



Interim Report 2013

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)

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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
“China” or the “PRC”	the People’s Republic of China
“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 2013
“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

FINANCIAL AND BUSINESS SUMMARY

FINANCIAL SUMMARY

	For the six months ended 30 June		
	(Unaudited) 2013 RMB'million	(Unaudited) 2012 RMB'million	Change %
Revenue	732.1	698.4	5
Gross profit	43.6	18.7	133
Operating profit/(loss)	29.6	(3.1)	1,055
Share of loss of a jointly controlled entity	(9.1)	(26.9)	(66)
Loss and total comprehensive income for the period attributable to owners of the Company	(47.0)	(79.8)	(41)
Loss per share (RMB cents per share)	(5.43)	(9.21)	(41)
Gross profit margin	6.0%	2.7%	3.3 p.p.
Net loss margin	(6.4%)	(11.4%)	5.0 p.p.
	As at 30 June 2013	As at 31 December 2012	
Current ratio	60%	54%	6 p.p.
Gearing ratio	75%	73%	2 p.p.

p.p - percentage point

FINANCIAL AND BUSINESS HIGHLIGHTS

- Loss for the Period attributable to owners of the Company was approximately RMB47.0 million, as compared to a net loss of approximately RMB79.8 million for the same period in 2012.
- Revenue for the Period was approximately RMB732 million, representing an increase of approximately 5% as compared to the same period in 2012, which was mainly attributable to the increase in sales volume of acrylic fiber products.
- The overall gross profit margin of the Group increased from 2.7% for the first six months in 2012 to 6.0% for the Period, which was mainly due to the increase 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 67% for the Period (2012: 65%).
- The Group's share of 50% of the loss of Jimont for the Period under the equity method amounted to approximately RMB9.1 million (2012: RMB26.9 million).

MANAGEMENT DISCUSSION AND ANALYSIS

MAJOR OPERATIONAL DATA

1. Revenue

	For the six months ended 30 June			
	2013		2012	
	RMB million	%	RMB million	%
Acrylic top	275.0	37.6	321.4	46.0
Acrylic tow	192.2	26.3	87.7	12.6
Acrylic staple fiber	243.4	33.2	284.3	40.7
Carbon fiber precursor	12.7	1.7	2.2	0.3
Others*	8.8	1.2	2.8	0.4
Total	732.1	100.0	698.4	100.0

2. Sales volume

	For the six months ended 30 June			
	2013		2012	
	Tons	%	Tons	%
Acrylic top	16,895	36.6	18,509	44.7
Acrylic tow	12,704	27.4	5,356	12.9
Acrylic staple fiber	15,702	33.9	17,295	41.7
Carbon fiber precursor	248	0.5	82	0.2
Others*	750	1.6	193	0.5
Total	46,299	100.0	41,435	100.0

3. Average selling price and gross profit margin

	For the six months ended 30 June			
	2013		2012	
	Average selling price RMB/ton	Gross profit margin %	Average selling price RMB/ton	Gross profit margin %
Acrylic top	16,275	6.76	17,365	2.64
Acrylic tow	15,133	6.72	16,374	3.49
Acrylic staple fiber	15,502	7.88	16,438	2.32
Carbon fiber precursor	51,348	(62.23)	26,829	2.39
Overall gross profit margin		5.95		2.67

* Refer to sales of acrylic fiber scrap and other acrylic fiber product

REVIEW AND OUTLOOK

Market Review

During the Period, the global economy was recovering in a slow pace. According to the published data from the National Bureau of Statistics of China, the economic growth rate in China for the first half of 2013 was 7.6%, of which the growth rates in the first and second quarters were 7.7% and 7.5% respectively. The growth rate was slightly slower in the second quarter. China's economic growth was slowing down and the market situation was still challenging. The PRC government has continued its economic reforms by expanding its domestic demand to maintain its economic growth. Domestic demand became a driving force of the economic growth of the PRC in the first half of the year. For the six months ended 30 June 2013, owing to a more significant decrease in average purchase price of acrylonitrile (the major raw material for the production of the Group's products) as compared to the decrease in average selling price of acrylic fiber products, the price difference between acrylic fiber products and acrylonitrile enlarged, thus, the gross profit margin of suppliers of acrylic fiber products improved. The downstream carbon fiber market was still at its early development stage and was developing slowly.

Sales Review

For the six months ended 30 June 2013, the Group recorded sales revenue of approximately RMB732 million, representing an increase of approximately 5% as compared to the same period in 2012. Sales volume during the Period was 46,299 tons, representing an increase of approximately 12% as compared to the same period in 2012. The average selling price of the Group's acrylic fiber products decreased from RMB16,846 per ton in the first half of 2012 to approximately RMB15,623 per ton in the Period, representing a decrease of approximately 7%. As the carbon fiber product market of the Group was still being developed, sales of carbon fiber products only represented less than 2% of the Group's revenue.

