

INTERIM REPORT 2016

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 joint venture of the Company
“Group”	the Company and its joint venture
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“Period”	The six months ended 30 June 2016
“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 SUMMARY

	For the six months ended 30 June		
	(Unaudited) 2016 RMB'million	(Unaudited) 2015 RMB'million	Change %
Revenue	751.2	947.0	(21)
Gross profit	116.7	140.1	(17)
Operating profit	88.5	118.1	(25)
Share of results of a joint venture	7.5	(0.4)	N/A
Loss for the period from discontinued operations	—	(24.8)	(100)
Profit for the period attributable to owners of the Company	51.5	6.0	758
Profit per share (RMB cents per share)	5.94	0.69	761
Gross profit margin	15.5%	14.8%	0.7 p.p.
Net profit margin	6.9%	0.6%	6.3 p.p.
	As at 30 June 2016	As at 31 December 2015	
Current ratio	83%	75%	8 p.p.
Gearing ratio	68%	68%	- p.p.

p.p - percentage point

FINANCIAL AND BUSINESS HIGHLIGHTS

- Profit for the Period attributable to owners of the Company was approximately RMB51.5 million, as compared to a net profit of approximately RMB6.0 million for the same period in 2015.
- Revenue for the Period was approximately RMB751 million, representing a decrease of approximately 21% as compared to the same period in 2015.
- The overall gross profit margin increased from 14.8% for the first six months in 2015 to 15.5% for the Period.
- Production plant operated at an overall utilisation rate of approximately 98% for the Period (2015: 95%).
- The Company's share of 50% of the profit of Jimont for the Period under the equity method amounted to approximately RMB7.5 million (2015: Loss RMB0.4 million).

MANAGEMENT DISCUSSION AND ANALYSIS

MAJOR OPERATIONAL DATA

1. Revenue

	For the six months ended 30 June			
	2016		2015	
	RMB million	%	RMB million	%
Continuing operations				
Acrylic top	341.1	45.4	385.0	40.7
Acrylic tow	158.9	21.1	199.3	21.0
Acrylic staple fiber	250.6	33.4	361.6	38.2
Others*	0.6	0.1	1.1	0.1
Total	751.2	100.0	947.0	100.0

	For the six months ended 30 June			
	2016		2015	
	RMB million	%	RMB million	%
Discontinued operations				
Carbon fiber precursor (Note)	—	N/A	46.6	100.0

2. Sales volume

	For the six months ended 30 June			
	2016		2015	
	Tons	%	Tons	%
Continuing operations				
Acrylic top	27,967	42.1	26,883	38.4
Acrylic tow	14,886	22.4	15,416	22.0
Acrylic staple fiber	23,383	35.3	27,661	39.5
Others*	85	0.2	33	0.1
Total	66,321	100.0	69,993	100.0

	For the six months ended 30 June			
	2016		2015	
	Tons	%	Tons	%
Discontinued operations				
Carbon fiber precursor (Note)	—	N/A	1,043	100.0

MANAGEMENT DISCUSSION AND ANALYSIS

3. Average selling price and gross profit margin

	For the six months ended 30 June			
	2016		2015	
	Average selling price	Gross profit margin	Average selling price	Gross Profit Margin
	RMB/ton	%	RMB/ton	%
Continuing operations				
Acrylic top	12,196	17.99	14,320	16.82
Acrylic tow	10,677	13.44	12,925	10.82
Acrylic staple fiber	10,716	13.51	13,074	14.83
Overall gross profit margin		15.5		14.8

	For the six months ended 30 June			
	2016		2015	
	Average selling price	Gross profit margin	Average selling price	Gross Profit Margin
	RMB/ton	%	RMB/ton	%
Discontinued operations				
Carbon fiber precursor	—	N/A	44,706	16.54

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

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW AND OUTLOOK

Market Review

According to the published data from the National Bureau of Statistics of China, the economic growth rate in China for the six months ended 30 June 2016 was 6.7%, which was slightly slower as compared to the same period in 2015. China's economic growth was slowing down and the market condition remained challenging. For the acrylic fiber industry, overall production capacity for acrylonitrile (the major raw material of the Company's acrylic fiber products) continued to expand and the acrylonitrile price continued to drop during the Period and the average price of acrylic fiber products declined accordingly. In July 2016, the Ministry of Commerce of the PRC decided to impose anti-dumping duties on imported acrylic fibers originating in Japan, South Korea and Turkey in favour of the acrylic fiber industry in China.

Sales Review

For the six months ended 30 June 2016, the Group recorded sales revenue of approximately RMB751.2 million, representing a decrease of approximately 21% from approximately RMB947.0 million as compared to the same period in 2015. Sales volume during the Period was 66,321 tons, representing a decrease of approximately 5% as compared to the same period in 2015. The average selling price of the Group's acrylic fiber products decreased from RMB13,530 per ton in the first half of 2015 to approximately RMB11,326 per ton in the Period, representing a decrease of approximately 16%.

Operations Review

For the six months ended 30 June 2016, the Group's total production volume of acrylic products was 66,693 tons (2015: 65,691 tons), representing an increase of approximately 2% as compared to the same period last year. The overall utilisation rate of the Group's production facilities during the Period was approximately 98% (2015: 95%).

During the Period, the Group continued to enlarge its supplier base and strengthen raw material market analysis to enhance its purchasing function and inventory management. The Group also continued to implement stringent cost control measures and adhere to order-based production in order to further enhance operating efficiency. The Group has conducted continual technical reform, quality improvement and waste reduction projects, which set up a solid foundation to stabilise production process, improve production quality and reduce production cost.

