

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
2010

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FINANCIAL SUMMARY

	For the six months ended 30 June		
	2010 RMB'million	2009 RMB'million	Change %
Revenue	685.0	532.9	+28.5
Gross profit	57.1	65.6	-13.0
Operating profit	35.0	60.2	-41.9
Share of profit of a jointly controlled entity	2.9	28.3	-89.8
Profit and total comprehensive income for the period attributable to the owners of the Company	3.4	45.2	-92.5
Earnings per share (RMB cents per share)	0.39	5.22	-92.5
Gross profit margin	8.3%	12.3%	-4.0 p.p
Net profit margin	0.5%	8.5%	-8.0 p.p
	As at 30 June 2010	As at 31 December 2009	
Current ratio	97.5%	100.7%	-3.2 p.p
Gearing ratio	61.6%	62.4%	-0.8 p.p

p.p - percentage point

FINANCIAL AND BUSINESS HIGHLIGHTS

- Profit and total comprehensive income for the period attributable to the owners of the Company was approximately RMB3.4 million, as compared to approximately RMB45.2 million for the same period in 2009.
- Revenue was approximately RMB685 million, representing an increase of approximately 28.5% as compared to the same period in 2009, which was mainly attributable to an increase in the average selling price for sales of acrylic fiber products, while partially offset by the decrease in the sales volume.
- The overall gross profit margin of the Group decreased from 12.3% for the first six months in 2009 to 8.3% for the same period in 2010, which was mainly due to the decrease in price differential (i.e. the difference between the average selling price and the average purchase price of the major raw materials) on products sold.
- Production plant operated at an overall utilisation rate of approximately 70% for the six months ended 30 June 2010 (2009: 75%).
- The Group's share of 50% of the profit of Jilin Jimont Acrylic Fiber Co., Ltd. ("Jimont") for the six months ended 30 June 2010 under the equity method amounted to approximately RMB2.9 million (2009: RMB28.3 million).

MANAGEMENT DISCUSSION AND ANALYSIS

MAJOR OPERATIONAL DATA

1. Revenue

	For the six months ended 30 June			
	2010		2009	
	RMB million	%	RMB million	%
Acrylic top	288.5	42.1	215.5	40.4
Acrylic tow	154.6	22.6	133.0	25.0
Acrylic staple fiber	232.4	33.9	177.4	33.3
Others*	9.5	1.4	7.0	1.3
Total	685.0	100.0	532.9	100.0

2. Sales volume

	For the six months ended 30 June			
	2010		2009	
	Tons	%	Tons	%
Acrylic top	14,770	40.8	17,494	39.4
Acrylic tow	8,470	23.4	11,207	25.3
Acrylic staple fiber	12,603	34.8	15,156	34.2
Others*	374	1.0	491	1.1
Total	36,217	100.0	44,348	100.0

3. Average selling price and gross profit margin

	For the six months ended 30 June			
	2010		2009	
	Average selling price RMB/ton	Gross profit margin %	Average selling price RMB/ton	Gross profit margin %
Acrylic top	19,533	6.9	12,319	10.78
Acrylic tow	18,253	8.5	11,867	14.18
Acrylic staple fiber	18,440	8.3	11,705	12.64
Overall gross profit margin		8.3		12.3

* Refer to sales of carbon fiber precursor and acrylic fiber scrap

REVIEW AND OUTLOOK

Market Review

During the first half of 2010, the textiles industry of the PRC remained stable. According to the export statistics released by the General Administration of Customs of the PRC, the total exports of the textiles and garment industries for the first half of the year was US\$88.878 billion, representing a growth of 22.09% as compared to the same period of the previous year. Among the total exports of the textiles and garment industries from the PRC, total exports of the textiles industry amounted to US\$35.652 billion, representing an increase of 32.3% as compared to the same period of the previous year, while the total exports of the garment industry grew by 16% to US\$53.226 billion. This indicated that under the gradual recovery of the global economy, the favorable impact of the national policies as implemented by the PRC government on the textiles and garment industries has begun to take effect. This resulted in the textiles and garment exports of the PRC being stabilised and at the turning point to rebound.

In respect of the acrylic fiber industry, demand for acrylonitrile (the major raw materials for the production of the Group's products) increased substantially during the first half of 2010 due to the rapid development of ABS and polyacrylamide. ABS and polyacrylamide competed with acrylic fibers industry for the supply of acrylonitrile, driving up the market prices and tightening availability of acrylonitrile. The average purchase price of acrylonitrile was RMB14,821 per ton for the six months ended 30 June 2010, increased by approximately 113.4% as compared to RMB6,946 per ton during the same period of the previous year.

Due to the significant increase in costs of raw materials, the average selling price of acrylic fibers have also been increased significantly during the period. The high market price of acrylic fibers as a result of the increased cost of acrylonitrile created pressure on the acrylic fiber downstream industries, thus increasing the pressure on the sales volume of acrylic fibers.

Sales Review

For the six months ended 30 June 2010, the Group recorded sales revenue of approximately RMB685 million, representing an increase of 28.5% as compared to the same period in 2009. Sales volume in the first half of the year amounted to 36,217 tons, representing a decrease of 18.3% as compared to the same period in 2009. The average selling price of the Group's products increased from RMB12,016 per ton in the first half of 2009 to RMB18,914 per ton in the current period, representing a significant increase of approximately 57.4%. The increase in sales revenue was mainly due to the significant increase in the average selling price of acrylic fibers, which was set off partially by the effects of the decrease in sales volume.

Operations Review

During the first half of 2010, the Group's total production output was 37,364 tons, representing a decrease of 6.7% as compared to the same period in the previous year. The utilisation rate of the Group's production facilities for the current period was about 70% (2009: 75%). The Group actively promoted team building pursuant to the overall strategy of "comprehensive management" through the implementation and realisation of enhanced systems, which resulted in improved site management, corporate culture and staff performance. The Group focused on management, production quality and on-going production technology enhancement. A number of technology reforms and innovations were implemented smoothly and systematically during the period. The passing rate of safety education, staff re-employment and the achievement rates of discharging dust, poison, noise and sewage water were all at 100%.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group remains focused on the research and development and production of carbon fiber precursor. The carbon fiber production plant can currently produce 1k, 3k, 6k and 12k carbon fiber precursor to 350k large tows with an annual combined production capacity of 1,500 tons. The output quality of the produced carbon fiber precursor has achieved T300 standard or above after carbonisation, of which, the 1k and 3k carbonisation benchmarks were close to the T700 standard. The products were sold to major carbonisation enterprises as well as domestic military and industrial enterprises.

