# 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)

2009

Interim Report

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# FINANCIAL AND BUSINESS SUMMARY

## FINANCIAL SUMMARY

| | For the six months ended 30 June | | |
|---|---|---|---|
| | **2009** | 2008 | Change |
| | **RMB million** | RMB million | % |
| Revenue | **532.9** | 668.5 | -20.3 |
| Gross profit | **65.6** | 15.5 | +323.2 |
| Operating profit/(loss) | **60.2** | (27.2) | +321.3% |
| Share of profit/(loss) of a jointly controlled entity | **28.3** | (22.9) | +223.6% |
| Profit/(loss) attributable to equity holders of the Company | **45.2** | (83.3) | +154.3% |
| Earning/(loss) per share (RMB per share) | **0.05** | (0.10) | +150.0% |
| Gross profit margin | **12.3%** | 2.3% | +10.0 p.p |
| Net profit/(loss) margin | **8.5%** | (12.5)% | +21.0 p.p |

| | **As at 30 June 2009** | As at 31 December 2008 | |
|---|---|---|---|
| Current ratio | **62.9%** | 56.7% | +6.2 p.p |
| Gearing ratio | **58.8%** | 61.0% | -2.2 p.p |

p.p - percentage point

## FINANCIAL AND BUSINESS HIGHLIGHTS

- Profit attributable to equity holders of the Company was approximately RMB45.2 million, as compared to a loss of approximately RMB83.3 million for the same period in 2008.
- Revenue was approximately RMB533 million, representing a decrease of approximately 20.3% as compared to the same period in 2008, which was mainly attributable to a decrease in the average selling price for sales of acrylic fiber products, while partially offset by the increase in the sales volume.
- The overall gross profit margin of the Group increased substantially from 2.3% for the first six months in 2008 to 12.3% for the same period in 2009, which was mainly due to an improved price differential (i.e. the difference between the average selling price and the average purchase price of the major raw materials) on products sold.
- Sales volume and average selling price increased in the second quarter of 2009 have improved the overall profitability for the six months ended 30 June 2009.
- Production plant operated at an overall utilisation rate of approximately 75% for the six months ended 30 June 2009. At the end of June 2009, the Group's acrylic fiber plant was operating at its full production capacity.
- The Group's share of 50% of the attributable profit of Jilin Jimont Acrylic Fiber Co., Ltd. ("Jimont") for the six months ended 30 June 2009 under the equity method amounted to approximately RMB28.3 million (2008: share of loss of RMB22.9 million).

# MANAGEMENT DISCUSSION AND ANALYSIS

## MAJOR OPERATIONAL DATA

### 1. Revenue

| | For the six months ended 30 June | | | |
|---|---|---|---|---|
| | **2009** | | 2008 | |
| | **RMB million** | **%** | RMB million | % |
| Acrylic top | **215.5** | **40.4** | 259.8 | 38.9 |
| Acrylic tow | **133.0** | **25.0** | 146.3 | 21.9 |
| Acrylic staple fiber | **177.4** | **33.3** | 260.4 | 39.0 |
| Others* | **7.0** | **1.3** | 2.0 | 0.2 |
| Total | **532.9** | **100.0** | 668.5 | 100.0 |

### 2. Sales volume

| | For the six months ended 30 June | | | |
|---|---|---|---|---|
| | **2009** | | 2008 | |
| | **Tons** | **%** | Tons | % |
| Acrylic top | **17,494** | **39.4** | 15,711 | 37.5 |
| Acrylic tow | **11,207** | **25.3** | 9,250 | 22.1 |
| Acrylic staple fiber | **15,156** | **34.2** | 16,759 | 40.0 |
| Others* | **491** | **1.1** | 178 | 0.4 |
| Total | **44,348** | **100.0** | 41,898 | 100.0 |

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

| | For the six months ended 30 June | | | |
|---|---|---|---|---|
| | **2009** | | 2008 | |
| | **Average selling price RMB/ton** | **Gross profit margin %** | Average selling price RMB/ton | Gross profit margin % |
| Acrylic top | **12,319** | **10.78** | 16,536 | 3.4 |
| Acrylic tow | **11,867** | **14.18** | 15,816 | 2.1 |
| Acrylic staple fiber | **11,705** | **12.64** | 15,538 | 1.6 |
| Overall gross profit margin | | **12.3** | | 2.3 |

* *Refer to carbon fiber and acrylic fiber scrap*

# MANAGEMENT DISCUSSION AND ANALYSIS

## REVIEW AND OUTLOOK

### REVIEW

#### Market Review

According to the statistics from the National Statistics Bureau and China Customs, the production volume of acrylic fibers in the PRC was 341,800 tons for the six months ended 30 June 2009, representing an increase of 12.6%, as compared to the same period in the previous year. The sales-to-production ratio was 104.7%, indicating an improving sales environment for the acrylic fiber industry in the first half of 2009.

International oil prices dropped drastically since the end of 2008. The crude oil price was approximately US$61 per barrel in June 2009, representing a fall of approximately 50% from approximately US$122 per barrel for the same month in 2008. As a result of the sharp fall in crude oil prices, the price of acrylonitrile, a by-product of crude oil, also fell drastically. The average purchase price of acrylonitrile, the major raw material for the production of acrylic fiber, fell by approximately 44% from RMB12,480 per ton for the six months ended 30 June 2008 to RMB6,946 per ton for the same period in 2009.

On the other hand, the acrylic fiber industry undergone a prolonged depression period since the beginning of 2007, with the aggravation of the financial crisis in 2008, some acrylic fiber manufacturers had ceased production or reduced their production scale. Thus, the overall supply of acrylic fiber products in the PRC market was reduced as a result of this market cosolidation, hence alleviating the sales pressure significantly for the remaining acrylic fiber manufacturers.

Although the global economy has not yet completely recovered from the impact of the financial crisis, the demand in the acrylic fiber market started to increase. The relationship among sales volume, selling prices and costs demonstrates a much more positive business environment for acrylic fiber manufacturers.

#### Sales Review

For the six months ended 30 June 2009, the Group recorded sales revenue of approximately RMB533 million, representing a decrease of approximately 20.3% as compared to the same period in 2008.

During the period, sales volume was 44,348 tons, representing an increase of 5.8% as compared to the same period in 2008. The average selling price declined from RMB15,955 per ton in the first half of 2008 to RMB12,016 per ton in the six months ended 30 June 2009, representing a decrease of approximately 24.7%. The reduction in average selling price was mainly resulted from the falling prices of the major raw materials, acrylonitrile. There was an increase in both the sales volume and the average selling price in the second quarter as compared to that of the first quarter of 2009 which improved the overall financial performance of the Group for the six months ended 30 June 2009. The Group's acrylic fiber plant was operating at its full capacity at the end of June 2009.

# MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended 30 June 2009, the Group adjusted its production volume according to sales and market demand, and increased sales efforts to expand sales channels. Production volume and sales volume for the current period was 40,051 tons and 44,348 tons respectively, resulting in a sales-to-production ratio of approximately 111%. With the market opportunities arised after a rebound from depression, the Group continued to expand the PRC market and has also set an export target for developing the overseas markets. During the six months ended 30 June 2009, the Group's exports of acrylic staple fiber amounted to 403 tons. The Group conducted sales of its acrylic products to overseas markets including Bangladesh, Pakistan and Indonesia. With a proactive export strategy and the building of a "premium quality" brand image for the Group's products, a solid foundation was established for further expansion into the overseas markets.

## Operations Review

For the six months ended 30 June 2009, the Group maximised the utilisation of production capacity of its production facilities, in order to establish a foundation for its products to increase market shares. The Group also strengthened the execution and implementation of its internal operation systems, resulting in further enhancement of the Group's management, corporate culture and staff quality. Meanwhile, the Group also endeavoured to control costs and expenses and provided more staff trainings, so as to improve the operating efficiency and profitability of the Group.