Human Resources

As at 30 June 2016, the Group had 1,729 employees (2015: 1,746 employees excluding employees worked in the discontinued operations). 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 2016, 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 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. 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.
2. Favourable raw material supply condition: Due to the production expansion plan of certain PRC acrylonitrile manufacturers, the total supply of the Group's major raw material, acrylonitrile, in China is expected to further increase substantially in the foreseeable future, the Group expects the shortage in supply of acrylonitrile will be further alleviated.
3. Anti-dumping duties on imported acrylic fibers: In July 2016, The Ministry of Commerce of the PRC announced the imposition of anti-dumping duties on imported acrylic fibers originating from Japan, Korea and Turkey. The management believes that demand for local manufactured acrylic fibers will increase as a result of the decision.

FINANCIAL ANALYSIS

OPERATION RESULTS

For the six months ended 30 June 2016, the revenue of the Group was approximately RMB751.2 million, representing a decrease of approximately 21% as compared to approximately RMB947.0 million for the same period in 2015. The decrease in revenue was mainly attributable to the combine effect of the decrease of approximately 5% in sales volume and the approximately 16% decrease in the average selling price of the Group's products. During the Period, the Group's total sales volume and production volume were 66,321 tons and 66,693 tons, respectively (2015: 69,993 tons and 65,691 tons respectively), resulting in a sales-to-production ratio of approximately 99% (2015: 107%). Gross profit margin increased from 14.8% for the six months ended 30 June 2015 to 15.5% during the Period. For the six months ended 30 June 2016, profit attributable to owners of the Company was approximately RMB51.5 million, as compared to the profit attributable to owners of the Company of approximately RMB6.0 million for the same period in 2015. The Group's share of 50% of the profit of its joint venture amounted to RMB7.5 million as compared to a loss of RMB0.4 million for the same period last year.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating expenses (including distribution costs and administrative expenses)

Operating expenses of the Company decreased to approximately RMB67.4 million for the six months ended 30 June 2016 from approximately RMB69.1 million for the same period in 2015. The decrease was mainly due to decrease in sales volume which resulted in a decrease in transportation costs during the Period.

Net other gains (the net aggregate amount of other income and gains and other expenses and losses)

Net other gains for the Period was approximately RMB39.3 million, as compared to that of approximately RMB47.1 million for the same period last year. The decrease in net other gains was primarily due to the decrease in net other income from the provision of utilities.

Net finance costs

Net finance costs of the Company decreased to approximately RMB34.7 million for the six months ended 30 June in 2016 from approximately RMB63.3 million for the same period in 2015. The decrease in finance costs was mainly resulted from the decrease in bank borrowings and bank interest rate for the Period.

Share of results of a joint venture

For the six months ended 30 June 2016, the 50% of profit of Jimont attributable to the Group under the equity method was approximately RMB7.5 million (2015: loss of RMB0.4 million). The improvement in profitability was mainly due to the increase in gross profit margin for the Period.

CAPITAL STRUCTURE

Placing of new H Shares and conversion of non-H foreign Shares to H Shares

On 14 January 2016, a specific mandate was granted by the shareholders in shareholders' meetings of the Company to issue not more than 600,000,000 new H Shares (the "Placing Shares") pursuant to a proposed offer by way of private placing of the Placing Shares by or on behalf of the placing agent to the placee(s), on a best endeavour basis, on the terms and subject to the conditions set out in the placing agreement entered into between the Company and the placing agent on 29 September 2015 (the "Placing"). The 600,000,000 Placing Shares represent approximately 69.26% of the existing issued share capital of the Company as at the date of this annual report. On 14 January 2016, a specific resolution was also passed by the shareholders in shareholders' meetings of the Company to approve the conversion of 169,358,404 Non-H Foreign Shares to H Shares (the "Conversion"). After completion of the Conversion, the 169,358,404 Non-H Foreign Shares (representing approximately 19.55% of the existing issued share capital as at the date of this interim report) will be cancelled and the 169,358,404 H Shares newly issued pursuant to the Conversion will rank, when issued and fully paid, pari passu in all respects with the H Shares in issue as at the date of allotment and issue of such H Shares.

On 1 August 2016, the Company announced that the Placing Agreement for the Placing has lapsed as the conditions of the Placing Agreement have not been satisfied or waived on or before 31 July 2016. As such, the Placing has been terminated. The Company will not expand its business into the medical and healthcare industry and introduce Jilin Railway Investment as a strategic partner subsequent to the termination of the Placing.

STATUS OF INVESTMENTS

Joint venture

A joint venture, Jimont, was established on 21 December 2005 and as at 30 June 2016, was currently held equally by the Company and Jiangsu Zhongxin Ziyuan Group Limited (江蘇中新資源集團有限公司). Jimont is mainly engaged in the manufacturing and sales of acrylic fiber products with an annual production capacity of 136,000 tons (2015: 108,000 tons). For the six months ended 30 June 2016, the sales and production volumes of the joint venture were 66,055 tons (2015: 57,094 tons) and 69,657 tons (2015: 54,304 tons), respectively, with a sales-to-production ratio of approximately 95% (2015: 105%). The plant utilisation rate of Jimont during the current period was approximately 102% (2015: 100%). Its net profit for the Period was approximately RMB15.0 million (2015: loss of RMB0.8 million). The increase of net profit as compared to the same period in the previous year was mainly attributable to an increase in gross profit margin.