Operations Review

For the six months ended 30 June 2013, the Group's total production volume was 47,538 tons, representing an increase of approximately 8% as compared to the same period last year. The utilization rate of the Group's production facilities for acrylic fiber during the Period was approximately 69% (2012: 65%). 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. Due to slow development of the downstream carbon fiber market, the utilization rate of the Group's production facilities for carbon fiber precursor was less than 15% during the Period and total production volume of carbon fiber products accounted for less than 1% of our overall production volume.

MANAGEMENT DISCUSSION AND ANALYSIS

Human Resources

As at 30 June 2013, the Group had 1,960 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 2013, 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 economic reforms as implemented by the PRC government, 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 2013, 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 2013, the Group's revenue was approximately RMB732 million, representing an increase of approximately 5% as compared to approximately RMB698 million for the same period in 2012. The increase in revenue was mainly attributable to the net effect of the approximately 6% decrease in the average selling price of the Group's products and the increase of approximately 12% in sales volume. During the Period, the Group's total sales volume and production volume were 46,299 tons and 47,538 tons respectively, resulting in a sales-to-production ratio of approximately 97% (2012: 94%). For the six months ended 30 June 2013, loss attributable to owners of the Company was approximately RMB47.0 million, as compared to the loss attributable to owners of the Company of approximately RMB79.8 million for the same period in 2012. The decrease in loss attributable to owners of the Company was mainly attributable to the increase in sales volume of approximately 12% and the increase 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, acrylonitrile of approximately 15%. The price difference was RMB4,611 per ton for the six months ended 30 June 2013. The Group's share of 50% of the loss of a jointly controlled entity decreased to RMB9.1 million from RMB26.9 million for the same period last year. However, as a result of slow development of the downstream carbon fiber market, loss from the Group's carbon fiber business increased substantially to approximately RMB24 million (which includes a provision for inventory impairment of approximately RMB10 million) for the Period from approximately RMB1 million for the same period last year.

The overall gross profit margin of the Group increased from 2.7% for the first six months in 2012 to 6.0% for the Period. This was mainly due to an increase in the 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, acrylonitrile of approximately 15%.

Operating expenses (including distribution costs and administrative expenses)

Operating expenses increased to approximately RMB69.4 million for the six months ended 30 June 2013 from approximately RMB52.0 million for the same period in 2012. The increase was mainly due to increase in sales volume which resulted in an increase in transportation costs and the increase in depreciation charge for the carbon fiber production plant during the Period.

MANAGEMENT DISCUSSION AND ANALYSIS

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

Other net income increased from approximately RMB30.3 million for the six months ended 30 June 2012 to approximately RMB55.4 million for the Period. The increase in other net income was mainly due to the increase in net income generated from the provision of utilities.

Net finance costs

Net finance costs increased to approximately RMB63.7 million for the six months ended 30 June in 2013 from approximately RMB57.6 million for the same period in 2012. 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 2013, the 50% share of loss of Jimont attributable to the Group under the equity method was approximately RMB9.1 million (2012: RMB26.9 million). The decrease in Jimont's loss was primarily due to an increase in gross profit margin and an increase in the sales volume of Jimont.

Financial resources, liquidity and liability position

As at 30 June 2013, the Group's total assets and total liabilities were approximately RMB3.1 billion and RMB2.3 billion respectively. As at 30 June 2013, the Group's current liabilities exceeded its current assets by approximately RMB712 million, and its current ratio (calculated as current assets divided by current liabilities) was approximately 0.60 (At 31 December 2012: 0.54). 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 RMB204 million (including restricted bank deposits of approximately RMB165 million) as at 30 June 2013. As at 30 June 2013, the total bank borrowings of the Group amounted to approximately RMB1.8 billion, of which approximately RMB1.3 billion were short-term bank borrowings and current portion of long-term borrowings and non-current portion of a long-term bank borrowings were RMB100 million and RMB425 million respectively. The Directors 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 2013, the Group's gearing ratio (calculated as total liabilities divided by total assets) was approximately 74.7% (At 31 December 2012: 72.9%).

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. For the six months ended 30 June 2013, the sales and production volumes of the jointly controlled entity were 44,451 tons and 47,809 tons, respectively, with a sales-to-production ratio of approximately 93%. The plant utilisation rate of Jimont during the current period was approximately 96%. Its net loss for the Period was approximately RMB18.2 million (2012: RMB53.7 million). The decrease in net loss as compared to the same period in the previous year was mainly attributable to its increases in gross profit margin and sales volume.

