



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)

**2014**  
*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
“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 joint venture 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 2014
“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) 2014 RMB'million	(Unaudited) 2013 RMB'million	Change %
Revenue	890.5	732.1	22
Gross profit	60.4	43.6	39
Operating profit	42.6	29.6	44
Share of loss of a joint venture	(15.0)	(9.1)	65
Loss for the period attributable to owners of the Company	(50.9)	(47.0)	8
Loss per share (RMB cents per share)	(5.88)	(5.43)	8
Gross profit margin	6.8%	6.0%	0.8 p.p.
Net loss margin	(5.7%)	(6.4%)	0.7 p.p.
	<u>As at 30 June 2014</u>	<u>As at 31 December 2013</u>	
Current ratio	64%	61%	3 p.p.
Gearing ratio	77%	76%	1 p.p.

p.p - percentage point

### FINANCIAL AND BUSINESS HIGHLIGHTS

- Loss for the Period attributable to owners of the Company was approximately RMB50.9 million, as compared to a net loss of approximately RMB47.0 million for the same period in 2013.
- Revenue for the Period was approximately RMB890.5 million, representing an increase of approximately 22% as compared to the same period in 2013, which was mainly attributable to the increase in sales volume of acrylic fiber products.
- The overall gross profit margin of the Group increased from 6.0% for the first six months in 2013 to 6.8% for the Period, which was mainly due to the increase in overall plant utilisation rate which reduced the average cost on products sold.
- Production plant operated at an overall utilisation rate of approximately 84% for the Period (2013: 67%).
- The Group's share of 50% of the loss of Jimont for the Period under the equity method amounted to approximately RMB15.0 million (2013: RMB9.1 million).

## MANAGEMENT DISCUSSION AND ANALYSIS

### MAJOR OPERATIONAL DATA

#### 1. Revenue

	For the six months ended 30 June			
	2014		2013	
	RMB million	%	RMB million	%
Acrylic top	362.8	40.7	275.0	37.6
Acrylic tow	193.2	21.7	192.2	26.3
Acrylic staple fiber	311.8	35.0	243.4	33.2
Carbon fiber precursor	18.8	2.1	12.7	1.7
Others*	3.9	0.5	8.8	1.2
<b>Total</b>	<b>890.5</b>	<b>100.0</b>	<b>732.1</b>	<b>100.0</b>

#### 2. Sales volume

	For the six months ended 30 June			
	2014		2013	
	Tons	%	Tons	%
Acrylic top	22,894	40.2	16,895	36.6
Acrylic tow	12,871	22.6	12,704	27.4
Acrylic staple fiber	20,485	36.0	15,702	33.9
Carbon fiber precursor	470	0.8	248	0.5
Others*	261	0.4	750	1.6
<b>Total</b>	<b>56,981</b>	<b>100.0</b>	<b>46,299</b>	<b>100.0</b>

## MANAGEMENT DISCUSSION AND ANALYSIS

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

	For the six months ended 30 June			
	2014		2013	
	Average selling price RMB/ton	Gross profit margin %	Average selling price RMB/ton	Gross profit margin %
Acrylic top	15,849	7.45	16,275	6.76
Acrylic tow	15,013	7.24	15,133	6.72
Acrylic staple fiber	15,220	6.92	15,502	7.88
Carbon fiber precursor	39,979	(11.78)	51,348	(62.23)
Overall gross profit margin		<u>6.78</u>		<u>5.95</u>

\* 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 period ended 30 June 2014 was 7.4%, the growth rate was slightly slower in comparing to the same period in 2013. China's economic growth was slowing down and the market condition remained challenging. The PRC government has continued its economic reforms to ensure it's persistent and long term economic growth. During the period, owing to an increase in demand from downstream manufacturers, revenue of the PRC acrylic fiber suppliers increased. However, the increase in average purchase price of acrylonitrile had an adverse impact on the profit margin of the suppliers of acrylic fiber products during the Period. 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 2014, the Group recorded sales revenue of approximately RMB891 million, representing an increase of approximately 22% as compared to the same period in 2013. Sales volume during the Period was 56,981 tons, representing an increase of approximately 23% as compared to the same period in 2013. The average selling price of the Group's acrylic fiber products decreased slightly from RMB15,623 per ton in the first half of 2013 to approximately RMB15,426 per ton in the Period, representing a decrease of approximately 1%. As the carbon fiber product market of the Group was still being developed, sales of carbon fiber products only represented about 2% of the Group's revenue.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Operations Review

For the six months ended 30 June 2014, the Group's total production volume was 58,918 tons, representing an increase of approximately 24% as compared to the same period last year. The utilisation rate of the Group's production facilities for acrylic fiber during the Period was approximately 86% (2013: 69%). During the Period, the Group strengthened its innovation, research and development, and quality control capabilities to improve its product quality and production technology. The Group also commenced production and sales of high-strength acrylic fiber, completed the research and development of superfine anti-pilling acrylic fiber, and improved the product quality of highlighting acrylic fiber and gel-color acrylic fiber. The Group's production department also organized various professional seminars, analyst meetings and exchanged experiences with external organizations to increase the quality awareness of operating staff, which 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 20% during the Period and total production volume of carbon fiber products accounted for less than 1% of our overall production volume.