The carbon fiber project achieved a breakthrough during the period. The trial production, with an annual capacity of 5,000 tons of carbon fiber polymers was commenced in March 2009. The trial production line for spin yarns (with an annual production capacity of 150 tons) had produced 145 tons of fibers with an output value of approximately RMB10 million during the period. The production line for the original liquid spin yarns is anticipated to commence production in August 2009, with a planned annual production capacity of 1,500 tons of T-300 grade polypropylene acrylic based carbon fiber. Certain production lines were converted for the production of polypropylene acrylic based carbon fibers in early 2009, the maximum production capacity of acrylic fiber was therefore reduced by 22% during the period. Research and development of air-conditioning fiber, flame retardant fiber and original liquid dyed fiber were carried out during the first half of the year, the air-conditioning fiber was proved to have a better spin quality after spinning test.

## Human Resources

As at 30 June 2009, the Group had 1,788 employees, representing an increase of approximately 54% as compared to 1,158 employees for the same period in 2008. The Group has managed and operated the thermal power plants with effect from November 2008 and led to the significant increase in the number of employees. Staff remuneration packages are determined with reference to prevailing market practices (including a performance-based incentive bonus). The Group has also provided ongoing trainings to its staff at all levels and offered training opportunities for the office staff to practise their skills in the factories operation in order to encourage multiple skill sets. For the six months ended 30 June 2009, the Group has provided trainings in the areas of production technology, product quality control, operation steps and processes, production safety and environmental protection to its employees.

## Outlook

Looking forward, the management expects that some uncertainties in the market will continue to exist in the second half of 2009. Nevertheless, with the continuous development of the PRC economy, the recovery of the textiles industry and the market opportunities in the acrylic fiber industry, the management remains cautiously optimistic. The Group expects the following new opportunities and prospects for its business:

1. Business environment remains optimistic: After the impact of the international financial crisis, the balance in the demand and supply conditions of the acrylic fiber industry were improved and led to a favourable turnaround in sales of acrylic fibers. The Group will continue to grasp business opportunities to expand overseas markets to strengthen its market influence. The management believes the Group will remain profitable in the second half of the year. The Group will increase its production volume further in the second half of the year to reduce average production costs and increase profit margins.

2. Breakthrough in industrial fiber research: The Group currently has a trial carbon fiber production line with annual production capacity of 150 tons. An application had been made to the National Development and Reform Commission (NDRC) for qualifying as a specialised project for high technology commercialisation of high performance fiber compound materials for its polypropylene acrylic based 5,000 tons carbon fiber project, which was approved by the NDRC on 26 March 2009. The phase one production of 1,500 tons of carbon fiber will be commenced by August 2009. In the start up stage of the carbon fiber industry in the PRC, the increasing number of domestic carbonisation manufacturers and substantial increase in downstream carbon fiber products and compound materials demand provide a solid base for the development of our Group's new carbon fiber business line. The Group will expand the annual production capacity to 5,000 tons of polypropylene acrylic based carbon fiber in the coming future.

3. Development of differential fiber: The Group will continue to develop differential fiber in order to improve its competitiveness in the domestic acrylic fiber market. The Group is currently producing five types of differential acrylic fibers, namely oerlikon fiber, high shrinkage staple, low pill fiber, dyed fiber and cashmere fiber, and is actively developing flame retardant fiber and original liquid dyed fiber. The management believes that differential acrylic fiber products will become one of the driving forces in the future development of the acrylic fiber industry in the PRC. The Group is well positioned to seize business opportunities for further boosting the Group's profitability.

4. Seek for opportunities to expand: The Group will take advantage of the opportunity of industry consolidation and utilise the Group's leading position in the industry to capture the right opportunities for expanding the acrylic fiber business further, in terms of both scale and market influence.

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL ANALYSIS

### Operation Results

For the six months ended 30 June 2009, the Group's revenue was approximately RMB533 million, representing a decrease of approximately 20.3% as compared to approximately RMB668 million for the same period in 2008. The decrease in revenue was mainly attributable to a decrease in the average selling price for sales of acrylic fiber products by approximately 24.7% following a substantial reduction in the raw material costs, while the sales volume increased by 5.8%. The Group's total production volume was 40,051 tons and sales volume was 44,348 tons during the period, resulting a sales-to-production ratio of approximately 111% (2008: 111%).

For the six months ended 30 June 2009, the profit attributable to equity holders of the Company was RMB45.2 million, as compared to a loss attributable to equity holders of the Company of approximately RMB83.3 million for the same period in 2008. The increase in profit attributable to equity holders of the Company was mainly attributable to a decrease in the purchase prices of acrylonitrile (following a substantial decrease in crude oil prices), resulting in a decrease in the average unit cost and an increase in gross profit and this benefited both the operations of the Group and its jointly controlled entity. As a result of a general improvement in the economic environment, the sales volume and the average selling price increased in the second quarter in 2009. There was an increase in the sales volume and the average selling price in the second quarter as compared to that of first quarter in 2009 which improved the overall profitability of the Group in the first half of the year. The price differential between the average selling price of the Group's acrylic fiber and the purchase price of acrylonitrile was RMB5,070 per ton for the six months ended 30 June 2009, representing an increase of 45.9% as compared to the same period in 2008 and this was mainly resulted from the lowered production costs of acrylic fiber products and therefore enhancing the Group's profitability. In addition, the Group has recognised an unrealised fair value gain of RMB17.5 million in respect of the reduction in the fair value of a liability associated with an interest swap contract which is accounted for as derivative financial instrument. In addition, the Group has started to manage and operate power plants starting from November 2008 and this generated a net income from the provision of utilities of approximately RMB23.7 million in the current period. The profit attributable to equity holders of the Company for the period under review also included the Group's 50% share of the profit of a jointly controlled entity of RMB28.3 million (For the same period of 2008: share of loss of RMB22.9 million).

The overall gross profit margin of the Group increased substantially from 2.3% for the first six months in 2008 to 12.3% for the same period in 2009. The increase was mainly due to a decrease in the average purchase price of acrylonitrile, the major raw material for the production of acrylic fiber products, to RMB6,946 per ton for the six months ended 30 June 2009 following a substantial decrease in crude oil prices, representing a decrease of 44.3% as compared to the average purchase price of RMB12,480 per ton for the same period in 2008. Meanwhile, the average selling price of acrylic fiber products decreased only by approximately 24.7% from RMB15,955 per ton in the six months ended 30 June 2008 to RMB12,016 per ton in the same period of 2009.

### Operating expenses (including distribution costs and administrative expenses)

Distribution costs increased from approximately RMB18.5 million for the six months ended 30 June 2008 to approximately RMB20.0 million for the same period in 2009. The increase in distribution costs was resulted from an increase in transportation costs. The decrease in administrative expenses by approximately RMB4.0 million in the current period is primarily due to certain research and development expenses in connection with the new carbon fiber business segment of approximately RMB3.5 million was incurred in the prior period.

### Other net income (representing net aggregated amount of other income, other expenses and other gains/(losses)-net)

Other net income increased from approximately RMB7.3 million for the six months ended 30 June 2008 to approximately RMB42.2 milion for the same period in 2009. The increase was mainly due to the net gains from the interest rate swap contract as recognised as derivative financial instrument of RMB13.0 million during the period (net loss of RMB14.2 million for the same period in 2008). Meanwhile, the Group has started to manage and operate power plants starting from November 2008 and this generated a net income from the provision of utilities of approximately RMB23.7 million in the current period. The Group had ceased the leases of certain utilities production facilities (including a power plant) to a branch of the ultimate holding company from November 2008, the relating rental income (net of direct outgoings) was therefore reduced by approximately RMB17.9 million as compared to the same period in 2008.

### Finance costs

Net finance costs decreased from approximately RMB56.8 million for the six months ended 30 June 2008 to approximately RMB37.1 million for the same period in 2009. The decrease in finance costs was resulted from the decrease in interest expenses on discounted notes receivables and the decrease in the overall borrowing interest rates when the bank borrowings were renewed.

