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三江化工
SANJIANG CHEMICAL

CHINA SANJIANG FINE CHEMICALS COMPANY LIMITED

中國三江精細化工有限公司

(incorporated in the Cayman Islands with limited liability)

(stock code: 2198)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2013**

The board (the “**Board**”) of directors (the “**Directors**”) of China Sanjiang Fine Chemicals Company Limited (the “**Company**”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2013.

RESULTS HIGHLIGHTS	Six months ended 30 June 2013 RMB'000	Six months ended 30 June 2012** RMB'000	Change
Revenue	1,982,934	1,085,522	82.7%
Gross profit	401,914	226,401	77.5%
Net profit attributable to shareholders	326,182	201,556	61.8%
Earnings per share – Basic (RMB)	33.11 cents	20.09 cents	64.8%
Interim dividend per share (HK\$)	Nil	Nil	-
Gross profit margin (%)	20.3%	20.9%	-0.6%
Net Profit Margin (%)	16.4%	18.6%	-2.2%
ROE – net profit for the period to total equity x 2	30.0%	20.7%	9.3%
Gearing – interesting-bearing borrowings to total asset basis	41.7%	34.4%	2.7%
Actual production volume of EO (MT)	176,375 MT	97,562 MT	80.8%
Effective designed annual production capacity of EO (MT) during the period	156,700 MT	90,000 MT	74.1%
Designed annual production capacity of EO (MT) at period end	330,000 MT	180,000 MT	83.3%
Utilisation rate of EO production facilities (Approximate %)	112%	108%	4%

** Certain 2012 interim figures have been restated to conform to:- 1) the pooling of interest method adopted for the combination of the financial statements of Zhejiang Xingxing New Energy Technology Co., Ltd.* (浙江興興新能源科技有限公司) (“**Xingxing New Energy**”) under common control business acquisition; and 2) the newly effective account standard namely **Hong Kong Financial Reporting Standard 11 – Joint Arrangement** adopted for combining the results of Sanjiang Honam Chemical Co., Ltd.* (三江湖石化有限公司) (“**Sanjiang Honam**”) line by line with reference to the Group’s shares held jointly and elimination of inter-transactions.

MANAGEMENT DISCUSSION AND ANALYSIS

During the six months ended 30 June 2013 (the “**period under review**”), revenue of the Group improved by approximately 82.7% reaching approximately RMB1,982.9 million as compared to revenue of approximately RMB1,085.5 million for the same period of 2012 (the “**last period**”), primarily resulted from the impact of:- 1) the first full-period operation of the 1st phase ethylene oxide (“**EO**”) production facilities (the “**1st phase EO production facilities of JV**”) of Sanjiang Honam, a sino-foreign joint venture company which the Group established in 2010 on a 50:50 basis with Honam Petrochemical Corp (“**Honam**”), an independent third party; and 2) the commencement of commercial operation of the 4th phase EO production facilities on 24 February 2013 which led to the increase in production capacity and actual production volume of EO by approximately 74.1% and 80.8% respectively. Net profit attributable to shareholders was approximately RMB326.2 million and basic earnings per share was approximately RMB33.11 cents for the six months ended 30 June 2013, representing increases of approximately 61.8% and 64.8% respectively as compared with the same period of last year.

Same as last period, the Board will not recommend the payment of an interim dividend. The Board will recommend the payment of a final dividend with reference to the dividend policy of not less than 30% of annual dividend payout ratio for the year ending 31 December 2013.

BUSINESS REVIEW AND OUTLOOK

EO production capacity expansion during the period – the 4th phase EO production facilities

During the period under review, the Group had a new ramp-up of production facilities for EO – the 4th phase EO production facilities, which has a designed annual production capacity of 100,000 metric tonnes (“**MT**”) for EO and has been operating on a full-load basis since 24 February 2013 after trial run for a number of weeks. Thereafter, the Group’s aggregate designed annual production capacity of EO has increased to 330,000 MT, representing approximate increments of 83.3% and 43.5% when comparing to the aggregate designed annual production capacity of 180,000 MT as at 30 June 2012 and 230,000 MT as at 31 December 2012 respectively. The 4th phase EO production facilities contributed approximately 53,000 MT for EO production/sales in the first half of 2013, representing an utilisation rate of no less than 125%, much higher when comparing to the annual utilisation rate of approximately 116% in 2012, which is a common phenomena for a new EO production facility in its initial stage of production and primarily led to the increase in actual production volume of EO by approximately 80.8% during the six months ended 30 June 2013. On an annual basis, the Group expects the actual production volume of EO will increase by approximately 70.7% from approximately 216,728 MT in 2012 to approximately 370,000 MT in 2013.

Decrease in net profit margin due to volatility of silver price during the period

During the period under review, the Group’s net profit margin decreased by 2.2% to 16.4% when comparing to the net profit margin of 18.6% for the six months ended 30 June 2012 while gross profit margins maintained in a similar level over the same periods (first half of 2013: 20.3%; first half of 2012: 20.9%). The decrease in net profit margin was due to the volatility of silver price during the first half of 2013. Silver is the major component of the catalyst used in EO production process and the Group normally performs changeout of catalyst for each EO production facility once every two years for the purpose of maintaining the output ratio of ethylene versus EO which is 0.8:1 in average. The changeout process involves buying silver from international commodity market and selling out the used silver to the domestic market and in-between silver is held and recognised as inventory in the Group’s balance sheet. As at 30 June 2013, the Group held approximately 1.6 million oz of silver in total. During the first half of 2013, silver price experienced significant fluctuation with the price peak and bottom at a level of approximately USD32.5/oz and USD19.6/oz as at 25 January 2013 and 28 June 2013 respectively and therefore, the silver inventory held by the Group as at 30 June 2013 was revaluated with reference to the closing price as at 28

June 2013 (the last business day in June 2013) of USD19.6/oz, which is also the lowest price since September 2010 and a provision for impairment of amount RMB80.0 million (first half of 2012: Nil), calculated with reference to the closing price as at 28 June 2013, has been recognised as other expense, which dragged down the net profit margin by approximately 4% for the six months ended 30 June 2013.

Increase in land use right reserve in the local region during the period

In view of the fact that the supply of land use rights in an economic development zone in particular those specified for chemical sector is getting tighter and tighter due to regulation issues, during the period under review, the Group took a strategic initiative to increase the land use right reserve in the local region, for the sole purpose of preparing for the future business expansion of the Group through acquiring the land use rights (approximately 191,712.4 square meters in area specified for industrial use), plants and properties (approximately 36,237.56 square meters in area) and production facilities of a bankrupt company namely Zhejiang Concord Silicon Co., Ltd. (浙江協成硅業有限公司), which is located in the same region of the Group's existing production plant - Port Area, Zhapu Economic Development Zone, Jiaxing City, Zhejiang Province, the People's Republic of China. The Group has paid up the consideration of approximately RMB299,560,000 for the aforesaid assets and the amount is included as **prepayment and other receivable** in the Group's balance sheet as at 30 June 2013. The acquisition of the aforesaid assets is expected to be completed in the second half of 2013 and the Group will, in turn, resell out all the aforesaid production facilities for an expected amount ranging approximately from RMB100,000,000 to RMB120,000,000 depending on the market position of the solar sector at the time of reselling.

