

# 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)



2012

Interim Report

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## DEFINITIONS

In this report, unless the context otherwise requires, the following terms shall have the following meanings:

“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of directors of the Company
“Company”	吉林奇峰化纖股份有限公司(Jilin Qifeng Chemical Fiber Co., Ltd.), a foreign invested joint stock limited company established in the PRC with limited liability
“Directors”	the directors of the Company
“Jimont”	Jilin Jimont Acrylic Fiber Co., Ltd., a jointly controlled entity of the Company
“Group”	the Company and its subsidiary
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“Period”	The six months ended 30 June 2012
“PRC”	The People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance, Cap. 571, Laws of Hong Kong
“Shareholders”	shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

	For the six months ended 30 June		
	(Unaudited) 2012 RMB'million	(Unaudited) 2011 RMB'million	Change %
Revenue	698.4	1,081.6	(35)
Gross profit	18.7	134.3	(86)
Operating (loss)/profit	(3.1)	94.0	(103)
Share of results of a jointly controlled entity	(26.9)	25.2	(207)
(Loss)/profit and total comprehensive income for the period attributable to the owners of the Company	(79.8)	65.8	(221)
(Loss)/earnings per share (RMB cents per share)	(9.21)	7.59	(221)
Gross profit margin	2.7%	12.4%	(9.7 p.p.)
Net (loss)/profit margin	<u>(11.4%)</u>	<u>6.1%</u>	<u>(17.5 p.p.)</u>
	As at 30 June 2012	As at 31 December 2011	
Current ratio	73%	71%	2 p.p.
Gearing ratio	<u>69%</u>	<u>66%</u>	<u>3 p.p.</u>

p.p - percentage point

#### FINANCIAL AND BUSINESS HIGHLIGHTS

- Loss for the Period attributable to the owners of the Company was approximately RMB79.8 million, as compared to a net profit of approximately RMB65.8 million for the same period in 2011.
- Revenue for the Period was approximately RMB698 million, representing a decrease of approximately 35% as compared to the same period in 2011, which was mainly attributable to the decreases in the average selling price and sales volume of acrylic fiber products.
- The overall gross profit margin of the Group decreased from 12.4% for the first six months in 2011 to 2.7% for the Period, which was mainly due to the decrease in price differential (i.e. the difference between the average selling price of our products and the average purchase price of the major raw materials) on products sold.
- Production plant operated at an overall utilisation rate of approximately 65% for the Period (2011: 91%).
- The Group's share of 50% of the loss of Jimont for the Period under the equity method amounted to approximately RMB26.9 million (2011: profit of approximately RMB25.2 million).

## MANAGEMENT DISCUSSION AND ANALYSIS

### MAJOR OPERATIONAL DATA

#### 1. Revenue

	For the six months ended 30 June			
	2012		2011	
	RMB million	%	RMB million	%
Acrylic top	321.4	46.0	532.4	49.2
Acrylic tow	87.7	12.6	218.5	20.2
Acrylic staple fiber	284.3	40.7	315.1	29.1
Carbon fiber precursor	2.2	0.3	6.0	0.6
Others*	2.8	0.4	9.6	0.9
<b>Total</b>	<b>698.4</b>	<b>100.0</b>	<b>1,081.6</b>	<b>100.0</b>

#### 2. Sales volume

	For the six months ended 30 June			
	2012		2011	
	Tons	%	Tons	%
Acrylic top	18,509	44.7	23,721	48.1
Acrylic tow	5,356	12.9	10,200	20.7
Acrylic staple fiber	17,295	41.7	14,719	29.9
Carbon fiber precursor	82	0.2	100	0.2
Others*	193	0.5	559	1.1
<b>Total</b>	<b>41,435</b>	<b>100.0</b>	<b>49,299</b>	<b>100.0</b>

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

	For the six months ended 30 June			
	2012		2011	
	Average selling price RMB/ton	Gross profit margin %	Average selling price RMB/ton	Gross profit margin %
Acrylic top	17,365	2.64	22,444	13.01
Acrylic tow	16,374	3.49	21,422	13.47
Acrylic staple fiber	16,438	2.32	21,408	11.77
Carbon fiber precursor	26,829	2.39	60,000	17.78
<b>Overall gross profit margin</b>		<b>2.67</b>		<b>12.42</b>

\* Refer to sales of acrylic fiber scrap

## REVIEW AND OUTLOOK

### Market Review

During the Period, the European financial crisis continued to exert negative impact on the global economic environment. The economic downturn has adversely affected the global capital market, coupled with the high unemployment rate, the economic recovery is inhibited. The growth trend of PRC market also slowed down which reduced the demand of the downstream textile industry as well as the acrylic fiber products. As a result of more significant decrease in average selling price of acrylic fiber products as compared to the decrease in average purchase price of acrylonitrile (the major raw material for the production of the Group's products), the price difference between acrylic fiber products and acrylonitrile decreased, which reduced the profitability of suppliers of acrylic fiber products. The downstream carbon fiber market is still in its development stage.

### Sales Review

For the six months ended 30 June 2012, the Group recorded sales revenue of approximately RMB698 million, representing a decrease of approximately 35% as compared to the same period in 2011. Sales volume during the Period was 41,435 tons, representing a decrease of approximately 16% as compared to the same period in 2011. As the carbon fiber product market of the Group was still being developed, sales of carbon fiber products only represented approximately 1% of the Group's revenue. The average selling price of the Group's acrylic fiber products decreased from RMB21,916 per ton in the first half of 2011 to approximately RMB16,846 per ton in the Period, representing a decrease of approximately 23%.

