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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 2015

The board (the “**Board**”) of directors (the “**Directors**”) of China Sanjiang Fine Chemicals Company Limited (the “**Company**”) wishes to announce the unaudited consolidated interim results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2015.

RESULTS HIGHLIGHTS	Six months ended 30 June 2015 RMB'000	Six months ended 30 June 2014 RMB'000 (Restated)	Change %
Revenue	1,897,002	1,802,994	5.2%
Gross profit	191,820	145,715	31.6%
Net profit attributable to shareholders	102,963	105,830	-2.7%
Earnings per share – Basic (RMB)	10.44 fens	10.73 fens	-2.7%
Interim dividend per share (HK\$)	Nil	Nil	-
Gross profit margin (%)	10.1%	8.1%	2.0%
Net Profit Margin (%)	5.4%	5.9%	-0.5%
ROE – net profit for the period to total equity x 2	8.0%	8.2%	-0.2%
Gearing – interesting-bearing borrowings to total asset basis	44.3%	50.3%	-6.0%

MANAGEMENT DISCUSSION AND ANALYSIS

During the six months ended 30 June 2015 (the “**period under review**”), the cyclical and volatility of the ethylene market (the upstream/feedstock level of ethylene oxide (“**EO**”)) as well as the unusual lower level of crude oil price continued to hit the Group. The pricing of ethylene remained strong relatively when comparing to that of EO, after ethylene market shifting from low-profitability market to high-profitability market since Q4 2013. During the first half of 2015, the average market price of ethylene decreased by approximately 14.8% from USD1,490/MT to USD1,270/MT when comparing to the first half of 2014, while the average selling price (“**ASP**”) of EO decreased by approximately 25.7% from RMB8,915/MT to RMB6,628/MT during the corresponding periods. Crude oil price, during the first half of 2015, remained at an unusual low level, trading between USD45 per barrel and USD60 per barrel, which has been giving those oil

refineries in PRC cost advantage of feedstock since Q4 2014, when comparing with our MTO Technology-based production facility (“**MTO production facility**”) in terms of the production of ethylene and propylene as the price of methanol, being the feedstock of MTO production facility, did not drop as much as that of crude oil during the corresponding periods.

During the period under review, revenue of the Group increased by approximately 5.2% or RMB94.0 million, primarily resulted from the combined effect of decrease in EO revenue of approximately RMB355.5 million and increase in revenue from the manufacturing and supplying of propylene, C4 and C5 of an aggregated amount RMB450.0 million. Net profit attributable to shareholders was approximately RMB103.0 million and basic earnings per share was approximately RMB10.44 cents, for the six months ended 30 June 2015, representing decreases of approximately 2.7% and 2.7% respectively as compared with the same period of 2014, which was primarily attributable to the combined effect of increase in finance cost of RMB61.1 million, increase in provision for impairment for one component of the catalyst for production purpose – sliver of amount RMB66.6 million and decrease in government subsidies of amount RMB22.1 million and the inclusion of investment income from disposal of a non-core business – Zhejiang Zhapu Meifu Port & Storage Co., Ltd. (“**Mei Fu Port**”), of approximately RMB153.1 million. Same as last period, the Board will not recommend the payment of an interim dividend.

The Group completed the ramp-up of MTO production facility on 24 April 2015. The commencement of commercial operation of MTO production facility enables the Group to go upstream – getting into ethylene market, a high-profitability market. The outputs of the MTO production facility, on a yearly basis, are approximately 300,000 MT, 390,000 MT, 15,000 MT and 34,000 MT for ethylene, propylene, C4 and C5 respectively. Based on the current market prices of all the outputs and inputs after taking into account the expected processing costs and finance costs, the management of the Group expects the MTO production facility can generate a ROE of around 8% on a yearly basis.

EO production facility and the actual production volume of EO maintained in a similar level when comparing with the same period of last year.