Entrusted deposits and pledged time deposits

As at 30 June 2016, 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 RMB93.0 million (At 31 December 2015: RMB62.2 million), the Group had no other bank deposits which cannot be freely withdrawn.

Pledged assets

As of 30 June 2016, certain properties, plants and equipment, bills receivables and restricted bank deposits with a net book value of approximately RMB302.1 million, RMB7.2 million and RMB50.0 million respectively (At 31 December 2015: properties, plant and equipment with a net book value of approximately RMB327.4 million) were pledged as securities for bank borrowings of approximately RMB432.3 million (At 31 December 2015: RMB287.7 million). In addition, bank deposits of approximately RMB40.0 million and RMB3.0 million (At 31 December 2015: RMB43.9 million and RMB18.2 million respectively) was pledged for the issue of certain 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 2016.

Dividend

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2016 (2015: Nil).

INFORMATION OF SHARE CAPITAL AND SUBSTANTIAL SHAREHOLDERS

SHARE CAPITAL

As at 30 June 2016, there was a total issued share capital of 866,250,000 shares of the Company (the “Shares”) which include:

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

As at 30 June 2016, 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 ⁽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 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 ⁽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. 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 2016, 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 2016.

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

During the six months ended 30 June 2016, the Company did not redeem any of its shares. Neither the Company nor its joint venture has purchased or sold any of the listed securities of the Company during the six months ended 30 June 2016.

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 2016, 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 2016, 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 2016

		Unaudited As at 30 June 2016 RMB' 000	Audited As at 31 December 2015 RMB' 000
ASSETS			
Non-current assets			
Land use rights		68,139	70,585
Property, plant and equipment	6	878,225	911,730
Intangible assets		3,400	3,667
Interest in a joint venture		156,911	149,259
Trade and other receivables	7	99,677	144,500
Deferred income tax assets		39,128	48,914
		1,245,480	1,328,655
Current assets			
Inventories		175,652	208,683
Trade and other receivables	8	1,054,393	802,515
Land use rights		3,834	3,321
Restricted bank deposits		92,984	62,151
Cash and cash equivalents		56,388	67,620
		1,383,251	1,144,290
Total assets		2,628,731	2,472,945
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	9	866,250	866,250
Share premium	9	142,477	142,477
Other reserves		31,919	31,919
Accumulated losses		(195,181)	(246,668)
Total equity		845,465	793,978

The notes on pages 18 to 39 form part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2016

	Note	Unaudited As at 30 June 2016 RMB' 000	Audited As at 31 December 2015 RMB' 000
LIABILITIES			
Non-current liabilities			
Long-term bank borrowings	10	85,000	115,154
Deferred income	11	37,359	40,872
		<u>122,359</u>	<u>156,026</u>
Current liabilities			
Trade and other payables	12	387,559	354,661
Deferred income	11	7,027	7,027
Short-term bank borrowings	10	1,183,900	1,058,710
Current portion of long-term bank borrowings	10	82,421	102,543
		<u>1,660,907</u>	<u>1,522,941</u>
Total liabilities		<u>1,783,266</u>	<u>1,678,967</u>
Total equity and liabilities		<u>2,628,731</u>	<u>2,472,945</u>
Net current liabilities		<u>(277,656)</u>	<u>(378,651)</u>
Total assets less current liabilities		<u>967,824</u>	<u>950,004</u>

The notes on pages 18 to 39 form part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2016

	Note	Unaudited	
		Six months ended 30 June	
		2016	2015
		RMB' 000	RMB' 000
Turnover	5	751,184	946,985
Cost of sales		<u>(634,539)</u>	<u>(806,884)</u>
Gross profit		116,645	140,101
Other income and gains	13	248,912	210,261
Distribution costs		(25,622)	(31,150)
Administrative expenses		(41,791)	(37,926)
Other expenses and losses	14	<u>(209,652)</u>	<u>(163,191)</u>
Operating profit		88,492	118,095
Finance income		5,042	1,249
Finance costs		<u>(39,776)</u>	<u>(64,522)</u>
		53,758	54,822
Share of result of a joint venture		<u>7,515</u>	<u>(420)</u>
Profit before income tax	15	61,273	54,402
Income tax expense	16	<u>(9,786)</u>	<u>(23,643)</u>
Profit after income tax from continuing operations		51,487	30,759
Loss for the period from discontinued operations	19	<u>—</u>	<u>(24,764)</u>
Profit and total comprehensive income for the period attributable to owners of the Company		<u>51,487</u>	<u>5,995</u>
Earnings per share attributable to owners of the Company (expressed in RMB cents per share)	17		
From continuing and discontinued operations			
– basic and diluted		<u>5.94</u>	<u>0.69</u>
From continuing operations			
– basic and diluted		<u>5.94</u>	<u>3.55</u>

The notes on pages 18 to 39 form part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2016

	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 2016	866,250	142,477	31,919	(246,668)	793,978
Profit and total comprehensive income for the period	—	—	—	51,487	51,487
At 30 June 2016	<u>866,250</u>	<u>142,477</u>	<u>31,919</u>	<u>(195,181)</u>	<u>845,465</u>
At 1 January 2015	866,250	142,477	31,919	(378,848)	661,798
Profit and total comprehensive income for the period	—	—	—	5,995	5,995
At 30 June 2015	<u>866,250</u>	<u>142,477</u>	<u>31,919</u>	<u>(372,853)</u>	<u>667,793</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