### Operations Review

For the six months ended 30 June 2012, the Group's total production volume was 44,060 tons, representing a decrease of approximately 8% as compared to the same period last year. Two acrylic fiber production lines were modified to produce carbon fiber precursor in 2008, the total acrylic fiber production capacity of the Group was thus, reduced by 30,000 tons to 106,000 tons per annum. Upon the completion of the new carbon fiber production plant in late 2011, the production lines were restored and the acrylic fiber production capacity has increased to 136,000 per annum in 2012. The utilization rate of the Group's production facilities for acrylic fiber during the Period was approximately 65% (2011: 91%). During the Period, the quality of the Group's major products further improved as compared to last year, which was mainly due to the strengthening of quality control of our products. Our production department also organized various professional seminars, analyst meetings and exchanged experiences with external organizations to increase the quality awareness of operating staff and effectively improved the stability of our product quality. Total production volume of carbon fiber products accounted for approximately 1% of our overall production volume.

### Human Resources

As at 30 June 2012, the Group had 1,808 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 2012, the Group provided trainings to its employees in various areas, including production technology, product quality controls, production operation processes, production safety and environmental protection.

### Outlook

Looking forward, with the development of the PRC economy and textile industry as well as the adjustments to macroeconomic policies of the PRC, the Group expects the following new opportunities and prospects for its business:

1. **Development of carbon fiber:** Carbon fiber is a new type of high-performance fiber material characterized by high strength and used extensively for military, industrial and civil purposes. Currently, the Group has reached a production capacity of 5,000 tons of carbon fiber precursor per year. The Group believes that with the continuous improvement of the down-stream market, the development of carbon fiber products will bring about larger market potential and long-term economic benefits for the Group.
2. **Development of differentiated acrylic fiber:** The Group will further commit to the development of differentiated acrylic fiber to enhance its competitiveness in the PRC differentiated acrylic fiber products market. For the six months ended 30 June 2012, the Group mainly produced superfine fiber, high-shrinkage fiber, anti-pilling fibers, cashmere fiber, gel-color fiber, unequal length fiber, regenerative fiber and over 30 other varieties of differentiated fibers. The Group is also developing far-infrared fiber, high-moistured fiber, highlighting fiber, anion fiber and antibacterial deodorizing fiber. The management believes that differentiated 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 operations, strengthen the leading position of the Group in the PRC acrylic fiber industry and maximize the Company's return to the Shareholders.

## FINANCIAL ANALYSIS

### OPERATION RESULTS

For the six months ended 30 June 2012, the Group's revenue was approximately RMB698 million, representing a decrease of approximately 35% as compared to approximately RMB1.08 billion for the same period in 2011. The decrease in revenue was mainly attributable to the decrease of approximately 23% in the average selling price of the Group's products and the decrease of approximately 16% in sales volume. During the Period, the Group's total sales volume and production volume were 41,435 tons and 44,060 tons, respectively, resulting in a sales-to-production ratio of approximately 94% (2011: 102%). For the six months ended 30 June 2012, loss attributable to the owners of the Company was approximately RMB79.8 million, as compared to the profit attributable to the owners of the Company of approximately RMB65.8 million for the same period in 2011. The significant decrease in profit attributable to the owners of the Company was mainly attributable to the decrease in sales volume of approximately 16% and the decrease in price difference between the average selling price of the Group's acrylic fiber products and the purchase price of the Group's major raw material, acrylonitriles of approximately 28%. The price difference was 3,997 per ton for the six months ended 30 June 2012. In addition, during the Period, loss attributable to the owners of the Company also included the Group's share of 50% of the loss of a jointly controlled entity of approximately RMB26.9 million (2011: profit of RMB25.2 million).

The overall gross profit margin of the Group decreased from 12.4% for the first six months in 2011 to 2.7% for the Period. This was mainly due to a decrease in the average selling price of the Group's products by RMB5,085 to RMB16,855 per ton in the six months ended 30 June 2012 as compared to the same period in 2011, representing a decrease of approximately 23%. Meanwhile, the average purchase price of the major raw materials, acrylonitrile, was approximately RMB12,849 per ton for the six months ended 30 June 2012, representing a decrease of approximately 22% from RMB16,374 per ton for the same period in 2011. The average unit cost also increased as a result of the decrease in plant utilization rate from approximately 91% for the six months ended 30 June 2011 to approximately 65% for the Period.

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

Operating expenses decreased to approximately RMB52.0 million for the six months ended 30 June 2012 from approximately RMB63.9 million for the same period in 2011. The decrease was mainly due to decrease in sales volume which resulted in a decrease of transportation costs.

#### **Other net income (representing the aggregated net amount of other income, other expenses and other losses)**

Other net income increased from approximately RMB23.6 million for the six months ended 30 June 2011 to approximately RMB30.3 million for the Period. The increase in other net income was mainly due to the increases in net income generated from the provision of utilities.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Net finance costs

Net finance costs increased to approximately RMB57.6 million for the six months ended 30 June in 2012 from approximately RMB41.9 million for the same period in 2011. The increase in finance costs was mainly resulted from the increase in overall bank borrowings.

### Share of results of a jointly controlled entity

For the six months ended 30 June 2012, the 50% share of loss of Jimont attributable to the Group under the equity method was approximately RMB26.9 million (2011: profit of RMB25.2 million). The decrease in Jimont's profitability was primarily due to a decrease in gross profit margin and a decrease in the sales volume of Jimont.

### Financial resources, liquidity and liability position

As at 30 June 2012, the Group's total assets and total liabilities were approximately RMB3.1 billion and RMB2.1 billion respectively. As at 30 June 2012, the Group's current liabilities exceeded its current assets by approximately RMB444 million, and its current ratio (calculated as current assets divided by current liabilities) was approximately 0.73 (At 31 December 2011: 0.71). 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 RMB301 million (including restricted bank deposits of approximately RMB87 million) as at 30 June 2012. As at 30 June 2012, the total bank borrowings of the Group amounted to approximately RMB1.7 billion, of which approximately RMB1.2 billion were short-term bank borrowings and current portion of long-term borrowings and non-current portion of a long-term bank borrowings were RMB117 million and RMB356 million respectively. The Directors of the Company are confident that the Group can renew the borrowings with the banks upon their original maturities and have sufficient financial resources available to meet its liabilities as and when they fall due. Please refer to note 2 of the condensed consolidated financial statements for the Period for further details. 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 exposed to limited foreign exchange risk, and hence it had not made any foreign currency hedging arrangement. As at 30 June 2012, the Group's gearing ratio (calculated as total liabilities divided by total assets) was approximately 69.4% (At 31 December 2011: 65.6%).