FINANCIAL REVIEW

Revenue

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:

	<i>Six months ended 30 June 2015</i>	<i>% of revenue</i>	<i>Six months ended 30 June 2014</i>	<i>% of revenue</i>	<i>Variance +/(–)</i>
<u>REVENUE (RMB'000)</u>					
Ethylene oxide	1,226,383	65%	1,581,894	88%	-22.5%
Surfactants	93,858	5%	108,831	6%	-13.8%
Surfactants processing services	21,708	1%	19,106	1%	13.6%
Propylene	331,086	17%	-	-	>100%
C4 & C5	118,868	6%	-	-	>100%
Others	105,099	6%	93,163	5%	12.8%
	<u>1,897,002</u>	100%	<u>1,802,994</u>	100%	5.2%
<u>SALES VOLUME (MT)</u>					
Ethylene oxide	185,038		177,440		4.3%
Surfactants	12,057		9,040		33.4%
Surfactants processing services	50,971		44,732		13.9%
Propylene	53,373		-		>100%
C4 & C5	24,230		-		>100%
<u>AVERAGE SELLING PRICE (RMB per MT)</u>					
Ethylene oxide	6,628		8,915		-25.7%
Surfactants	7,785		12,039		-35.3%
Surfactants processing services	426		427		-0.3%
Propylene	6,203		-		>100%
C4 & C5	4,906		-		>100%
<u>GROSS PROFIT MARGIN (%)</u>					
Ethylene oxide	13.9%		5.3%		8.6%
Surfactants	13.3%		14.7%		-1.4%
Surfactants processing services	46.0%		47.6%		-1.6%
Propylene	-6.2%		-		-6.2%
C4 & C5	-6.9%		-		-6.9%

Ethylene oxide sales

During the period under review, the revenue from EO sales amounted to RMB1,226.4 million, representing a decrease of approximately 22.5% when comparing to the corresponding period of 2014. The decrease in EO revenue was primarily due to the decrease in ASP of EO by approximately 25.7% from RMB8,915/MT to RMB6,628/MT which offset the slight increase in EO output by 4.3% from 177,440 MT in the first half of 2014 to 185,038 MT in the first half of 2015.

Surfactants sales and Surfactants processing services

During the period under review, the overall surfactants production capacity (including production capacities for both surfactants sales and surfactants processing services) improved by 17.2% from 53,772MT for the first half of 2014 to 63,028MT for the first half of 2015. The increase in overall production capacity was primarily due to more marketing efforts the Group put into downstream level.

Propylene, C4 and C5 sales

The increase in revenue from propylene, C4 and C5 sales was primarily due to the commencement of commercial operation of MTO production facility on 24 April 2015. MTO production facility has an annual capacity of 390,000 MT, 15,000 MT and 34,000 MT for propylene, C4 and C5 respectively.

Gross profit margin – Ethylene oxide sales

During the period under review, the gross profit margin of EO sales improved by 8.6% from 5.3% in the first half of 2014 to 13.9% in the first half of 2015, primarily due to the commencement of commercial operation of MTO production facility, which enabled the Group to take up the ethylene production function on its own and hedged the risk derived from the strong ethylene market.

Gross profit margin – Propylene, C4 and C5 sales

During the period under review, propylene, C4 and C5 sales had a negative gross margin which was primarily resulted from the abnormal low pricing of propylene, C4 and C5. Historically, the pricing gap of ethylene and propylene ranged within USD200 per MT with majority of the time in recent years, within USD100 per MT. However, the pricing gap increased to as much as USD500 per MT during the first half of 2015 which led to the negative gross profit margin of propylene. The pricing of C4 and C5 were also at their historical low levels.

During the period under review, the overall gross profit margin in respect of MTO production facility alone was 14.5%.

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 RMB16.7 million for the period under review was primarily due to the increase in staff related costs.

Income tax expense

Effective tax rate for the first half of 2015 increased to approximately 30.5%, which was higher than the normal level of effective tax rate of around 19% to 20%. The increase in effective tax rate was mainly due to the difference between the tax base and accounting base in respect of the cost of investment in the disposal of Mei Fu Port. From PRC Corporate Income Tax perspective, the cost of investment of Mei Fu Port was deemed to be RMB77.3 million while, from accounting perspective, the cost of investment was approximately RMB176.0 million which led to the increase in effective tax rate.