Entrusted deposits and pledged time deposits

As at 30 June 2013, 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 RMB165 million, the Group had no other bank deposits which cannot be freely withdrawn.

Pledged assets

As at 30 June 2013, certain property, plant and equipment, bills receivables and bank deposits with net book values of approximately RMB322.0 million, nil and RMB50 million respectively (As at 31 December 2012: RMB112.9 million, RMB3.0 million and nil) were pledged as securities to guarantee the bank borrowings of RMB387 million (As at 31 December 2012: RMB162 million). In addition, bank deposits of approximately RMB70.8 million, nil and nil (As at 31 December 2012: RMB25.0 million, RMB32.8 million and RMB21.9 million) were pledged for the issue of certain non-trade bills payable, trade bills payable and letters of credit, respectively.

Contingent liabilities

The Group had no material contingent liabilities as at 30 June 2013.

Dividend

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2013 (2012: Nil).

INFORMATION OF SHARE CAPITAL AND SUBSTANTIAL SHAREHOLDERS

SHARE CAPITAL

As at 30 June 2013, 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	<u>259,875,000</u>	<u>30.00%</u>
Total	<u>866,250,000</u>	<u>100.00%</u>

As at 30 June 2013, 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 SFO:

Name of shareholders	Number of Shares directly and indirectly held	Class of Shares	Approximate percentage in relevant class of share (%)			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
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

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 ⁽⁴⁾	Non-H Foreign Shares	—	18.00	18.00	—	3.52	3.52
Huang Jia Zi	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 2013, 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 2013.

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

During the six months ended 30 June 2013, 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 2013.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has adopted the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. For the six months ended 30 June 2013, the Directors consider the Company has complied with all the code provisions as set out in the Code.

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

The Company has adopted 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. During the six months ended 30 June 2013, 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.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2013

	Note	Unaudited As at 30 June 2013 RMB' 000	Audited As at 31 December 2012 RMB' 000
ASSETS			
Non-current assets			
Land use rights		90,415	92,429
Property, plant and equipment	6	1,648,507	1,684,252
Intangible assets	6	4,103	8,205
Interest in a jointly controlled entity	7	165,105	174,071
Deferred income tax assets		79,926	83,780
Prepayments		6,320	11,023
		<u>1,994,376</u>	<u>2,053,760</u>
Current assets			
Inventories		364,284	354,014
Trade and other receivables	8	516,970	407,785
Current income tax recoverable		1,893	1,893
Restricted bank deposits		164,734	123,647
Cash and cash equivalents		38,922	109,228
		<u>1,086,803</u>	<u>996,567</u>
Total assets		<u><u>3,081,179</u></u>	<u><u>3,050,327</u></u>
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	9	866,250	866,250
Share premium	9	142,477	142,477
Accumulated losses		(261,248)	(214,206)
Other reserves		31,919	31,919
Total equity		<u>779,398</u>	<u>826,440</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2013

	Note	Unaudited As at 30 June 2013 RMB'000	Audited As at 31 December 2012 RMB'000
LIABILITIES			
Non-current liabilities			
Long-term bank borrowings	10	424,749	307,500
Deferred income	11	78,578	82,216
		<u>503,327</u>	<u>389,716</u>
Current liabilities			
Trade and other payables	12	382,102	487,769
Short-term bank borrowings	10	1,306,500	1,271,969
Current portion of long-term bank borrowings	10	99,768	56,500
Current income tax liabilities		464	933
Derivative financial instrument	13	9,620	17,000
		<u>1,798,454</u>	<u>1,834,171</u>
Total liabilities		<u>2,301,781</u>	<u>2,223,887</u>
Total equity and liabilities		<u>3,081,179</u>	<u>3,050,327</u>
Net current liabilities		<u>(711,651)</u>	<u>(837,604)</u>
Total assets less current liabilities		<u>1,282,725</u>	<u>1,216,156</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2013

	Note	Unaudited	
		Six months ended 30 June	
		2013	2012
		RMB' 000	RMB' 000
Revenue	5	732,175	698,395
Cost of sales		(688,601)	(679,715)
Gross profit		43,574	18,680
Distribution costs		(16,628)	(16,560)
Administrative expenses		(52,802)	(35,489)
Other income	14	252,159	242,629
Other expenses	14	(199,566)	(209,666)
Other gains/(losses) – net	15	2,851	(2,694)
Operating profit/(loss)		29,588	(3,100)
Finance income		1,169	1,166
Finance costs		(64,844)	(58,768)
		(34,087)	(60,702)
Share of loss of a jointly controlled entity		(9,102)	(26,852)
Loss before income tax	16	(43,189)	(87,554)
Income tax (expense)/credit	17	(3,853)	7,742
Loss and total comprehensive income for the period attributable to owners of the Company		(47,042)	(79,812)
Loss per share for loss for the period attributable to owners of the Company			
– basic and diluted (expressed in RMB cents per share)	18	(5.43)	(9.21)
Dividend	19	—	—

