—

14 INCOME TAXES

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 for the period (2007: Nil).

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the PRC (the "New CIT Law") which was with effect from 1 January 2008. Prior to the effective date of the New CIT Law, the enterprise income tax ("EIT") rate and local tax rate applicable to the Company were 30% and 3% respectively, resulting in an aggregate tax rate of 33%. The Company was not subject to local income tax prior to 2010. In addition, the Company was prequalified as an advanced technology company on 1 February 2005 and hence entitled to an additional three years 50% tax reduction for a three years period from 2005 to 2007. Therefore, the effective tax rate applicable to the Company for the three years ended 31 December 2007 was 15%. By reference to the New CIT Law, the EIT rate applicable to the Company starting from 1 January 2008 is 25%.

No provision for EIT and local tax has been made as the Company had no estimated tax assessable profit in the PRC for the period (2007: Nil).

The amount of income tax credited to the condensed income statement for the period represents the deferred income tax credits recognised primarily with respect to tax losses and fair value losses on derivative financial instruments of RMB25,974,000 and RMB3,559,000 respectively which have been partially offset by the deferred income tax charges on other temporary differences for the current period.

The Company's share of income tax credit of the jointly controlled entity of RMB6,472,000 (2007: Nil) are included in the Company's share of loss of the jointly controlled entity.

15 LOSS PER SHARE

Basic loss per share for the period ended 30 June 2008 and 2007 have been computed by dividing the loss for the period attributable to the equity holders of the Company by the weighted average number of shares in issue during the period of 866,250,000 (2007: 866,250,000) shares.

The Company has no dilutive potential ordinary shares and therefore the diluted loss per share is equal to the basic loss per share.

16 DIVIDEND

The board of directors of the Company has resolved not to declare any interim dividend for the period ended 30 June 2008 (2007: Nil).

17 COMMITMENTS

(a) Capital commitments

The Company does not have any capital commitment as at 30 June 2008 (as at 31 December 2007: Nil).

(b) Operating lease arrangements

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

	Unaudited As at 30 June 2008 RMB'000	Audited As at 31 December 2007 RMB'000
Property, plant and equipment		
Not later than 1 year	**64,959**	66,140
Later than 1 year and not later than 5 years	**207,695**	240,383
Later than 5 years	**—**	539
	272,654	307,062

The amount as disclosed above included the future minimum lease payments receivable in respect of the Leased Assets (note 11) for the period from 1 July 2008 to 31 December 2012 of approximately RMB272,654,000 (as at 31 December 2007: for the period from 1 January 2008 to 31 December 2012 of approximately RMB305,930,000). As mentioned in note 11 to the condensed interim financial information, the aforesaid operating lease arrangements may be terminated, subject to the approval of the Company's independent shareholders and the fulfillment of certain conditions precedents as set out in the Termination Agreement.

18 FINANCIAL GUARANTEE CONTRACTS

The Company has guaranteed the bank borrowings of the jointly controlled entity of RMB20,000,000 (as at 31 December 2007: RMB20,000,000) (the "Guarantee").

The directors consider that it is not probable for a claim to be made against the Company under the Guarantee as at the balance sheet date. The fair value of the guarantee contracts is not material and has not been recognised.

19 SIGNIFICANT RELATED-PARTY TRANSACTIONS

The Company is controlled by Jilin Qifeng Chemical Fiber Group Co., Ltd. ("JCF Groupco"), the ultimate holding company, which owns 50.01% of the Company's shares.

JCF Groupco 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.

For the purpose of related party transaction disclosures, the Company has identified, to the extent practicable, its customers and suppliers as to whether they are state-owned enterprises. Nevertheless, the directors believe that meaningful information in respect of related party transactions has been adequately disclosed.

In addition to those disclosed elsewhere in the condensed interim financial information, 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 period.