	Unaudited	
	Six months ended 30 June	
	2016	2015
	RMB' 000	RMB' 000
Operating activities		
Net cash (used in)/generated from operating activities	(34,717)	286,714
Investing activities		
Payment for the purchase of property, plant and equipment	(25,638)	(11,942)
Other cash flows arising from investing activities	(25,791)	(40,109)
Net cash used in investing activities	(51,429)	(52,051)
Financing activities		
Proceeds from borrowings	684,900	2,045,530
Repayments of borrowings	(609,986)	(2,171,744)
Net cash generated from/(used in) financing activities	74,914	(126,214)
Net (decrease)/increase in cash and cash equivalents	(11,232)	108,449
Cash and cash equivalents at beginning of the period	67,620	57,814
Cash and cash equivalents at end of the period	56,388	166,263

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

1 GENERAL INFORMATION

Jilin Qifeng Chemical Fiber Co., Ltd. (the “Company”) and its joint venture (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).

The Company is a limited liability company incorporated in the People’s Republic of China (the “PRC”) and is listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The address of its registered office is Block 4, Zone D, Hengshan West Road, Jilin New and High Technology Development Zone, Jilin City, Jilin Province, the PRC.

The condensed consolidated financial statements have been approved for issue by the Board of Directors of the Company on 30 August 2016.

The condensed consolidated financial statements have not been audited.

2 BASIS OF PREPARATION

As at 30 June 2016, the Group’s current liabilities exceeded its current assets by RMB277,656,000 (as at 31 December 2015: RMB378,651,000) and the bank borrowings as included in the Group’s current liabilities amounted to RMB1,266,321,000 (as at 31 December 2015: RMB1,161,253,000). 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 has maintained its good business relationship with its principal bankers and the principal bankers have indicated their willingness to renew their borrowings to the Group upon maturities of borrowings. The Company’s directors, having evaluated all the relevant facts available to them, 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;
- (b) The Group’s profitability and cash flows are expected to be improved in view of the improving business environment of the business operations; and
- (c) The ultimate parent company, Jilin Chemical Fiber Group Co., Ltd. (“JCF Groupco”), a state-owned enterprise, has confirmed and has ability to provide continuing financial support to the Group so as to enable it to meet its liabilities 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 of the view 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. Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the values of assets to their estimated recoverable amounts, to provide for any further liabilities which might arise and to classify non-current assets and liabilities as current assets and liabilities, respectively. The effects of these adjustments have not been reflected in these condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

2 BASIS OF PREPARATION – *continued*

The condensed consolidated financial statements for the six months ended 30 June 2016 have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the applicable disclosure provisions for the Rules Governing the Listing of Securities on the Stock Exchange.

The condensed consolidated financial statements for the six months ended 30 June 2016 have been prepared in accordance with the same accounting policies adopted in the annual financial statements for the year ended 31 December 2015, except that the Group has applied, for the first time, certain new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA that are effective for the current period, as disclosed in note 3.

The condensed consolidated financial statements for the six months ended 30 June 2016 contain condensed financial statements and selected explanatory information. The notes include transactions that are significant to an understanding of the changes in financial position and performance of the Group since the annual financial statements for the year ended 31 December 2015. The condensed consolidated financial statements and information thereon do not include all of the information required for full set of financial statements prepared in accordance with HKFRSs, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2015.

3 ACCOUNTING POLICIES

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 2016:

Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27 (2011)	Equity Method in Separate Financial Statements
Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle

The adoption of the abovementioned amendments did not result in any substantial changes to the Group’s significant accounting policies and presentation of the condensed consolidated financial statements.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

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 2015.

There have been no changes in the risk management department since 31 December 2015 or in any risk management policies.

4.2 Liquidity risk

Compared to 31 December 2015, there was no material change in the contractual undiscounted cash out flows for financial liabilities.

4.3 Fair value estimation

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.

The carrying amount of the Group's financial instruments carried at cost or amortised cost were not materially different from fair values as at 31 December 2015 and 30 June 2016.

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 was disposed on 30 June 2015 and become discontinued operation (Note 19).

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 2016 of RMB143,807,000 (2015: RMB151,305,000) 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

5 SEGMENT INFORMATION – *continued*

Turnover for the six months ended 30 June 2016 consists of sales from the acrylic fiber products segment of RMB751,184,000 (2015: RMB946,985,000).

The Group does not have any inter-segment sales during the six months ended 30 June 2016 and 2015.

The segment information provided to the Decision-Makers for the six months ended 30 June 2016 and 2015 is as follow:

Segment revenue and results

	Unaudited		Total RMB' 000
	Continuing operations Acrylic fiber products RMB' 000	Discontinued operations Carbon fiber products RMB' 000	
Six months ended 30 June 2016			
Total revenue from external customers	751,184	—	751,184
Adjusted segment results (Note)	149,835	—	149,835
Share of result of a joint venture	7,515	—	7,515
Depreciation and amortisation	(61,343)	—	(61,343)
Income tax expense	(9,786)	—	(9,786)
	<u>86,221</u>	<u>—</u>	<u>86,221</u>
Other information:			
Additions to property, plant and equipment	<u>25,638</u>	<u>—</u>	<u>25,638</u>
Six months ended 30 June 2015			
Total revenue from external customers	946,985	46,628	993,613
Adjusted segment results (Note)	177,504	10,675	188,179
Share of result of a joint venture	(420)	—	(420)
Depreciation and amortisation	(59,283)	(12,881)	(72,164)
Income tax expense	(23,643)	(752)	(24,395)
	<u>94,158</u>	<u>(2,958)</u>	<u>91,200</u>
Other information:			
Additions to property, plant and equipment	<u>11,942</u>	<u>—</u>	<u>11,942</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

5 SEGMENT INFORMATION – *continued*

Segment assets and liabilities

Upon disposal of carbon fiber products business, the Group principally operates in one segment, namely acrylic fiber products. Therefore, no segment assets and liabilities is presented as at 30 June 2016 and 2015.