## 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 is currently contemplating to launch phase two of Jimont's acrylic fibre project. It is expected that phase two of the project will further increase the total production capacity of the jointly controlled entity to 150,000 tons. The schedule for the implementation of the phase two will depend on a number of factors, including future market conditions. For the six months ended 30 June 2012, the sales and production volumes of the jointly controlled entity were 39,179 tons and 42,384 tons, respectively, with a sales-to-production ratio of approximately 92%. The plant utilisation rate of Jimont during the current period was approximately 85%. Its net loss for the Period was approximately RMB53.7 million (2011: profit of RMB50.4 million). The decrease in net profit as compared to the same period in the previous year was mainly attributable to its decreases in gross profit margin and sales volume.

### Entrusted deposits and pledged time deposits

As at 30 June 2012, 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 the restricted bank deposits of approximately RMB87 million, the Group had no other bank deposits which cannot be freely withdrawn.

### Pledged assets

As at 30 June 2012, certain property, plant and equipment and land use rights with net book values of approximately RMB506 million and 5.1 million respectively (As at 31 December 2011: RMB547 million and RMB5.4 million respectively) were pledged as securities to guarantee the bank borrowings of RMB240 million (As at 31 December 2011: RMB305 million). In addition, bank deposits of approximately RMB25 million and RMB17.7 million (As at 31 December 2011: RMB25 million and RMB1.9 million) were pledged for the issue of certain notes payable and letters of credit.

### Contingent liabilities

The Group had no material contingent liabilities as at 30 June 2012.

### Dividend

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2012 (2011: Nil).

## INFORMATION OF SHARE CAPITAL AND SUBSTANTIAL SHAREHOLDERS

### SHARE CAPITAL

As at 30 June 2012, 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 2012, 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 <sup>(1)</sup>		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 <sup>(2)</sup>		Non-H Foreign Shares	—	56.00	56.00	—	10.95	10.95
Bank of China Limited	94,841,726 <sup>(2)</sup>		Non-H Foreign Shares	—	56.00	56.00	—	10.95	10.95
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 <sup>(3)</sup>		Non-H Foreign Shares	—	26.00	26.00	—	5.08	5.08
China Life Insurance (Overseas) Company Limited	44,029,105 <sup>(3)</sup>		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

## 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
Huang Jia Sen	30,487,573 <sup>(4)</sup>	Non-H Foreign Shares	—	18.00	18.00	—	3.52	3.52
Huang Jia Zi	30,487,573 <sup>(4)</sup>	Non-H Foreign Shares	—	18.00	18.00	—	3.52	3.52
Huang Jia Yuan	30,487,573 <sup>(4)</sup>	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 2012, 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 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 financial statements for the six months ended 30 June 2012.

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

During the six months ended 30 June 2012, 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 2012.

### COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Stock Exchange has revised the Code on Corporate Governance Practices (the "Former Code") set out in Appendix 14 of the Listing Rules, and the revised code, namely, Corporate Governance Code (the "Revised Code"), becomes effective on 1 April 2012. The Company has complied with all the applicable code provisions of the Former Code from 1 January 2012 to 31 March 2012 and the Revised Code from 1 April 2012 to 30 June 2012.

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

During the six months ended 30 June 2012, 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 STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2012

	Note	Unaudited As at 30 June 2012 RMB' 000	Audited As at 31 December 2011 RMB' 000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Land use rights		28,536	29,477
Property, plant and equipment	6	1,497,028	1,538,788
Intangible assets	6	11,873	16,411
Interest in a jointly controlled entity	7	187,230	213,945
Deferred income tax assets		88,095	80,354
Prepayments		10,734	6,068
		<u>1,823,496</u>	<u>1,885,043</u>
<b>Current assets</b>			
Inventories		351,000	257,516
Trade and other receivables	8	576,072	463,929
Current income tax recoverable		1,893	1,893
Restricted bank deposits		86,697	70,790
Cash and cash equivalents		<u>214,577</u>	<u>264,127</u>
		<u>1,230,239</u>	<u>1,058,255</u>
<b>Total assets</b>		<u><u>3,053,735</u></u>	<u><u>2,943,298</u></u>
<b>EQUITY</b>			
<b>Capital and reserves attributable to the owners of the Company</b>			
Share capital	9	866,250	866,250
Share premium	9	142,477	142,477
Accumulated losses		(107,451)	(27,639)
Other reserves		<u>31,919</u>	<u>31,919</u>
<b>Total equity</b>		<u>933,195</u>	<u>1,013,007</u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2012

	Note	Unaudited As at 30 June 2012 RMB' 000	Audited As at 31 December 2011 RMB' 000
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Long-term bank borrowings	10	356,000	364,500
Deferred income	11	90,458	82,567
		<u>446,458</u>	<u>447,067</u>
<b>Current liabilities</b>			
Trade and other payables	12	316,099	300,197
Short-term bank borrowings	10	1,223,800	991,800
Current portion of long-term bank borrowings	10	117,000	173,500
Current income tax liabilities		202	202
Derivative financial instrument	13	16,981	17,525
		<u>1,674,082</u>	<u>1,483,224</u>
<b>Total liabilities</b>		<u>2,120,540</u>	<u>1,930,291</u>
<b>Total equity and liabilities</b>		<u>3,053,735</u>	<u>2,943,298</u>
<b>Net current liabilities</b>		<u>(443,843)</u>	<u>(424,969)</u>
<b>Total assets less current liabilities</b>		<u>1,379,653</u>	<u>1,460,074</u>