(a) Related party transactions

	Unaudited Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
Sales of goods to:		
– A promoter of the Company	**107,818**	180,221
– Other state-owned enterprises	**47,660**	51,650
Utility charges paid to:		
– A branch of the ultimate holding company	**(49,235)**	—
– Fellow subsidiaries	**(29)**	(1,724)
Purchases of raw materials from:		
– Fellow subsidiaries	**(1,607)**	(3,353)
– Other state-owned enterprises	**(387,614)**	(849,653)
Interest expenses paid to state-owned banks	**(51,946)**	(34,714)
Drawdown of loans from state-owned banks	**130,000**	163,000
Repayments of loans to state-owned banks	**(213,000)**	(162,705)

19 SIGNIFICANT RELATED-PARTY TRANSACTIONS – *continued*

(a) Related party transactions – *continued*

JCF Groupco allowed the Company to the use of the trademark "白山" (Baishan) at nil consideration during the six months ended 30 June 2008 and 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 cost of the canteen's operation.

(b) Related party balances

	Unaudited As at 30 June 2008 RMB'000	Audited As at 31 December 2007 RMB'000
Bank deposits with state-owned banks	**38,586**	139,544
Trade receivables from other state-owned enterprises	**4,574**	5,791
Other receivables		
– Ultimate holding company	**—**	9,773
– Fellow subsidiaries	**3,620**	138
– Jointly controlled entity	**131,963**	117,980
	135,583	127,891
Trade payables		
– A promoter of the Company	**—**	10,523
– Other state-owned enterprises	**29,482**	12,621
	29,482	23,144
Other payables and accruals		
– Ultimate holding company	**5,681**	13,559
– Fellow subsidiaries	**13,818**	13,091
– Other state-owned enterprises	**2,683**	—
	22,182	26,650
Bank borrowings from state-owned banks	**960,000**	1,030,000

Apart from bank deposits and bank loans, the receivables and payables with related parties are unsecured, interest free and have no fixed terms of repayment.

19 SIGNIFICANT RELATED-PARTY TRANSACTIONS – *continued*

(c) Key management compensation

	Unaudited	
	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
Salaries and other short-term employee benefits	**1,439**	1,785
Post-employment benefits	**11**	25
	1,450	1,810

20 COMPARATIVE FIGURES

The comparative figures for administrative expenses, other income, other expenses, other losses and finance costs as set out in the condensed income statement and the related notes thereto have been reclassified or extended to conform with the current period's presentation.

CORPORATE INFORMATION

DIRECTORS

Executive Directors

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

Non-executive Directors

Mr. Hao Peijun
Mr. Gong Jianzhong
Mr. Chen Jinkui
Mr. Jiang Junzhou
Mr. Zhang Yuchen

Independent non-executive Directors

Mr. Ye Yongmao
Mr. Mao Fengge
Mr. Lee Ka Chung, J.P.

SUPERVISORS

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

AUDIT COMMITTEE

Mr. Lee Ka Chung, J.P. *(Chairman)*
Mr. Jiang Junzhou
Mr. Ye Yongmao

BOARD REMUNERATION COMMITTEE

Mr. Mao Fengge *(Chairman)*
Mr. Lee Ka Chung, J.P.
Mr. Gong Jianzhong

NOMINATION COMMITTEE

Mr. Mao Fengge *(Chairman)*
Mr. Ye Yongmao
Mr. Chen Jinkui

CONNECTED TRANSACTIONS COMMITTEE

Mr. Mao Fengge *(Chairman)*
Mr. Lee Ka Chung, J.P.
Mr. Ye Yongmao

JOINT COMPANY SECRETARIES

Ms. Liu Xiangmei
Mr. Chan Cheung *HKICPA, FACCA*

QUALIFIED ACCOUNTANT

Mr. Chan Cheung *HKICPA, FACCA*

AUTHORISED REPRESENTATIVES

Mr. Wang Changsheng
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Orrick, Herrington & Sutcliffe LLP

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