### Human Resources

As at 30 June 2014, the Group had 2,033 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 2014, 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 are 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 commit to further developing differentiated acrylic fiber to enhance its competitiveness in the PRC differentiated acrylic fiber products market. For the six months ended 30 June 2014, the Group mainly produced superfine fiber, high-shrinkage fiber, anti-pilling fiber, cashmere fiber, gel-color fiber, unequal length fiber, regenerative fiber, highlighting fiber, high-strength fiber, blanket fiber, super-gentle and over 30 other varieties of differentiated fibers. The Group is also developing far-infrared fiber, high-moistured fiber, anion fiber and antibacterial deodorizing fiber, fireproof 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 to further enhance the Group's profitability.

## MANAGEMENT DISCUSSION AND ANALYSIS

The Group's management will take advantage of the above opportunities to proactively improve the Group's operations, strengthen its leading position 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 2014, the Group's revenue was approximately RMB891 million, representing an increase of approximately 22% as compared to approximately RMB732 million for the same period in 2013. The increase in revenue was mainly attributable to the net effect of the approximately 1% decrease in the average selling price of the Group's products and the increase of approximately 23% in sales volume. During the Period, the Group's total sales volume and production volume were 56,981 tons and 58,918 tons respectively, resulting in a sales-to-production ratio of approximately 97% (2013: 97%). For the six months ended 30 June 2014, loss attributable to owners of the Company was approximately RMB50.9 million, as compared to the loss attributable to owners of the Company of approximately RMB47.0 million for the same period in 2013. The price difference between the average selling price of the Group's acrylic fiber products and the purchase price of the Group's major material, acrylonitrile decreased from RMB4,611 per ton for the six months ended 30 June 2013 to RMB3,802 per ton for the six months ended 30 June 2014, mainly caused by the increase in the average purchase price of acrylonitrile of approximately 6% during the period. The Group's share of 50% of the loss of a joint venture increased to RMB15.0 million from RMB9.1 million for the same period last year. However, as a result of the increase in sales of the Group's carbon fiber products, loss from the Group's carbon fiber business decreased substantially to approximately RMB18 million for the Period from approximately RMB24 million for the same period last year. The overall gross profit margin of the Group improved from 6.0% for the first six months in 2013 to 6.8% for the Period.

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

Operating expenses increased to approximately RMB70.3 million for the six months ended 30 June 2014 from approximately RMB69.4 million for the same period in 2013. 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.

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

Other net income decreased from approximately RMB55.4 million for the six months ended 30 June 2013 to approximately RMB52.4 million for the Period. The decrease in other net income was mainly due to the decrease in net income generated from the provision of utilities.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Net finance costs

Net finance costs increased to approximately RMB74.4 million for the six months ended 30 June in 2014 from approximately RMB63.7 million for the same period in 2013. The increase in finance costs was mainly resulted from the increase in overall bank borrowings.

### Share of results of a joint venture

For the six months ended 30 June 2014, the 50% of loss of Jimont attributable to the Group under the equity method was approximately RMB15.0 million (2013: RMB9.1 million). The increase in Jimont's loss was primarily due to a decrease in gross profit margin of Jimont.

### Financial resources, liquidity and liability position

As at 30 June 2014, the Group's total assets and total liabilities were approximately RMB3.0 billion and RMB2.3 billion respectively. As at 30 June 2014, the Group's current liabilities exceeded its current assets by approximately RMB665 million, and its current ratio (calculated as current assets divided by current liabilities) was approximately 0.64 (At 31 December 2013: 0.61). 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 RMB175.7 million (including restricted bank deposits of approximately RMB121.5 million) as at 30 June 2014. As at 30 June 2014, the total bank borrowings of the Group amounted to approximately RMB1.9 billion, of which approximately RMB1.4 billion were short-term bank borrowings, and current portion of long-term borrowings and non-current portion of long-term bank borrowings were RMB120 million and RMB383 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 1 of 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 2014, the Group's gearing ratio (calculated as total liabilities divided by total assets) was approximately 77.1% (At 31 December 2013: 75.9%).

### STATUS OF INVESTMENTS

#### Joint venture

A joint venture, 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 an annual production capacity of 100,000 tons. As disclosed in the announcement of the Company dated 18 December 2013, the Company has been notified by Montefibre of its intention to enter into voluntary winding up, and that as part of its proposed voluntary winding up, Montefibre will make its investment in Jimont, a joint venture of the Company, available for sale. The Company and Montefibre are discussing the manner by which Montefibre's equity interests in Jimont will be dealt with, including disposal to independent third parties and/or the Company. As at the date of this announcement, no binding agreement or arrangement has been entered into by the Company or Jimont in respect of any disposal of Montefibre's equity interests in Jimont. For the six months ended 30 June 2014, the sales and production volumes of the joint venture were 55,497 tons and 52,569 tons, respectively, with a sales-to-production ratio of approximately 106%. The plant utilisation rate of Jimont during the current period was approximately 100%. Its net loss for the Period was approximately RMB30.0 million (2013: RMB18.2 million). The increase in net loss as compared to the same period in the previous year was mainly attributable to a decrease in gross profit margin.