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

	Unaudited		Total RMB' 000
	Continuing operations Acrylic fiber products RMB' 000	Discontinued operations Carbon fiber products RMB' 000	
Six months ended 30 June 2016			
Adjusted segment results for reportable segments	149,835	—	149,835
Depreciation	(59,143)	—	(59,143)
Amortisation	(2,200)	—	(2,200)
Operating profit	88,492	—	88,492
Finance costs – net	(34,734)	—	(34,734)
Share of result of a joint venture	7,515	—	7,515
Profit before income tax	<u>61,273</u>	<u>—</u>	<u>61,273</u>
Six months ended 30 June 2015			
Adjusted segment results for reportable segments	177,504	10,675	188,179
Depreciation	(57,350)	(12,865)	(70,215)
Amortisation	(1,933)	(16)	(1,949)
Net loss on derivative financial instrument	(126)	—	(126)
Operating profit/(loss)	118,095	(2,206)	115,889
Finance costs – net	(63,273)	(3,737)	(67,010)
Share of result of a joint venture	(420)	—	(420)
Loss on disposal of a subsidiary	—	(18,069)	(18,069)
Profit/(loss) before income tax	<u>54,402</u>	<u>(24,012)</u>	<u>30,390</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

5 SEGMENT INFORMATION – *continued*

Note:

As disclosed 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 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, Jilin Chemical Fibre Co., Ltd. (“JCFCL”), other related parties and third parties at rates to be determined amongst the parties concerned. The adjusted segment results for the six months ended 30 June 2016 as disclosed above for the acrylic fiber products segment included an amount of RMB64,794,000 (2015: RMB65,607,000), representing the related income net of direct outgoings (other than depreciation charge), which is attributable to the provisions of surplus utilities to fellow subsidiaries, joint venture, JCFCL other related parties and third parties.

6 PROPERTY, PLANT AND EQUIPMENT

	Note	Unaudited Property, plant and equipment RMB' 000
Six months ended 30 June 2016		
Opening net book value at 1 January 2016		911,730
Additions		25,638
Depreciation		<u>(59,143)</u>
Closing net book value at 30 June 2016		<u><u>878,225</u></u>
Six months ended 30 June 2015		
Opening net book value at 1 January 2015		1,426,090
Additions		11,942
Disposals		(1,484)
Depreciation		(70,215)
Disposal of a subsidiary	19	<u>(401,606)</u>
Closing net book value at 30 June 2015		<u><u>964,727</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

7 TRADE AND OTHER RECEIVABLES – NON CURRENT

	Unaudited As at 30 June 2016 RMB' 000	Audited As at 31 December 2015 RMB' 000
Trade receivables (Note 8(i))	2,869	3,369
Other receivables	10,478	10,978
Consideration receivable (Note i)	86,330	130,153
	<u>99,677</u>	<u>144,500</u>

Notes:

- (i) The balance represents proceeds and the interests arising from disposal of a subsidiary (Note 19) which will be settled in the second and third year after the disposal.

8 TRADE AND OTHER RECEIVABLES

	Unaudited As at 30 June 2016 RMB' 000	Audited As at 31 December 2015 RMB' 000
Trade receivables	109,759	102,626
Less: provision for impairment	(5,589)	(5,589)
Trade receivables – net (Note i)	104,170	97,037
Bills receivables	38,581	85,541
Amounts due from related companies (Note ii)	730,462	525,168
Other receivables	106,065	58,468
Less: provision for impairment	(13,406)	(13,406)
Other receivables – net	92,659	45,062
Prepayments	91,822	53,008
Less: provision for impairment	(3,301)	(3,301)
Prepayments - net	88,521	49,707
	<u>1,054,393</u>	<u>802,515</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

8 TRADE AND OTHER RECEIVABLES – *continued*

Notes:

- (i) The Group's sales are normally conducted with a credit term ranging from cash on delivery to 180 days. Aging analysis of the trade receivables based on invoice date is as follows:

	Unaudited As at 30 June 2016 RMB' 000	Audited As at 31 December 2015 RMB' 000
0 - 30 days	50,195	41,112
31 - 90 days	43,730	44,207
91 - 365 days	7,085	8,681
Over 365 days	6,029	6,406
	107,039	100,406
	2016	2015
	RMB' 000	RMB' 000
Represented by:		
Current portion	104,170	97,037
Non-current portion	2,869	3,369
	107,039	100,406

- (ii) Amounts due from related companies include an amount due from the disposed subsidiary of RMB267,205,000 (at 31 December 2015: RMB256,668,000) and an amount of RMB79,420,000 (at 31 December 2015: RMB30,185,000) due from the purchaser of the disposed subsidiary.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

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 six months ended 30 June 2016 and 2015.
- (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 2016