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2013

	Share capital RMB' 000	Share premium RMB' 000	Unaudited Accumulated losses RMB' 000	Other reserves RMB' 000	Total RMB' 000
At 1 January 2013	866,250	142,477	(214,206)	31,919	826,440
Loss for the period	—	—	(47,042)	—	(47,042)
At 30 June 2013	<u>866,250</u>	<u>142,477</u>	<u>(261,248)</u>	<u>31,919</u>	<u>779,398</u>
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>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2013

	Unaudited	
	Six months ended 30 June	
	2013	2012
	RMB' 000	RMB' 000
Net cash used in operating activities	(94,062)	(147,078)
Net cash used in investing activities	(12,015)	(8,132)
Net cash from financing activities	35,771	105,660
Net decrease in cash and cash equivalents	(70,306)	(49,550)
Cash and cash equivalents at beginning of the period	109,228	264,127
Cash and cash equivalents at end of the period	38,922	214,577

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2013

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 PRC and is listed on 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 30 August 2013.

The condensed consolidated financial statements have not been audited.

2 BASIS OF PREPARATION

As at 30 June 2013, the Group’s current liabilities exceeded its current assets by RMB711,651,000 and the bank borrowings as included in the Group’s current liabilities amounted to RMB1,406,268,000. 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 the 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 2013 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 2012, which have been prepared in accordance with Hong Kong Financial Reporting Standards (the “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 2013

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 2012.

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 2013:

Amendments to HKAS 1 (Revised)	Presentation of Items of Other Comprehensive Income
Amendments to HKFRSs	Annual Improvements to HKFRSs 2009-2011 Cycle
HKFRS 7 (Amendment)	Offsetting Financial Assets and Financial Liabilities
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKAS 27 (2011)	Separate Financial Statements
HKAS 28 (2011)	Investments in Associates and Joint Ventures
HKAS 19 (2011)	Employee Benefits
Amendments to HKFRS 1	Government Loans

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 2013:

Amendments to HKFRS 10, HKFRS12 and HKAS27 (2011)	Investment Entities ¹
HKAS 32 (Amendment)	Offsetting Financial Assets and Financial Liabilities ¹
HKFRS 9	Financial Instruments ²

¹ Effective for annual periods beginning on or after 1 January 2014

² 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 2013

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 2012.

There have been no changes in the risk management department since 31 December 2012 or in any risk management policies.

4.2 Liquidity risk

Compared to 31 December 2012, 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" 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.

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 2013 of RMB69,011,000 (2012: RMB38,224,000) 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2013

5 SEGMENT INFORMATION – *continued*

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 2013 consists of sales from the acrylic fiber products segment and carbon fiber products segment of RMB719,466,000 (2012: RMB696,223,000) and RMB12,709,000 (2012: RMB2,172,000) respectively.

The Group does not have any inter-segment sales during the six months ended 30 June 2013 and 2012.

The segment information provided to the Decision-Makers for the six months ended 30 June 2013 and 2012 is as follow:

	Unaudited		
	Acrylic fiber products RMB' 000	Carbon fiber products RMB' 000	Total RMB' 000
Six months ended 30 June 2013			
Total revenue from external customers	719,466	12,709	732,175
Adjusted segment results (Note)	139,504	186	139,690
Impairment on inventories	—	(10,338)	(10,338)
Share of loss of a jointly controlled entity	(9,102)	—	(9,102)
Depreciation and amortisation	(90,955)	(12,874)	(103,829)
Income tax expense	(3,221)	(632)	(3,853)
	36,226	(23,658)	12,568
Additions to non-current assets (other than deferred income tax assets)	32,161	29,831	61,992
Six months ended 30 June 2012			
Total revenue from external customers	696,223	2,172	698,395
Adjusted segment results (Note)	78,705	(129)	78,576
Share of loss 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
	(17,791)	(1,219)	(19,010)
Additions to non-current assets (other than deferred income tax assets)	3,953	27,348	31,301