Human Resources

As at 30 June 2010, the Group had 1,783 employees. Staff remuneration packages were determined with reference to prevailing market practices (including a performance-based incentive bonus). The Group also provided ongoing training schemes to its staff at all levels and encouraged multiple skills for one position. For the six months ended 30 June 2010, the Group provided trainings in the areas of production technology, product quality controls, production operation processes, production safety and environmental protection, etc., to its employees.

Outlook

Looking forward, the management of the Company expects that the market will remain challenging in the second half of 2010. Nevertheless, with the continuous development of the PRC economy and the textiles industry as well as the adjustments to the State macroeconomic policies, the Group expects the following new opportunities and prospects for its business:

1. Favorable prospect for carbon fiber precursor: Several carbonisation factories will commence operation in the PRC in 2010. With the expanding downstream market for carbon fiber precursor, and leveraging on the Group's current facilities and acrylic fiber production technology, the management considers the Group has superior cost competitive advantages in the PRC comparing with other carbon fiber precursor producers. Thus, the market prospect for the Group's carbon fiber precursor products will be very optimistic.
2. Operation of the new acrylonitrile production facility will alleviate the pressure of supply of the raw materials, acrylonitrile. In June 2010, the Group's major acrylonitrile supplier in Jilin city increased its acrylonitrile production capacity to 424,000 tons per annum (Annual production volume as at 30 June 2010: 360,000 tons) with the addition of two new production lines. With the expanded capacity, the supplier became the largest acrylonitrile producer in the PRC. The pressure of shortage in raw materials for the Group's production will be greatly alleviated in the foreseeable future.
3. Development of differential fiber: The Group further strengthen its effort in the development of 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. The Group also formally commenced mass production of anti-pilling fiber after its trial production in the first half of 2010. In the second half of 2010, the Group will continue the research and development of super oerlikon fiber and bamboo carbon fiber. The management believes that differential fiber products will become one of the major driving forces in the future development of acrylic fibers in the PRC. The Group is positioned to seize new business opportunities for further enhancement of the Group's profitability.

The Group's management will take advantage of the above opportunities to proactively improve the Group's operation conditions, strengthen the leading position of the Group in the PRC acrylic fiber industry and maximise the Company's return to its shareholders.

FINANCIAL ANALYSIS

Operation Results

For the six months ended 30 June 2010, the Group's revenue was approximately RMB685 million, representing an increase of approximately 28.5% as compared to approximately RMB533 million for the same period in 2009. The increase in revenue was mainly attributable to an increase in the average selling price of the Group's products by approximately 57.4% following a significant increase in the prices of raw materials, while the sales volume decreased by approximately 18.3%. During the period, the Group's total production volume and sales volume were 37,364 tons and 36,217 tons respectively, resulting in a sales-to-production ratio of approximately 96.9% (2009: 111%).

For the six months ended 30 June 2010, profit attributable to the owners of the Company was approximately RMB3.39 million, as compared to the profit attributable to the owners of the Company of approximately RMB45.19 million for the same period in 2009. The decrease in profit attributable to the owners of the Company was mainly attributable to a significant increase in the purchase price of acrylonitrile, resulting in an increase in the average unit cost and a decrease in gross profit margin. The increase in the production cost of acrylic fiber products has reduced the profitability of the Group. The price difference between the average selling price of the Group's acrylic fiber products and the purchase price of acrylonitrile was RMB4,025 per ton for the six months ended 30 June 2010, representing a decrease of approximately 20.6% as compared to the same period in 2009. In addition, the Group has recognised a net loss of approximately RMB5.15 million on an interest swap contract which is accounted for as derivative financial instrument (while a profit of approximately RMB13.03 million was recorded for the same period in 2009). Meanwhile, the Group provided public utility resources during the current period and generated a net income of approximately RMB25.08 million as compared to a net income of approximately RMB23.71 million for the same period in 2009. During the period under review, the profit attributable to the owners of the Company also included the Group's 50% share of the profit of a jointly controlled entity of approximately RMB2.94 million (2009: RMB28.30 million).

The overall gross profit margin of the Group decreased from 12.3% for the first six months in 2009 to 8.3% for the same period in 2010. This was mainly due to an increase in the purchase price of the major raw materials, acrylonitrile, the average purchase price was approximately RMB14,821 per ton for the six months ended 30 June 2010, representing an increase of approximately 113.4% from RMB6,946 per ton for the same period in 2009. Meanwhile, the average selling price of the Group's products increased by RMB6,898 to RMB18,914 per ton in the six months ended 30 June 2010 (2009: RMB12,016 per ton), representing an increase of 57.4%.

Operating expenses (including distribution costs and administrative expenses)

Distribution costs decreased to approximately RMB14.81 million for the six months ended 30 June 2010 from approximately RMB20.03 million for the same period in 2009. The decrease in distribution costs was resulted from a reduction of transportation costs which was in line with the decrease in sales volume. During the period, administrative expenses increased by approximately RMB7.5 million, which were mainly attributable to the increased property tax and staff benefit expenses.

MANAGEMENT DISCUSSION AND ANALYSIS

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

Other net income decreased from approximately RMB42.22 million for the six months ended 30 June 2009 to approximately RMB27.64 million for the same period in 2010. The decrease in other net income was mainly due to the recognition of a net loss of approximately RMB5.15 million on an interest rate swap contract which was accounted for as a derivative financial instrument during the period. On the contrary, a net gain of approximately RMB13.03 million was recognised for the same period in 2009.