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2012

		Unaudited	
		Six months ended 30 June	
	Note	2012 RMB' 000	2011 RMB' 000
Revenue	5	698,395	1,081,559
Cost of sales		<u>(679,715)</u>	<u>(947,256)</u>
<b>Gross profit</b>		<b>18,680</b>	<b>134,303</b>
Distribution costs		(16,560)	(20,434)
Administrative expenses		(35,489)	(43,466)
Other income	14	242,629	239,404
Other expenses	14	(209,666)	(214,286)
Other losses - net	15	<u>(2,694)</u>	<u>(1,545)</u>
<b>Operating (loss)/profit</b>		<b>(3,100)</b>	<b>93,976</b>
Finance income		1,166	1,268
Finance costs		<u>(58,768)</u>	<u>(43,163)</u>
		(60,702)	52,081
Share of results of a jointly controlled entity		<u>(26,852)</u>	<u>25,208</u>
<b>(Loss)/profit before income tax</b>	16	<b>(87,554)</b>	<b>77,289</b>
Income tax credit/(expense)	17	<u>7,742</u>	<u>(11,534)</u>
<b>(Loss)/profit and total comprehensive income for the period attributable to the owners of the Company</b>		<b><u>(79,812)</u></b>	<b><u>65,755</u></b>
<b>(Loss)/earnings per share for (loss)/profit for the period attributable to the owners of the Company</b>			
– basic and diluted (expressed in RMB cents per share)	18	<u>(9.21)</u>	<u>7.59</u>
<b>Dividend</b>	19	<u>—</u>	<u>—</u>



## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2012

	Unaudited				Total RMB' 000
	Share capital RMB' 000	Share premium RMB' 000	Accumulated losses RMB' 000	Other reserves RMB' 000	
At 1 January 2012	866,250	142,477	(27,639)	31,919	1,013,007
Loss for the period	—	—	(79,812)	—	(79,812)
At 30 June 2012	<u>866,250</u>	<u>142,477</u>	<u>(107,451)</u>	<u>31,919</u>	<u>933,195</u>
At 1 January 2011	866,250	142,477	(92,831)	31,919	947,815
Profit for the period	—	—	65,755	—	65,755
At 30 June 2011	<u>866,250</u>	<u>142,477</u>	<u>(27,076)</u>	<u>31,919</u>	<u>1,013,570</u>

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2012

	Unaudited	
	Six months ended 30 June	
	2012	2011
	RMB' 000	RMB' 000
Net cash (used in)/from operating activities	(147,078)	81,166
Net cash used in investing activities	(8,132)	(173,798)
Net cash from financing activities	105,660	117,378
Net (decrease)/increase in cash and cash equivalents	(49,550)	24,746
Cash and cash equivalents at beginning of the period	264,127	76,060
Cash and cash equivalents at end of the period	214,577	100,806

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2012

## 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 “Stock Exchange”). 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.

The condensed consolidated financial statements have been approved for issue by the Board of Directors of the Company on 28 August 2012.

The condensed consolidated financial statements have not been audited.

## 2 BASIS OF PREPARATION

As at 30 June 2012, the Group’s current liabilities exceeded its current assets by RMB443,843,000 and the bank borrowings as included in the Group’s current liabilities amounted to RMB1,340,800,000. 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’s profitability and cash flows are expected to be improved in view of the improving business environment of our 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 financial statements on a going concern basis.

The condensed consolidated financial statements for the six months ended 30 June 2012 have been prepared in accordance with applicable disclosure requirements of Appendix 16 of the Listing Rule and Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountant (the “HKICPA”). The condensed consolidated financial statements should be read in conjunction with the Group’s annual financial statement as at 31 December 2011, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) issued by the HKICPA.

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 FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2012

## 3 ACCOUNTING POLICIES

Except as described below, the condensed consolidated financial statements have been prepared in accordance with the same accounting policies adopted in the Group's annual financial statement as at 31 December 2011.

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 HKICPA, which are effective for the accounting periods beginning on or after 1 January 2012:

HKAS 12 (Amendment)	Deferred Tax - Recovering of Underlying Assets
HKFRS 7 (Amendment)	Disclosures - Transfers of Financial Assets

The adoption of the abovementioned new or revised standards, amendments and interpretation did not result in any substantial changes to the Group's significant accounting policies and presentation of the condensed consolidated financial statements.

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 1 January 2012:

Amendments to HKAS 1 (Revised)	Presentation of Items of Other Comprehensive Income <sup>1</sup>
HKFRS 9	Financial Instruments <sup>2</sup>
HKFRS 10	Consolidated Financial Statements <sup>2</sup>
HKFRS 11	Joint Arrangements <sup>2</sup>
HKFRS 12	Disclosure of Interests in Other Entities <sup>2</sup>
HKFRS 13	Fair Value Measurement <sup>2</sup>
HKAS 27 (2011)	Separate Financial Statements <sup>2</sup>
HKAS 28 (2011)	Investments in Associates and Joint Ventures <sup>2</sup>
HKAS 19 (2011)	Employee Benefits <sup>2</sup>
HKFRS 7 (Amendment)	Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities <sup>2</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2009-2011 Cycle <sup>2</sup>
HKAS 32 (Amendment)	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities <sup>3</sup>
HKFRS 7 and HKFRS 9 (Amendment)	Mandatory Effective Date and Transition Disclosures <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2012

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2013

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2014

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2015

The Group has not early adopted the above new or revised standards, amendments or interpretations in the condensed consolidated financial statements. 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 FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2012

## 4 FINANCIAL RISK MANAGEMENT

### 4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk.

The condensed consolidated financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2011.

There have been no changes in the risk management department since 31 December 2011 or in any risk management policies.

### 4.2 Liquidity risk

Compared to 31 December 2011, there was no material change in the contractual undiscounted cash out flows for financial liabilities.