Latest update on the capital expenditures and financing arrangements of the upcoming production capacity expansions

As highlighted in the Group's **2012 Annual Report**, the Group is constructing and working on two production capacity expansions:- i) the MTO (i.e. Methanol-to-Olefin-based) production facility and ii) the 5th phase EO/EG production facilities (please refer to **2012 Annual Report** for more details of the two production capacity expansions). The Group expects the commencements of commercial operation of both the MTO production facility and the 5th phase EO/EG production facilities will take place by the end of 2014 or early 2015. The capital expenditures of the MTO production facility and the 5th phase EO/EG production facilities are expected to be approximately RMB2.3 billion and RMB1.3 billion respectively, which means the aggregate capital expenditure for the Group, payable in 2013 and 2014 is expected to be RMB3.6 billion, around 2/3 of which (i.e. RMB2.4 billion) will be funded by way of bank or debt financing and the remaining (i.e. RMB1.2 billion) will be funded by way of internal resources of the Group.

Out of the aforesaid aggregate capital expenditure of RMB3.6 billion, the Group expects around RMB1.2 billion, around RMB2.04 billion and around RMB0.36 billion (being 10% retention money, usually payable in one year after the completion of the whole construction) will be paid in 2013, 2014 and 2015 respectively. During the six months ended 30 June 2013, the Group has paid for capital expenditure of amount RMB0.58 billion.

During the six months ended 30 June 2013, the Group generated operating cash inflow of amount RMB725 million. On that basis, the Group expects the operating cash inflow for the whole year of 2013 and 2014 will be at least RMB1.0 billion each year and as such, the Board believe it is good enough to fulfill the funding requirement of amount RMB1.2 billion for the aforesaid capital expenditures in terms of the portion of the internal resource of the Group.

In terms of the portion of bank or debt financing in respect of the funding requirement of amount RMB2.4 billion for the aforesaid capital expenditures, the Group has been negotiating with various banks for various funding requirements since 2011 and, for shareholders' and potential investors' easy reference, the Board sets forth below the details of all the credit facilities available to the Group as at 30 June 2013, including, but not limited to, the characteristics and terms of each kind of credit facilities:-

Credit facilities	Onshore syndicated loan	Onshore bank loan	Onshore short term bond	Offshore syndicated loan	Various short-term loans & trade financing facilities (including onshore & offshore)
Facility Confirmed	Yes – syndicated loan agreement entered into on 18 June 2013	Not yet – the Group has got indicative offers from a number of banks but it is still in the negotiation stage	Yes – the approval for issuing bond from NAFMII obtained on 25 March 2013	Yes – syndicated loan agreement entered into on 16 August 2013	Yes – various facility letters have been entered into with various commercial banks for short-term loans and trade financing facilities (note)
Facility provider	BOC, CCB & ICBC	To be confirmed (the Group expects a loan agreement will be entered into in the 2 nd half of 2013)	All the registered qualified institutional investors of NAFMII	FE (as lead manager)	ABC, ANZ, BOC, BOCOM, CCB, CITIC, DB, DBS, FE, HSB, ICBC and etc.
Loan/facility - amount	RMB1.6 billion	(the Group expects) Ranging from around RMB0.8 billion to around RMB1 billion	RMB700 million	USD100 million (around RMB617 million)	Around RMB4.0 billion in total
Loan/facility – Interest rate (per annum)	PBOC flat rate for 6-year loan (all-in effective rate: ranging from 6.50% to 7.00%)	(the Group expects) Same as the relevant term of the onshore syndicated loan	1 year NAFMII coupon rate depending on the time of drawing down (for the RMB300 million portion, all-in effective rate: around 5.22%)	3-month LIBOR + 3.9% (all-in effective rate: around 4.30%)	Ranging from 1.11% to 5.88%, depending on the time when entering into transactions, the length of the loans/facilities and securities provided (note)
Loan/facility - duration	6 years	(the Group expects) Same as the relevant term of the onshore syndicated loan	1 year (available for rollover for 1 more year)	2 years	- For short-term loans, 1 year; - For trade financing facilities, ranging from 3-month Letter of Credit (“LC”) with 2-month Trust Receipt (“TR”) to up to 3-month LC with 1-year TR (note)
Loan/facility – repayment of principal schedule (all figures in RMB’ million)	(As an example) If all RMB1.6 billion drawn down once in Sept 2013, then:- 1) RMB100 due on Sept 2015; 2) RMB100 due on Mar 2016; 3) RMB150 due on Sept 2016; 4) RMB150 due on Mar 2017; 5) RMB150 due on Sept 2017; 6) RMB150 due on Mar 2018; 7) RMB200 due on Sept 2018; 8) RMB200 due on Mar 2019; 9) RMB200 due on Sept 2019; 10) RMB200 due on Mar 2020.	(the Group expects) Same as the relevant term of the onshore syndicated loan	Bullet	(As an example) If all RMB617 drawn down once in Sept 2013, then:- 1) RMB108 due on Sept 2014; 2) RMB108 due on Mar 2015; & 3) RMB401 due on Sept 2015	Bullet

Credit facilities	Onshore syndicated loan	Onshore bank loan	Onshore short term bond	Offshore syndicated loan	Various short-term loans & trade financing facilities (including onshore & offshore)
Loan/facility balances utilized as at 30 June 2013	Nil	N/A	RMB300 million	Nil	Around RMB2.5 billion (including letter of credit issued) ^(note)
(Loan/facility amount available for future use) <i>Specific usage - Loan only available for the capital expenditure of MTO production facility</i>	RMB1.6 billion	Nil	Nil	Nil	Nil
(Loan/facility amount available for future use) <i>Specific usage - Loan only available for the capital expenditure of the 5th phase EO/EG production facilities</i>	Nil	(the Group expects) Ranging from around RMB0.8 billion to around RMB1 billion	Nil	RMB247 million	Nil
(Loan/facility amount available for future use) <i>No specific usage - Loan available for general use / working capital purpose</i>	Nil	Nil	RMB400 million	RMB370 million	Around RMB1.5 billion ^(note)

Note: Under the existing business model, all EO customers are on cash on delivery term and required to pay in advance before delivery of goods while the feedstock suppliers are on 90-day letter of credit term with a choice for the Group to extend the settlement of the letter of credits up to 1 year through the trust receipt arrangements, which gives the Group enormous flexibility to use operating cash flow for investment purpose.