CONDENSED CONSOLIDATED STATEMENT OF FINANCE POSITION

At 30 June 2015 – unaudited

		30 June 2015 RMB'000	31 December 2014 RMB'000
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment		6,030,749	4,854,195
Prepaid land lease payments		301,809	306,080
Intangible assets		260,846	111,399
Advance payments for property, plant and equipment		128,383	357,560
Investments in joint ventures – Mei Fu Entities	7	106,091	306,756
Prepayments, deposits and other receivables		4,415	6,823
Available-for-sale investments	11	1,000	1,000
Deferred tax assets		38,050	21,830
Total non-current assets		<u>6,871,343</u>	<u>5,965,643</u>
CURRENT ASSETS			
Inventories	12	842,229	290,594
Trade and notes receivables	13	389,852	325,736
Prepayments, deposits and other receivables		771,200	528,196
Due from a related party – Mei Fu Petrochemical		1,099,444	1,352,463
Available-for-sale investments	11	159,597	336,468
Pledged deposits	14	1,483,120	1,214,895
Cash and cash equivalents	14	265,362	398,790
Total current assets		<u>5,010,804</u>	<u>4,447,142</u>
CURRENT LIABILITIES			
Trade and bills payables	15	1,492,442	1,304,198
Other payables, and accruals		1,377,843	884,042
Derivative financial instruments		4,147	6,855
Interest-bearing bank and other borrowings	16	3,464,406	3,261,339
Short-term bond	17	521,549	502,042
Due to related parties		362,799	21,571
Tax payable		88,347	39,247
Total current liabilities		<u>7,311,533</u>	<u>6,019,294</u>
NET CURRENT LIABILITIES		<u>(2,300,729)</u>	<u>(1,572,152)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>4,570,614</u>	<u>4,393,491</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	16	1,965,215	1,897,100
Deferred tax liabilities		19,417	18,676
Total non-current liabilities		<u>1,984,632</u>	<u>1,915,776</u>
Net assets		<u>2,585,982</u>	<u>2,477,715</u>
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital		86,048	86,048
Reserves		679,223	646,070
Retained profits		1,615,515	1,545,173
Proposed final dividend	10	-	-
		<u>2,380,786</u>	<u>2,277,291</u>
Non-controlling interests		205,196	200,424
Total equity		<u>2,585,982</u>	<u>2,477,715</u>

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2015 – unaudited

		Six months ended 30 June	
		2015	2014
	Notes	RMB'000	RMB'000 (restated)
REVENUE	4	1,897,002	1,802,994
Cost of sales	6	<u>(1,705,182)</u>	<u>(1,657,279)</u>
Gross profit		191,820	145,715
Other income and gains	4	450,033	303,309
Selling and distribution cost		(9,614)	(5,706)
Administrative expenses		(74,974)	(58,283)
Other expenses	4	(414,485)	(185,279)
Finance costs	5	(115,869)	(54,819)
Investment income from disposal of Mei Fu Port	7	153,127	-
Share of losses of joint ventures – Mei Fu Entities	7	<u>(24,851)</u>	<u>(18,484)</u>
PROFIT BEFORE TAX	6	155,187	126,453
Income tax expense	8	<u>(47,452)</u>	<u>(16,753)</u>
PROFIT FOR THE PERIOD		<u>107,735</u>	<u>109,700</u>
Attributable to:			
Equity holders of the parent		102,963	105,830
Non-controlling interests		<u>4,772</u>	<u>3,870</u>
		<u>107,735</u>	<u>109,700</u>
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	9		
- Basic		<u>10.44 fens</u>	<u>10.73 fens</u>
- Diluted		<u>10.38 fens</u>	<u>10.68 fens</u>
INTERIM DIVIDEND DECLARED DURING THE PERIOD	10	<u>-</u>	<u>-</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2015 – unaudited