### 4.3 Fair value estimation

Except for the interest rate swap contract as mentioned in Note 13, the Group does not have any financial assets/liabilities which are required to be measured in the condensed consolidated financial statements at fair value as of the reporting date. This interest rate swap contract has been categorised to the level 2 of the fair value measurement hierarchy as set out in the HKFRS 7 "Financial Instruments - Disclosures (Amendment)" because its fair value can be determined by the use of valuation techniques which maximise the use of non-entity specific market data which is observable. The fair value of the interest rate swap contract is calculated at the present value of the estimated future cash flows based on observable yield curves.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2012

## 5 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 2012 of RMB38,224,000 (2011: RMB79,386,000) 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. 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 2012 consists of sales from the acrylic fiber products segment and carbon fiber products segment of RMB696,223,000 (2011: RMB1,075,527,000) and RMB2,172,000 (2011: RMB6,032,000) respectively.

The Group does not have any inter-segment sales during the six months ended 30 June 2012 and 2011.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2012

### 5 SEGMENT INFORMATION – *continued*

The segment information provided to the Decision-Makers for the six months ended 30 June 2012 and 2011 is as follow:

	Unaudited		
	Acrylic fiber products RMB' 000	Carbon fiber products RMB' 000	Total RMB' 000
<b>Six months ended 30 June 2012</b>			
Total revenue from external customers	696,223	2,172	698,395
<b>Adjusted segment results (Note)</b>	78,705	(129)	78,576
Share of results of a jointly controlled entity	(26,852)	—	(26,852)
Depreciation and amortisation	(76,161)	(2,315)	(78,476)
Income tax credit	6,517	1,225	7,742
	<u>(17,791)</u>	<u>(1,219)</u>	<u>(19,010)</u>
Additions to non-current assets (other than deferred income tax assets)	<u>3,953</u>	<u>27,348</u>	<u>31,301</u>
<b>Six months ended 30 June 2011</b>			
Total revenue from external customers	1,075,527	6,032	1,081,559
<b>Adjusted segment results (Note)</b>	178,903	(4,784)	174,119
Share of results of a jointly controlled entity	25,208	—	25,208
Depreciation and amortisation	(76,731)	(2,451)	(79,182)
Income tax (expense) /credit	(12,890)	1,356	(11,534)
	<u>114,490</u>	<u>(5,879)</u>	<u>108,611</u>
Additions to non-current assets (other than deferred income tax assets)	<u>7,122</u>	<u>118,454</u>	<u>125,576</u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2012

## 5 SEGMENT INFORMATION – *continued*

	Unaudited		
	Acrylic fiber products RMB' 000	Carbon fiber products RMB' 000	Total RMB' 000
<b>As at 30 June 2012</b>			
Total assets	<u>2,356,203</u>	<u>607,544</u>	<u>2,963,747</u>
Total assets include:			
Interest in a jointly controlled entity	<u>187,230</u>	<u>—</u>	<u>187,230</u>
Total liabilities	<u>353,766</u>	<u>52,791</u>	<u>406,557</u>
	Audited		
	Acrylic fiber products RMB' 000	Carbon fiber products RMB' 000	Total RMB' 000
<b>As at 31 December 2011</b>			
Total assets	<u>2,275,525</u>	<u>585,526</u>	<u>2,861,051</u>
Total assets include:			
Interest in a jointly controlled entity	<u>213,945</u>	<u>—</u>	<u>213,945</u>
Total liabilities	<u>333,447</u>	<u>49,317</u>	<u>382,764</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 (loss)/profit before income tax is provided as follows:

	Unaudited	
	Six months ended 30 June	
	2012 RMB' 000	2011 RMB' 000
Adjusted segment results for reportable segments	78,576	174,119
Depreciation	(72,997)	(74,138)
Amortisation	(5,479)	(5,044)
Net loss on derivative financial instrument	(3,200)	(961)
Operating (loss)/profit	(3,100)	93,976
Finance costs - net	(57,602)	(41,895)
Share of results of a jointly controlled entity	(26,852)	25,208
(Loss)/profit before income tax	<u>(87,554)</u>	<u>77,289</u>



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2012

### 5 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 statement of financial position. 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 2012 RMB' 000	Audited As at 31 December 2011 RMB' 000
Segment assets for reportable segments	2,963,747	2,861,051
Unallocated:		
Deferred income tax assets	88,095	80,354
Current income tax recoverable	1,893	1,893
	<u>89,988</u>	<u>82,247</u>
Total assets per condensed consolidated statement of financial position	<u><u>3,053,735</u></u>	<u><u>2,943,298</u></u>

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

	Unaudited As at 30 June 2012 RMB' 000	Audited As at 31 December 2011 RMB' 000
Segment liabilities for reportable segments	406,557	382,764
Unallocated:		
Current borrowings	1,340,800	1,165,300
Non-current borrowings	356,000	364,500
Current income tax liabilities	202	202
Derivative financial instrument	16,981	17,525
	<u>1,713,983</u>	<u>1,547,527</u>
Total liabilities per condensed consolidated statement of financial position	<u><u>2,120,540</u></u>	<u><u>1,930,291</u></u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2012

## 5 SEGMENT INFORMATION – *continued*

*Note:*

As detailed out in Note 14, 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 2012 as disclosed above for the acrylic fiber products segment included an amount of RMB41,421,000 (2011: RMB33,677,000), 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.