### Share of profit of a jointly controlled entity

The Group's share of 50% of the attributable profit of Jilin Jimont Acrylic Fiber Co., Ltd. ("Jimont") for the six months ended 30 June 2009 under the equity method amounted to approximately RMB28.3 million (For the same period of 2008: share of loss of RMB22.9 million). The improved profitability was mainly resulted from the substantial reduction in raw material costs (primarily with respect to costs of acrylonitrile) and the significant increase in sales volume.

### Financial resources, liquidity and liability position

As at 30 June 2009, the Group's total assets and total liabilities were approximately RMB2.30 billion and RMB1.55 billion respectively. As at 30 June 2009, the Group's current liabilities exceeded its current assets by RMB423.5 million and its current ratio (calculated by dividing current assets by current liabilities) was approximately 62.9% (31 December 2008: 56.7%). The liquidity of the Group is primarily dependent on its ability to generate adequate cash inflow from operations and to obtain external financing and refinancing. The Group had bank and cash balances of approximately RMB142.6 million as at 30 June 2009.

As at 30 June 2009, the total bank loans of the Group amounted to RMB1,223 million, of which short-term bank loans together with the current portion of long-term bank loans amounted to approximately RMB893 million and the non-current portion of long-term bank loans was approximately RMB330 million.

As all of the Group'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 Group is only exposed to minimal foreign exchange risk and thus has not made any foreign currency hedging arrangement.

As at 30 June 2009, the Group's gearing ratio was approximately 58.8% (31 December 2008: 61.0%).

# MANAGEMENT DISCUSSION AND ANALYSIS

## Status of investments

### Joint venture

Jimont was established on 21 December 2005 and is currently owned by the Company, Montefiber S.p.A and SIMEST S.p.A as to 50%, 39.36% and 10.64% respectively. Jimont is principally engaged in the manufacturing and sales of acrylic fiber products. The annual production capacity of the first phase of Jimont's acrylic fiber project as completed in November 2006 was approximately 100,000 tons. The total production capacity of the joint venture may be further increased to approximately 150,000 tons. Nevertheless, no specific timetable has been concluded so far for implementing the second phase of the project.

For the six months ended 30 June 2009, the sales and production volumes of the joint venture were approximately 54,217 tons and 52,076 tons respectively, resulting in a sales-to-production ratio of 104%. The joint venture operated at its full production capacity during the current period. The net profit of the joint venture for the period was approximately RMB56.6 million (2008: loss of RMB 45.8 million) which was primarily attributable to the substantial reduction in raw material costs (primarily with respect to costs of acrylonitrile) and the significant increase in sales volume.

### Entrusted deposits and pledged time deposits

As at 30 June 2009, the Group did not hold any deposits under trusts in any financial institutions in the PRC. All of the Group's cash was held in commercial banks in the PRC in accordance with applicable laws and regulations. The Group had no bank deposits which cannot be withdrawn upon maturity.

### Pledged assets

As at 30 June 2009, certain property, plant and equipment and land use rights with net book values of approximately RMB751.1 million and RMB6.7 million respectively (31 December 2008: approximately RMB786.5 million and RMB7.3 million respectively) were pledged as securities for bank borrowings of RMB330 million (31 December 2008: RMB330 million).

### Contingent liabilities

The Group had no material contingent liabilities as at 30 June 2009.

### Dividend

The board of directors of the Company has resolved not to declare any interim dividend for the six months ended 30 June 2009 (30 June 2008: Nil).

# INFORMATION OF SHARE CAPITAL AND SUBSTANTIAL SHAREHOLDERS

## SHARE CAPITAL

As at 30 June 2009, 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 2009, 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"):

| 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 |
|---|---|---|---|---|---|---|---|---|
| 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 (%) | | | 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 | 26.00 | — | 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 indirectly held through Jilin Chemical Fiber Group Co., Ltd. under the SFO.
2. 94,841,726 Shares are deemed corporate interests indirectly held through Ronsace Company Limited under the SFO.
3. 44,029,105 Shares are deemed corporate interests indirectly held through Sanlink Investments Limited under the SFO.
4. 30,487,573 Shares are deemed corporate interests indirectly held through Halesfield Investment Limited under the SFO.

# OTHER INFORMATION

## INTERESTS OF DIRECTORS AND SUPERVISORS

As at 30 June 2009, 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 Group and reviewed the condensed consolidated interim financial information for the six months ended 30 June 2009.

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

During the six months ended 30 June 2009, the Company did not redeem any of its shares. Neither the Company, its subsidiary nor its jointly controlled entity has purchased or sold any of the listed securities of the Company during the six months ended 30 June 2009.

## COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

During the six months ended 30 June 2009, 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 2009, 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 CONSOLIDATED INTERIM BALANCE SHEET

AS AT 30 JUNE 2009

| | Note | Unaudited As at 30 June 2009 RMB'000 | Audited As at 31 December 2008 RMB'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Land use rights | | **27,639** | 28,580 |
| Property, plant and equipment | 5 | **1,284,927** | 1,333,730 |
| Intangible assets | 5 | **33,002** | 36,669 |
| Interest in a jointly controlled entity | 6 | **118,753** | 90,969 |
| Deferred income tax assets | | **120,059** | 126,304 |
| | | **1,584,380** | 1,616,252 |
| **Current assets** | | | |
| Inventories | | **153,371** | 157,571 |
| Trade and other receivables | 7 | **420,629** | 389,360 |
| Current income tax recoverable | | **1,893** | 1,893 |
| Cash and cash equivalents | | **142,616** | 108,282 |
| | | **718,509** | 657,106 |
| **Total assets** | | **2,302,889** | 2,273,358 |
| **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 | | **(283,731)** | (328,920) |
| Other reserves | | **31,919** | 31,919 |
| **Total equity** | | **756,915** | 711,726 |

## CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

AS AT 30 JUNE 2009

| | Note | Unaudited As at 30 June 2009 RMB'000 | Audited As at 31 December 2008 RMB'000 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Long-term bank borrowings | 8 | **330,000** | 330,000 |
| Deferred income | 9 | **73,998** | 73,508 |
| | | **403,998** | 403,508 |
| **Current liabilities** | | | |
| Trade and other payables | 10 | **234,943** | 233,624 |
| Short-term bank borrowings | 8 | **393,000** | 243,000 |
| Current portion of long-term bank borrowings | 8 | **500,000** | 650,000 |
| Derivative financial instrument | 11 | **14,033** | 31,500 |
| | | **1,141,976** | 1,158,124 |
| **Total liabilities** | | **1,545,974** | 1,561,632 |
| **Total equity and liabilities** | | **2,302,889** | 2,273,358 |
| **Net current liabilities** | | **(423,467)** | (501,018) |
| **Total assets less current liabilities** | | **1,160,913** | 1,115,234 |

The notes on pages 18 to 38 form an integral part of this condensed consolidated interim financial information.

# CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2009

| | Note | Unaudited Six months ended 30 June 2009 RMB'000 | 2008 RMB'000 |
|---|---|---|---|
| Revenue | 4 | **532,904** | 668,478 |
| Cost of sales | | **(467,340)** | (652,970) |
| **Gross profit** | | **65,564** | 15,508 |
| Distribution costs | | **(20,027)** | (18,497) |
| Administrative expenses | | **(27,515)** | (31,533) |
| Other income | 12 | **192,219** | 42,074 |
| Other expenses | 12 | **(162,788)** | (18,913) |
| Other gains/(losses) – net | 13 | **12,792** | (15,821) |
| **Operating profit/(loss)** | | **60,245** | (27,182) |
| Finance income | | **6,913** | 937 |
| Finance costs | | **(44,020)** | (57,696) |
| | | **23,138** | (83,941) |
| Share of profit/(loss) of a jointly controlled entity | | **28,296** | (22,946) |
| **Profit/(loss) before income tax** | 14 | **51,434** | (106,887) |
| Income tax (expense)/credit | 15 | **(6,245)** | 23,635 |
| **Profit/(loss) for the period** | | **45,189** | (83,252) |
| **Earnings/(losses) per share for profit/(loss) attributable to equity holders of the Company** | | | |
| – basic and diluted (expressed in RMB per share) | 16 | **0.05** | (0.10) |
| **Dividend** | 17 | **—** | — |

The notes on pages 18 to 38 form an integral part of this condensed consolidated interim financial information.

# CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2009

| | Unaudited | | | | |
|---|---|---|---|---|---|
| | Share capital RMB'000 | Share premium RMB'000 | Accumulated losses RMB'000 | Other reserves RMB'000 | Total RMB'000 |
| **At 1 January 2009** | 866,250 | 142,477 | (328,920) | 31,919 | 711,726 |
| Profit for the period | — | — | 45,189 | — | 45,189 |
| **At 30 June 2009** | 866,250 | 142,477 | (283,731) | 31,919 | 756,915 |
| **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 |

The notes on pages 18 to 38 form an integral part of this condensed consolidated interim financial information.

# CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2009

| | Unaudited<br>Six months ended 30 June | |
|---|---|---|
| | **2009**<br>**RMB'000** | 2008<br>RMB'000 |
| **Net cash from operating activities** | **99,072** | 149,738 |
| **Net cash used in investing activities** | **(22,430)** | (21,126) |
| **Net cash used in financing activities** | **(42,308)** | (235,617) |
| **Net increase/(decrease) in cash and cash equivalents** | **34,334** | (107,005) |
| Cash and cash equivalents at beginning of the period | **108,282** | 158,406 |
| **Cash and cash equivalents at end of the period** | **142,616** | 51,401 |

The notes on pages 18 to 38 form an integral part of this condensed consolidated interim financial information.

## 1 GENERAL INFORMATION

Jilin Qifeng Chemical Fiber Co., Ltd. (the "Company") and its subsidiary (collectively the "Group") is principally engaged in the production and sales of different types of acrylic fiber products (namely acrylic top, acrylic tow and acrylic staple fiber) and the development, production and sales of carbon fiber products.

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 its 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 consolidated interim financial information has been approved for issue by the Board of Directors of the Company on 27 August 2009.

This condensed consolidated interim financial information has not been audited.

## 2 BASIS OF PREPARATION

As at 30 June 2009, the Group's current liabilities exceeded its current assets by RMB423,467,000 and the bank borrowings as included in the Group's current liabilities amounted to RMB893,000,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

The Company's directors are of the opinion that the Group will be able to finance its future financing requirements and working capital based on the considerations as set out below:

(a) The Group is expected to be profitable and hence generating cash inflows from its business operations in view of the recent stabilised low prices of acrylonitrile (the major raw materials for the Group's productions) and the expected favorable returns from the new business segment (the carbon fiber products segment) which will commence operation in the second half of 2009.

(b) The ultimate parent company has confirmed its intention and ability to provide continuing financial support to the Group so as to enable it to meet its liabilities as and when they fall due and to carry on its business for the foreseeable future.

(c) The Group has maintained its strong business relationship with its principal bankers to gain their ongoing support. The Company has already obtained a standby facility from a principal banker for a period up to February 2010 and this committed facility is to be guaranteed by Jilin Chemical Fiber Group Co., Ltd. ("JCF Group Co"), the Company's state-owned ultimate parent company.

    In addition, the Group has also been actively discussing with other principal bankers for the renewal of certain banking facilities maturing within the next twelve months from the balance sheet date (the "Maturing Borrowings"). Those principal bankers have indicated their willingness to renew the Maturing Borrowings upon their original maturities for terms of not less than another one year. The Company's directors believe that formal and binding facility letters will be entered into with the respective principal bankers upon the original maturity dates of the related borrowings.

## 2 BASIS OF PREPARATION – *continued*

The Company's directors are confident that the Group will continue to obtain the ongoing support from its principal bankers and the ultimate parent company and the Group will continue to achieve favorable financial results and cash inflows from its future operations, and there will be sufficient financial resources to cover the Group's operating costs and to meet its financing commitments. In view of the above, the Company's directors have prepared the condensed consolidated interim financial information on a going concern basis. The condensed consolidated interim financial information do not include any adjustments that would result from the failure to obtain such ongoing support from the Group's principal bankers and ultimate parent company and to generate sufficient cash flows from the Group's future operations.

The condensed consolidated interim financial information for the six months ended 30 June 2009 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting". The condensed consolidated interim financial information should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2008, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

## 3 ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the Group's annual consolidated financial statements for the year ended 31 December 2008, as described in those annual consolidated financial statements.

The Group has adopted the following standards, amendments and interpretations to published standards issued by the Hong Kong Institutes of Certified Public Accountants ("HKICPA") which are mandatory for the first time for the financial year beginning on or after 1 January 2009:

| | |
|---|---|
| HKAS 1 (Revised) | Presentation of Financial Statements |
| HKFRS 8 | Operating Segments |
| HKFRS 7 (Amendment) | Financial Instruments: Disclosures |
| HKAS 23 (Amendment) | Borrowing Costs |
| HKFRS 2 (Amendment) | Share-based Payment |
| HKAS 32 (Amendment) | Financial Instruments: Presentation |
| HK(IFRIC) Int – 9 and HKAS 39 (Amendment) | Reassessment of Embedded Derivatives and Financial Instruments: Recognition and Measurement |
| HK(IFRIC) Int – 13 | Customer Loyalty Programmes |
| HK(IFRIC) Int – 15 | Agreements for the Construction of Real Estate |
| HK(IFRIC) Int – 16 | Hedges of a Net Investment in a Foreign Operation |
| HKAS 39 (Amendment) | Financial Instruments: Recognition and Measurement |

Except for the new requirements of HKAS 1 (Revised) and HKFRS 8 as described below, the adoption of the abovementioned new or revised standards, amendments and interpretations did not result in any substantial changes to the Group's significant accounting policies and presentation of the condensed consolidated interim financial information.

## 3 ACCOUNTING POLICIES – *continued*

HKAS 1 (Revised)

HKAS 1 (Revised) prohibits the presentation of items of income and expenses (that is "non-owner changes in equity") in the statement of changes in equity and requires "non-owner changes in equity" to be presented separately from owner changes in equity. All "non-owner changes in equity" are required to be shown in a performance statement. Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). The Group has not prepared a separate condensed consolidated interim income statement because it is identical to the condensed consolidated interim statement of comprehensive income.

HKFRS 8

HKFRS 8 replaces HKAS 14 "Segment Reporting". It requires a "management approach" under which segment information is presented on the same basis as that used for internal reporting purposes. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The Group's chief operating decision-makers and the reportable segments as identified under the requirements of HKFRS 8 have been set out in Note 4 to the condensed consolidated interim financial information.

The HKICPA has also issued the following new or revised standards, amendments or interpretations which are not yet effective for the financial year beginning 1 January 2009:

| | | Effective for accounting periods beginning on or after |
|---|---|---|
| **Relevant to the Group's operations** | | |
| HKAS 1 (Amendment) | Presentation of Financial Statements | 1 January 2010 |
| HKAS 7 (Amendment) | Statement of Cash Flows | 1 January 2010 |
| HKFRS 8 (Amendment) | Operating Segments | 1 January 2010 |
| HKAS 17 (Amendment) | Leases | 1 January 2010 |
| HKAS 39 (Amendment) | Financial Instruments: Recognition and Measurement | 1 January 2010 |
| **Not currently relevant to the Group's operations** | | |
| HKFRS 3 (Revised) | Business Combinations | 1 July 2009 |
| HK(IFRIC) Int – 17 | Distributions of Non-cash Assets to Owners | 1 July 2009 |
| HK(IFRIC) Int – 18 | Transfers of Assets from Customers | 1 July 2009 |
| HKFRS 2 (Amendment) | Share-based Payments | 1 July 2009 |
| HKFRS 5 (Amendment) | Non-current Assets Held for Sale and Discontinued Operations | 1 January 2010 |
| HKAS 36 (Amendment) | Impairment of Assets | 1 January 2010 |
| HKAS 38 (Amendment) | Intangible Assets | 1 July 2009 |
| HKAS 39 (Amendment) | Financial Instruments: Recognition and Measurement | 1 July 2009 |
| HK(IFRIC) Int – 9 (Amendment) | Reassessment of Embedded Derivatives | 1 July 2009 |
| HK(IFRIC) Int – 16 (Amendment) | Hedges of a Net Investment in a Foreign Operation | 1 July 2009 |

## 3 ACCOUNTING POLICIES – *continued*

The Group has not early adopted the above new or revised standards, amendments or interpretations in this condensed consolidated interim financial information and will apply these new or revised standards or interpretations in accordance with their respective effective dates. The Group has already commenced an assessment of the related impact to the Group. The Group is not yet in a position to state whether any substantial changes to the Group's significant accounting policies or presentation of the Group's financial statements will be resulted.