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2013

5 SEGMENT INFORMATION – *continued*

	Unaudited		
	Acrylic fiber products RMB' 000	Carbon fiber products RMB' 000	Total RMB' 000
As at 30 June 2013			
Total assets	<u>2,354,580</u>	<u>644,780</u>	<u>2,999,360</u>
Total assets include:			
Interest in a jointly controlled entity	<u>165,105</u>	<u>—</u>	<u>165,105</u>
Total liabilities	<u>363,922</u>	<u>96,758</u>	<u>460,680</u>
	Audited		
	Acrylic fiber products RMB' 000	Carbon fiber products RMB' 000	Total RMB' 000
As at 31 December 2012			
Total assets	<u>2,393,534</u>	<u>571,120</u>	<u>2,964,654</u>
Total assets include:			
Interest in a jointly controlled entity	<u>174,071</u>	<u>—</u>	<u>174,071</u>
Total liabilities	<u>534,535</u>	<u>35,450</u>	<u>569,985</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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2013

5 SEGMENT INFORMATION – *continued*

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

	Unaudited	
	Six months ended 30 June	
	2013	2012
	RMB' 000	RMB' 000
Adjusted segment results for reportable segments	139,690	78,576
Impairment on inventories	(10,338)	—
Depreciation	(97,713)	(72,997)
Amortisation	(6,116)	(5,479)
Net gain/(loss) on derivative financial instrument	4,065	(3,200)
Operating profit/(loss)	29,588	(3,100)
Finance costs – net	(63,675)	(57,602)
Share of loss of a jointly controlled entity	(9,102)	(26,852)
Loss before income tax	<u>(43,189)</u>	<u>(87,554)</u>

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	Audited
	As at	As at
	30 June	31 December
	2013	2012
	RMB' 000	RMB' 000
Segment assets for reportable segments	2,999,360	2,964,654
Unallocated:		
Deferred income tax assets	79,926	83,780
Current income tax recoverable	1,893	1,893
	<u>81,819</u>	<u>85,673</u>
Total assets per condensed consolidated statement of financial position	<u><u>3,081,179</u></u>	<u><u>3,050,327</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2013

5 SEGMENT INFORMATION – *continued*

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

	Unaudited As at 30 June 2013 RMB' 000	Audited As at 31 December 2012 RMB' 000
Segment liabilities for reportable segments	460,680	569,985
Unallocated:		
Borrowings	1,831,017	1,635,969
Current income tax liabilities	464	933
Derivative financial instrument	9,620	17,000
	<u>1,841,101</u>	<u>1,653,902</u>
Total liabilities per condensed consolidated statement of financial position	<u><u>2,301,781</u></u>	<u><u>2,223,887</u></u>

Note:

As detailed out in Note 14, the Group has managed and operated certain Utility Facilities and Leased Assets 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, the 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 2013 as disclosed above for the acrylic fiber products segment included an amount of RMB71,434,000 (2012: RMB41,421,000), representing the related income net of direct outgoings (other than depreciation charge), which is attributable to the provisions of surplus utilities to fellow subsidiaries, the jointly controlled entity and third parties.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2013

6 PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	Unaudited	
	Property, plant and equipment RMB' 000	Intangible assets RMB' 000
Six months ended 30 June 2013		
Opening net book amount at 1 January 2013	1,684,252	8,205
Additions	61,992	—
Disposals	(24)	—
Depreciation and amortisation	(97,713)	(4,102)
Closing net book amount at 30 June 2013	<u>1,648,507</u>	<u>4,103</u>
Six months ended 30 June 2012		
Opening net book amount at 1 January 2012	1,538,788	16,411
Additions	31,301	—
Disposals	(64)	—
Depreciation and amortisation	(72,997)	(4,538)
Closing net book amount at 30 June 2012	<u>1,497,028</u>	<u>11,873</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.

7 INTEREST IN A JOINTLY CONTROLLED ENTITY

	Unaudited	
	Six months ended 30 June	
	2013 RMB' 000	2012 RMB' 000
At 1 January	174,071	213,945
Share of loss	(9,102)	(26,852)
Others	136	137
At 30 June	<u>165,105</u>	<u>187,230</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2013

7 INTEREST IN A JOINTLY CONTROLLED ENTITY – *continued*

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 As at 30 June 2013		Audited As at 31 December 2012	
	Jimont RMB' 000	50% shared by the Group RMB' 000	Jimont RMB' 000	50% shared by the Group RMB' 000
Non-current assets	864,715	432,357	899,638	449,819
Current assets	663,795	331,898	438,151	219,076
Total assets	1,528,510	764,255	1,337,789	668,895
Non-current liabilities	250,000	125,000	280,000	140,000
Current liabilities	942,768	471,384	702,551	351,276
Total liabilities	1,192,768	596,384	982,551	491,276
Jointly controlled entity's capital commitments	—	—	—	—