## 6 PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	Unaudited	
	Property, plant and equipment RMB' 000	Intangible assets RMB' 000
<b>Six months ended 30 June 2012</b>		
Opening net book amount at 1 January 2012	1,538,788	16,411
Additions	31,301	—
Disposals	(64)	—
Depreciation and amortisation	<u>(72,997)</u>	<u>(4,538)</u>
Closing net book amount at 30 June 2012	<u>1,497,028</u>	<u>11,873</u>
<b>Six months ended 30 June 2011</b>		
Opening net book amount at 1 January 2011	1,279,477	24,618
Additions	125,576	—
Disposals	—	—
Depreciation and amortisation	<u>(74,138)</u>	<u>(4,103)</u>
Closing net book amount at 30 June 2011	<u>1,330,915</u>	<u>20,515</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 FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2012

### 7 INTEREST IN A JOINTLY CONTROLLED ENTITY

	Unaudited	
	Six months ended 30 June	
	2012	2011
	RMB' 000	RMB' 000
At 1 January	213,945	177,521
Share of results	(26,852)	25,208
Others	137	137
At 30 June	<u>187,230</u>	<u>202,866</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 2012		As at 31 December 2011	
	Jimont	50% shared by the Group	Jimont	50% shared by the Group
	RMB' 000	RMB' 000	RMB' 000	RMB' 000
Non-current assets	919,249	459,625	933,543	466,772
Current assets	414,667	207,333	534,056	267,028
Total assets	<u>1,333,916</u>	<u>666,958</u>	<u>1,467,599</u>	<u>733,800</u>
Non-current liabilities	320,000	160,000	370,000	185,000
Current liabilities	632,086	316,043	662,065	331,033
Total liabilities	<u>952,086</u>	<u>476,043</u>	<u>1,032,065</u>	<u>516,033</u>
Jointly controlled entity's capital commitments	-	-	-	-

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2012

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

	Unaudited For the six months ended 30 June 2012		Unaudited For the six months ended 30 June 2011	
	Jimont RMB' 000	50% shared by the Group RMB' 000	Jimont RMB' 000	50% shared by the Group RMB' 000
Revenue	660,878	330,439	1,005,589	502,795
Expenses	(714,582)	(357,291)	(955,174)	(477,587)
Net (loss)/profit for the period	<u>(53,704)</u>	<u>(26,852)</u>	<u>50,415</u>	<u>25,208</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2012

### 8 TRADE AND OTHER RECEIVABLES

	Unaudited As at 30 June 2012 RMB' 000	Audited As at 31 December 2011 RMB' 000
Trade receivables (Note a)	127,801	115,383
Less: provision for impairment	(5,021)	(5,021)
Trade receivables – net	122,780	110,362
Prepayments	30,116	7,524
Notes receivables	159,109	121,879
Other receivables	117,057	68,286
Less: provision for impairment	(7,516)	(7,516)
Other receivables – net	109,541	60,770
Amounts due from fellow subsidiaries	154,526	163,394
	<u>576,072</u>	<u>463,929</u>

Notes:

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

	Unaudited As at 30 June 2012 RMB' 000	Audited As at 31 December 2011 RMB' 000
0 - 30 days	63,044	31,639
31 - 90 days	8,874	47,739
91 - 365 days	34,409	17,698
Over 365 days	21,474	18,307
	<u>127,801</u>	<u>115,383</u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2012

## 9 SHARE CAPITAL AND PREMIUM

### (a) Share capital

	Number of shares (in thousand)	Nominal values RMB' 000
Registered, issued and fully paid		
– Domestic shares of RMB1 each	437,017	437,017
– Non-H foreign shares of RMB1 each	169,358	169,358
– H shares of RMB1 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 2012 and 2011.
- (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 RMB1 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. 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 FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2012

### 10 BORROWINGS

	Unaudited As at 30 June 2012 RMB' 000	Audited As at 31 December 2011 RMB' 000
<b>Non-current</b>		
Long-term bank borrowings	473,000	538,000
Less: Current portion of long-term bank borrowings	(117,000)	(173,500)
	<u>356,000</u>	<u>364,500</u>
<b>Current</b>		
Short-term bank borrowings	1,173,800	941,800
Current portion of long-term bank borrowings	117,000	173,500
Other borrowings	50,000	50,000
	<u>1,340,800</u>	<u>1,165,300</u>
<b>Total borrowings</b>	<u><u>1,696,800</u></u>	<u><u>1,529,800</u></u>

Movements in borrowings are analysed as follows:

	Unaudited	
	2012 RMB' 000	2011 RMB' 000
At 1 January	1,529,800	1,282,000
Drawn down	684,800	553,000
Repayments	(517,800)	(397,000)
At 30 June	<u><u>1,696,800</u></u>	<u><u>1,438,000</u></u>

The Group's borrowings are all denominated in Renminbi and hence will not expose the Group to any foreign exchange risk. All bank borrowings bear floating interest rates which expose the Group to interest rate risk.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2012

## 10 BORROWINGS – *continued*

As at 30 June 2012, the contractual maturities of the Group's non-derivative financial liabilities were as follows:

	Unaudited					Carrying amounts RMB' 000
	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	
<b>At 30 June 2012</b>						
Trade and other payables	273,497	—	—	—	273,497	273,497
Short-term bank borrowings	1,262,729	—	—	—	1,262,729	1,223,800
Long-term bank borrowings	147,109	82,251	205,073	168,349	602,782	473,000
<b>Total non-derivatives financial liabilities</b>	<b>1,683,335</b>	<b>82,251</b>	<b>205,073</b>	<b>168,349</b>	<b>2,139,008</b>	<b>1,970,297</b>

	Audited					Carrying amounts RMB' 000
	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	
<b>At 31 December 2011</b>						
Trade and other payables	221,304	—	—	—	221,304	221,304
Short-term bank borrowings	1,031,373	—	—	—	1,031,373	991,800
Long-term bank borrowings	180,441	80,698	202,944	188,735	652,818	538,000
<b>Total non-derivatives financial liabilities</b>	<b>1,433,118</b>	<b>80,698</b>	<b>202,944</b>	<b>188,735</b>	<b>1,905,495</b>	<b>1,751,104</b>

The Group has the following undrawn borrowing facilities:

	Unaudited	
	As at 30 June 2012 RMB' 000	As at 30 June 2011 RMB' 000
Floating rate bank borrowings:		
– expiring within one year	50,000	—
– expiring beyond one year	—	—
	<b>50,000</b>	<b>—</b>



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2012

### 11 DEFERRED INCOME

As at 30 June 2012, 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 RMB78,275,000 (As at 31 December 2011: RMB69,691,000) and RMB12,183,000 (As at 31 December 2011: RMB12,876,000) respectively.