#### Entrusted deposits and pledged time deposits

As at 30 June 2014, 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 RMB121.5 million, the Group had no other bank deposits which cannot be freely withdrawn.

#### Pledged assets

As of 30 June 2014, certain properties, plants and equipment and bills receivables with a net book value of approximately RMB327.4 million and RMB22.7 million respectively (as of 31 December 2013: RMB277.1 million and RMB50.0 million, respectively) were pledged as securities for bank borrowings of approximately RMB378 million (as of 31 December 2013: RMB356 million). In addition, bank deposits of approximately nil, RMB75.0 million and RMB2.5 million (as of 31 December 2013: RMB30.0 million, nil and RMB0.1 million) was pledged for the issue of certain trade bills payable, non-trade bills payable and letters of credit for the Group's purchases of raw materials, plant and machinery from certain overseas suppliers, respectively.

#### Contingent liabilities

The Group had no material contingent liabilities as at 30 June 2014.

#### Dividend

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2014 (2013: Nil).

## INFORMATION OF SHARE CAPITAL AND SUBSTANTIAL SHAREHOLDERS

### SHARE CAPITAL

As at 30 June 2014, 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 2014, 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 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 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
吉林市城市建設控股集團有限公司 (Jilin City Construction Holdings Group 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 share (%)			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. Jilin City Construction Holdings Group Co., Ltd. is a state-owned enterprise in the PRC.
- 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 2014, 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 2014.

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

During the six months ended 30 June 2014, the Company did not redeem any of its shares. Neither the Company, its subsidiary nor its joint venture has purchased or sold any of the listed securities of the Company during the six months ended 30 June 2014.

### **COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE**

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 2014, 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 2014, 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 2014

	Note	Unaudited As at 30 June 2014 RMB' 000	Audited As at 31 December 2013 RMB' 000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Land use rights		86,582	88,531
Property, plant and equipment	6	1,503,314	1,591,495
Intangible assets	6	—	—
Interest in a joint venture	7	144,537	159,418
Deferred income tax assets		68,344	72,426
Prepayments		—	248
		<u>1,802,777</u>	<u>1,912,118</u>
<b>Current assets</b>			
Inventories		314,376	404,804
Trade and other receivables	8	685,510	563,991
Current income tax recoverable		1,893	1,893
Restricted bank deposits		121,500	74,013
Cash and cash equivalents		54,161	90,813
		<u>1,177,440</u>	<u>1,135,514</u>
<b>Total assets</b>		<u><u>2,980,217</u></u>	<u><u>3,047,632</u></u>
<b>EQUITY</b>			
<b>Capital and reserves attributable to owners of the Company</b>			
Share capital	9	866,250	866,250
Share premium	9	142,477	142,477
Other reserves		31,919	31,919
Accumulated losses		<u>(357,571)</u>	<u>(306,678)</u>
<b>Total equity</b>		<u>683,075</u>	<u>733,968</u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2014

	Note	Unaudited As at 30 June 2014 RMB' 000	Audited As at 31 December 2013 RMB' 000
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Long-term bank borrowings	10	383,113	364,122
Deferred income	11	71,274	74,911
		<u>454,387</u>	<u>439,033</u>
<b>Current liabilities</b>			
Trade and other payables	12	328,514	443,312
Short-term bank borrowings	10	1,386,671	1,315,390
Current portion of long-term bank borrowings	10	120,053	104,902
Derivative financial instrument	13	7,517	11,027
		<u>1,842,755</u>	<u>1,874,631</u>
<b>Total liabilities</b>		<u>2,297,142</u>	<u>2,313,664</u>
<b>Total equity and liabilities</b>		<u>2,980,217</u>	<u>3,047,632</u>
<b>Net current liabilities</b>		<u>(665,315)</u>	<u>(739,117)</u>
<b>Total assets less current liabilities</b>		<u>1,137,462</u>	<u>1,173,001</u>

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2014

		Unaudited	
		Six months ended 30 June	
	Note	2014 RMB' 000	2013 RMB' 000
Revenue	5	890,554	732,175
Cost of sales		(830,142)	(688,601)
<b>Gross profit</b>		<b>60,412</b>	<b>43,574</b>
Other income	14	242,729	252,159
Distribution costs		(23,434)	(16,628)
Administrative expenses		(46,838)	(52,802)
Other expenses	14	(191,312)	(199,566)
Other gains/(losses) – net	15	1,031	2,851
<b>Operating profit</b>		<b>42,588</b>	<b>29,588</b>
Finance income		623	1,169
Finance costs		(75,004)	(64,844)
		(31,793)	(34,087)
Share of loss of a joint venture		(15,018)	(9,102)
<b>Loss before income tax</b>	16	<b>(46,811)</b>	<b>(43,189)</b>
Income tax expense	17	(4,082)	(3,853)
<b>Loss and total comprehensive income for the period attributable to owners of the Company</b>		<b>(50,893)</b>	<b>(47,042)</b>
<b>Loss per share for loss for the period attributable to owners of the Company</b>			
– basic and diluted (expressed in RMB cents per share)	18	(5.88)	(5.43)
<b>Dividend</b>	19	—	—



## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2014

	Unaudited				Total RMB' 000
	Attributable to owners of the Company				
	Share capital RMB' 000	Share premium RMB' 000	Other reserves RMB' 000	Accumulated losses RMB' 000	
At 1 January 2014	866,250	142,477	31,919	(306,678)	733,968
Loss for the period	—	—	—	(50,893)	(50,893)
At 30 June 2014	<u>866,250</u>	<u>142,477</u>	<u>31,919</u>	<u>(357,571)</u>	<u>683,075</u>
At 1 January 2013	866,250	142,477	31,919	(214,206)	826,440
Loss for the period	—	—	—	(47,042)	(47,042)
At 30 June 2013	<u>866,250</u>	<u>142,477</u>	<u>31,919</u>	<u>(261,248)</u>	<u>779,398</u>

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2014

	Unaudited	
	Six months ended 30 June	
	2014	2013
	RMB' 000	RMB' 000
Net cash used in operating activities	(8,042)	(94,062)
Net cash used in investing activities	(11,161)	(12,015)
Net cash (used in)/from financing activities	(17,449)	35,771
Net decrease in cash and cash equivalents	(36,652)	(70,306)
Cash and cash equivalents at beginning of the period	90,813	109,228
Cash and cash equivalents at end of the period	54,161	38,922

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2014

## 1 GENERAL INFORMATION

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

The Company is a limited liability company incorporated in the 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 29 August 2014.

The condensed consolidated financial statements have not been audited.

## 2 BASIS OF PREPARATION

As at 30 June 2014, the Group’s current liabilities exceeded its current assets by RMB665,315,000 and the bank borrowings as included in the Group’s current liabilities amounted to RMB1,506,724,000. 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 2014 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 2013, which have been prepared in accordance with Hong Kong Financial Reporting Standards (the “HKFRS”) issued by the HKICPA.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2014

### 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 2013.

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 2014:

Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKFRS 10, HKFRS 12 and HKAS27 (2011)	Investment entities

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 2014:

HKFRS 9	Financial Instruments <sup>4</sup>
Amendments to HKAS 16	Property, Plant and Equipment <sup>3</sup>
Amendments to HKAS 38	Intangible Assets <sup>3</sup>
HKFRSs (Amendments)	Annual Improvements 2010-2012 Cycle <sup>2</sup>
HKFRSs (Amendments)	Annual Improvements 2011-2013 Cycle <sup>1</sup>

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

<sup>2</sup> Effective for annual periods beginning or transactions occurring, on or after 1 July 2014

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2016

<sup>4</sup> No mandatory effective date yet determined but is available for adoption

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 2014

### 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 2013.

There have been no changes in the risk management department since 31 December 2013 or in any risk management policies.

#### 4.2 Liquidity risk

Compared to 31 December 2013, 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.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2014

### 5 SEGMENT INFORMATION

The chief operating decision-makers have been identified as the three executive directors 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 products, namely acrylic fiber and carbon fiber products. The operating segment for carbon fiber products has 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 2014 of RMB106,122,000 (2013: RMB69,011,000) was in connection with sales to overseas customers. Therefore, the Decision-Makers only consider the Group’s business from a product perspective, rather than from a geographic perspective. The Decision-Makers assess the performance of the operating segments of acrylic fiber products and carbon fiber products on a regular basis.

The Decision-Makers primarily assess the performance of the operating segments based on a measure of adjusted segment results which are 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 2014 consists of sales from the acrylic fiber products segment and carbon fiber products segment of RMB871,753,000 (2013: RMB719,466,000) and RMB18,801,000 (2013: RMB12,709,000) respectively.

The Group does not have any inter-segment sales during the six months ended 30 June 2014 and 2013.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2014

### 5 SEGMENT INFORMATION – *continued*

The segment information provided to the Decision-Makers for the six months ended 30 June 2014 and 2013 is as follow:

#### Segment revenue and results

	Unaudited		
	Acrylic fiber products RMB' 000	Carbon fiber products RMB' 000	Total RMB' 000
<b>Six months ended 30 June 2014</b>			
Total revenue from external customers	871,753	18,801	890,554
Adjusted segment results (Note)	148,135	(189)	147,946
Impairment on inventories	—	(4,212)	(4,212)
Share of loss of a joint venture	(15,018)	—	(15,018)
Depreciation and amortisation	(88,674)	(13,239)	(101,913)
Income tax expense	(3,716)	(366)	(4,082)
	<u>40,727</u>	<u>(18,006)</u>	<u>22,721</u>
<u>Other information:</u>			
Additions to property, plant and equipment (other than deferred income tax assets)	<u>9,347</u>	<u>2,436</u>	<u>11,783</u>
<b>Six months ended 30 June 2013</b>			
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 joint venture	(9,102)	—	(9,102)
Depreciation and amortisation	(90,955)	(12,874)	(103,829)
Income tax credit	(3,221)	(632)	(3,853)
	<u>36,226</u>	<u>(23,658)</u>	<u>12,568</u>
<u>Other information:</u>			
Additions to property, plant and equipment (other than deferred income tax assets)	<u>32,161</u>	<u>29,831</u>	<u>61,992</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2014