Finance costs

Net finance costs decreased to approximately RMB34.37 million for the six months ended 30 June in 2010 from approximately RMB37.11 million for the same period in 2009. The decrease in finance costs was mainly resulted from a decrease in overall interest rate of the Group's bank borrowings when the borrowings were renewed and the reduction in interest expense on discounted notes receivable. The decreased in interest expense is partially offset by the decrease in interest income during the current period.

Share of profit of a jointly controlled entity

For the six months ended 30 June 2010, the 50% share of profit of Jilin Jimont Acrylic Fiber Co., Ltd. (the "jointly controlled entity", or "Jimont") attributable to the Group under the equity method was approximately RMB2.94 million (2009: RMB28.30 million). The decrease in Jimont's profitability was primarily due to a significant increase in the raw material costs (mainly the cost of acrylonitrile) and a reduction in the sales volume of the jointly controlled entity.

Financial resources, liquidity and liability position

As at 30 June 2010, the Group's total assets and total liabilities were approximately RMB2.45 billion and RMB1.51 billion respectively. As at 30 June 2010, the Group's current liabilities exceeded its current assets by approximately RMB21.87 million, and its current ratio (calculated as current assets divided by current liabilities) was approximately 0.97 (At 31 December 2009: 1.01). The liquidity of the Group was primarily dependent on its ability to generate adequate cash inflows from operating activities and its ability to obtain external financing and refinancing. The Group had bank and cash balances of approximately RMB97.83 million (including restricted bank deposits of approximately RMB2.28 million) as at 30 June 2010.

As at 30 June 2010, the total bank borrowings of the Group amounted to approximately RMB1.203 billion, of which approximately RMB580 million were short-term bank borrowings and current portion of long-term borrowings and non-current portion of a long-term bank borrowings were RMB77 million and RMB546 million respectively.

Since all of the Group's bank borrowings were denominated in RMB and currently the portion of revenue derived from export operations was relatively insignificant, the management believes that the Group was only exposed to minimal foreign exchange risk, and hence it had not made any foreign currency hedging arrangement. As at 30 June 2010, the Group's gearing ratio (calculated as total liabilities divided by total assets) was approximately 61.6% (At 31 December 2009: 62.4%).

STATUS OF INVESTMENTS

Joint venture

A jointly controlled entity, Jimont, was established on 21 December 2005 and was currently held by the Group as to 50%, Montefiber S.p.A as to 39.36% and SIMEST S.p.A as to 10.64% in equity interest, respectively. Jimont is mainly engaged in the manufacturing and sales of acrylic fiber products with a current annual production capacity of 100,000 tons. The Group was currently contemplating to launch the phase two of Jimont's acrylic fibre project. It is expected that the phase two project would further increase the total production capacity of the joint venture company to 150,000 tons. The schedule of implementing the phase two project would depend on a number of factors, including future market conditions.

For the six months ended 30 June 2010, the sales and production volumes of the jointly controlled entity were 35,191 tons and 37,762 tons respectively, with a sales-to-production ratio of approximately 93%. The plant utilisation rate of the jointly controlled entity during the current period was approximately 75%. Net profit of the jointly controlled entity for the period was approximately RMB5.87 million (2009: RMB56.60 million), the decrease in net profit as compared to the same period in the previous year was mainly attributable to the increase in raw material costs (mainly the cost of acrylonitrile) and the reduction in sales volume.

Entrusted deposits and pledged time deposits

As at 30 June 2010, 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. Except for the restricted bank deposits of approximately RMB2.28 million, the Group had no other bank deposits which cannot be freely withdrawn.

Pledged assets

As at 30 June 2010, certain property, plant and equipment and land use rights with net book values of approximately RMB669.43 million and RMB6.35 million respectively (At 31 December 2009: RMB710.26 million and RMB6.68 million respectively) were pledged as securities to guarantee the bank borrowings of RMB323 million (At 31 December 2009: RMB330 million).

Contingent liabilities

The Group had no material contingent liabilities as at 30 June 2010.

Dividend

The board of directors of the Company has resolved not to declare any interim dividend for the six months ended 30 June 2010 (2009: Nil).

INFORMATION OF SHARE CAPITAL AND SUBSTANTIAL SHAREHOLDERS

SHARE CAPITAL

As at 30 June 2010, there was a total issued share capital of 866,250,000 shares of the Company (the “Shares”) which include:

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

As at 30 June 2010, 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 (%)			Approximate percentage in total issued share capital (%)		
			Direct interests	Indirect interests	Aggregate interests	Direct interests	Indirect interests	Aggregate interests
吉林化纖集團有限責任公司 (Jilin Chemical Fiber Group Co., Ltd.)	433,229,558	Domestic Shares	99.13	—	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 Sen	30,487,573 ⁽⁴⁾	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:

- 433,229,558 Shares are deemed corporate interests indirectly held through Jilin Chemical Fiber Group Co., Ltd. under the SFO.
- 94,841,726 Shares are deemed corporate interests indirectly held through Ronsace Company Limited under the SFO.
- 44,029,105 Shares are deemed corporate interests indirectly held through Sanlink Investments Limited under the SFO.
- 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 2010, 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 has 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 2010.

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

During the six months ended 30 June 2010, 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 2010.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

During the six months ended 30 June 2010, 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Ltd. (the “Listing Rules”).

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS (THE “MODEL CODE”)

During the six months ended 30 June 2010, 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 BALANCE SHEET

AS AT 30 JUNE 2010

		Unaudited As at 30 June 2010 RMB'000	Audited As at 31 December 2009 RMB'000
ASSETS			
Non-current assets			
Land use rights		25,757	26,698
Property, plant and equipment	5	1,279,771	1,334,467
Intangible assets	5	28,721	32,825
Interest in a jointly controlled entity	6	170,770	167,698
Deferred income tax assets		84,513	84,466
		1,589,532	1,646,154
Current assets			
Inventories		286,632	236,747
Trade and other receivables	7	471,409	391,844
Current income tax recoverable		1,893	1,893
Restricted bank deposits		2,276	40,670
Cash and cash equivalents		95,558	170,431
		857,768	841,585
Total assets		2,447,300	2,487,739
EQUITY			
Equity attributable to the owners of the Company			
Share capital	8	866,250	866,250
Share premium	8	142,477	142,477
Accumulated losses		(102,029)	(105,417)
Other reserves		31,919	31,919
Total equity		938,617	935,229