### 12 TRADE AND OTHER PAYABLES

	Unaudited As at 30 June 2012 RMB' 000	Audited As at 31 December 2011 RMB' 000
Trade payables ( <i>Note a</i> )	174,062	124,629
Advance from customers	16,225	32,968
Payable for purchases of property, plant and equipment	38,740	56,315
Amounts due to related parties ( <i>Note b</i> )	21,337	12,364
Other payables and accruals	39,358	27,996
Provision for staff welfare	26,137	26,599
Social security and other taxes	240	19,326
	<u>316,099</u>	<u>300,197</u>

*Notes:*

(a) Aging analysis of the trade payables at the respective reporting dates are as follows:

	Unaudited As at 30 June 2012 RMB' 000	Audited As at 31 December 2011 RMB' 000
0 – 30 days	120,955	28,000
31 – 90 days	28,118	81,371
91 – 365 days	21,806	9,629
Over 365 days	3,183	5,629
	<u>174,062</u>	<u>124,629</u>

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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2012

## 13 DERIVATIVE FINANCIAL INSTRUMENT

	Unaudited As at 30 June 2012 RMB' 000	Audited As at 31 December 2011 RMB' 000
Derivative financial liability (Note)		
– Interest rate swap contract	<u>16,981</u>	<u>17,525</u>

*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 statement of financial position based on its fair value as at the respective reporting dates.

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 RMB3,200,000 (six months ended 30 June 2011: net loss of RMB961,000) has been recognised within 'other losses - net' in the condensed consolidated statement of comprehensive income for the six months ended 30 June 2012 (Note 15).

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2012

### 14 OTHER INCOME AND EXPENSES

	Unaudited	
	Six months ended 30 June	
	2012	2011
	RMB' 000	RMB' 000
<b>Other income</b>		
Income from provision of utilities ( <i>Note</i> )	237,620	235,758
Amortisation of deferred income	4,739	2,320
Others	270	1,326
	<u>242,629</u>	<u>239,404</u>
<b>Other expenses</b>		
Direct outgoings in respect of provision of utilities ( <i>Note</i> )	(207,924)	(213,769)
Others	(1,742)	(517)
	<u>(209,666)</u>	<u>(214,286)</u>
	<u><u>32,963</u></u>	<u><u>25,118</u></u>

*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 was renewed for another three years to 31 December 2013. During the Period, the lease term was revised and shortened to 31 December 2012. The lease is expected to be renewed in annual basis. 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 2012, the income from the provisions of utilities to the fellow subsidiaries, jointly controlled entity and third parties amounted to RMB125,897,000 (2011: RMB128,365,000), RMB102,874,000 (2011: RMB85,828,000), RMB8,849,000 (2011: RMB21,565,000) 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 RMB160,744,000 (2011: RMB167,474,000), RMB15,736,000 (2011: RMB18,219,000), RMB11,725,000 (2011: RMB11,727,000) and RMB8,367,000 (2011: RMB7,163,000) respectively.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2012

## 15 OTHER LOSSES - NET

	Unaudited	
	Six months ended 30 June	
	2012	2011
	RMB' 000	RMB' 000
Gain attributable to equity interests of a jointly controlled entity	137	137
Loss on disposals of property, plant and equipment	(30)	—
Net loss on derivative financial instrument	(3,200)	(961)
Foreign exchange gains, net	407	332
Others	(8)	(1,053)
	<u>(2,694)</u>	<u>(1,545)</u>

## 16 (LOSS)/PROFIT BEFORE INCOME TAX

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

	Unaudited	
	Six months ended 30 June	
	2012	2011
	RMB' 000	RMB' 000
Changes in inventories of finished goods and work in progress	(69,586)	(35,190)
Raw materials used for production of fiber products	577,136	657,827
	507,550	622,637
Raw materials used for provision of utilities	160,744	167,474
Depreciation (note 6)	72,997	74,138
Amortisation of		
– land use rights	941	941
– intangible assets (note 6)	4,538	4,103
Interest expenses on		
– bank borrowings	50,037	38,277
– discounted notes receivable	3,531	4,886
	53,568	43,163
Provision for impairment of inventories	—	866
	<u>53,568</u>	<u>43,163</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2012

### 17 INCOME TAX CREDIT/(EXPENSE)

The amount of taxation credited/(charged) to the condensed consolidated statement of comprehensive income represents:

	Unaudited	
	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Current income tax		
– PRC corporate income tax	—	(28)
Deferred income tax		
– credit/(charge) for the period	7,742	(11,506)
Income tax credit/(expense)	<u>7,742</u>	<u>(11,534)</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%.

For the six months ended 30 June 2012, no provision for corporate income tax has been made as the Company does not have estimated tax assessable profit and the subsidiary in PRC has sufficient tax losses brought forward to offset its estimated tax assessable profit.

For the six months ended 30 June 2011, the current income tax represents the provision for corporate income tax on the estimated tax assessable profit as generated by the subsidiary in the PRC. 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 six months ended 30 June 2011.

### 18 (LOSS)/EARNINGS PER SHARE

Basic (loss)/earnings per share are calculated by dividing the (loss)/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 2012 of 866,250,000 (2011: 866,250,000) shares.

For the six months ended 30 June 2012 and 2011, the Company has no dilutive potential ordinary shares and therefore the diluted (loss)/earnings per share is equal to the basic (loss)/earnings per share.