### 5 SEGMENT INFORMATION – *continued*

#### Segment assets and liabilities

	Unaudited		Total RMB' 000
	Acrylic fiber products RMB' 000	Carbon fiber products RMB' 000	
<b>As at 30 June 2014</b>			
Total segment assets	<u>2,265,277</u>	<u>644,703</u>	<u>2,909,980</u>
Total segment assets include:			
Interest in a joint venture	<u>144,537</u>	<u>—</u>	<u>144,537</u>
Total segment liabilities	<u>315,674</u>	<u>84,114</u>	<u>399,788</u>
	Audited		
	Acrylic fiber products RMB' 000	Carbon fiber products RMB' 000	Total RMB' 000
<b>As at 31 December 2013</b>			
Total segment assets	<u>2,366,340</u>	<u>606,973</u>	<u>2,973,313</u>
Total segment assets include:			
Interest in a joint venture	<u>159,418</u>	<u>—</u>	<u>159,418</u>
Total segment liabilities	<u>473,233</u>	<u>44,990</u>	<u>518,223</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 financial statements. These assets/liabilities are allocated based on the operations of the respective segments.



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2014

### 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	
	2014	2013
	RMB' 000	RMB' 000
Adjusted segment results for reportable segments	147,946	139,690
Impairment on inventories	(4,212)	(10,338)
Depreciation	(99,964)	(97,713)
Amortisation	(1,949)	(6,116)
Net gain on derivative financial instrument	767	4,065
Operating profit	42,588	29,588
Finance costs – net	(74,381)	(63,675)
Share of loss of a joint venture	(15,018)	(9,102)
Loss before income tax	(46,811)	(43,189)

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 per condensed consolidated statement of financial position as follows:

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2014	2013
	RMB' 000	RMB' 000
Segment assets for reportable segments	2,909,980	2,973,313
Unallocated:		
Deferred income tax assets	68,344	72,426
Current income tax recoverable	1,893	1,893
	70,237	74,319
Total assets per condensed consolidated statement of financial position	2,980,217	3,047,632

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2014

### 5 SEGMENT INFORMATION – *continued*

Reportable segments' liabilities are reconciled to total liabilities per condensed consolidated statement of financial position as follows:

	Unaudited As at 30 June 2014 RMB' 000	Audited As at 31 December 2013 RMB' 000
Segment liabilities for reportable segments	399,788	518,223
Unallocated:		
Borrowings	1,889,837	1,784,414
Derivative financial instrument	7,517	11,027
	1,897,354	1,795,441
Total liabilities per condensed consolidated statement of financial position	2,297,142	2,313,664

*Note:*

As detailed out in Note 14, the Group has managed and operated certain Utility Facilities and Leased Assets primarily 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, joint venture, 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 2014 as disclosed above for the acrylic fiber products segment included an amount of RMB64,977,000 (2013: RMB71,434,000), 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 joint venture, related parties and third parties.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2014

### 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 2014</b>		
Opening net book amount at 1 January 2014	1,591,495	—
Additions	11,783	—
Disposals	—	—
Depreciation and amortisation	(99,964)	—
Closing net book amount at 30 June 2014	<u>1,503,314</u>	<u>—</u>
<b>Six months ended 30 June 2013</b>		
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>

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 JOINT VENTURE

	Unaudited	
	Six months ended 30 June	
	2014 RMB' 000	2013 RMB' 000
At 1 January	159,418	174,071
Share of loss	(15,018)	(9,102)
Others	137	136
At 30 June	<u>144,537</u>	<u>165,105</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2014

### 7 INTEREST IN A JOINT VENTURE – *continued*

The Group has a 50% equity interest in a joint venture, 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 2014		Audited As at 31 December 2013	
	Jimont RMB' 000	50% shared by the Group RMB' 000	Jimont RMB' 000	50% shared by the Group RMB' 000
Non-current assets	790,235	395,118	828,248	414,124
Current assets	737,511	368,755	888,967	444,484
<b>Total assets</b>	<b>1,527,746</b>	<b>763,873</b>	<b>1,717,215</b>	<b>858,608</b>
Non-current liabilities	160,000	80,000	200,000	100,000
Current liabilities	1,073,686	536,843	1,193,120	596,560
<b>Total liabilities</b>	<b>1,233,686</b>	<b>616,843</b>	<b>1,393,120</b>	<b>696,560</b>
Joint venture's capital commitments	—	—	—	—

  

	Unaudited For the six months ended 30 June 2014		Unaudited For the six months ended 30 June 2013	
	Jimont RMB' 000	50% shared by the Group RMB' 000	Jimont RMB' 000	50% shared by the Group RMB' 000
Revenue	837,272	418,636	684,872	342,436
Expenses	(867,307)	(433,654)	(703,076)	(351,538)
<b>Net loss for the period</b>	<b>(30,035)</b>	<b>(15,018)</b>	<b>(18,204)</b>	<b>(9,102)</b>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2014