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2010

	Note	Unaudited As at 30 June 2010 RMB'000	Audited As at 31 December 2009 RMB'000
LIABILITIES			
Non-current liabilities			
Long-term bank borrowings	9	546,000	630,000
Deferred income	10	83,040	86,471
		<u>629,040</u>	<u>716,471</u>
Current liabilities			
Trade and other payables	11	210,068	235,922
Short-term bank borrowings	9	580,000	590,000
Current portion of long-term bank borrowings	9	77,000	—
Current income tax liabilities		23	3,355
Derivative financial instrument	12	12,552	6,762
		<u>879,643</u>	<u>836,039</u>
Total liabilities		<u>1,508,683</u>	<u>1,552,510</u>
Total equity and liabilities		<u>2,447,300</u>	<u>2,487,739</u>
Net current (liabilities)/assets		<u>(21,875)</u>	<u>5,546</u>
Total assets less current liabilities		<u>1,567,657</u>	<u>1,651,700</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2010

		Unaudited	
		Six months ended 30 June	
	Note	2010	2009
		RMB'000	RMB'000
Revenue	4	685,011	532,904
Cost of sales		(627,875)	(467,340)
Gross profit		57,136	65,564
Distribution costs		(14,812)	(20,027)
Administrative expenses		(34,972)	(27,515)
Other income	13	232,593	192,219
Other expenses	13	(202,515)	(162,788)
Other (losses)/gains - net	14	(2,439)	12,792
Operating profit		34,991	60,245
Finance income		2,320	6,913
Finance costs		(36,686)	(44,020)
		625	23,138
Share of profit of a jointly controlled entity		2,935	28,296
Profit before income tax	15	3,560	51,434
Income tax expense	16	(172)	(6,245)
Profit and total comprehensive income for the period attributable to the owners of the Company		3,388	45,189
Earnings per share for profit attributable to the owners of the Company			
- basic and diluted (expressed in RMB cents per share)	17	0.39	5.22
Dividend	18	—	—

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2010

	Unaudited				Total RMB'000
	Share capital RMB'000	Share premium RMB'000	Accumulated losses RMB'000	Other reserves RMB'000	
At 1 January 2010	866,250	142,477	(105,417)	31,919	935,229
Profit for the period	—	—	3,388	—	3,388
At 30 June 2010	<u>866,250</u>	<u>142,477</u>	<u>(102,029)</u>	<u>31,919</u>	<u>938,617</u>
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	<u>866,250</u>	<u>142,477</u>	<u>(283,731)</u>	<u>31,919</u>	<u>756,915</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2010

	Unaudited	
	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
Net cash (used in)/from operating activities	(11,701)	99,072
Net cash used in investing activities	(12,121)	(22,430)
Net cash used in financing activities	(51,051)	(42,308)
Net (decrease)/increase in cash and cash equivalents	(74,873)	34,334
Cash and cash equivalents at beginning of the period	170,431	108,282
Cash and cash equivalents at end of the period	95,558	142,616

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2010

1 GENERAL INFORMATION

Jilin Qifeng Chemical Fiber Co., Ltd. (the “Company”) and its subsidiary (together, 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 25 August 2010.

This condensed consolidated interim financial information has not been audited.

2 BASIS OF PREPARATION

As at 30 June 2010, the Group’s current liabilities exceeded its current assets by RMB21,875,000 and the bank borrowings as included in the Group’s current liabilities amounted to RMB657,000,000. 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 following considerations:

- (a) The Group is expected to be profitable and hence generating cash inflows from its future business operations.
- (b) The Group has maintained its strong business relationship with its principal bankers and those principal bankers have indicated their willingness to renew those borrowings to the Group upon their original maturities. 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.
- (c) The ultimate parent company, Jilin Chemical Fiber Group Co., Ltd. (“JCF Groupco”), 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.

In view of the above, the Company’s directors are confident that there will be sufficient financial resources available to the Group to enable it to meet its liabilities as and when they fall due and to continue as a going concern. Accordingly, the Company’s directors have prepared the condensed consolidated interim financial information on a going concern basis.

The condensed consolidated interim financial information for the six months ended 30 June 2010 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 annual consolidated financial statements for the year ended 31 December 2009, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”).

The Group has not prepared a separate condensed consolidated income statement because it is identical to the condensed consolidated statement of comprehensive income.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2010

3 ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual consolidated financial statements for the year ended 31 December 2009, as described in those annual consolidated financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

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 2010:

HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 (Amendment)	Eligible Hedge Items
HKFRS 1 (Revised)	First-time Adoption of HKFRSs
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transaction
HKFRS 3 (Revised)	Business Combinations
HKFRS 5 (Amendment)	Non-current Assets Held For Sale and Discontinued Operations
HKFRIC Int - 17	Distribution of Non-cash Assets to Owners

The adoption of the abovementioned new or revised standards, amendments and interpretations and also the adoption of those first and second improvements to HKFRS (2008) and HKFRS (2009) as issued by HKICPA in October 2008 and May 2009 respectively did not result in any substantial changes to the Group's significant accounting policies and presentation of 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 period beginning on or after 1 January 2010:

		Effective for accounting periods beginning on or after
HKAS 24 (Revised)	Related Party Disclosures	1 January 2011
HKAS 32 (Amendment)	Classification of Rights Issues	1 February 2010
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters	1 July 2010
HKFRS 9	Financial Instruments	1 January 2013
HKFRIC Int - 14	Prepayments of a Minimum Funding Requirement	1 January 2011
HKFRIC Int - 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2010

The Group has not early adopted the above new or revised standards, amendments or interpretations and also those third improvements to HKFRS (2010) as issued by HKICPA in May 2010 in this condensed consolidated interim financial information and will apply these new or revised standards, amendments, interpretations and improvements in accordance with their respective effective dates. The Group has already commenced an assessment of the related impact to the Group but 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 consolidated financial statements will be resulted.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2010

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. The operating segment for carbon fiber products has officially commenced its first phase of operation in August 2009.