## 4 SEGMENT INFORMATION

The chief operating decision-makers have been identified as the three Executive Directors of the Company (including the General Manager and the Chief Financial Officer of the Company) (collectively the "Decision-Makers"). The Decision-Makers review the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The Group is principally engaged in the development, production and sales of chemical fiber, namely acrylic fiber and carbon fiber products. As of 30 June 2009, the operating segment for carbon fiber products is still on a trial operation stage and management anticipates that the full operation of this operating segment will only be commenced in the second half of 2009.

All of the Group's operations and assets are located in the PRC except that, a portion of the Group's revenue of RMB16,802,000 (six months ended 30 June 2008: RMB27,461,000) was in connection with sales to overseas customers. Therefore, the Decision-Makers only consider the Group's business from a product perspective, rather than from a geographic perspective. The Decision-Makers assess the performance of the operating segments of acrylic fiber products and carbon fiber products on a regular basis.

The Decision-Makers primarily assess the performance of the operating segments based on a measure of adjusted segment results which are before interest, tax, depreciation and amortisation. This measurement basis excludes the effects of non-recurring expenditure from the operating segments (such as legal expenses and impairments when the impairment is the result of an isolated, non-recurring event). Interest income and expenditure are not included in the result for each operating segment that is reviewed by the Decision-Makers.

Total assets exclude deferred income tax assets and current income tax recoverable which are both managed on a central basis.

Turnover for the six months ended 30 June 2009 consists of sales from the acrylic fiber products segment and carbon fiber products segment of RMB530,637,000 (six months ended 30 June 2008: RMB668,478,000) and RMB2,267,000 (six months ended 30 June 2008: Not applicable) respectively.

The Group does not have any inter-segment sales during the period.

## 4 SEGMENT INFORMATION – *continued*

| | Unaudited | | |
|---|---|---|---|
| | Acrylic fiber products RMB'000 | Carbon fiber products RMB'000 | Total Group RMB'000 |
| **Six months ended 30 June 2009** | | | |
| Total revenue from external customers | 530,637 | 2,267 | 532,904 |
| **Adjusted segment results (Note)** | 111,542 | 630 | 112,172 |
| Depreciation and amortisation | (67,594) | (1,800) | (69,394) |
| Fair value gain on derivative financial instrument | 17,467 | – | 17,467 |
| Operating profit/(loss) | 61,415 | (1,170) | 60,245 |
| Finance income | 6,913 | – | 6,913 |
| Finance costs | (44,020) | – | (44,020) |
| Share of profit of a jointly controlled entity | 28,296 | – | 28,296 |
| Profit/(loss) before income tax | 52,604 | (1,170) | 51,434 |
| Income tax (expense)/credit | (6,537) | 292 | (6,245) |
| Net profit/(loss) for the period | 46,067 | (878) | 45,189 |
| Additions to non-current assets (other than deferred income tax assets) | 8,762 | 8,082 | 16,844 |
| **Six months ended 30 June 2008** | | | |
| Total revenue from external customers | 668,478 | – | 668,478 |
| **Adjusted segment results** | 56,383 | – | 56,383 |
| Depreciation and amortisation | (70,884) | – | (70,884) |
| Fair value loss on derivative financial instrument | (12,681) | – | (12,681) |
| Operating loss | (27,182) | – | (27,182) |
| Finance income | 937 | – | 937 |
| Finance costs | (57,696) | – | (57,696) |
| Share of loss of a jointly controlled entity | (22,946) | – | (22,946) |
| Loss before income tax | (106,887) | – | (106,887) |
| Income tax credit | 23,635 | – | 23,635 |
| Net loss for the period | (83,252) | – | (83,252) |
| Additions to non-current assets (other than deferred income tax assets) | 2,307 | – | 2,307 |

## 4 SEGMENT INFORMATION – *continued*

*Note:*

As detailed out in Note 12, the Group has managed and operated certain Utility Facilities and Leased Assets starting from November 2008 with the primary aim to produce electricity and steam for its own production of acrylic fiber and carbon fiber products at the most cost efficient manner and any surplus of utilities as generated from the Utility Facilities and Leased Assets will be provided to fellow subsidiaries, jointly controlled entity and third parties at rates to be determined amongst the parties concerned. The adjusted segment result as disclosed above for the acrylic fiber products segment included an amount of RMB35,323,000 (six months ended 30 June 2008: Not applicable), representing the related income net of direct outgoings (other than depreciation charge), which is attributable to the provisions of surplus utilities to fellow subsidiaries, jointly controlled entity and third parties.

| | Unaudited | | |
|---|---|---|---|
| | Acrylic fiber products RMB'000 | Carbon fiber products RMB'000 | Total Group RMB'000 |
| **As at 30 June 2009** | | | |
| Total assets | 2,104,049 | 76,888 | 2,180,937 |
| Total assets include: | | | |
| Interest in a jointly controlled entity | 118,753 | – | 118,753 |
| **As at 31 December 2008** | | | |
| Total assets | 2,070,160 | 75,001 | 2,145,161 |
| Total assets include: | | | |
| Interest in a jointly controlled entity | 90,969 | – | 90,969 |

## 5 PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

| | Unaudited | |
|---|---|---|
| | Property, plant and equipment RMB'000 | Intangible assets RMB'000 |
| Net book amount at 1 January 2009 | 1,333,730 | 36,669 |
| Additions | 16,844 | — |
| Disposals | (861) | — |
| Depreciation and amortisation | (64,786) | (3,667) |
| Net book amount at 30 June 2009 | 1,284,927 | 33,002 |
| Net book amount at 1 January 2008 | 1,535,288 | 49,237 |
| Additions | 2,307 | — |
| Depreciation and amortisation | (65,840) | (4,103) |
| Net book amount at 30 June 2008 | 1,471,755 | 45,134 |

As at 30 June 2009, the accumulated impairment losses on property, plant and equipment and intangible assets amounted to RMB89,066,000 (31 December 2008: RMB89,066,000) and RMB4,362,000 (31 December 2008: RMB4,362,000) respectively.