Definitions for the above table:-

“ABC”	Agricultural Bank of China Limited
“ANZ”	Australia and New Zealand Banking Group
“BOC”	Bank of China Limited
“BOCOM”	Bank of Communications Limited
“CCB”	China Construction Bank Limited
“CITIC”	China CITIC Bank
“DB”	Deutsche Bank AG
“DBS”	Development Bank of Singapore Limited
“FE”	Far Eastern International Bank
“HSB”	Hang Seng Bank Limited
“ICBC”	Industrial and Commercial Bank of China Limited
“NAFMII”	National Association of Financial Market Institutional Investors

From the above table which sets out the details of all the credit facilities available to the Group as at 30 June 2013, the Board would like to highlight the followings in terms of the liquidity and gearing position of the Group:-

- For the funding requirement of amount RMB2.4 billion in respect of the bank or debt financing portion for the aforesaid capital expenditures, the Group has secured the aggregate facility of amount RMB1.847 billion with an average interest rate of around 6.53% per annum and majority of principal due after 2014 (except for an amount of RMB108 million which is due on September 2014, assuming the Group will draw down the full amount of the offshore syndicated loan in September 2013), when commercial operations of both MTO production

- facility and the 5th phase EO/EG production facilities are expected to take place.
- The Group is actively negotiating with a number of banks for a 6-year loan facility with loan size up to RMB1.0 billion for the funding requirement in respect of the bank or debt financing portion for the aforesaid capital expenditures and expects this financing arrangement will be confirmed in the 2nd half of 2013.
 - As at 30 June 2013, the Group has aggregate facility of amount RMB2.27 billion available for general use.

The Board has a gearing guidance for the Group, which is a gearing ratio of not more than 66.7% on total interest-bearing borrowings to total assets basis, which we consider is a better measure when comparing to total interest-bearing borrowings to total equity basis as the Group will have rapid expansion of various production facilities in the coming two years and there is a time lag of approximately 2 years between the construction period of production facilities and the profit and revenue generated from these facilities.

Acquisition of Mei Fu Petrochemical and Mei Fu Port

The Group entered into an investment agreement on 28 February 2013 to acquire 51% of the equity interests of two PRC-established limited liability companies - Zhejiang Mei Fu Petrochemical Co. Ltd.* (浙江美福石油化工有限公司) (“**Mei Fu Petrochemical**”) and Zhejiang Zhapu Mei Fu Port & Storage Co. Ltd.* (浙江乍浦美福码头仓储有限公司) (“**Mei Fu Port**”) (hereinafter collectively referred to as the “**Mei Fu Entities**”), at an aggregate consideration of RMB327.1 million by way of capital injection into the Mei Fu Entities. Mei Fu Petrochemical is principally engaged in the manufacturing and supplying of propylene and propylene derivative products while Mei Fu Port is principally engaged in the provision of loading and storage services in its own port located in the Port Area, Jiaxing City, Zhejiang Province, PRC. The acquisition of Mei Fu Entities has been duly approved by shareholders and passed as ordinary resolutions at the EGM held on 16 July 2013. The Group expects the acquisition will be completed in August 2013.

Mei Fu Petrochemical was under the construction and test-run stage and did not commence its commercial operation until May 2013. After May 2013, with the financing supports from the Group in terms of the provision of both working capital and offshore trade financing platform by way of:- i) proceeds of capital injection into Mei Fu Petrochemical of amount RMB248.6 million (being the consideration only paid for Mei Fu Petrochemical, out of the aggregate consideration of RMB327.1 million, included as **other receivables** in the Group’s balance sheet as at 30 June 2013); ii) financial assistance of amount RMB939.0 million (included as **other receivables** in the Group’s balance sheet as at 30 June 2013); and iii) procuring feedstock through the Group’s offshore trade financing facilities of amount RMB187.5 million (included as **trade receivables** in the Group’s balance sheet as at 30 June 2013), Mei Fu Petrochemical commenced commercial operation on a full-load basis. The Group expects the major outputs of the production facilities of Mei Fu Petrochemical on an annual basis will be approximately 108,000 MT for propylene, approximately 182,900 MT for heavy aromatics and approximately 234,700 MT for BTX aromatics while the major input during the production process on an annual basis will be the feedstock of approximately 800,000 MT for low sulphur fuel oil. The target customers of Mei Fu Petrochemical are those domestic downstream producers of propylene, heavy aromatics and BTX aromatics.

Mei Fu Port owns the biggest port in the same region of the Group’s existing production plant - Port Area, Zhapu Economic Development Zone, Jiaxing City, Zhejiang Province, the People’s Republic of China with annual loading capacity of approximately 5,000,000 MT and 11 storage tanks with a total storage capacity of 80,000 MT. Mei Fu Port commenced its operation in May 2010 and achieved an overall utilization rate of approximately 80% in 2012. The customers of Mei Fu Port are those domestic companies requiring for import or export of crude oil, propylene and other chemical products. The Group plans to maintain the overall utilisation of the port and storage facilities until 2014. After 2014, for the purpose of ensuring the smooth and cost-effective import of methanol, the feedstock of the MTO production facility, all the port and storage facilities will be retained by the Group for internal use in view of the enormous feedstock requirement of the MTO production facility (i.e. approximately 1,800,000 MT of methanol).

The Group expects no further capital expenditures and provision of financial assistance are required for Mei Fu Entities in the foreseeable future and the provision of financial assistance to Mei Fu Petrochemical of amount RMB939.0 million will be released and returned to the Group gradually in two years' time.

FINANCIAL REVIEW

Change in accounting treatments for Sanjiang Honam

On the basis that the Group closely involves in the operation of Sanjiang Honam and procures ethylene, the feedstock from suppliers and resells EO, the finished goods to customers for Sanjiang Honam, during the six months ended 30 June 2013, the Group chose to adopt a newly effective account standard namely ***Hong Kong Financial Reporting Standard 11 – Joint Arrangement***, which requires combining the results of Sanjiang Honam line by line with reference to the Group's shares held jointly and elimination of inter-transactions. As such, certain 2012 interim figures have been restated to conform to that accounting policy change.

Revenue

During the six months ended 30 June 2013 (the “**period under review**” or “**Interim Period**”), revenue of the Group improved by approximately 82.7% reaching approximately RMB1,982.9 million as compared to revenue of approximately RMB1,085.5 million for the corresponding period of 2012 (the “**last period**”), primarily resulted from the impact of:- 1) the first full-period operation of the 1st phase EO production facilities of JV; and 2) the commencement of commercial operation of the 4th phase EO production facilities on 24 February 2013 which led to the increase in actual production volume of EO by approximately 80.8%.