		Six months ended 30 June	
		2015	2014
	Notes	RMB'000	RMB'000 (restated)
Net cash flows in respect of operating activities		(603,177)*	94,791
Net cash flows in respect of investing activities		397,863	(586,004)
Net cash flows in respect of financing activities		<u>71,676</u>	<u>559,070</u>
Net increase in cash and cash equivalents		(133,638)	67,857
Cash and cash equivalents at beginning of period		398,790	253,981
Effect of foreign exchange rate change, net		<u>210</u>	<u>561</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	14	<u>265,362</u>	<u>322,399</u>

* It was primarily resulted from the increase in inventories which led to an cash outflow of RMB615,191,000.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2015 – unaudited

	Attributable to owners of the parent												Non-controlling interests RMB'000	Total equity RMB'000
	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 repurchased for share award plan RMB'000	Retained profits RMB'000	Proposed interim/final dividend RMB'000	Total RMB'000		
At 1 January 2015	86,048	296,582	-	1,006,429	2,371	(4,500)	(627,092)	5,292	(33,012)	1,545,173	-	2,277,291	200,424	2,477,715
Profit for the period	-	-	-	-	-	-	-	-	-	102,963	-	102,963	4,772	107,735
Change in fair value of available-for-sale investment, net of tax	-	-	-	-	-	(861)	-	-	-	-	-	(861)	-	(861)
Total comprehensive income for the period	-	-	-	-	-	(861)	-	-	-	102,963	-	102,102	4,772	106,874
Appropriation to statutory surplus/safety production reserve	-	32,621	-	-	-	-	-	-	-	(32,621)	-	-	-	-
Safety production reserve used	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2014 final dividend paid	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity-settled share award arrangement	-	-	-	-	-	-	-	1,393	-	-	-	1,393	-	1,393
At 30 June 2015	86,048	329,203	-	1,006,429	2,371	(5,361)	(627,092)	6,685	(33,012)	1,615,515	-	2,380,786	205,196	2,585,982

(Restated)														
At 1 January 2014	86,048	266,851	-	1,006,429	2,371	(1,654)	(627,092)	2,379	(20,603)	1,442,124	188,118	2,344,971	122,398	2,467,369
Profit for the period	-	-	-	-	-	-	-	-	-	105,830	-	105,830	3,870	109,700
Change in fair value of available-for-sale investment, net of tax	-	-	-	-	-	2,802	-	-	-	-	-	2,802	-	2,802
Total comprehensive income for the period	-	-	-	-	-	2,802	-	-	-	105,830	-	108,632	3,870	112,502
Appropriation to statutory surplus/safety production reserve	-	41,459	-	-	-	-	-	-	-	(41,459)	-	-	-	-
Safety production reserve used	-	(13,230)	-	-	-	-	-	-	-	13,230	-	-	-	-
Capital increase of MI	-	-	-	-	-	-	-	-	-	-	-	-	50,000	50,000
2013 final dividend paid	-	-	-	-	-	-	-	-	-	-	(188,118)	(188,118)	-	(188,118)
Equity-settled share award arrangement	-	-	-	-	-	-	-	1,515	-	-	-	1,515	-	1,515
At 30 June 2014	86,048	295,080	-	1,006,429	2,371	1,148	(627,092)	3,894	(20,603)	1,519,725	-	2,267,000	176,268	2,443,268

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**”), surfactants and propylene. 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 C4, C5, 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, ethanalamines and glycol ethers and a wide range of surfactants. Surfactants are widely applied in different industries as scouring agent, moisturising agent, emulsifier and solubiliser. Propylene is used in a wide variety of applications including packaging and labeling, textiles, stationery, plastic parts and reusable containers of various types, laboratory equipment, loudspeakers, automotive components, and polymer banknotes.

2 BASIS OF PRESENTATION AND PREPARATION

The Group’s unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard (“**HKAS**”) 34 Interim Financial Reporting. The Group’s unaudited condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2014.