All of the Group’s operations and assets are located in the PRC except that, a portion of the Group’s revenue for six months ended 30 June 2010 of RMB25,589,000 (2009: RMB16,802,000) was in connection with sales to overseas customers. Therefore, the Decision-Makers only consider the Group’s business from a product perspective, rather than 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 earnings before interests, 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.

Turnover for the six months ended 30 June 2010 consists of sales from the acrylic fiber products segment and carbon fiber products segment of RMB678,430,000 (2009: RMB530,637,000) and RMB6,581,000 (2009: RMB2,267,000) respectively.

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2010

4 SEGMENT INFORMATION – *continued*

The segment information provided to the Decision-Makers for the six months ended 30 June 2010 and 2009 is as follow:

	Unaudited		
	Acrylic fiber products RMB'000	Carbon fiber products RMB'000	Total RMB'000
Six months ended 30 June 2010			
Total revenue from external customers	678,430	6,581	685,011
Adjusted segment results (Note)	110,021	2,922	112,943
Share of profit of a jointly controlled entity	2,935	—	2,935
Depreciation and amortisation	(70,415)	(2,392)	(72,807)
Income tax (expense)/credit	165	(337)	(172)
	<u>42,706</u>	<u>193</u>	<u>42,899</u>
Additions to non-current assets (other than deferred income tax assets)	<u>11,965</u>	<u>1,158</u>	<u>13,123</u>
Six months ended 30 June 2009			
Total revenue from external customers	530,637	2,267	532,904
Adjusted segment results (Note)	116,621	(15)	116,606
Share of profit of a jointly controlled entity	28,296	—	28,296
Depreciation and amortisation	(67,594)	(1,800)	(69,394)
Income tax (expense)/credit	(6,537)	292	(6,245)
	<u>70,786</u>	<u>(1,523)</u>	<u>69,263</u>
Additions to non-current assets (other than deferred income tax assets)	<u>8,762</u>	<u>8,082</u>	<u>16,844</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2010

4 SEGMENT INFORMATION – *continued*

	Unaudited		
	Acrylic fiber products RMB'000	Carbon fiber products RMB'000	Total RMB'000
As at 30 June 2010			
Total assets	<u>2,248,288</u>	<u>112,606</u>	<u>2,360,894</u>
Total assets include:			
Interest in a jointly controlled entity	<u>170,770</u>	<u>—</u>	<u>170,770</u>
Total liabilities	<u>271,244</u>	<u>21,864</u>	<u>293,108</u>
As at 31 December 2009			
Total assets	<u>2,308,857</u>	<u>92,523</u>	<u>2,401,380</u>
Total assets include:			
Interest in a jointly controlled entity	<u>167,698</u>	<u>—</u>	<u>167,698</u>
Total liabilities	<u>299,516</u>	<u>22,877</u>	<u>322,393</u>

The revenue from external parties reported to the Decision-Makers is measured in a manner consistent with that in the condensed consolidated statement of comprehensive income.

A reconciliation of adjusted segment results to profit before income tax is provided as follows:

	Unaudited	
	Six months ended 30 June	
	2010 RMB'000	2009 RMB'000
Adjusted segment results for reportable segments	112,943	116,606
Depreciation	(67,762)	(64,786)
Amortisation	(5,045)	(4,608)
Net (loss)/gain on derivative financial instrument	(5,145)	13,033
Operating profit	<u>34,991</u>	<u>60,245</u>
Finance costs - net	(34,366)	(37,107)
Share of profit of a jointly controlled entity	<u>2,935</u>	<u>28,296</u>
Profit before income tax	<u>3,560</u>	<u>51,434</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2010

4 SEGMENT INFORMATION – *continued*

The amounts provided to the Decision-Makers with respect to total assets/liabilities are measured in a manner consistent with that of the condensed consolidated interim financial information. These assets/liabilities are allocated based on the operations of the respective segments.

Reportable segments' assets are reconciled to total assets as follows:

	Unaudited As at 30 June 2010 RMB'000	Audited As at 31 December 2009 RMB'000
Segment assets for reportable segments	2,360,894	2,401,380
Unallocated:		
Deferred income tax assets	84,513	84,466
Current income tax recoverable	1,893	1,893
	<u>86,406</u>	<u>86,359</u>
Total assets per condensed consolidated balance sheet	<u><u>2,447,300</u></u>	<u><u>2,487,739</u></u>

Reportable segments' liabilities are reconciled to total liabilities as follows:

	Unaudited As at 30 June 2010 RMB'000	Audited As at 31 December 2009 RMB'000
Segment liabilities for reportable segments	293,108	322,393
Unallocated:		
Current borrowings	657,000	590,000
Non-current borrowings	546,000	630,000
Current income tax liabilities	23	3,355
Derivative financial instrument	12,552	6,762
	<u>1,215,575</u>	<u>1,230,117</u>
Total liabilities per condensed consolidated balance sheet	<u><u>1,508,683</u></u>	<u><u>1,552,510</u></u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2010

4 SEGMENT INFORMATION – *continued*

Note:

As detailed out in Note 13, the Group has managed and operated certain Utility Facilities and Leased Assets starting from November 2008 with the primarily 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 these Utility Facilities and Leased Assets will be provided to fellow subsidiaries, jointly controlled entity, other related companies and third parties at rates to be determined amongst the parties concerned. The adjusted segment results for the six months ended 30 June 2010 as disclosed above for the acrylic fiber products segment included an amount of RMB38,874,000 (2009: RMB35,323,000), 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.