### 19 DIVIDEND

The Company's directors do not recommend the declaration of an interim dividend for the six months ended 30 June 2012 and 2011.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2012

## 20 COMMITMENTS

### (a) Operating commitments

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

The Group leases the Leased Assets from a fellow subsidiary for the period from 4 November 2008 to 31 December 2010 and the lease term was renewed for another three years to 31 December 2013. During the Period, the lease term was revised and shortened to 31 December 2012. The lease is expected to be renewed in annual basis (Note 14).

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

	Unaudited As at 30 June 2012 RMB' 000	Audited As at 31 December 2011 RMB' 000
No later than 1 year	23,967	47,059
Later than 1 year and no later than 5 years	—	44,878
	<u>23,967</u>	<u>91,937</u>

#### (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 2012 RMB' 000	Audited As at 31 December 2011 RMB' 000
Land use rights and machinery		
No later than 1 year	919	919
Later than 1 year and no later than 5 years	2,342	1,184
Later than 5 years	134	1,749
	<u>3,395</u>	<u>3,852</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2012

### 20 COMMITMENTS – *continued*

#### (b) Capital commitments

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

	Unaudited As at 30 June 2012 RMB' 000	Audited As at 31 December 2011 RMB' 000
Property, plant and equipment	<u>4,594</u>	<u>3,531</u>

### 21 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.

In addition to those disclosed elsewhere in the condensed consolidated financial statements, 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.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2012

## 21 SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

### (a) Significant transactions with related parties

	Unaudited	
	Six months ended 30 June	
	2012	2011
	RMB' 000	RMB' 000
Sales of goods and services to:		
– a shareholder of the Company	266,050	326,501
– fellow subsidiaries	708	1,152
– other state-owned enterprises	7,794	—
Provision of utilities to:		
– a jointly controlled entity	102,874	85,828
– fellow subsidiaries	125,897	128,365
Net income of sales of raw materials to a jointly controlled entity and fellow subsidiaries	5,217	9,166
Interest income from a jointly controlled entity	—	680
Rental expense to fellow subsidiaries in respect of the Lease Assets	20,793	20,377
Purchases of raw materials from:		
– a jointly controlled entity	964	70,375
– fellow subsidiaries	6,550	7,476
– other state-owned enterprises	679,150	731,540
Construction fees to a fellow subsidiary	900	—
Bank borrowings guarantee fee to the ultimate parent company	5,200	1,500
Purchases of fixed assets from a fellow subsidiary	289	—
Interest expenses to state-owned banks	48,453	26,190
Repair and maintenance service fee to fellow subsidiaries	2,393	—
Drawdown of loans from state-owned banks	408,800	553,000
Repayments of loans to state-owned banks	(283,800)	(397,000)

JCF Groupco allowed the Group to use of the trademark of “白山” (Baishan) at nil consideration during the six months ended 30 June 2012 and 2011.

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.

As at 30 June 2012, bank borrowings of RMB1,176,800,000 (as at 31 December 2011: RMB1,174,800,000) are guaranteed by the ultimate parent company.



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2012

### 21 SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

#### (b) Significant balances with related parties

	Unaudited As at 30 June 2012 RMB' 000	Audited As at 31 December 2011 RMB' 000
Trade receivables		
– a fellow subsidiary	13,062	14,845
– a shareholder of the Company	38,106	11,109
	<u>51,168</u>	<u>25,954</u>
Amounts due from		
In respect of provision of utilities		
– fellow subsidiaries	<u>154,526</u>	<u>163,394</u>
Prepayments to fellow subsidiaries in respect of construction works and purchases of intangible assets	<u>3,123</u>	<u>3,673</u>
Trade payables		
– fellow subsidiaries	<u>1,301</u>	<u>1,695</u>
Amounts due to		
– the ultimate parent company	1,991	7,345
– fellow subsidiaries	1,145	3,123
– a jointly controlled entity	<u>18,201</u>	<u>1,896</u>
	<u>21,337</u>	<u>12,364</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2012

### 21 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	
	2012 RMB' 000	2011 RMB' 000
Wages, salaries and other short-term employee benefits	1,607	1,560
Pension and social security costs	146	120
	<u>1,753</u>	<u>1,680</u>

## CORPORATE INFORMATION

### DIRECTORS

#### Executive Directors

Mr. Wang Jinjun (*Chairman*)  
Mr. Yang Xuefeng  
Mr. Wang Changsheng

#### Non-executive Directors

Mr. Ma Jun  
Ms. Pang Suet Mui  
Mr. Sun Haichao  
Mr. Jiang Junzhou

#### Independent Non-executive Directors

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

### SUPERVISORS

Ms. Sun Yujing  
Mr. Zhang Jiaku  
Mr. Zhang Haiou  
Ms. Bai Hua  
Mr. Cheng Jianhang  
Mr. Liu Ming

### 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. Ma Jun

### NOMINATION COMMITTEE

Mr. Mao Fengge (*Chairman*)  
Mr. Ye Yongmao  
Mr. Jiang Junzhou

### CONNECTED TRANSACTIONS COMMITTEE

Mr. Mao Fengge (*Chairman*)  
Mr. Lee Ka Chung, J.P.  
Mr. Jiang Junzhou

### JOINT COMPANY SECRETARIES

Ms. Liu Xiangmei  
Mr. Chan Cheung

### QUALIFIED ACCOUNTANT

Mr. Chan Cheung

### AUTHORISED REPRESENTATIVES

Mr. Wang Changsheng  
Mr. Chan Cheung

### PRC REGISTERED OFFICE

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

### PRINCIPAL PLACE OF BUSINESS IN HONG KONG

43/F Gloucester Tower,  
The Landmark,  
15 Queen's Road Central,  
Hong Kong

### AUDITORS

BDO Limited

### LEGAL ADVISOR AS TO HONG KONG LAW

Orrick, Herrington & Sutcliffe

### PRINCIPAL BANKERS

China Construction Bank  
Jilin City Commercial Bank  
Agricultural Bank of China  
Bank of Communications

### H SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited  
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Hopewell Centre, 183 Queen's Road East,  
Hong Kong