The accounting policies adopted in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2014.

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.

Going concern assumption

As at 30 June 2015, the Group’s net current liabilities amounted to approximately RMB2,300,729,000. The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflows from operations and sufficient financing to meet its financial obligations as and when they fall due. In preparing the financial statements, the directors of the Company have considered the Group’s sources of liquidity and believe that adequate funding is available to fulfill the Group’s debt obligations and capital expenditure requirements.

Accordingly, the consolidated financial statements have been prepared on a basis that the Group will be able to continue as a going concern.

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	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Ethylene oxide	1,226,383	1,581,894
Surfactants	93,858	108,831
Propylene	331,086	-
C4 & C5	118,868	-
Other chemical products	101,160	88,591
Processing services	21,708	19,106
Others	3,939	4,572
	<u>1,897,002</u>	<u>1,802,994</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	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
<u>Revenue</u>		
Sales of goods	1,871,355	1,779,316
Provision of services	21,708	19,106
Others	3,939	4,572
	<u>1,897,002</u>	<u>1,802,994</u>

	Six months ended 30 June	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
<u>Other income and gains</u>		
Interest/investment income from banks & joint ventures, available-for-sale investments and fair value of financial derivatives	124,368	115,468
Ethylene procurement service for Sanjiang Honam	-	3,978
Sales in respect of trading of oil and chemicals	329,624	185,000
Government subsidies*	-	22,112
Foreign exchange difference, net	(15,768)	(31,221)
Other lease income	1,986	2,329
Gain on disposal/holding of silver, net	-	918
Others	9,823	4,725
	<u>450,033</u>	<u>303,309</u>
<u>Other expenses</u>		
Impairment for inventory – silver (being part of catalyst)	71,390	4,810
Cost of sales in respect of trading of oil and chemicals	342,684	179,770
Other lease expenses	-	211
Others	411	488
	<u>414,485</u>	<u>185,279</u>

Notes:

* 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.

5 FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Interest on bank loans wholly repayable within five years	115,869	84,473
Less: interest capitalized	-	(29,654)
	<u>115,869</u>	<u>54,819</u>

6 PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Cost of inventories sold	1,690,666	1,645,741
Cost of service provided	14,516	11,538
Depreciation	139,804	79,592
Recognition of prepaid land lease payments	4,287	2,677
Amortisation of intangible assets	6,405	5,610
Minimum lease payments under operating leases	<u>850</u>	<u>850</u>

	30 June 2015 RMB'000	31 December 2014 RMB'000
Share of net assets	34,109	174,379
Goodwill on acquisition	<u>71,982</u>	<u>132,377</u>
	<u><u>106,091</u></u>	<u><u>306,756</u></u>

Particulars of the Group's joint ventures are as follows:

Name	Place and date of incorporation/ registration and operations	Registered paid-up capital	Percentage of			Principal activities
			Ownership interest	Voting power	Profit sharing	
Zhejiang Meifu Petrochemical Co., Ltd. ("Mei Fu Petrochemical")	PRC/ Mainland China 20 March 2003	USD39,550,000	51%	57%	note 1	Manufacture and sale of polyethylene and derivative products
Zhejiang Zhapu Meifu Port & Storage Co., Ltd. ("Mei Fu Port")	PRC/ Mainland China 20 March 2003	USD24,490,000	51% (note 2)	57% (note 2)	50% (note 2)	Port service including loading and storage

The above investments in joint ventures are indirectly held by the Company.