	Unaudited For the six months ended 30 June 2013		Unaudited For the six months ended 30 June 2012	
	Jimont RMB' 000	50% shared by the Group RMB' 000	Jimont RMB' 000	50% shared by the Group RMB' 000
Revenue	684,872	342,436	660,878	330,439
Expenses	(703,076)	(351,538)	(714,582)	(357,291)
Net loss for the period	(18,204)	(9,102)	(53,704)	(26,852)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2013

8 TRADE AND OTHER RECEIVABLES

	Unaudited As at 30 June 2013 RMB' 000	Audited As at 31 December 2012 RMB' 000
Trade receivables (Note a)	159,880	116,210
Less: provision for impairment	(5,021)	(5,021)
Trade receivables – net	154,859	111,189
Prepayments	11,834	28,754
Notes receivables	118,156	125,022
Other receivables	79,328	90,296
Less: provision for impairment	(7,516)	(7,516)
Other receivables – net	71,812	82,780
Amounts due from related parties	160,309	60,040
	<u>516,970</u>	<u>407,785</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 2013 RMB' 000	Audited As at 31 December 2012 RMB' 000
0 - 30 days	78,059	66,719
31 - 90 days	25,821	7,700
91 - 365 days	41,201	28,441
Over 365 days	14,799	13,350
	<u>159,880</u>	<u>116,210</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2013

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 2013 and 2012.
- (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 2013

10 BORROWINGS

	Unaudited As at 30 June 2013 RMB' 000	Audited As at 31 December 2012 RMB' 000
Non-current		
Long-term bank borrowings	524,517	364,000
Less: Current portion of long-term bank borrowings	(99,768)	(56,500)
	<u>424,749</u>	<u>307,500</u>
Current		
Short-term bank borrowings	1,254,500	1,219,000
Current portion of long-term bank borrowings	99,768	56,500
Discounted bills with recourse	—	2,969
Other borrowings	52,000	50,000
	<u>1,406,268</u>	<u>1,328,469</u>
Total borrowings	<u><u>1,831,017</u></u>	<u><u>1,635,969</u></u>

Movements in borrowings are analysed as follows:

	Unaudited	
	2013 RMB' 000	2012 RMB' 000
At 1 January	1,635,969	1,529,800
Drawn down	1,072,500	684,800
Repayments	(877,452)	(517,800)
At 30 June	<u><u>1,831,017</u></u>	<u><u>1,696,800</u></u>

The Group's borrowings are all denominated in Renminbi and hence will not expose the Group to any foreign exchange risk. Part of the 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 2013

10 BORROWINGS – *continued*

As at 30 June 2013, the contractual maturities of the Group's non-derivative financial liabilities were as follows:

	Unaudited					Carrying amounts RMB' 000
	On demand or less than 1 year (note) 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	
	At 30 June 2013					
Trade and other payables	344,532	—	—	—	344,532	344,531
Short-term bank borrowings	1,359,180	—	—	—	1,359,180	1,306,500
Long-term bank borrowings	135,556	134,883	278,594	94,225	643,258	524,517
Total non-derivatives financial liabilities	<u>1,839,268</u>	<u>134,883</u>	<u>278,594</u>	<u>94,225</u>	<u>2,346,970</u>	<u>2,175,548</u>

	Audited					Carrying Amounts RMB' 000
	On demand or less than 1 year (note) 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	
	At 31 December 2012					
Trade and other payables	438,425	—	—	—	438,425	438,425
Short-term bank borrowings	1,301,531	—	—	—	1,301,531	1,271,969
Long-term bank borrowings	80,308	79,868	180,398	122,116	462,690	364,000
Total non-derivatives financial liabilities	<u>1,820,264</u>	<u>79,868</u>	<u>180,398</u>	<u>122,116</u>	<u>2,202,646</u>	<u>2,074,394</u>

Note:

During the period ended 30 June 2013, the Group has failed to attain certain key performance indicators specified by banks (including total liability to total asset ratio, current ratio and operating cash flow to total liability ratio). The lenders have not taken any action and have subsequently renewed the matured bank loans during the period. Accordingly, the full amounts of the bank loans with an aggregate carrying amount of RMB408,000,000 as at 30 June 2013 (as at 31 December 2012: RMB408,000,000), which are repayable within one year, are presented as "on demand or less than one year" time band in the above analysis.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2013

10 BORROWINGS – *continued*

The Group has the following undrawn borrowing facilities:

	Unaudited	
	As at 30 June 2013 RMB' 000	As at 30 June 2012 RMB' 000
Floating rate bank borrowings:		
– expiring within one year	22,000	50,000
– expiring beyond one year	—	—
	<u>22,000</u>	<u>50,000</u>