The breakdown of revenue by products and sales volume, average selling price and gross profit margin of our major products during the periods under review are set forth below:

	Six months ended 30 June 2013		Six months ended 30 June 2012		Variance + / (-)
		% of revenue		% of revenue	
<u>REVENUE (RMB'000)</u>					
Ethylene oxide	1,701,765	86%	945,625	87%	80.0%
Surfactants	170,591	9%	61,881	6%	175.7%
Surfactants processing services	10,525	1%	12,384	1%	-15.0%
Others	100,053	4%	65,632	6%	52.4%
	<u>1,982,934</u>	100%	<u>1,085,522</u>	100%	82.7%
<u>SALES VOLUME (MT)</u>					
Ethylene oxide	176,375		97,562		80.8%
Surfactants	16,485		5,452		202.4%
Surfactants processing services	24,649		28,692		-14.1%
<u>AVERAGE SELLING PRICE (RMB per MT)</u>					
Ethylene oxide	9,649		9,693		-0.5%
Surfactants	10,348		11,350		-8.8%
Surfactants processing services	427		432		-1.2%
<u>GROSS PROFIT MARGIN (%)</u>					
Ethylene oxide	20.1%		20.6%		-0.5%
Surfactants	15.9%		16.1%		-0.2%
Surfactants processing services	47.8%		46.4%		1.4%

Ethylene oxide sales

The aggregate designed annual production capacities of EO as at 30 June 2013 and 30 June 2012 were 330,000 MT/year and 180,000 MT/year respectively, while the aggregate weighted average designed annual production capacities of EO during the six months ended 30 June 2013 and 30 June 2012 were 156,700 MT/year and 90,000 MT/year respectively.

During the period under review, the revenue from EO sales amounted to RMB1,701.8 million, which represents an increase of approximately 80.0% when comparing to the corresponding period of 2012. The increase in EO revenue was primarily due to the increase in sales volume by 80.8% during the six months ended 30 June 2013 as a result of the impact of the first full-period operation of the 1st phase EO production facilities of JV and the commencement of commercial operation of the 4th phase EO production facilities on 24 February 2013. The average selling price of EO maintained in a similar level during the period under review when comparing to the corresponding period of 2012.

Surfactants sales

The designed annual surfactants production capacities as at 30 June 2013 and 30 June 2012 were 218,000 MT/year. During the period under review, the revenue from surfactants sales increased by approximately 175.7% to RMB170.6 million for the six months ended 30 June 2013 from RMB61.9 million for the corresponding period of 2012. The increase in revenue from surfactants sales was primarily because more EO were allocated for the production of surfactants instead of direct sales to EO customers after the ramp-up of the 4th phase EO production facilities.

Gross profit margin

The Group's overall gross profit margin maintained at a similar level in the first half of 2013 when comparing to corresponding period of 2012 (First half of 2013: 20.3%; First half of 2012: 20.9%).

Administrative expenses

Administrative expenses mainly consist of staff related costs, various local taxes and educational surcharge, depreciation, amortization of land use rights, operating lease rental expenses, audit fee and miscellaneous expenses. The increase in administrative expenses by RMB16.1 million for the period under review was primarily due to the increase in professional fees incurred for the acquisition of Mei Fu Entities during the six months ended 30 June 2013 and the reversal of provision for management bonus accrued in 2011 in last period of amount RMB4.6 million.

CONDENSED CONSOLIDATED STATEMENT OF FINANCE POSITION

At 30 June 2013 – unaudited

		30 June 2013 RMB'000	31 December 2012 RMB'000 (Restated) ^(note)
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment		1,903,989	1,697,228
Prepaid land lease payments		78,507	79,389
Intangible assets		55,433	36,464
Advance payments for property, plant and equipment		214,551	49,975
Deferred tax assets		<u>20,956</u>	<u>3,160</u>
Total non-current assets		<u>2,273,436</u>	<u>1,866,216</u>
CURRENT ASSETS			
Inventories	11	309,883	437,076
Trade and notes receivables	12	437,976	96,479
Prepayments, deposits and other receivables		2,166,146	262,970
Due from related parties		72,771	48,069
Available-for-sale investments	10	81,946	587,307
Derivative financial instruments		4,888	607
Pledged deposits	13	981,133	1,139,102
Cash and cash equivalents	13	<u>204,713</u>	<u>345,781</u>
Total current assets		<u>4,259,456</u>	<u>2,917,391</u>
CURRENT LIABILITIES			
Trade and bills payables	14	1,070,171	820,116
Other payables, accruals and provisions		310,164	257,000
Derivative financial instruments		10,026	4,576
Interest-bearing bank borrowings	15	2,371,120	1,578,817
Short-term bond		303,212	-
Due to related parties		146,864	14,142
Tax payable		<u>51,946</u>	<u>62,355</u>
Total current liabilities		<u>4,263,503</u>	<u>2,737,006</u>
NET CURRENT (LIABILITIES)/ASSETS		<u>(4,047)</u>	<u>180,385</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>2,269,389</u>	<u>2,046,601</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	15	52,197	68,263
Deferred tax liabilities		<u>39,558</u>	<u>27,571</u>
Total non-current liabilities		<u>91,755</u>	<u>95,834</u>
Net assets		<u>2,177,634</u>	<u>1,950,767</u>
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital		86,048	87,144
Treasury shares		-	(6,356)
Reserves		591,491	608,137
Retained profits		1,397,016	1,089,255
Proposed final dividend	9	<u>-</u>	<u>144,818</u>
		2,074,555	1,922,998
Non-controlling interests		<u>103,079</u>	<u>27,769</u>
Total equity		<u>2,177,634</u>	<u>1,950,767</u>

Note: Certain 2012 interim figures have been restated to conform to:- 1) the pooling of interest method adopted for the combination of the financial statements of Xingxing New Energy under common control business acquisition; and 2) the newly effective account standard namely **Hong Kong Financial Reporting Standard 11 – Joint Arrangement** adopted for combining the results of Sanjiang Honam line by line with reference to the Group's shares held jointly and elimination of inter-transactions.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2013 – unaudited