## 6 INTEREST IN A JOINTLY CONTROLLED ENTITY

| | Unaudited Six months ended 30 June | |
|---|---|---|
| | **2009** | 2008 |
| | **RMB'000** | RMB'000 |
| At 1 January | **90,969** | 162,222 |
| Share of profit/(loss) | **28,296** | (22,946) |
| Others | **(512)** | 136 |
| At 30 June | **118,753** | 139,412 |

The Group has a 50% equity interest in a jointly controlled entity, Jilin Jimont Acrylic Fiber Co., Ltd., ("Jimont"), established in the PRC and its principal activity is the manufacturing and sales of acrylic fiber products. The following is the extract of the financial information of the jointly controlled entity and the respective 50% interest shared by the Group:

**Balance sheet**

| | **Unaudited As at 30 June 2009** | | Audited As at 31 December 2008 | |
|---|---|---|---|---|
| | **Jimont** | **50% shared by the Group** | Jimont | 50% shared by the Group |
| | **RMB'000** | **RMB'000** | RMB'000 | RMB'000 |
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Land use rights | **24,804** | **12,402** | 25,068 | 12,534 |
| Property, plant and equipment | **948,176** | **474,088** | 979,630 | 489,815 |
| Intangible assets | **30,304** | **15,152** | 31,076 | 15,538 |
| Deferred income tax assets | **26,080** | **13,040** | 37,361 | 18,681 |
| | **1,029,364** | **514,682** | 1,073,135 | 536,568 |
| **Current assets** | | | | |
| Inventories | **82,700** | **41,350** | 69,187 | 34,594 |
| Trade and other receivables | **107,594** | **53,797** | 105,881 | 52,940 |
| Current income tax recoverable | **—** | **—** | 7,034 | 3,517 |
| Cash and cash equivalents | **95,792** | **47,896** | 52,777 | 26,388 |
| | **286,086** | **143,043** | 234,879 | 117,439 |
| **Total assets** | **1,315,450** | **657,725** | 1,308,014 | 654,007 |

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

| | **Unaudited As at 30 June 2009** | | Audited As at 31 December 2008 | |
|---|---|---|---|---|
| | **Jimont RMB'000** | **50% shared by the Group RMB'000** | Jimont RMB'000 | 50% shared by the Group RMB'000 |
| **EQUITY** | | | | |
| **Capital and reserves attributable to equity holders** | | | | |
| Paid-in capital | **450,000** | **225,000** | 450,000 | 225,000 |
| Accumulated losses | **(202,188)** | **(101,094)** | (258,779) | (129,390) |
| **Total equity** | **247,812** | **123,906** | 191,221 | 95,610 |
| **LIABILITIES** | | | | |
| Non-current liabilities | | | | |
| Long-term bank borrowings | **584,520** | **292,260** | 584,520 | 292,260 |
| **Current liabilities** | | | | |
| Trade and other payables (note a) | **260,000** | **130,000** | 283,640 | 141,820 |
| Short-term bank borrowings | **140,000** | **70,000** | — | — |
| Current portion of long-term bank borrowings | **70,000** | **35,000** | 230,000 | 115,000 |
| Derivative financial instrument | **13,118** | **6,559** | 18,633 | 9,317 |
| | **483,118** | **241,559** | 532,273 | 266,137 |
| **Total liabilities** | **1,067,638** | **533,819** | 1,116,793 | 558,397 |
| **Total equity and liabilities** | **1,315,450** | **657,725** | 1,308,014 | 654,007 |
| **Jointly controlled entity's capital commitments** | **—** | **—** | — | — |

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

### Income statement

| | **Unaudited For the six months ended 30 June 2009** | | Unaudited For the six months ended 30 June 2008 | |
|---|---|---|---|---|
| | **Jimont RMB'000** | **50% shared by the Group RMB'000** | Jimont RMB'000 | 50% shared by the Group RMB'000 |
| Revenue | **635,252** | **317,626** | 539,764 | 269,882 |
| Cost of sales | **(507,250)** | **(253,625)** | (527,550) | (263,775) |
| **Gross loss** | **128,002** | **64,001** | 12,214 | 6,107 |
| Distribution costs | **(22,806)** | **(11,403)** | (14,114) | (7,057) |
| Administrative expenses | **(9,384)** | **(4,692)** | (7,336) | (3,668) |
| Other gains/(losses) -net | **6,074** | **3,037** | (16,618) | (8,309) |
| Other expenses -net | **(372)** | **(186)** | — | — |
| **Operating profit/(loss)** | **101,514** | **50,757** | (25,854) | (12,927) |
| Finance costs – net | **(33,640)** | **(16,820)** | (32,982) | (16,491) |
| **Profit/(loss) before income tax** | **67,874** | **33,937** | (58,836) | (29,418) |
| Income tax (expense)/credit | **(11,282)** | **(5,641)** | 12,944 | 6,472 |
| **Profit/(loss) for the period** | **56,592** | **28,296** | (45,892) | (22,946) |

*Notes:*

(a) Trade and other payables included amounts due to the Company of RMB164,013,000 (31 December 2008: RMB163,268,000) which are primarily arise from the provision of utilities to the jointly controlled entity and the purchases of raw materials and payments of certain production costs on behalf of the jointly controlled entity. The Group's amounts due from the jointly controlled entity (Note 7) are unsecured and have no fixed terms of repayment. The balances become interest bearing in April 2009 and interest is calculated based on the one-year basic call rate as pronounced by the People's Bank of China, with retrospective effect starting from 1 January 2008. The related interest expenses as recognised in the interim financial information of the jointly controlled entity for the six months ended 30 June 2009 amounted to RMB6,474,000 (2008: Not applicable).

(b) The jointly controlled entity has no contingent liability as at 30 June 2009 (31 December 2008: Nil).

## 7 TRADE AND OTHER RECEIVABLES

| | Unaudited As at 30 June 2009 RMB'000 | Audited As at 31 December 2008 RMB'000 |
|---|---|---|
| Trade receivables *(Note a)* | | |
| – fellow subsidiaries *(Note 20)* | 23,593 | 22,429 |
| – a shareholder of the Company *(Note 20)* | 1,120 | — |
| – third parties | 64,830 | 96,117 |
| | 89,543 | 118,546 |
| Less: provisions for impairment | (15,642) | (17,341) |
| Trade receivables – net | 73,901 | 101,205 |
| Notes receivable | 53,375 | 88,118 |
| Prepayments | 42,000 | 18,590 |
| Other receivables | 27,027 | 16,898 |
| Less: provisions for impairment | (9,215) | (7,516) |
| Other receivables – net | 17,812 | 9,382 |
| Amounts due from *(Notes b and 20)* | | |
| – ultimate parent company | — | 7,158 |
| – fellow subsidiaries | 69,528 | 1,639 |
| – jointly controlled company *(Note 6(a))* | 164,013 | 163,268 |
| | 420,629 | 389,360 |

*Notes:*

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

| | Unaudited As at 30 June 2009 RMB'000 | Audited As at 31 December 2008 RMB'000 |
|---|---|---|
| 0 - 30 days | 42,971 | 43,887 |
| 31 - 90 days | 2,171 | 10,857 |
| 91 - 365 days | 29,896 | 47,656 |
| Over 365 days | 14,505 | 16,146 |
| | 89,543 | 118,546 |

(b) Except for the amounts due from the jointly controlled entity which bear interest at the one-year basic call rate as pronounced by the People's Bank of China, the amounts due from related companies are unsecured, interest free and have no fixed terms of repayment.

## 8 BORROWINGS

| | Unaudited As at 30 June 2009 RMB'000 | Audited As at 31 December 2008 RMB'000 |
|---|---|---|
| **Non-current** | | |
| Long-term bank borrowings | **830,000** | 980,000 |
| Less: Current portion of long-term bank borrowings | **(500,000)** | (650,000) |
| | **330,000** | 330,000 |
| **Current** | | |
| Short-term bank borrowings | **393,000** | 243,000 |
| Current portion of long-term bank borrowings | **500,000** | 650,000 |
| | **893,000** | 893,000 |
| **Total borrowings** | **1,223,000** | 1,223,000 |

Movements in borrowings are analysed as follows:

| | Unaudited 2009 RMB'000 | Unaudited 2008 RMB'000 |
|---|---|---|
| At 1 January | **1,223,000** | 1,393,000 |
| Drawn down | **190,000** | 130,000 |
| Repayments | **(190,000)** | (313,000) |
| At 30 June | **1,223,000** | 1,210,000 |

The Group's borrowings are repayable as follows:

| | Unaudited As at 30 June 2009 RMB'000 | Audited As at 31 December 2008 RMB'000 |
|---|---|---|
| Within 1 year | **893,000** | 893,000 |
| Between 2 and 5 years | **200,000** | 200,000 |
| Over 5 years | **130,000** | 130,000 |
| | **1,223,000** | 1,223,000 |

## 9 DEFERRED INCOME

As at 30 June 2009, deferred income represents the unamortised amounts of certain government grants as received by the Group for the constructions of certain property, plant and equipment and income tax credits in connection with the purchases of certain domestically manufactured equipment of RMB57,862,000 (31 December 2008: RMB56,480,000) and RMB16,136,000 (31 December 2008: RMB17,028,000) respectively.