10 BORROWINGS

	Unaudited			Audited		
	As at 30 June 2016			As at 31 December 2015		
	Effective interest rate	Maturity	RMB' 000	Effective interest rate	Maturity	RMB' 000
	%			%		
Current						
Bank borrowings	4.88	2016-2017	1,176,700	5.52	2016	1,058,710
Discounted bills with recourse	3.60	2016-2017	7,200	—	—	—
Current portions of long term bank loans - secured	5.28	2016-2017	<u>82,421</u>	6.29	2016	<u>102,543</u>
			<u>1,266,321</u>			<u>1,161,253</u>
Non-current						
Bank borrowings - secured	5.51	2018-2022	<u>85,000</u>	5.22	2017-2022	<u>115,154</u>
Total net borrowings			<u><u>1,351,321</u></u>			<u><u>1,276,407</u></u>
Representing:						
– guaranteed borrowings (Note a)			919,000			953,870
– secured borrowings (Note b)			<u>432,321</u>			<u>322,537</u>
			<u><u>1,351,321</u></u>			<u><u>1,276,407</u></u>
Net fixed rate borrowings as a percentage of total net borrowings			<u><u>30.19%</u></u>			<u><u>38.6%</u></u>

Notes:

- (a) Bank borrowings of RMB919,000,000 (At 31 December 2015: RMB953,870,000) are guaranteed by JCF Groupco, the ultimate parent company of the Company.
- (b) Bank borrowings of RMB7,700,000 (as at 31 December 2015: RMB44,840,000) and RMB317,421,000 (as at 31 December 2015: RMB277,697,000) are secured by letter of credit held by the Company and certain property, plant and equipment of the Company with carrying amounts of RMB263,371,000 (as at 31 December 2015: RMB327,431,000) respectively.

As at 30 June 2016, bank borrowings of RMB7,200,000 and RMB100,000,000 are secured by certain bank bills receivables of the Company with carrying amount of RMB7,200,000 and restricted bank deposits of RMB50,000,000 respectively.

- (c) During the six months ended 30 June 2016, the Company did not meet certain key performance indicators specified by bank (including operating cash flow ratio, current ratio and net profit ratio). The lender has not taken any actions and the loans will be repaid in the following six months. Accordingly, the full amounts of the bank loans with an aggregate carrying amount of RMB100,000,000 (as at 31 December 2015: Nil) are recorded as current portion of bank borrowings as at 30 Jun 2016.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

10 BORROWINGS – *continued*

Movements in borrowings are analysed as follows:

	Unaudited	
	2016 RMB' 000	2015 RMB' 000
At 1 January	1,276,407	1,737,347
Drawn down	684,900	2,045,530
Repayments	(609,986)	(2,171,744)
Disposal of a subsidiary	—	(121,000)
At 30 June	<u>1,351,321</u>	<u>1,490,133</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.

11 DEFERRED INCOME

As at 30 June 2016, 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 RMB37,738,000 (as at 31 December 2015: RMB40,559,000) and RMB6,648,000 (as at 31 December 2015: RMB7,340,000) respectively.

12 TRADE AND OTHER PAYABLES

	Unaudited	Audited
	As at 30 June 2016 RMB' 000	As at 31 December 2015 RMB' 000
Trade payables (Note i)	169,083	150,055
Bank bills payables (Note ii)	72,030	70,600
Amounts due to related companies (Note iii)	10,327	10,002
Other payables and accruals	136,119	124,004
	<u>387,559</u>	<u>354,661</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

12 TRADE AND OTHER PAYABLES – *continued*

Notes:

(i) Aging analysis of the trade payables based on invoice date is as follows:

	Unaudited As at 30 June 2016 RMB' 000	Audited As at 31 December 2015 RMB' 000
0 - 30 days	79,924	57,085
31 - 90 days	27,490	61,779
91 - 365 days	54,655	24,990
Over 365 days	7,014	6,201
	169,083	150,055

(ii) Bank bills payables are secured by certain restricted bank deposits of the Group with the carrying amount of RMB44,000,000. (as at 31 December 2015: RMB43,940,000).

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

13 OTHER INCOME AND GAINS

	Unaudited Six months ended 30 June	
	2016 RMB' 000	2015 RMB' 000
Continuing operations:		
Other income:		
Income from provision of utilities (Note i)	214,985	200,794
Amortisation of deferred income	3,513	3,145
Sales of raw materials	28,379	4,332
Inspection fee income	1,331	782
Others	65	2
	248,273	209,055
Other gains		
Gain attributable to equity interests of a joint venture	137	137
Foreign exchange gain, net	502	1,069
	639	1,206
	248,912	210,261

Note:

(i) For the six months ended 30 June 2016, the income from the provisions of utilities to the fellow subsidiaries, joint venture and third parties amounted to RMB110,229,000 (2015: RMB93,856,000), RMB89,124,000 (2015: RMB78,473,000), RMB15,632,000 (2015: RMB28,465,000) respectively.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

14 OTHER EXPENSES AND LOSSES

		Unaudited	
		Six months ended 30 June	
	Note	2016 RMB' 000	2015 RMB' 000
Continuing operations:			
Other expenses			
Direct outgoings in respect of provision of utilities	15	184,215	156,742
Cost of raw materials		25,437	4,845
		<u>209,652</u>	<u>161,587</u>
Other losses			
Net loss on derivative financial instrument		—	126
Loss on disposal of property, plant and equipment		—	1,478
		<u>—</u>	<u>1,604</u>
		<u>209,652</u>	<u>163,191</u>

15 PROFIT BEFORE INCOME TAX

Profit before income tax is stated after charging:

		Unaudited	
		Six months ended 30 June	
	Note	2016 RMB' 000	2015 RMB' 000
Continuing operations:			
Inventories recognised as an expense			
– for production of fiber products		626,487	806,884
– for provision of utilities	14	184,215	156,742
Depreciation		59,143	57,350
Amortisation		2,200	1,933
		<u>2,200</u>	<u>1,933</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

16 INCOME TAX EXPENSE

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

	Unaudited	
	Six months ended 30 June	
	2016	2015
	RMB' 000	RMB' 000
Continuing operations:		
Current income tax		
– PRC corporate income tax	—	—
Deferred income tax		
– charge for the period	9,786	23,643
Income tax expense	<u>9,786</u>	<u>23,643</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 2016 and 2015.