		Six months ended 30 June 2013 RMB'000	2012 RMB'000 (Restated) ^(note)
	Notes		
REVENUE	4	1,982,934	1,085,522
Cost of sales	6	<u>(1,581,020)</u>	<u>(859,121)</u>
Gross profit		401,914	226,401
Other income and gains	4	353,569	90,522
Selling and distribution cost		(8,357)	(1,293)
Administrative expenses		(45,700)	(29,599)
Other expenses	4	(294,926)	(7,136)
Finance costs	5	<u>(34,602)</u>	<u>(33,709)</u>
PROFIT BEFORE TAX	6	371,898	245,186
Income tax expense	7	<u>(45,406)</u>	<u>(43,799)</u>
PROFIT FOR THE PERIOD		<u>326,492</u>	<u>201,387</u>
Attributable to:			
Equity holders of the parent		326,182	201,556
Non-controlling interests		<u>310</u>	<u>(169)</u>
		<u>326,492</u>	<u>201,387</u>
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	8		
- Basic		<u>33.11 cents</u>	<u>20.09 cents</u>
- Diluted		<u>33.01 cents</u>	<u>20.06 cents</u>
INTERIM DIVIDEND DECLARED DURING THE PERIOD	9	<u>-</u>	<u>-</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2013 – unaudited

		Six months ended 30 June 2013 RMB'000	2012 RMB'000 (Restated) ^(note)
	Notes		
Net cash flows from operating activities		725,008	300,246
Net cash flows used in investing activities		(1,031,821)	(104,711)
Net cash flows from financing activities		<u>166,367</u>	<u>101,101</u>
Net (decrease)/increase in cash and cash equivalents		(140,446)	296,636
Cash and cash equivalents at beginning of period		345,781	300,049
Effect of foreign exchange rate change, net		<u>(622)</u>	<u>204</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	13	<u>204,713</u>	<u>596,889</u>

Note: Certain 2012 interim figures have been restated to conform to:- 1) the pooling of interest method adopted for the combination of the financial statements of Xingxing New Energy under common control business acquisition; and 2) the newly effective account standard namely **Hong Kong Financial Reporting Standard 11 – Joint Arrangement** adopted for combining the results of Sanjiang Honam line by line with reference to the Group's shares held jointly and elimination of inter-transactions.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2013 – unaudited

	Attributable to owners of the parent													
	Share Capital RMB'000	Statutory surplus & safety production reserve RMB'000	Treasury shares RMB'000	Share premium RMB'000	Capital redemption reserve RMB'000	Available for-sale investment revaluation reserve RMB'000	Merger reserve RMB'000	Share award reserve # RMB'000	Shares held under share award plan # RMB'000	Retained profits RMB'000	Proposed interim/ final dividend RMB'000	Total RMB'000	Non- controlling interests RMB'000	Total equity RMB'000
At 1 January 2013	87,144	203,803	(6,356)	1,039,320	1,275	1,144	(627,092)	1,001	(11,314)	1,089,255	144,818	1,922,998	27,769	1,950,767
Profit for the period	-	-	-	-	-	-	-	-	-	326,182	-	326,182	310	326,492
Change in fair value of available- -for-sale investment, net of tax	-	-	-	-	-	(1,622)	-	-	-	-	-	(1,622)	-	(1,622)
Total comprehensive income for the period	-	-	-	-	-	(1,622)	-	-	-	326,182	-	324,560	310	324,870
Repurchase and cancellation of ordinary shares	(1,096)	-	6,356	(32,891)	1,096	-	-	-	-	(1,096)	-	(27,631)	-	(27,631)
Appropriation to statutory surplus/safety production reserve	-	17,325	-	-	-	-	-	-	-	(17,325)	-	-	-	-
Transfer from available-for-sale investment revaluation reserve	-	-	-	-	-	(1,144)	-	-	-	-	-	(1,144)	-	(1,144)
Capital injection by MI	-	-	-	-	-	-	-	-	-	-	-	-	75,000	75,000
Final 2012 dividend declared	-	-	-	-	-	-	-	-	-	-	(144,818)	(144,818)	-	(144,818)
Equity-settled share award arrangement #	-	-	-	-	-	-	-	590	-	-	-	590	-	590
At 30 June 2013	86,048	221,128	-	1,006,429	2,371	(1,622)	(627,092)	1,591	(11,314)	1,397,016	-	2,074,555	103,079	2,177,634

(Restated) (note)														
At 1 January 2012	87,308	136,487	-	1,042,197	1,111	3,475	(518,592)	350	(4,808)	834,777	77,705	1,660,010	27,535	1,687,545
Profit for the period	-	-	-	-	-	-	-	-	-	201,556	-	201,556	(169)	201,387
Change in fair value of available- -for-sale investment, net of tax	-	-	-	-	-	(1,220)	-	-	-	-	-	(1,220)	-	(1,220)
Total comprehensive income for the period	-	-	-	-	-	(1,220)	-	-	-	201,556	-	200,336	(169)	200,167
Repurchase and cancellation of ordinary shares	(164)	-	-	(2,877)	164	-	-	-	-	(164)	-	(3,041)	-	(3,041)
Final 2011 dividend declared	-	-	-	-	-	-	-	-	-	(244)	(77,705)	(77,949)	-	(77,949)
Equity-settled share award arrangement #	-	-	-	-	-	-	-	299	(7,428)	-	-	(7,129)	-	(7,129)
At 30 June 2012	87,144	136,487	-	1,039,320	1,275	2,255	(518,592)	649	(12,236)	1,035,925	-	1,772,227	27,366	1,799,593

The Group adopted a share award plan on 31 March 2011 and has set up a trust specifically for the management of the share award plan for the purpose of recognising and rewarding the contribution of its employees. Under the share award plan, certain of the Company's shares were granted to certain employees of the Company and the shares granted will be transferred to those selected employees after 5 years from the date of grant. The fair value of services received in return for shares granted is measured by reference to the fair value of shares granted. The estimate of the fair value of the share granted is measured based on fair market value of the shares (i.e. the actual consideration paid for the shares), adjusted for the exclusion of expected dividends to be received in the next 5 years.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 CORPORATE INFORMATION

The Company was incorporated with limited liability in the Cayman Islands on 30 January 2009. The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1 – 1111, Cayman Islands.

The Company and its subsidiaries (the “**Group**”) are principally engaged in the manufacturing and supplying of ethylene oxide (“**EO**”) and surfactants. The Group is also engaged in the provision of processing service for surfactants to customers and the production and supply of other chemical products such as ethylene glycol, polymer grade ethylene and industrial gases, namely oxygen, nitrogen and argon. Ethylene oxide is a key intermediary component for the production of ethylene derivative products such as ethylene glycol, ethanolamines and glycol ethers and a wide range of surfactants. Surfactants are widely applied in different industries as scouring agent, moisturising agent, emulsifier and solubiliser.

2 BASIS OF PRESENTATION AND PREPARATION

The Group’s unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“**HKASs**”) and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong, the disclosure requirements of Hong Kong Companies Ordinance and applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (“**Listing Rules**”).

The unaudited condensed consolidated interim financial statements have been prepared under the historical cost convention. These financial statements are presented in Renminbi (“**RMB**”) and all values are rounded to the nearest thousand except when otherwise indicated.