## 10 TRADE AND OTHER PAYABLES

| | **Unaudited As at 30 June 2009 RMB'000** | Audited As at 31 December 2008 RMB'000 |
|---|---|---|
| Trade payables | **86,437** | 83,585 |
| Advance from customers | **35,825** | 19,259 |
| Payable for purchases of property, plant and equipment | **26,709** | 42,269 |
| Other payables and accruals | | |
| – ultimate parent company *(Notes b and 20)* | **16,085** | — |
| – fellow subsidiaries *(Notes b and 20)* | **1,452** | 6,849 |
| – a shareholder of the Company *(Notes b and 20)* | **—** | 1,540 |
| – third parties | **36,453** | 47,725 |
| | **53,990** | 56,114 |
| Provision for staff welfare | **31,982** | 32,397 |
| | **234,943** | 233,624 |

*Notes:*

(a) Ageing analysis of the trade payables at the respective balance sheet date are as follows:

| | **Unaudited As at 30 June 2009 RMB'000** | Audited As at 31 December 2008 RMB'000 |
|---|---|---|
| 0 - 30 days | **70,604** | 25,629 |
| 31 - 90 days | **4,106** | 30,156 |
| 91 - 365 days | **6,009** | 17,719 |
| Over 365 days | **5,718** | 10,081 |
| | **86,437** | 83,585 |

(b) The other payables to related companies are unsecured, interest free and have no fixed terms of repayment.

## 11 DERIVATIVE FINANCIAL INSTRUMENT

| | **Unaudited As at 30 June 2009 RMB'000** | Audited As at 31 December 2008 RMB'000 |
|---|---|---|
| Derivative financial liability | | |
| – Interest rate swap contract | **14,033** | 31,500 |

*Note:*

The derivative financial liability represents an interest rate swap contract with notional principal amount of RMB130,000,000, maturing in November 2015. The interest rate swap contract has been recognised in the condensed consolidated interim balance sheet based on its fair value as at the respective balance sheet date.

In September 2008, the Group has early terminated another interest rate swap contract with notional principal amount of RMB280,000,000 which was originally maturing in November 2009.

The Company's directors consider that the abovementioned interest rate swap contracts do not qualify for hedge accounting. Accordingly, the realised losses and the unrealised gain associated with these derivative financial instruments of RMB4,434,000 (six months ended 30 June 2008: RMB1,557,000) and RMB17,467,000 (six months ended 30 June 2008: loss of RMB12,681,000) respectively have been recognised as other gains/(losses) – net in the condensed consolidated interim statement of comprehensive income for the six months ended 30 June 2009 (Note 13).

## 12 OTHER INCOME AND EXPENSES

| | Unaudited Six months ended 30 June | |
|---|---|---|
| | **2009** | 2008 |
| | **RMB'000** | RMB'000 |
| Other income | | |
| Rental income *(note a)* | **—** | 35,675 |
| Income from provision of utilities *(note b)* | **186,405** | — |
| Amortisation of deferred income | **3,012** | 3,012 |
| Others | **2,802** | 3,387 |
| | **192,219** | 42,074 |
| Other expenses | | |
| Direct outgoings in respect of | | |
| – rental income *(note a)* | **—** | (17,805) |
| – provision of utilities *(note b)* | **(162,699)** | — |
| Provision for impairment of trade receivables | **—** | (1,108) |
| Others | **(89)** | — |
| | **(162,788)** | (18,913) |

*Notes:*

(a) Pursuant to a leasing agreement dated 8 August 2007 (the "Lease Agreement"), the Group agreed to lease certain utilities (such as water, steam and electricity) production facilities including a thermal power plant (collectively the "Utility Facilities") to a branch of the ultimate parent company (the "Branch") at rates as predetermined in the Lease Agreement. The initial term of the Lease Agreement would expire on 31 December 2009. Subsequently, the Group has agreed with the Branch for the early termination of the leases of those Utility Facilities with effect from November 2008. The rental income recognised for the six months ended 30 June 2008 in respect of those Utility Facilities amounted to RMB35,366,000 and the direct outgoings in respect of those rental income comprise of depreciation on the Utility Facilities and business tax on the related rental income of RMB14,780,000 and RMB3,025,000 respectively.

After the termination of the Lease Agreement, the Group has managed and operated the Utility Facilities to produce electricity and steam for its own production.

(b) On 26 August 2008, the Group has entered into a lease agreement with a fellow subsidiary pursuant to which, the Group leases certain utilities production facilities (the "Leased Assets") from the fellow subsidiary for the period from 4 November 2008 to 31 December 2010 and the lease term is renewable for another three years. Combined with the utilities production capacities of the Utility Facilities (Note 12(a)), management believes that the Group can produce electricity and steam for its own production in a more cost efficient manner and the any surplus of utilities as generated from the Utility Facilities and the Leased Assets will be provided to the Group's fellow subsidiaries, jointly controlled entity and third parties at the rates to be determined amongst the parties concerned.

For the six months ended 30 June 2009, the income from the provisions of utilities to the fellow subsidiaries, jointly controlled entity and third parties amounted to RMB103,625,000 (six months ended 30 June 2008: Not applicable), RMB66,763,000 (six months ended 30 June 2008: Not applicable) and RMB16,017,000 (six months ended 30 June 2008: Not applicable) respectively. Direct outgoings in respect of the income from provision of utilities primarily comprise of cost of raw materials, apportioned operating lease rentals for the Leased Assets, depreciation of the Utility Facilities and related staff costs of RMB128,589,000 (six months ended 30 June 2008: Not applicable), RMB13,563,000 (six months ended 30 June 2008: Not applicable), RMB11,617,000 (six months ended 30 June 2008: Not applicable) and RMB5,395,000 (six months ended 30 June 2008: Not applicable) respectively.

## 13 OTHER GAINS/(LOSSES) – NET

| | Unaudited Six months ended 30 June | |
|---|---|---|
| | **2009** | 2008 |
| | **RMB'000** | RMB'000 |
| Other gains | | |
| Gain attributable to equity interests of a jointly controlled entity | **137** | 137 |
| Net gain on derivative financial instrument | **13,033** | — |
| Others | **88** | — |
| | **13,258** | 137 |
| Other losses | | |
| Net loss on derivative financial instruments | **—** | (14,238) |
| Foreign exchange losses, net | **(91)** | (1,720) |
| Loss on disposals of property, plant and equipment | **(375)** | — |
| | **(466)** | (15,958) |
| | **12,792** | (15,821) |

## 14 PROFIT/(LOSS) BEFORE INCOME TAX

Profit/(loss) before income tax is stated after charging the following:

| | Unaudited Six months ended 30 June | |
|---|---|---|
| | **2009** | 2008 |
| | **RMB'000** | RMB'000 |
| Changes in inventories of finished goods and work in progress | **(20,378)** | 131,196 |
| Raw materials used | **422,159** | 461,745 |
| | **401,781** | 592,941 |
| Depreciation *(note 5)* | **64,786** | 65,840 |
| Amortisation of | | |
| – land use rights | **941** | 941 |
| – intangible assets *(note 5)* | **3,667** | 4,103 |
| Interest expenses on | | |
| – bank borrowings | **42,748** | 52,617 |
| – discounted notes receivables | **1,272** | 5,079 |
| | **44,020** | 57,696 |
| Provision for impairment of inventories | **—** | 5,686 |

## 15 INCOME TAXES

No provision for Hong Kong profits tax has been made as the Group did not carry out any business or generate any assessable profits in Hong Kong for the current and the prior periods.

By reference to the Corporate Income Tax Law of the PRC as approved by the National People's Congress, the corporate income tax rate applicable to the Company for the current and the prior period is 25%. The corporate income tax rate applicable to the subsidiary established in December 2008 is 25%.