The PRC corporate income tax rate applicable to the Company for the current period is 25%.

The PRC corporate income tax rate applicable to the Company and its subsidiary for the prior period was 25%.

For the six months ended 30 June 2016 and 2015, 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

17 EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

Profit attributable to owners of the Company

	Unaudited Six months ended 30 June	
	2016 RMB'000	2015 RMB'000
For continuing and discontinued operations:		
Profit for the purposes of basic and diluted earnings per share	<u>51,487</u>	<u>5,995</u>
For continuing operations:		
Profit for the purposes of basic and diluted earnings per share	<u>51,487</u>	<u>30,759</u>
For discontinued operations:		
Loss for the purposes of basic and diluted loss per share	<u>—</u>	<u>(24,764)</u>
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	<u>866,250</u>	<u>866,250</u>
	(in thousand)	(in thousand)

Basic earnings per share are calculated by dividing the profit 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 2016 of 866,250,000 (2015: 866,250,000) shares.

For the six months ended 30 June 2016 and 2015, the Company has no dilutive potential ordinary shares and therefore the diluted earnings per share is equal to the basic earnings per share.

18 DIVIDEND

The Company's directors do not recommend the declaration of an interim dividend for the six months ended 30 June 2016 and 2015.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

19 DISPOSAL OF A SUBSIDIARY

On 26 June 2015, the Group entered into an equity transfer agreement with Jilin City Guosheng Asset Management Co., Ltd. (the “Purchaser”), pursuant to which, the Group agreed to dispose of its 100% entire interest in Jilin Tangu Carbon Fiber Co., Ltd. (“Tangu”) for a consideration of RMB157,768,000 (the “Consideration”). On 30 June 2015, the equity transfer agreement became effective under the approval by the State-owned Assets Supervision & Administration Commission of the People’s Government of Jilin City. The result of the disposed subsidiary for the period ended 30 June 2015 was as follows:

	Note	Unaudited Six months ended 30 June 2015 RMB'000
Turnover	5	46,628
Cost of sales		<u>(38,914)</u>
Gross profit		7,714
Distribution costs		(830)
Administrative expenses		(9,730)
Other income and gains		<u>640</u>
Operating loss		(2,206)
Finance income		708
Finance costs		<u>(4,445)</u>
Loss before income tax		(5,943)
Income tax expense		<u>(752)</u>
Loss after income tax		(6,695)
Loss on disposal of a subsidiary		<u>(18,069)</u>
Loss for the period from discontinued operations		<u><u>(24,764)</u></u>

The net cash flows of the discontinued operations for the period ended 30 June 2015 were as follows:

	Unaudited Six months ended 30 June 2015 RMB'000
Net cash generated from operating activities	24,637
Net cash used in investing activities	(1,493)
Net cash used in financing activities	<u>(14,500)</u>
Net cash inflows incurred by the discontinued operations	<u><u>8,644</u></u>
From discontinued operations	
– basic and diluted (expressed in RMB cents per share)	<u><u>(2.86)</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

19 DISPOSAL OF A SUBSIDIARY – *continued*

The net assets of Tangu at the date of disposal were as follows:

	Note	Unaudited As at 30 June 2015 RMB' 000
Assets disposed of:		
Land use right		6,333
Property, plant and equipment	6	401,606
Inventories		96,491
Trade and other receivables		65,825
Restricted bank deposits		52,201
Cash and cash equivalents		13,853
Total assets		636,309
Liabilities disposed of:		
Long term bank borrowings		105,000
Deferred income		13,750
Short term bank borrowings		16,000
Trade and other payables		325,722
Total liabilities		460,472
Net assets		175,837
Loss on disposal of a subsidiary		(18,069)
		157,768
Satisfied by:		
Consideration receivables (Note)		157,768

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2015 RMB' 000
Cash and cash equivalents	(13,853)

Note:

For the period ended 30 June 2015, significant non-cash transaction include the consideration of RMB157,768,000 from the disposal of a subsidiary. Consideration receivables will be settled by instalments within three years.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

20 COMMITMENTS

(a) Capital commitments

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

	Unaudited As at 30 June 2016 RMB' 000	Audited As at 31 December 2015 RMB' 000
Property, plant and equipment	52,684	17,955

(b) Operating lease 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 2016 RMB' 000	Audited As at 31 December 2015 RMB' 000
No later than 1 year	5,255	12,492
Later than 1 year and no later than 5 years	—	68
	5,255	12,560

(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 2016 RMB' 000	Audited As at 31 December 2015 RMB' 000
Land use rights and machinery		
No later than 1 year	28	28
Later than 1 year and no later than 5 years	112	112
Later than 5 years	8	29
Total	148	169

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

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" ("HKAS 24 (Revised)"), 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/utilities and transactions with state-owned banks). The Group believes that these transactions are carried out on terms that are similarly and consistently applied to all other 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.