### 8 TRADE AND OTHER RECEIVABLES

	Unaudited As at 30 June 2014 RMB' 000	Audited As at 31 December 2013 RMB' 000
Trade receivables (Note a)	92,149	102,109
Less: provision for impairment	(5,021)	(5,021)
Trade receivables – net	87,128	97,088
Notes receivables	277,677	200,802
Amounts due from related parties	214,266	188,097
Other receivables	82,468	68,673
Less: provision for impairment	(7,516)	(7,516)
Other receivables – net	74,952	61,157
Prepayments	31,487	16,847
	<u>685,510</u>	<u>563,991</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 2014 RMB' 000	Audited As at 31 December 2013 RMB' 000
0 - 30 days	32,372	44,604
31 - 90 days	25,862	36,136
91 - 365 days	29,809	8,973
Over 365 days	4,106	12,396
	<u>92,149</u>	<u>102,109</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2014

### 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 2014 and 2013.
- (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 2014

### 10 BORROWINGS

	Unaudited As at 30 June 2014 RMB' 000	Audited As at 31 December 2013 RMB' 000
<b>Non-current</b>		
Long-term bank borrowings	503,166	469,024
Less: Current portion of long-term bank borrowings	(120,053)	(104,902)
	<u>383,113</u>	<u>364,122</u>
<b>Current</b>		
Short-term bank borrowings	1,288,951	1,265,390
Current portion of long-term bank borrowings	120,053	104,902
Discounted bills with recourse	22,720	50,000
Other borrowings	75,000	—
	<u>1,506,724</u>	<u>1,420,292</u>
<b>Total borrowings</b>	<u><u>1,889,837</u></u>	<u><u>1,784,414</u></u>

Movements in borrowings are analysed as follows:

	Unaudited	
	2014 RMB' 000	2013 RMB' 000
<b>At 1 January</b>	1,784,414	1,635,969
Drawn down	1,330,470	1,072,500
Repayments	<u>(1,225,047)</u>	<u>(877,452)</u>
<b>At 30 June</b>	<u><u>1,889,837</u></u>	<u><u>1,831,017</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 2014

### 10 BORROWINGS – *continued*

As at 30 June 2014, 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	
<b>At 30 June 2014</b>						
Trade and other payables	269,121	—	—	—	269,121	269,121
Short-term bank borrowings	1,418,909	—	—	—	1,418,909	1,386,671
Long-term bank borrowings	156,368	154,635	231,849	57,372	600,224	503,166
<b>Total non-derivatives financial liabilities</b>	<b>1,844,398</b>	<b>154,635</b>	<b>231,849</b>	<b>57,372</b>	<b>2,288,254</b>	<b>2,158,958</b>
	Audited					
	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	Carrying Amounts RMB' 000
<b>At 31 December 2013</b>						
Trade and other payables	354,229	—	—	—	354,229	354,229
Short-term bank borrowings	1,357,816	—	—	—	1,357,816	1,315,390
Long-term bank borrowings	137,223	120,381	249,878	68,124	575,606	469,024
<b>Total non-derivatives financial liabilities</b>	<b>1,849,268</b>	<b>120,381</b>	<b>249,878</b>	<b>68,124</b>	<b>2,287,651</b>	<b>2,138,643</b>

*Note:*

During the period ended 30 June 2014, the Group did not meet 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 RMB439,000,000 as at 30 June 2014 (as at 31 December 2013: RMB514,689,000), 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 2014

### 10 BORROWINGS – *continued*

The Group has the following undrawn borrowing facilities:

	Unaudited	
	As at 30 June 2014 RMB'000	As at 30 June 2013 RMB'000
Floating rate bank borrowings:		
– expiring within one year	—	22,000
	<u>          </u>	<u>          </u>

### 11 DEFERRED INCOME

As at 30 June 2014, 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 RMB61,858,000 (As at 31 December 2013: RMB64,803,000) and RMB9,416,000 (As at 31 December 2013: RMB10,108,000) respectively.

### 12 TRADE AND OTHER PAYABLES

	Unaudited	Audited
	As at 30 June 2014 RMB'000	As at 31 December 2013 RMB'000
Trade payables (Note a)	191,592	210,555
Bills payable	—	60,000
Advance from customers	13,915	47,511
Payable for purchases of property, plant and equipment	24,238	38,291
Amounts due to related parties (Note b)	18,488	13,555
Other payables and accruals	34,804	31,828
Provision for staff welfare	24,524	24,524
Other taxes	20,953	17,048
	<u>          </u>	<u>          </u>
	<u>328,514</u>	<u>443,312</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2014

### 12 TRADE AND OTHER PAYABLES – *continued*

*Notes:*

(a) Aging analysis of the trade payables are as follows:

	Unaudited As at 30 June 2014 RMB' 000	Audited As at 31 December 2013 RMB' 000
0 - 30 days	64,517	74,059
31 - 90 days	75,811	122,226
91 - 365 days	38,872	3,949
Over 365 days	12,392	10,321
	191,592	210,555