The Group’s unaudited condensed consolidated interim financial statements have been reviewed by the audit committee of the Company.

3 SEGMENT INFORMATION

For management purpose, the Group did not organise into business units based on their products and services and only has one reportable operating segment. Management monitors the operating results of its operating segment as a whole for the purpose of making decisions about resource allocation of performance assessment.

Entity-wide disclosures - Information about products

The following table sets forth the total revenue from external customers by product during the periods:

	Six months ended 30 June	
	2013	2012
	<i>RMB’000</i>	<i>RMB’000</i>
Ethylene oxide	1,701,765	945,625
Surfactants	170,591	61,881
Other chemical products	96,130	63,023
Processing services	10,525	12,384
Others	3,923	2,609
	<u>1,982,934</u>	<u>1,085,522</u>

Entity-wide disclosures - Geographical information

All external revenue of the Group during each of the periods are attributable to customers established in the PRC, the place of domicile of the Group's operating entities. Meanwhile, the Group's non-current assets are overwhelmingly located in the PRC. Therefore, no further geographical information is presented.

4 REVENUE, OTHER INCOME AND GAINS AND OTHER EXPENSES

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, net of valued-added tax and government surcharges, and after allowances for returns and trade discounts.

An analysis of revenue, other income and gains and other expenses is as follows:

	Six months ended 30 June	
	2013	2012
	<i>RMB'000</i>	<i>RMB'000</i>
<u>Revenue</u>		
Sales of goods	1,968,486	1,070,529
Provision of services	10,525	12,384
Others	<u>3,923</u>	<u>2,609</u>
	<u>1,982,934</u>	<u>1,085,522</u>
<u>Other income and gains</u>		
Interest income from banks and available-for-sale investments	65,374	67,939
Sales of cooling water*	8,173	-
Ethylene procurement service for Sanjiang Honam	2,538	-
Sales of silver (being part of catalyst) to Sanjiang Honam	34,660	-
Sales of low sulphur fuel oil to Mei Fu Petrochemical	187,506	-
Project management income****	2,572	20,703
Government subsidies**	1,519	436
Foreign exchange difference, net	45,571	(5,398)
Other lease income	1,594	1,485
Gain on disposal/holding of silver, net***	326	237
Others	<u>3,736</u>	<u>5,120</u>
	<u>353,569</u>	<u>90,522</u>
<u>Other expenses</u>		
Impairment for inventory – silver (being part of catalyst)	80,027	-
Cost of sales of silver (being part of catalyst) to Sanjiang Honam	30,077	-
Cost of sales of low sulphur fuel oil to Mei Fu Petrochemical	184,736	-
Other lease expenses	-	2,020
Others	<u>86</u>	<u>5,116</u>
	<u>294,926</u>	<u>7,136</u>

Notes:

* Cooling water sales income mainly represents the income from selling cooling water to a jointly-controlled entity which started the commercial production of EO in 2012.

** Government subsidies mainly represented incentive provided by local government for the Group to operate in Jiaying City, Zhejiang Province, the PRC. There are no unfulfilled conditions or contingencies attached to these grants recognised.

*** Silver is one of the core components of the catalyst used in the EO production facilities. The Group obtains silver through leasing arrangements and performs catalyst as well as silver changeout in every overhaul for EO production facilities. Gain on disposal/holding of silver represents the excess for the Group from choosing to buy and hold silver at favorable market conditions over disposing silver at unfavorable market conditions.

**** Project management income represents management fee received or receivable from Sanjiang Honam Chemical Co., Ltd.* (三江湖石化有限公司) (“**Sanjiang Honam**”), a sino-foreign joint venture company we established in 2010 on a 50:50 basis with Honam Petrochemical Corp (“**Honam**”), an independent third party for managing the construction of the production facility and operating Sanjiang Honam on daily basis.

5 FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2013	2012
	<i>RMB'000</i>	<i>RMB'000</i>
Interest on bank loans wholly repayable within five years	34,602	33,709
Less: interest capitalized	<u>-</u>	<u>-</u>
	<u><u>34,602</u></u>	<u><u>33,709</u></u>

6 PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Six months ended 30 June	
	2013	2012
	<i>RMB'000</i>	<i>RMB'000</i>
Cost of inventories sold	1,574,283	851,440
Cost of service provided	6,737	7,681
Depreciation	66,350	49,715
Recognition of prepaid land lease payments	882	509
Amortisation of intangible assets	3,853	1,459
Minimum lease payments under operating leases	<u><u>810</u></u>	<u><u>678</u></u>

7 INCOME TAX EXPENSE

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

The income tax expense of the Group for the periods are analysed as follows:

	Six months ended 30 June	
	2013	2012
	<i>RMB'000</i>	<i>RMB'000</i>
Current - PRC		
Charge for the period	51,819	37,015
Deferred	<u>(6,413)</u>	<u>6,784</u>
Total tax charge for the period	<u>45,406</u>	<u>43,799</u>

Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands.

Pursuant to the relevant tax law of the Hong Kong Special Administrative Region, Hong Kong profits tax has been provided at the rate of 16.5% (2012: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. No provision for income tax has been made as the Group has accumulated losses offsetting with assessable profits during the period (First half of 2012: Nil).

The Group conducts a significant portion of its business in Mainland China and the applicable income tax rate of its subsidiaries operated in Mainland China is generally 25% in accordance with the PRC corporate income Tax Law which was approved and become effective on 1 January 2008, except for Sanjiang Chemical Co., Ltd. ("**Sanjiang Chemical**") and Jiaying Yongming Petrochemical Co., Ltd. ("**Yongming Petrochemical**") who are entitled to favourable tax rates of 15% as being qualified as a high-new technology companies.

A reconciliation of the tax expense applicable to profit before tax using the statutory rates in Mainland China to the tax expense at the effective tax rates is as follows:

	Six months ended 30 June	
	2013	2012
	<i>RMB'000</i>	<i>RMB'000</i>
Profit before tax	<u>371,898</u>	<u>245,186</u>
Tax at the statutory tax rates	92,975	61,297
Tax effect of tax concession and allowances	(37,177)	(28,843)
Tax losses not recognised	343	728
Expenses not deductible for tax	2,475	14
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	(10,490)	9,876
Others	<u>(2,720)</u>	<u>727</u>
Tax charge at the Group's effective rate	<u>45,406</u>	<u>43,799</u>

8 EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares in issue during the period.

The calculation of diluted earnings per share amounts is based on the profit for the period attributable to equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares under the share award plan.