5 PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	Unaudited	
	Property, plant and equipment RMB'000	Intangible assets RMB'000
Six months ended 30 June 2009		
Opening net book amount at 1 January 2009	1,333,730	36,669
Additions	16,844	—
Disposals	(861)	—
Depreciation and amortisation	(64,786)	(3,667)
	<u>1,284,927</u>	<u>33,002</u>
Closing net book amount at 30 June 2009	<u>1,284,927</u>	<u>33,002</u>
Six months ended 30 June 2010		
Opening net book amount at 1 January 2010	1,334,467	32,825
Additions	13,123	—
Disposals	(57)	—
Depreciation and amortisation	(67,762)	(4,104)
	<u>1,279,771</u>	<u>28,721</u>
Closing net book amount at 30 June 2010	<u>1,279,771</u>	<u>28,721</u>

Management has reviewed the recoverable amounts of the Group's key operating assets (primarily with respect to property, plant and equipment, intangible assets and land use rights) and concluded that the recoverable amounts of these key operating assets exceed their carrying amounts. The recoverable amounts of these key operating assets have been determined based on value-in-use calculations.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2010

6 INTEREST IN A JOINTLY CONTROLLED ENTITY

	Unaudited	
	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
At 1 January	167,698	90,969
Share of profit	2,935	28,296
Others	137	(512)
At 30 June	<u>170,770</u>	<u>118,753</u>

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 Jimont and the 50% interests being shared by the Group:

	Unaudited		Audited	
	As at 30 June 2010		As at 31 December 2009	
	Jimont	50% shared by the Group	Jimont	50% shared by the Group
	RMB'000	RMB'000	RMB'000	RMB'000
Balance sheet				
ASSETS				
Non-current assets				
Land use rights	24,273	12,136	24,538	12,269
Property, plant and equipment	915,063	457,532	944,519	472,260
Intangible assets	29,292	14,646	30,258	15,129
Deferred income tax assets	16,824	8,412	17,326	8,663
	<u>985,452</u>	<u>492,726</u>	<u>1,016,641</u>	<u>508,321</u>
Current assets				
Inventories	172,939	86,469	95,340	47,670
Trade and other receivables	122,492	61,246	53,324	26,662
Current income tax recoverable	17,085	8,542	10,146	5,073
Derivative financial instrument	1,609	805	—	—
Cash and cash equivalents	66,668	33,334	155,241	77,620
	<u>380,793</u>	<u>190,396</u>	<u>314,051</u>	<u>157,025</u>
Total assets	<u>1,366,245</u>	<u>683,122</u>	<u>1,330,692</u>	<u>665,346</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2010

6 INTEREST IN A JOINTLY CONTROLLED ENTITY – *continued*

	Unaudited As at 30 June 2010		Audited As at 31 December 2009	
	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 the owners				
Share capital	450,000	225,000	450,000	225,000
Accumulated losses	(99,997)	(49,999)	(105,867)	(52,934)
Total equity	<u>350,003</u>	<u>175,001</u>	<u>344,133</u>	<u>172,066</u>
Liabilities				
Non-current liabilities				
Long-term bank borrowings	<u>613,520</u>	<u>306,760</u>	<u>613,520</u>	<u>306,760</u>
Current liabilities				
Trade and other payables (note a)	105,722	52,861	211,284	105,642
Short-term bank borrowings	238,000	119,000	100,000	50,000
Current portion of long-term bank borrowings	59,000	29,500	59,000	29,500
Derivative financial instrument	—	—	2,755	1,378
	<u>402,722</u>	<u>201,361</u>	<u>373,039</u>	<u>186,520</u>
Total liabilities	<u>1,016,242</u>	<u>508,121</u>	<u>986,559</u>	<u>493,280</u>
Total equity and liabilities	<u>1,366,245</u>	<u>683,122</u>	<u>1,330,692</u>	<u>665,346</u>
Jointly controlled entity's capital commitments	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2010

6 INTEREST IN A JOINTLY CONTROLLED ENTITY – *continued*

Income statement

	Unaudited For the six months ended 30 June 2010		Unaudited For the six months ended 30 June 2009	
	Jimont RMB'000	50% shared by the Group RMB'000	Jimont RMB'000	50% shared by the Group RMB'000
Revenue	651,636	325,818	635,252	317,626
Cost of sales	(597,469)	(298,735)	(507,250)	(253,625)
Gross profit	54,167	27,083	128,002	64,001
Distribution costs	(15,539)	(7,769)	(22,806)	(11,403)
Administrative expenses	(10,562)	(5,281)	(9,384)	(4,692)
Other expenses – net	(37)	(18)	(372)	(186)
Other gains – net	5,267	2,634	6,074	3,037
Operating profit	33,296	16,649	101,514	50,757
Finance costs – net	(26,925)	(13,463)	(33,640)	(16,820)
Profit before income tax	6,371	3,186	67,874	33,937
Income tax expense	(501)	(251)	(11,282)	(5,641)
Profit for the period	5,870	2,935	56,592	28,296

Notes:

- (a) Trade and other payables included amounts due to the Company of RMB58,514,000 (As at 31 December 2009: RMB125,755,000) which are primarily arisen 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 are unsecured and have no fixed term 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 2010 amounted to RMB2,037,000 (2009: RMB6,474,000).
- (b) There are no contingent liabilities relating to the Group's interest in the jointly controlled entity, and no contingent liabilities in the jointly controlled entity itself.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2010

7 TRADE AND OTHER RECEIVABLES

	Unaudited As at 30 June 2010 RMB'000	Audited As at 31 December 2009 RMB'000
Trade receivables (<i>Note a</i>)		
- third parties	46,726	32,883
- related parties (<i>Note 20(b)</i>)	16,707	17,129
	<u>63,433</u>	<u>50,012</u>
Less: provisions for impairment	(11,794)	(12,903)
Trade receivables – net	51,639	37,109
Prepayments	29,110	23,004
Notes receivable	157,469	128,321
Other receivables	68,267	30,514
Less: provisions for impairment	(7,516)	(7,516)
Other receivables – net	60,751	22,998
Amounts due from (<i>Notes b and 20(b)</i>)		
- fellow subsidiaries	113,926	54,657
- the jointly controlled entity (<i>Note 6(a)</i>)	58,514	125,755
	<u>471,409</u>	<u>391,844</u>

Notes:

- (a) The Group'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 2010 RMB'000	Audited As at 31 December 2009 RMB'000
0 - 30 days	14,545	5,765
31 - 90 days	3,721	1,228
91 - 365 days	4,628	9,991
Over 365 days	40,539	33,028
	<u>63,433</u>	<u>50,012</u>

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2010

8 SHARE CAPITAL AND PREMIUM

(a) Share capital

	Number of shares (in thousand)	Nominal values RMB'000
Registered, issued and fully paid		
– Domestic shares of RMB 1 each	437,017	437,017
– Non-H foreign shares of RMB 1 each	169,358	169,358
– H shares of RMB 1 each	259,875	259,875
	<u>866,250</u>	<u>866,250</u>

Notes:

- (i) There was no movement in share capital during the periods ended 30 June 2010 and 2009.
- (ii) The Company was converted into a joint stock company on 23 May 2005, with registered, issued and fully paid capital of RMB630,000,000 divided into 630,000,000 shares at par value of RMB 1 each (out of which: 460,642,000 shares were domestic shares and 169,358,000 shares are foreign shares).