11 DEFERRED INCOME

As at 30 June 2013, 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 RMB67,779,000 (As at 31 December 2012: RMB70,724,000) and RMB10,799,000 (As at 31 December 2012: RMB11,492,000) respectively.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2013

12 TRADE AND OTHER PAYABLES

	Unaudited As at 30 June 2013 RMB' 000	Audited As at 31 December 2012 RMB' 000
Trade payables (Note a)	202,653	222,580
Bills payable	50,000	82,000
Advance from customers	9,863	23,850
Payable for purchases of property, plant and equipment	35,815	26,014
Amounts due to related parties (Note b)	21,273	85,311
Other payables and accruals	34,791	22,520
Provision for staff welfare	24,524	25,319
Other taxes	3,183	175
	<u>382,102</u>	<u>487,769</u>

Notes:

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

	Unaudited As at 30 June 2013 RMB' 000	Audited As at 31 December 2012 RMB' 000
0 - 30 days	127,874	66,715
31 - 90 days	40,862	97,963
91 - 365 days	19,614	49,117
Over 365 days	14,303	8,785
	<u>202,653</u>	<u>222,580</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 2013

13 DERIVATIVE FINANCIAL INSTRUMENT

	Unaudited As at 30 June 2013 RMB' 000	Audited As at 31 December 2012 RMB' 000
Derivative financial liability (Note)		
– Interest rate swap contract	9,620	17,000

Note:

As at 30 June 2013, the derivative financial liability represents an outstanding interest rate swap contract with an outstanding notional amount of RMB93,600,000 (as at 31 December 2012: RMB98,800,000), with original notional principal amount of RMB130,000,000. The interest rate swap contract is to mature 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 gain associated with this derivative financial instrument of RMB4,065,000 (six months ended 30 June 2012: net loss of RMB3,200,000) has been recognised within 'other gains/(losses) – net' in the condensed consolidated statement of comprehensive income for the six months ended 30 June 2013 (Note 15).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2013

14 OTHER INCOME AND EXPENSES

	Unaudited	
	Six months ended 30 June	
	2013	2012
	RMB' 000	RMB' 000
Other income		
Income from provision of utilities (Note)	248,462	237,620
Amortisation of deferred income	3,638	4,739
Others	59	270
	<u>252,159</u>	<u>242,629</u>
Other expenses		
Direct outgoings in respect of provision of utilities (Note)	(199,115)	(207,924)
Others	(451)	(1,742)
	<u>(199,566)</u>	<u>(209,666)</u>
	<u>52,593</u>	<u>32,963</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 Jilin Chemical Fiber Co., Ltd. (the "JCFCL"), a fellow subsidiary, pursuant to which, the Group leases certain utilities production facilities (the "Leased Assets") from the JCFCL. 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, the jointly controlled entity and third parties at the rates to be determined amongst the parties in concern.

For the six months ended 30 June 2013, the income from the provisions of utilities to the fellow subsidiaries, jointly controlled entity and third parties amounted to RMB118,488,000 (2012: RMB125,897,000), RMB89,456,000 (2012: RMB102,874,000), RMB40,518,000 (2012: RMB8,849,000) 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 RMB154,283,000 (2012: RMB160,744,000), RMB4,211,000 (2012: RMB15,736,000), RMB22,087,000 (2012: RMB11,725,000) and RMB9,140,000 (2012: RMB8,367,000) respectively.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2013

15 OTHER GAINS/(LOSSES) – NET

	Unaudited	
	Six months ended 30 June	
	2013	2012
	RMB' 000	RMB' 000
Gain attributable to equity interests of a jointly controlled entity	136	137
Loss on disposals of property, plant and equipment	—	(30)
Net gain/(loss) on derivative financial instrument	4,065	(3,200)
Foreign exchange (loss)/gain, net	(1,350)	407
Others	—	(8)
	<u>2,851</u>	<u>(2,694)</u>

16 LOSS BEFORE INCOME TAX

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

	Unaudited	
	Six months ended 30 June	
	2013	2012
	RMB' 000	RMB' 000
Changes in inventories of finished goods and work in progress	(94,879)	(69,586)
Raw materials used for production of fiber products	609,576	577,136
	514,697	507,550
Raw materials used for provision of utilities	154,283	160,744
Depreciation (note 6)	97,713	72,997
Amortisation of		
– land use rights	2,014	941
– intangible assets (note 6)	4,102	4,538
Interest expenses on		
– bank borrowings	54,604	50,037
– discounted notes receivable	3,640	3,531
	58,244	53,568
Provision for impairment of inventories	10,338	—

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2013

17 INCOME TAX (EXPENSE)/CREDIT

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

	Unaudited Six months ended 30 June	
	2013 RMB'000	2012 RMB'000
Current income tax		
– PRC corporate income tax	—	—
Deferred income tax		
– (Charge)/credit for the period	(3,853)	7,742
Income tax (expense)/credit	<u>(3,853)</u>	<u>7,742</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 six months ended 30 June 2012 and 2013.