The calculations of basic and diluted earnings per share are based on:

	Six months ended 30 June	
	2013	2012
	<i>RMB'000</i>	<i>RMB'000</i>
Earnings		
Profit attributable to ordinary equity holders of the parent	<u>326,182</u>	<u>201,556</u>
	Six months ended 30 June	
	2013	2012
	<i>Number of shares</i>	<i>Number of shares</i>
	<i>'000</i>	<i>'000</i>
Shares		
Weighted average number of ordinary shares in issue during the period	<u>985,188</u>	<u>1,002,077</u>
Effect of dilution – weighted average number of ordinary shares:		
Share award plan	<u>3,045</u>	<u>601</u>
	<u>988,233</u>	<u>1,002,678</u>

9 DIVIDENDS

i) Dividends payable to equity shareholders of the Company attributable to the period:

	Six months ended 30 June	
	2013	2012
	<i>RMB'000</i>	<i>RMB'000</i>
No interim dividend was declared after the Interim period	<u>-</u>	<u>-</u>

ii) Dividends payable to equity shareholders of the Company attributable to the previous financial period, approve and paid during the period:

	Six months ended 30 June	
	2013	2012
	<i>RMB'000</i>	<i>RMB'000</i>
Final dividend in respect of the financial year ended 31 December 2012, approved and paid during the following period, of HK\$18.0 cents per ordinary shares (2012: HK\$9.5 cents), calculated based on the number of ordinary shares used in the basic earnings per share calculation	<u>144,818</u>	<u>77,705</u>

10 AVAILABLE-FOR-SALE INVESTMENTS

	30 June 2013	31 December 2012
	<i>RMB'000</i>	<i>RMB'000</i>
Current		
Unlisted equity investment, at fair value	81,946	587,307
Non-current		
Unlisted equity investment, at fair value	-	-
	<u>81,946</u>	<u>587,307</u>

The Group has investments in trust financial products provided by certain financial institutions, which have a fixed maturity term of less than 6 months and no fixed coupon rate. These trust financial products have been accounted for as available-for-sale investment and have been valued based on the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics.

11 INVENTORIES

	30 June 2013	31 December 2012
	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	297,794	422,252
Finished goods	12,089	14,824
	<u>309,883</u>	<u>437,076</u>

12 TRADE AND NOTES RECEIVABLES

	30 June 2013	31 December 2012
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	20,182	10,401
Trade receivable due from Mei Fu Petrochemical	187,506	-
Notes receivables	230,288	86,078
	<u>437,976</u>	<u>96,479</u>
Less: Impairment	-	-
	<u>437,976</u>	<u>96,479</u>

The credit period is generally 15 to 30 days, extending up to three months for certain customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. The maturity of notes receivables is due within six months. No provision for impairment of trade receivables was made as at 30 June 2013 and as at 31 December 2012.

An aged analysis of the trade receivables and notes receivables of the Group as at the end of the reporting period, based on the invoice date, is as follows:

	30 June 2013	31 December 2012
	<i>RMB'000</i>	<i>RMB'000</i>
1 to 30 days	276,693	57,226
31 to 60 days	41,623	18,024
61 to 90 days	62,937	7,853
91 to 360 days	56,634	13,289
Over 360 days	89	87
	<u>437,976</u>	<u>96,479</u>

The aged analysis of the trade receivables and notes receivables that are neither individually nor collectively considered to be impaired is as follows:

	30 June 2013 RMB'000	31 December 2012 RMB'000
Neither past due nor impaired	434,758	94,123
Less than 30 days past due	1,412	917
31 to 60 days past due	584	328
61 to 90 days past due	1,115	798
91 to 360 days past due	18	226
Over 360 days	<u>89</u>	<u>87</u>
	<u><u>437,976</u></u>	<u><u>96,479</u></u>

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to an independent customer that has a good track record with the Group. Based on past experience, the Directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

13 CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	30 June 2013 RMB'000	31 December 2012 RMB'000
Cash and bank balances	981,133	1,139,102
Time deposits	<u>204,713</u>	<u>345,781</u>
	1,185,846	1,484,883
Less: Pledged time deposits:		
Pledged for note payables	122,997	115,025
Pledged for bank loans	<u>858,136</u>	<u>1,024,077</u>
Cash and cash equivalents	<u><u>204,713</u></u>	<u><u>345,781</u></u>

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term deposits are made for varying periods of between two and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

14 TRADE AND BILLS PAYABLES

	30 June 2013 RMB'000	31 December 2012 RMB'000
Trade payables	842,743	675,377
Notes payables	<u>227,428</u>	<u>144,739</u>
	<u>1,070,171</u>	<u>820,116</u>

An aged analysis of the trade payables and bills payables as at the end of the reporting periods, based on the invoice date for trade and bills payables is as follows:

	30 June 2013 RMB'000	31 December 2012 RMB'000
Within 3 months	1,058,369	653,938
3 to 6 months	1,075	108,885
6 to 12 months	6,467	55,634
12 to 24 months	3,555	1,011
24 to 36 months	705	648
Over 36 months	<u>-</u>	<u>-</u>
	<u>1,070,171</u>	<u>820,116</u>

The trade and bills payables are non-interest-bearing and have an average credit term of three to six months.

15 INTEREST-BEARING BANK BORROWINGS

	<i>Effective Interest rate (%)</i>	<i>Maturity</i>	30 June 2013 RMB'000	31 December 2012 RMB'000
Current				
Bank loans – secured#	1.108-7.000	Within 1 year	1,683,626	-
Bank loans – secured#	0.999-5.053	Within 1 year	-	1,425,269
Bank loans – unsecured	1.478-3.800	Within 1 year	687,494	-
Bank loans – unsecured	1.510-7.040	Within 1 year	<u>-</u>	<u>153,548</u>
			<u>2,371,120</u>	<u>1,578,817</u>
Non-current				
Bank loans – secured#	1.777-1.783	1 year-3year	52,197	-
Bank loans – unsecured	5.564-7.040	1 year-3year	<u>-</u>	<u>68,263</u>
			<u>2,423,317</u>	<u>1,647,080</u>
Repayable:				
Within one year or on demand			2,371,120	1,578,817
In the second year			-	-
In the third to fifth years, inclusive			<u>52,197</u>	<u>68,263</u>
			<u>2,423,317</u>	<u>1,647,080</u>

The Group's bank borrowings are secured by the Group's time deposit amounting to RMB981,133,000 as at 30 June 2013 (31 December 2012: RMB1,139,102,000).

CAPITAL COMMITMENTS

As at 30 June 2013, the Group has capital commitments amounted to approximately RMB2,479.6 million and approximately RMB296.9 million which were primarily related to the procurement of plant and machinery for the constructions of additional production capacities and capital injection into one of the subsidiaries respectively.