No provision for corporate income tax has been made as the Company has no estimated taxable profit generated in the PRC for the current and the prior periods.

The subsidiary does not have any estimated taxable profit generated in the PRC for the current period.

The amount of income tax charged/credited to the condensed consolidated interim statement of comprehensive income represents the deferred income tax expense/credit recognised for the current and the prior periods.

## 16 EARNINGS/(LOSSES) PER SHARE

Basic earnings/(losses) per share are calculated by dividing the profit/loss attributable to equity holders of the Company for the period by the weighted average number of the Company's shares in issue during the period of 866,250,000 (six months ended 30 June 2008: 866,250,000) shares.

The Company has no dilutive potential ordinary shares and therefore the diluted earnings/(losses) per share is equal to the basic earnings/(losses) per share.

## 17 DIVIDEND

The Company's directors do not recommend the declaration of an interim dividend for the six months ended 30 June 2009 and 2008.

## 18 COMMITMENTS

### (a) Operating lease commitments – The Group is the lessee

The Group leases certain utilities production facilities (the "Leased Assets") from a fellow subsidiary for the period from 4 November 2008 to 31 December 2010 (the "Initial Lease Period") and the lease term is renewable for another three years (Note 12(b)).

The estimated future aggregate minimum lease payments under non-cancellable operating leases in respect of these Leased Assets during the Initial Lease Period are as follows:

| | **Unaudited As at 30 June 2009 RMB'000** | Audited As at 31 December 2008 RMB'000 |
|---|---|---|
| No later than 1 year | **39,642** | 40,479 |
| Later than 1 year and no later than 5 years | **19,403** | 38,805 |
| | **59,045** | 79,284 |

## 18 COMMITMENTS – *continued*

### (b) Operating lease arrangements – The Group is the lessor

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

| | **Unaudited As at 30 June 2009 RMB'000** | Audited As at 31 December 2008 RMB'000 |
|---|---|---|
| Land use rights | | |
| No later than 1 year | **119** | 119 |
| Later than 1 year and no later than 5 years | **474** | 474 |
| Later than 5 years | **374** | 420 |
| | **967** | 1,013 |

## 19 FINANCIAL GUARANTEE CONTRACT

The Group has guaranteed the bank borrowings of the jointly controlled entity of RMB20,000,000 (31 December 2008: RMB20,000,000).

The financial guarantee contract has not been recognised in this condensed consolidated interim financial information as the Company's directors consider that it is not probable for a claim to be made against the Group under the financial guarantee contract as at the balance sheet date and the fair value of the financial guarantee contract is insignificant.

## 20 SIGNIFICANT RELATED PARTY TRANSACTIONS

The Group is controlled by JCF Groupco, the ultimate parent company, which owns 50.01% of the Company's shares. The remaining 49.99% of the Company's shares are held by public shareholders and several strategic investors.

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. A portion of the Group's business activities is conducted with other PRC state-owned enterprises (primarily with respect to sales of finished products, purchases of raw materials and transactions with state-owned banks). The Group believes that these transactions are carried out on commercial terms that are similarly and consistently applied to all customers or suppliers.

For the purpose of related party transaction disclosures, the Group has identified, to the extent practicable, its customers and suppliers as to whether they are state-owned enterprises. It should be noted, however, that substantially all of the Group's business activities are conducted in the PRC and the influence of the PRC government in the Chinese economy is pervasive. In this regard, the PRC government indirectly holds interests in many companies. Many PRC state-owned enterprises have multi-layered corporate structure and the ownership structures change over time as a result of transfers and privatisation programs. Some of these interests may, in themselves or when combined with other indirect interests, be controlling interests. Such interests, however, would not be known to the Group and are not reflected in the disclosures below. Nevertheless, the Company's directors believe that meaningful information in respect of related party transactions has been adequately disclosed.

## 20 SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

In addition to those disclosed elsewhere in the condensed consolidated interim financial information, the following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties during the period.

### (a) Related party transactions

| | Unaudited Six months ended 30 June | |
|---|---|---|
| | **2009** | 2008 |
| | **RMB'000** | RMB'000 |
| Sales of goods and services to: | | |
| – a shareholder of the Company | **82,427** | 107,818 |
| – jointly controlled entity | **10,115** | 5,593 |
| – fellow subsidiaries | **4,250** | 12,804 |
| – other state-owned enterprises | **30,116** | 47,660 |
| Provision of utilities to: | | |
| – jointly controlled entity | **66,763** | — |
| – fellow subsidiaries | **103,625** | — |
| Interest income from a jointly controlled entity | **6,474** | — |
| Rental income from a branch of the ultimate parent company | **—** | 35,366 |
| Utility charges paid to a branch of the ultimate parent company | **—** | (49,235) |
| Rental expense to a fellow subsidiary | **(19,061)** | — |
| Purchases of raw materials from: | | |
| – jointly controlled entity | **(34,859)** | (781) |
| – fellow subsidiaries | **(2,281)** | (1,607) |
| – other state-owned enterprises | **(167,237)** | (387,614) |
| Interest expenses to state-owned banks | **(38,870)** | (51,946) |
| Drawdown of loans from state-owned banks | **90,000** | 130,000 |
| Repayments of loans to state-owned banks | **(90,000)** | (213,000) |

JCF Groupco allowed the Group to the use of the trademark of "白山" (Baishan) at nil consideration during the six months ended 30 June 2009 and 2008.

The Group permitted JCF Groupco to use the Group's premises free of rent to operate its staff canteen. The Group is not required to bear the operating costs of the canteen.

## 20 SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

### (b) Balances with related parties

| | **Unaudited As at 30 June 2009 RMB'000** | Audited As at 31 December 2008 RMB'000 |
|---|---|---|
| Bank deposits with state-owned banks | **136,375** | 64,962 |
| Trade receivables | | |
| – fellow subsidiaries | **23,593** | 22,429 |
| – a shareholder of the Company | **1,120** | — |
| | 24,713 | 22,429 |
| Amounts due from | | |
| – ultimate parent company | **—** | 7,158 |
| – fellow subsidiaries | **69,528** | 1,639 |
| – jointly controlled entity | **164,013** | 163,268 |
| – other state-owned enterprises | **3,251** | 3,879 |
| | **236,792** | 175,944 |
| Trade payables to other state-owned enterprises | **1,100** | 1,100 |
| Other payables and accruals | | |
| – ultimate parent company | **16,085** | — |
| – fellow subsidiaries | **1,452** | 6,849 |
| – a shareholder of the Company | **—** | 1,540 |
| – other state-owned enterprises | **1,410** | — |
| | **18,947** | 8,389 |
| Short-term bank borrowings from state-owned banks | **293,000** | 243,000 |
| Long-term bank borrowings from state-owned bank | **830,000** | 880,000 |

## 20 SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

### (c) Key management compensation

Key management includes executive and non-executive directors, supervisors and secretaries to the board of directors of the Company. The compensation paid or payable to the key management is shown below:

| | **Unaudited Six months ended 30 June** | |
|---|---|---|
| | **2009** | 2008 |
| | **RMB'000** | RMB'000 |
| Wages, salaries and other short-term employee benefits | **1,368** | 1,439 |
| Pension and social security costs | **25** | 11 |
| | **1,393** | 1,450 |

# 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. Meng Xiangui
Ms. Feng Shuhua
Mr. Zhang Hai Ou
Mr. Wang Hong Bo

## 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

## QUALIFIED ACCOUNTANT
Mr. Chan Cheung

## AUTHORISED REPRESENTATIVES
Mr. Wang Changsheng
Mr. Chan Cheung

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# CORPORATE INFORMATION

## AUDITORS

PricewaterhouseCoopers

## LEGAL ADVISOR AS TO HONG KONG LAW

Coudert Brothers
in association with
Orrick, Herrington & Sutcliffe LLP

## PRINCIPAL BANKERS

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

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