The PRC 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 2013 and 2012, no provision for PRC corporate income tax was made as the Group either had no tax assessable profits or the assessable profits were wholly absorbed by tax losses brought forward.

18 LOSS PER SHARE

Basic loss per share are calculated by dividing the loss attributable to 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 2013 of 866,250,000 (2012: 866,250,000) shares.

For the six months ended 30 June 2013 and 2012, the Company has no dilutive potential ordinary shares and therefore the diluted loss per share is equal to the basic loss per share.

19 DIVIDEND

The Company's directors do not recommend the declaration of an interim dividend for the six months ended 30 June 2013 and 2012.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2013

20 COMMITMENTS

(a) Operating commitments

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

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

	Unaudited As at 30 June 2013 RMB' 000	Audited As at 31 December 2012 RMB' 000
No later than 1 year	5,911	—
Later than 1 year and no later than 5 years	—	—
	5,911	—
	5,911	—

(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 2013 RMB' 000	Audited As at 31 December 2012 RMB' 000
Land use rights and machinery		
No later than 1 year	919	919
Later than 1 year and no later than 5 years	1,451	1,894
Later than 5 years	106	120
	2,476	2,933
	2,476	2,933

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2013

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 2013 RMB' 000	Audited As at 31 December 2012 RMB' 000
Property, plant and equipment	<u>6,871</u>	<u>11,443</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 2013

21 SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

(a) Significant transactions with related parties

	Unaudited	
	Six months ended 30 June	
	2013	2012
	RMB' 000	RMB' 000
Sales of goods and services to:		
– a shareholder of the Company	181,376	266,050
– fellow subsidiaries	—	708
– other state-owned enterprises	18,749	7,794
Provision of utilities to:		
– a jointly controlled entity	89,456	102,874
– fellow subsidiaries	118,488	125,897
Net income of sales of raw materials to a jointly controlled entity and fellow subsidiaries	2,795	5,217
Rental expense to fellow subsidiaries in respect of the Lease Assets	5,911	20,793
Purchases of raw materials from:		
– a jointly controlled entity	495	964
– fellow subsidiaries	6,636	6,550
– other state-owned enterprises	484,613	679,150
Construction fees to a fellow subsidiary	270	900
Rental expense of warehouse to a fellow subsidiary	840	—
Bank borrowings guarantee fee to the ultimate parent company	6,600	5,200
Purchases of fixed assets from a fellow subsidiary	—	289
Interest expenses to state-owned banks	41,874	48,453
Repair and maintenance service fee to fellow subsidiaries	4,723	2,393
Drawdown of loans from state-owned banks	696,500	408,800
Repayments of loans to state-owned banks	<u>592,500</u>	<u>283,800</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 2013 and 2012.

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 2013, bank borrowings of RMB1,251,017,000 (as at 31 December 2012: RMB1,191,500,000) are guaranteed by the JCF Groupco.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2013

21 SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

(b) Significant balances with related parties

	Unaudited As at 30 June 2013 RMB' 000	Audited As at 31 December 2012 RMB' 000
Trade receivables		
– a fellow subsidiary	13,329	13,715
– a shareholder of the Company	—	29,145
	<u>13,329</u>	<u>42,860</u>
Advance from customers		
– a shareholder of the Company	<u>1,500</u>	<u>—</u>
Amounts due from		
– fellow subsidiaries	13,606	10,085
– a jointly controlled entity	27,462	10,199
– a related company	50,641	39,756
– JCFCL	68,600	—
	<u>160,309</u>	<u>60,040</u>
Prepayments to a fellow subsidiary in respect of construction works	<u>3,987</u>	<u>—</u>
Trade payables		
– fellow subsidiaries	<u>2,204</u>	<u>1,425</u>
Amounts due to		
– the ultimate parent company	16,161	19,781
– fellow subsidiaries	5,071	2,021
– JCFCL	—	63,509
– a jointly controlled entity	41	—
	<u>21,273</u>	<u>85,311</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2013

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	
	2013	2012
	RMB' 000	RMB' 000
Wages, salaries and other short-term employee benefits	1,697	1,607
Pension and social security costs	17	146
	<u>1,714</u>	<u>1,753</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. Ye Yongmao

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

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Jilin City, Jilin Province,
The PRC

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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

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