CONTINGENT LIABILITIES

As at 30 June 2013, the Group had not provided any form of guarantee for any company outside the Group. The Group is not involved in any current material legal proceedings, nor is our Group aware of any pending or potential material legal proceedings involving the Group.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2013, the Group employed a total of 578 full time employees. The Group's employee benefits included housing subsidies, shift subsidies, bonuses, allowances, medical check-up, staff quarters, social insurance contributions, housing fund contributions and share award scheme. The remuneration committee of the Company (the "**Remuneration Committee**") reviews such packages annually, or when the occasion requires. The executive Directors, who are also employees of the Company, receive remuneration in the form of salaries, bonuses and other allowances.

LIQUIDITY AND FINANCIAL RESOURCES

Financial position and bank borrowings

The Group had cash and bank balances of approximately RMB204.7 million as at 30 June 2013 (31 December 2012: approximately RMB345.8 million), most of which were denominated in Renminbi. The Group had interest-bearing bank borrowings of approximately RMB2,423.3 million as at 30 June 2013 (31 December 2012: approximately RMB1,647.1 million). Please refer to *note 15 to the unaudited condensed consolidated financial statements* of this announcement for the details of borrowings and the respective charge of assets.

The Group's gearing, expressed as a percentage of total interest-bearing bank borrowings to total assets, was 37.1% as at 30 June 2013, increased by 2.7% when comparing to 34.4% as at 31 December 2012.

Working capital

Total inventories as at 30 June 2013 were approximately RMB309.9 million as compared to approximately RMB437.1 million as at 31 December 2012. The inventory turnover days decreased by approximately 17.3 days in the first half of 2013 (First half of 2013: 43.1 days; Full year of 2012: 60.4 days), primarily due to the fact that the Group requires less inventory buffer for production purpose after the commercial operations of the 1st phase EO production facilities of JV and the 4th phase EO production facilities for several months.

The trade and notes receivables turnover days maintained in a similar level as at 30 June 2013 when comparing to 31 December 2012 (First half of 2013: 24.5 days; Full year of 2012: 21.7 days). The slight increase in trade and notes receivables turnover days was mainly due to increase in balance of note receivable (30 June 2013: RMB230.3 million; 31 December 2012: RMB96.5 million) as a result of the fact that the Group provided more flexible settlement approaches to customers with good potentials on a basis that it would not affect the credit risk of the Group. Normally, all of our EO customers are on cash on delivery (“**COD**”) term and required to pay in advance before delivery in order to secure supply of our products. Under the aforesaid arrangement, the Group accept bank’s acceptance bills with interest elements with reference to the advance period added into the bank’s acceptance bills’ face amounts as a substitute of the COD term.

The trade payables turnover days was considered short and maintained at a similar level in the first half of 2013 as compared to 2012 (First half of 2013: 109 days; Full year of 2012: 105 days). The Group primarily uses letters of credit with a maturity period of 90 days in average to settle our trade payables.

INTERIM DIVIDEND

No interim dividends were declared by the Board of Directors for the six months ended 30 June 2013 and 2012.

CORPORATE GOVERNANCE

The Company has adopted the code provisions in the Corporate Governance Code and Corporate Government Report (“**CG Code**”), including any revisions and amendments from time to time, as set out in Appendix 14 to the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) as its own code of corporate governance. The Board considers that the Company has complied with all the code provisions of the CG Code during the six months ended 30 June 2013 and up to the date of this announcement.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“**Model Code**”) as set out in Appendix 10 to the Listing Rules as its own code for securities transactions by Directors and senior management. Having made specific enquiries, all the Directors confirmed that they have complied with the Model Code throughout the six months ended 30 June 2013 and up to the date of this announcement.

AUDIT COMMITTEE

As at the date of this announcement, the audit committee of the Company (the “**Audit Committee**”) has three members, namely Messrs. Shen Kaijun, Wang Wanxu and Mui Ho Cheung, Gary, all of whom are independent non-executive Directors. The chairman of the Audit Committee is Mr. Shen Kaijun. The primary responsibilities of the Audit Committee include, among others, reviewing and supervising the financial reporting process and internal control system of the Group, nominating and monitoring external auditors and providing advice and comments to the Board.

The Audit Committee has reviewed with the management and agreed with the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited condensed consolidated financial statements for the six months ended 30 June 2013.

REMUNERATION COMMITTEE

As at the date of this announcement, the Remuneration Committee has three members, namely Messrs. Wang Wanxu, Mui Ho Cheung, Gary and Guan Jianzhong, of whom Messrs. Wang Wanxu and Mui Ho Cheung, Gary are independent non-executive Directors and Mr. Guan Jianzhong is the Chairman of the Board and an executive Director. The chairman of the Remuneration Committee is Mr. Wang Wanxu. The primary responsibilities of the Remuneration Committee include, among others, evaluating the performance and making recommendation on the remuneration package of the Directors and senior management, and evaluating and making recommendation on the share award plan of the Company.

NOMINATION COMMITTEE

As at the date of this announcement, the nomination committee of the Company (the “**Nomination Committee**”) consists of three members, namely Messrs. Guan Jianzhong, Wang Wanxu and Shen Kaijun, of whom Messrs. Wang Wanxu and Shen Kaijun are independent non-executive Directors and Mr. Guan Jianzhong is the Chairman of the Board and an executive Director. The chairman of the Nomination Committee is Mr. Guan Jianzhong. The primary responsibilities of the Nomination Committee include, among others, considering and recommending to the Board suitably qualified persons to become the member of the Board and reviewing the structure, size and composition of the Board on a regular basis and as required.

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES

During the period under review, the Company repurchased a total of 10,960,000 of its ordinary shares of HK\$0.10 each on the Stock Exchange at prices ranging from HK\$3.05 to HK\$3.015 per share, for a total consideration of HK\$34,059,000.

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30 June 2013.

PUBLICATION OF INTERIM REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

The Company’s Interim Report for the six months ended 30 June 2013 will be dispatched to the shareholders of the Company and published on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (www.chinasanjiang.com) in due course.

By order of the Board
China Sanjiang Fine Chemicals Company Limited
GUAN Jianzhong
Chairman and Executive Director

People’s Republic of China, 19 August 2013

As at the date of this announcement, the board of the Directors comprises four executive Directors: Mr. GUAN Jianzhong, Ms. HAN Jianhong, Mr. NIU Yingshan and Mr. HAN Jianping and three independent non-executive Directors: Mr. WANG Wanxu, Mr. SHEN Kaijun and Mr. MUI Ho Cheung, Gary.

In this announcement, if there is any inconsistency between the Chinese names of the entities or enterprises established in the PRC and their English translations, the Chinese names shall prevail. The English translation of names or any descriptions in Chinese which are marked with “” is for identification purpose only.*