On 21 June 2006, the Company successfully offered 236,250,000 H shares and listed on The Stock Exchange of Hong Kong Limited. On the same date, the Company had transferred 23,625,000 domestic shares to National Council for Social Security Fund (the "NCSSF") and NCSSF entrusted the Company to convert these shares into the Company's H shares.

(b) Share premium

Share premium represents the amount of funds contributed by the shareholders in excess of the par value of the Company's H shares as issued during the Company's initial public offering in June 2006.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2010

9 BORROWINGS

	Unaudited As at 30 June 2010 RMB'000	Audited As at 31 December 2009 RMB'000
Non-current		
Long-term bank borrowings	623,000	630,000
Less: Current portion of long-term bank borrowings	(77,000)	—
	<u>546,000</u>	<u>630,000</u>
Current		
Short-term bank borrowings	580,000	590,000
Current portion of long-term bank borrowings	77,000	—
	<u>657,000</u>	<u>590,000</u>
Total borrowings	<u><u>1,203,000</u></u>	<u><u>1,220,000</u></u>

Movements in borrowings are analysed as follows:

	Unaudited	
	2010 RMB'000	2009 RMB'000
At 1 January	1,220,000	1,223,000
Drawn down	270,000	190,000
Repayments	(287,000)	(190,000)
At 30 June	<u><u>1,203,000</u></u>	<u><u>1,223,000</u></u>

The Group's borrowings are all denominated in Renminbi and hence will not expose the Group to any foreign exchange risk. Except for bank borrowings of RMB250,000,000 (As at 31 December 2009: RMB210,000,000) which bear interests at fixed rates, all other bank borrowings bear floating interest rates which expose the Group to interest rate risk.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2010

9 BORROWINGS – *continued*

As at 30 June 2010, the contractual maturities of the Group's non-derivative financial liabilities were as follows:

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total contracted cash flows RMB'000	Carrying amounts RMB'000
At 30 June 2010						
Trade and other payables	163,909	—	—	—	163,909	163,909
Short-term bank borrowings	595,396	—	—	—	595,396	580,000
Long-term bank borrowings	105,314	378,095	92,888	174,183	750,480	623,000
Total non-derivatives	864,619	378,095	92,888	174,183	1,509,785	1,366,909
At 31 December 2009						
Trade and other payables	160,683	—	—	—	160,683	160,683
Short-term bank borrowings	606,689	—	—	—	606,689	590,000
Long-term bank borrowings	35,803	389,103	167,427	187,883	780,216	630,000
Total non-derivatives	803,175	389,103	167,427	187,883	1,547,588	1,380,683

The Group has the following undrawn borrowing facilities:

	As at 30 June 2010	As at 31 December 2009
Floating rate bank borrowings:		
– expiring within one year	50,000	—
– expiring beyond one year	30,000	30,000
	80,000	30,000

10 DEFERRED INCOME

As at 30 June 2010, 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 RMB68,088,000 (As at 31 December 2009: RMB70,827,000) and RMB14,952,000 (As at 31 December 2009: RMB15,644,000) respectively.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2010

11 TRADE AND OTHER PAYABLES

	Unaudited As at 30 June 2010 RMB'000	Audited As at 31 December 2009 RMB'000
Trade payables	112,127	96,800
Advance from customers	16,418	45,001
Payable for purchases of property, plant and equipment	18,451	26,724
Amounts due to related parties (<i>Notes b and 20(b)</i>)	7,098	3,046
Other payables and accruals	21,313	27,027
Provision for staff welfare	29,741	30,238
Social security and other taxes	4,920	7,086
	<u>210,068</u>	<u>235,922</u>

Notes:

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

	Unaudited As at 30 June 2010 RMB'000	Audited As at 31 December 2009 RMB'000
0 – 30 days	76,020	39,632
31 – 90 days	22,692	44,465
91 – 365 days	5,231	4,004
Over 365 days	8,184	8,699
	<u>112,127</u>	<u>96,800</u>

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2010

12 DERIVATIVE FINANCIAL INSTRUMENT

	Unaudited As at 30 June 2010 RMB'000	Audited As at 31 December 2009 RMB'000
Derivative financial liability		
- Interest rate swap contract	12,552	6,762

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 balance sheet based on its fair value as at the respective balance sheet date.

The Company's directors consider that the abovementioned interest rate swap contract does not qualify for hedge accounting and the net loss associated with this derivative financial instrument of RMB5,145,000 (six months ended 30 June 2009: net gain of RMB13,033,000) has been recognised within 'other losses/gains - net' in the condensed consolidated statement of comprehensive income for the six months ended 30 June 2010 (Note 14).

13 OTHER INCOME AND EXPENSES

	Unaudited Six months ended 30 June	
	2010 RMB'000	2009 RMB'000
Other income		
Income from provision of utilities (<i>Note</i>)	227,598	186,405
Amortisation of deferred income	3,481	3,012
Reversal of impairment of trade receivables	1,109	—
Others	405	2,802
	<u>232,593</u>	<u>192,219</u>
Other expenses		
Direct outgoings in respect of provision of utilities (<i>Note</i>)	(202,515)	(162,699)
Others	—	(89)
	<u>(202,515)</u>	<u>(162,788)</u>
	<u>30,078</u>	<u>29,431</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2010

13 OTHER INCOME AND EXPENSES – *continued*

Note:

The Group owns certain utilities production facilities for supplies of water, steam and electricity (including a thermal power plant) (collectively the “Utility Facilities”). 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, management believes that the Group can produce electricity and steam for its own production in a more cost efficient manner and the 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 in concern.