During the period, for the purpose of this report, the Company's directors are of the view that the following group entities under JCF Groupco and Tangu are related parties of the group:

Name of related parties	Relationships
Tuopu Textile Industrial Development Co., Ltd. (the "Tuopu Textile")	A subsidiary of JCF Groupco
Jilin Chemical Fiber Construction and Installation Engineering Co., Ltd.	A subsidiary of JCF Groupco
Jilin Huidong Chemical Industry Co., Ltd.	A subsidiary of JCF Groupco
Jilin Aika Viscose Fiber Co., Ltd.	A subsidiary of JCF Groupco
JCFCL	A subsidiary of JCF Groupco
Jilin Chemical Fiber Furunde Textile Co., Ltd.	A subsidiary of JCF Groupco
Jilin Chemical Fiber Group Import Export Co., Ltd.	A subsidiary of JCF Groupco
Tangu	A subsidiary of a state-owned enterprise controlled by the PRC government

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

21 SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

(a) Related party transactions

	Unaudited	
	Six months ended 30 June	
	2016	2015
	RMB' 000	RMB' 000
Sales of goods to:		
– a shareholder of the Company	103,362	177,713
– group entities under JCF Groupco	33,303	52,707
Provision of utilities to:		
– a joint venture	89,124	78,473
– group entities under JCF Groupco	110,092	93,856
– Tangu	11,418	—
Provision of quality inspection services:		
– a joint venture	1,155	782
– Tangu	175	—
Sales of raw materials to a joint venture	26,564	4,171
Rental expense to a fellow subsidiary in respect of the remaining lease assets	(5,255)	(5,934)
Rental expense to a group entity under JCF Groupco	—	(1,321)
Bank borrowings guarantee fee to the ultimate parent company	(6,884)	(7,600)
Repair and maintenance service fee to group entities under JCF Groupco	(757)	(636)
Purchases of raw materials from:		
– a joint venture	—	(400)
– group entities under JCF Groupco	(5,640)	(5,337)
Disposal of a subsidiary to a related company	—	157,768
	—	157,768

JCF Groupco allowed the Group to use of the trademark of “白山” (Baishan) at nil consideration during the six months ended 30 June 2016 and 2015.

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 2016, bank borrowings of RMB919,000,000 (as at 31 December 2015: RMB953,870,000) are guaranteed by the JCF Groupco.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

21 SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

(b) Balances with related parties

	Unaudited As at 30 June 2016 RMB' 000	Audited As at 31 December 2015 RMB' 000
Trade receivables from		
– group entities under JCF Groupco	14,891	6,463
– Tuopu Textile		
– Non current	2,869	3,369
– Current	—	5,000
– a shareholder of the Company	3,054	—
	<u>20,814</u>	<u>14,832</u>
Advance from customers		
– a shareholder of the Company	—	4,967
	<u>—</u>	<u>4,967</u>
Amounts due from – Non current		
– Tuopu Textile	10,478	10,978
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Amounts due from – current		
– group entities under JCF Groupco	64,919	62,182
– a joint venture	140,031	29,708
– JCFCL	250,306	174,633
– Tangu	267,205	258,645
	<u>722,461</u>	<u>525,168</u>
	-----	-----
	<u>732,939</u>	<u>536,146</u>
Trade payables due to		
– group entity under JCF Groupco	1,456	—
	<u>1,456</u>	<u>—</u>
Amounts due to		
– JCF Groupco	7,032	7,096
– group entities under JCF Groupco	3,895	2,906
	<u>10,927</u>	<u>10,002</u>
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Advance to supplier		
– group entities under JCF Groupco	—	372
	<u>—</u>	<u>372</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

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	
	2016	2015
	RMB' 000	RMB' 000
Wages, salaries and other short-term employee benefits	922	912
Pension and social security costs	29	31
	<u>951</u>	<u>943</u>

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Song Dewu (*Chairman*)
Mr. Yang Xuefeng
Mr. Pan Xianfeng

Non-executive Directors

Mr. Jiang Junzhou
Mr. Ma Jun
Ms. Pang Suet Mui
Mr. Wu Song

Independent Non-executive Directors

Mr. Li Yanxi
Mr. Lv Xiaobo
Mr. Jin Jie
Ms. Zhu Ping

SUPERVISORS

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

AUDIT COMMITTEE

Mr. Li Yanxi (*Chairman*)
Ms. Pang Suet Mui
Mr. Lv Xiaobo

BOARD REMUNERATION COMMITTEE

Mr. Lv Xiaobo (*Chairman*)
Mr. Ma Jun
Ms. Zhu Ping

NOMINATION COMMITTEE

Mr. Lv Xiaobo (*Chairman*)
Mr. Jiang Junzhou
Ms. Zhu Ping

CONNECTED TRANSACTIONS COMMITTEE

Mr. Jin Jie (*Chairman*)
Mr. Li Yanxi
Mr. Lv Xiaobo

BOARD SECRETARY

Mr. Liang Guohui

COMPANY SECRETARY

Mr. Chan Cheung HKICPA, FCCA

QUALIFIED ACCOUNTANT

Mr. Chan Cheung HKICPA, FCCA

AUTHORISED REPRESENTATIVES

Mr. Pan Xianfeng
Mr. Chan Cheung HKICPA, FCCA

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The PRC

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Tsimshatsui, Kowloon

AUDITORS

Moore Stephens CPA Limited

LEGAL ADVISOR AS TO HONG KONG LAW

Orrick, Herrington & Sutcliffe

PRINCIPAL BANKERS

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

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