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

### 13 DERIVATIVE FINANCIAL INSTRUMENT

	Unaudited As at 30 June 2014 RMB' 000	Audited As at 31 December 2013 RMB' 000
Derivative financial liability (Note)		
– Interest rate swap contract	7,517	11,027
	7,517	11,027

*Note:*

As at 30 June 2014, the derivative financial liability represents an outstanding interest rate swap contract with an outstanding notional amount of RMB83,200,000 (as at 31 December 2013: RMB93,600,000), 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 management considers that the abovementioned interest rate swap contract does not qualify for hedge accounting and the net gain associated with this derivative financial instrument of RMB767,000 (six months ended 30 June 2013: net gain of RMB4,065,000) has been recognised within 'other gains/(losses) – net' in the condensed consolidated statement of comprehensive income for the six months ended 30 June 2014 (Note 15).

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2014

### 14 OTHER INCOME AND EXPENSES

	Unaudited	
	Six months ended 30 June	
	2014	2013
	RMB' 000	RMB' 000
<b>Other income</b>		
Income from provision of utilities (Note i)	236,556	248,462
Amortisation of deferred income	3,638	3,638
Subsidy income (Note ii)	451	—
Others	2,084	59
	<u>242,729</u>	<u>252,159</u>
<b>Other expenses</b>		
Direct outgoings in respect of provision of utilities (Note i)	(190,955)	(199,115)
Others	(357)	(451)
	<u>(191,312)</u>	<u>(199,566)</u>
	<u>51,417</u>	<u>52,593</u>

*Notes:*

- (i) For the six months ended 30 June 2014, the income from the provisions of utilities to the fellow subsidiaries, joint venture and third parties amounted to RMB108,700,000 (2013: RMB118,488,000), RMB85,663,000 (2013: RMB89,456,000), RMB42,193,000 (2013: RMB40,518,000) 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 RMB151,506,000 (2013: RMB154,283,000), RMB3,326,000 (2013: RMB4,211,000), RMB19,376,000 (2013: RMB22,087,000) and RMB8,775,000 (2013: RMB9,140,000) respectively.
- (ii) Subsidy income mainly represents subsidies received from local government in relation to the carbon fiber production business during the year.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2014

### 15 OTHER GAINS/(LOSSES) – NET

	Unaudited	
	Six months ended 30 June	
	2014	2013
	RMB' 000	RMB' 000
Gain attributable to equity interests of a joint venture	137	136
Net gain on derivative financial instrument	767	4,065
Foreign exchange gains/(losses), net	127	(1,350)
	1,031	2,851
	1,031	2,851

### 16 LOSS BEFORE INCOME TAX

Loss before income tax is stated after charging:

	Unaudited	
	Six months ended 30 June	
	2014	2013
	RMB' 000	RMB' 000
Inventories recognised as an expense		
– for production of fiber products	825,930	678,263
– for provision of utilities	190,955	199,115
– impairment of inventories	4,212	10,338
Depreciation (note 6)	99,964	97,713
Amortisation of		
– land use rights	1,949	2,014
– intangible assets (note 6)	—	4,102
Interest expenses on		
– bank borrowings	60,122	54,604
– discounted notes receivable	8,282	3,640
	68,404	58,244
	68,404	58,244

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2014

### 17 INCOME TAX EXPENSE

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

	Unaudited Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
Current income tax		
– PRC corporate income tax	—	—
Deferred income tax		
– charge for the period	(4,082)	(3,853)
Income tax expense	<u>(4,082)</u>	<u>(3,853)</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 2013 and 2014.

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 2014 and 2013, 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 2014 of 866,250,000 (2013: 866,250,000) shares.

For the six months ended 30 June 2014 and 2013, 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 2014 and 2013.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2014

### 20 COMMITMENTS

#### (a) Operating commitments

##### (i) *The Group as the lessee*

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

	Unaudited As at 30 June 2014 RMB' 000	Audited As at 31 December 2013 RMB' 000
No later than 1 year	10,986	11,384
Later than 1 year and no later than 5 years	16,387	22,415
	27,373	33,799

##### (ii) *The Group as the lessor*

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

	Unaudited As at 30 June 2014 RMB' 000	Audited As at 31 December 2013 RMB' 000
Land use rights and machinery		
No later than 1 year	119	119
Later than 1 year and no later than 5 years	157	203
Later than 5 years	79	92
	355	414

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2014

### 20 COMMITMENTS – *continued*

#### (b) Capital commitments

Capital expenditures contracted for but not yet incurred are as follows:

	Unaudited As at 30 June 2014 RMB' 000	Audited As at 31 December 2013 RMB' 000
Property, plant and equipment	<u>8,279</u>	<u>2,435</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 (Revised), "Related Party Disclosures", government related entities (e.g. state-owned enterprises) and their subsidiaries directly or indirectly controlled, jointly controlled or significantly influenced by the PRC government are also defined as related parties of the Group. A portion of the Group's business activities is conducted with other government related entities in the PRC (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 government related entities. The Company's directors believe that it is meaningful to disclose any significant related party transactions with these government related entities for the interests of the financial statements users, although these transactions are exempted from the disclosure requirements as set out in the HKAS 24 (Revised). The Company's directors believe that the information in respect of related party transactions has been adequately disclosed in these condensed consolidation financial statements.