For the six months ended 30 June 2010, the income from the provisions of utilities to the fellow subsidiaries, jointly controlled entity and third parties amounted to RMB130,862,000 (2009: RMB103,625,000), RMB68,003,000 (2009: RMB66,763,000), RMB28,733,000 (2009: RMB16,017,000) 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 RMB157,933,000 (2009: RMB128,589,000), RMB12,433,000 (2009: RMB13,563,000), RMB13,791,000 (2009: RMB11,617,000) and RMB8,551,000 (2009: RMB5,395,000) respectively.

14 OTHER (LOSSES)/GAINS - NET

	Unaudited	
	Six months ended 30 June	
	2010	2009
	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
Gain on disposals of property, plant and equipment	2,905	—
Others	—	88
	<u>3,042</u>	<u>13,258</u>
Other losses		
Net loss on derivative financial instrument	(5,145)	—
Foreign exchange losses, net	(295)	(91)
Loss on disposals of property, plant and equipment	—	(375)
Others	(41)	—
	<u>(5,481)</u>	<u>(466)</u>
	<u>(2,439)</u>	<u>12,792</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2010

15 PROFIT BEFORE INCOME TAX

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

	Unaudited	
	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
Changes in inventories of finished goods and work in progress	(91,438)	(20,378)
Raw materials used for production of fiber products	549,570	293,570
	458,132	273,192
Raw materials used for provision of utilities	157,933	128,589
Depreciation (note 5)	67,762	64,786
Amortisation of		
- land use rights	941	941
- intangible assets (note 5)	4,104	3,667
Interest expenses on		
- bank borrowings	33,462	42,748
- discounted notes receivable	3,224	1,272
	36,686	44,020
Provision for impairment of inventories	878	—
	<u>878</u>	<u>—</u>

16 INCOME TAX EXPENSE

The amount of taxation charged to the condensed consolidated statement of comprehensive income represent:

	Unaudited	
	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
Current income tax		
- PRC corporate income tax	219	—
Deferred income tax		
- (credit)/charge for the period	(47)	6,245
	<u>172</u>	<u>6,245</u>
Income tax expense	<u>172</u>	<u>6,245</u>

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.

The corporate income tax rate applicable to the Company and its subsidiary for the current and the prior periods is 25%.

The current income tax for the current period represents the provision for corporate income tax on the estimated tax assessable profit as generated by the subsidiary in the PRC during the current period. No provision for corporate income tax has been made by the Company as it has sufficient tax losses brought forward to offset its estimated tax assessable profit generated in the PRC for the current period.

The Company and its subsidiary did not have any estimated tax assessable profit generated in the PRC during the prior period.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2010

17 EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit attributable to the owners of the Company for the period by the weighted average number of the Company's shares in issue during the six months ended 30 June 2010 of 866,250,000 (2009: 866,250,000) shares.

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

18 DIVIDEND

The Company's directors do not recommend the declaration of an interim dividend for the six months ended 30 June 2010 and 2009.

19 COMMITMENTS

(a) Operating commitments

(i) 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 13).

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 2010 RMB'000	Audited As at 31 December 2009 RMB'000
No later than 1 year	<u>18,400</u>	<u>36,799</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2010

19 COMMITMENTS – continued

(a) Operating commitments – continued

(ii) 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 2010 RMB'000	Audited As at 31 December 2009 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	242	302
	<u>835</u>	<u>895</u>

(b) Capital commitments

As at the respective balance sheet dates, capital expenditures contracted for but not yet incurred are as follows:

	Unaudited As at 30 June 2010 RMB'000	As at 31 December 2009 RMB'000
Property, plant and equipment	46,005	—
	<u>46,005</u>	<u>—</u>

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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2010

20 SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

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.

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) Significant transactions with related parties

	Unaudited	
	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
Sales of goods and services to:		
- a shareholder of the Company	169,161	82,427
- fellow subsidiaries	9	4,250
- other state-owned enterprises	37,608	30,116
Provision of utilities to:		
- the jointly controlled entity	68,003	66,763
- fellow subsidiaries	130,862	103,625
Net income of sales of raw materials to the jointly controlled entity and fellow subsidiaries	3,733	7,304
Interest income from a jointly controlled entity	2,037	6,474
Rental expense to a fellow subsidiary in respect of the Lease Assets	(19,894)	(19,061)
Purchases of raw materials from:		
- the jointly controlled entity	(20,694)	(34,859)
- fellow subsidiaries	(3,947)	(2,281)
- other state-owned enterprises	(496,866)	(167,237)
Interest expenses to state-owned banks	(30,618)	(38,870)
Drawdown of loans from state-owned banks	130,000	90,000
Repayments of loans to state-owned banks	(187,000)	(90,000)
	<u> </u>	<u> </u>

JCF Groupco allowed the Group to use of the trademark of “白山” (Baishan) at nil consideration during the six months ended 30 June 2010 and 2009.

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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2010

20 SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

(b) Significant balances with related parties

	Unaudited As at 30 June 2010 RMB'000	Audited As at 31 December 2009 RMB'000
Bank deposits with state-owned banks	62,871	138,434
Trade receivables from a fellow subsidiary	16,707	17,129
Other receivables from		
- fellow subsidiaries	113,926	54,657
- the jointly controlled entity	58,514	125,755
- other state-owned enterprises	761	15,203
	173,201	195,615
Other payables due to		
- the ultimate parent company	6,130	1,545
- fellow subsidiaries	968	1,401
- other state-owned enterprises	2,102	4,453
	9,200	7,399
Short-term bank borrowings from state-owned banks	440,000	490,000
Long-term bank borrowings from state-owned bank	623,000	630,000

(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	
	2010 RMB'000	2009 RMB'000
Wages, salaries and other short-term employee benefits	1,558	1,368
Pension and social security costs	109	25
	1,667	1,393

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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AUDITORS

PricewaterhouseCoopers

LEGAL ADVISOR AS TO HONG KONG LAW

Orrick, Herrington & Sutcliffe

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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