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 2014

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

During the Period, for the purpose of this report, the directors are of the view that the following group entities under JCF Groupco are related parties of the group:

Name of related parties	Relationships
Tuopu Textile Industrial Development Co., Ltd.	A subsidiary of JCF Groupco
Jilin Chemical Fiber Construction and Installation Co., Ltd.	A subsidiary of JCF Groupco
Jilin Huidong Chemical Industry Co., Ltd.	A subsidiary of JCF Groupco
Jilin Aika Viscose Co., Ltd.	A subsidiary of JCF Groupco
JCFCL	A subsidiary of JCF Groupco
Jilin Yingke Information Technology Co., Ltd.	A subsidiary of JCF Groupco

#### (a) Related party transactions

	Unaudited	
	Six months ended 30 June	
	2014	2013
	RMB' 000	RMB' 000
Sales of goods to:		
– a shareholder of the Company	173,156	181,376
– group entities under JCF Groupco	18	—
Provision of utilities to:		
– a joint venture	85,663	89,456
– group entities under JCF Groupco	108,700	118,488
Sales of raw materials to a joint venture and group entities under JCF Groupco	5,642	2,795
Rental expense to JCFCL in respect of the remaining lease assets	(8,376)	(5,911)
Rental expense of warehouse to a group entity under JCF Groupco	—	(840)
Bank borrowings guarantee fee to the ultimate parent company	(6,600)	(6,600)
Repair and maintenance service fee to group entities under JCF Groupco	(1,947)	(4,723)
Purchases of raw materials from:		
– a joint venture	(42)	(495)
– group entities under JCF Groupco	(5,771)	(6,636)
– other state-owned enterprises	(617,481)	(484,613)
Construction costs to a group entity under JCF Groupco	(200)	(270)
Drawdown of loans from state-owned banks	852,000	696,500
Repayments of loans to state-owned banks	(874,057)	(592,500)
Interest expenses to state-owned banks	(43,711)	(41,874)
	<u>          </u>	<u>          </u>



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2014

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

#### (a) Related party transactions – *continued*

JCF Groupco allowed the Group to use of the trademark of “白山” (Baishan) at nil consideration during the six months ended 30 June 2014 and 2013.

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 2014, bank borrowings of RMB1,325,367,000 (as at 31 December 2013: RMB1,583,224,000) are guaranteed by the JCF Groupco.

#### (b) Balances with related parties

	Unaudited As at 30 June 2014 RMB' 000	Audited As at 31 December 2013 RMB' 000
Trade receivables from		
– a fellow subsidiary	4,674	9,275
Advance from customers		
– a shareholder of the Company	2,514	16,542
Amounts due from		
– fellow subsidiaries	7,844	10,045
– a joint venture	3,889	33,748
– a related company	52,276	41,539
– JCFCL	150,257	102,765
	<u>214,266</u>	<u>188,097</u>
Trade payables to		
– fellow subsidiaries	1,404	818
Amounts due to		
– the ultimate parent company	18,488	10,952
– fellow subsidiaries	—	2,238
– JCFCL	—	365
	<u>18,488</u>	<u>13,555</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2014

### 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	
	2014 RMB' 000	2013 RMB' 000
Wages, salaries and other short-term employee benefits	1,663	1,697
Pension and social security costs	18	17
	<u>1,681</u>	<u>1,714</u>

## CORPORATE INFORMATION

### DIRECTORS

#### Executive Directors

Mr. Song Dewu (*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. Jin Jie  
Mr. Li Yanxi  
Ms. Zhu Ping

### SUPERVISORS

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

### AUDIT COMMITTEE

Mr. Li Yanxi (*Chairman*)  
Ms. Pang Suet Mui  
Mr. Ye Yongmao

### BOARD REMUNERATION COMMITTEE

Mr. Ye Yongmao (*Chairman*)  
Ms. Zhu Ping  
Mr. Ma Jun

### NOMINATION COMMITTEE

Mr. Ye Yongmao (*Chairman*)  
Ms. Zhu Ping  
Mr. Jiang Junzhou

### CONNECTED TRANSACTIONS COMMITTEE

Mr. Jin Jie (*Chairman*)  
Mr. Li Yanxi  
Mr. Ye Yongmao

### COMPANY SECRETARY

Mr. Chan Cheung HKICPA, FCCA

### QUALIFIED ACCOUNTANT

Mr. Chan Cheung HKICPA, FCCA

### AUTHORISED REPRESENTATIVES

Mr. Wang Changsheng  
Mr. Chan Cheung HKICPA, FCCA

### PRC REGISTERED OFFICE

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The PRC

### PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Tung Wai Commercial Building,  
109-111 Gloucester Road,  
Wanchai, 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  
Bank of China Limited

### H SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited  
46th Floor,  
Hopewell Centre, 183 Queen's Road East,  
Hong Kong