Note 1: Profit sharing for Mei Fu Petrochemical changed from 50% for the period from 1 January 2014 to 31 May 2014 to 74.1% for period from 1 June 2014 to 31 May 2017. On 1 July 2014, the Group signed a consignment agreement with the shareholders of Mei Fu Petrochemical, Guansheng Petroleum Co., Ltd (Singapore) ("**Guansheng Petroleum**") and Hangzhou Weiyu Industrial investment Co., Ltd ("**Hangzhou Weiyu**") to entrust all their management rights of Mei Fu Petrochemical to the Group during a consignment period from 1 June 2014 to 31 May 2017. During the consignment period, all the earnings derived from the operation of Mei Fu Petrochemical were belonged to the Group. In return, the Group would pay a fixed consignment fee of RMB19.5 million and RMB10.5 million to Guansheng Petroleum and Hangzhou Weiyu, respectively. On the same day, a cooperation contract entered into between the Group and Hangzhou Weiyu. As stipulated in the cooperation contract, the Group and Hangzhou Weiyu shared 74.1% and 25.9% of the rights and obligations as stipulated in the consignment agreement during the aforesaid consignment period.

Based on the above arrangement, the Group enjoys 74.1% interests in Mei Fu Petrochemical in a consignment period from 1 June 2014 to 31 May 2017. In this connection, Hangzhou Weiyu would bear the consignment fee of RMB5.1 million (25.9% of the consignment fee of RMB19.5 million) to Guansheng Petroleum. At the same time, Hangzhou Weiyu would not require the Group to pay the consignment fee of RMB10.5 million which was agreed in the consignment agreement. Based on the above arrangement, the Group enjoys 74.1% interests in Mei Fu Petrochemical in a consignment period from 1 June 2014 to 31 May 2017.

Note 2: On 19 March 2015, the Group entered into the sale and purchase agreement with a related company, Zhejiang Jiahua Energy Chemical Co., Ltd.*) (浙江嘉化能源化工股份有限公司), pursuant to which, the Group agreed to sell its 51% equity interest in Mei Fu Port for a consideration of RMB357,000,000 with certain profit guarantee terms. The sale and purchase transaction was completed on 30 April 2015 and the Group recognised an investment income of amount RMB153,127,000.

The following table illustrates the summarised financial information of Mei Fu Petrochemical and Mei Fu Port adjusted for any differences in accounting policies, fair value adjustments and reconciled to the carrying amount in the financial statements:

	At 30 June 2015		At 31 December 2014	
	Mei Fu Port RMB'000	Mei Fu Petrochemical RMB'000	Mei Fu Port RMB'000	Mei Fu Petrochemical RMB'000
Cash and cash equivalents	-	1,871	646	1,620
Other current assets	-	1,888,803	43,638	2,024,202
Current assets	-	1,890,674	44,284	2,025,822
Non-current assets, excluding goodwill	-	1,478,392	188,184	1,959,800
Current liabilities	-	(3,175,924)	(11,489)	(3,743,877)
Non-current liabilities	-	(64,165)	(7,002)	(67,855)
Net assets, excluding goodwill	-	128,977	213,977	173,890
Reconciliation to the Group's interest in the joint venture:				
Proportion of the Group's profit sharing	-	74.1%	50%	50%/74.1%
Group's share of net assets of the joint venture, excluding goodwill	-	34,109	106,989	67,390
Goodwill on acquisition	-	71,982	60,395	71,982
Carrying amount of the investment	-	106,091	167,384	139,372

Results of the joint ventures:

	For the six months ended 30 June 2015		For the year ended 31 December 2014	
	Mei Fu Port RMB'000 (Jan-Apr)	Mei Fu Petrochemical RMB'000 (Jan-Jun)	Mei Fu Port RMB'000	Mei Fu Petrochemical RMB'000
Revenue	29,976	1,113,035	62,149	3,195,651
Interest income	1,597	10,314	351	12,411
Cost of sales	(4,240)	(1,053,992)	(9,748)	(3,165,322)
Depreciation and Amortization	(3,671)	(41,490)	(9,640)	(80,234)
Interest expenses	(291)	(68,731)	(1,925)	(140,200)
Income tax expense	(5,822)	13,237	(11,414)	30,727
Profit and total comprehensive income for the year	17,252	(45,178)	32,262	(135,646)
Dividend received	-	-	-	-

8 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	
	2015	2014
	RMB'000	RMB'000
Current - PRC		
Charge for the period	58,850	23,028
Deferred	(11,398)	(6,275)
Total tax charge for the period	47,452	16,753

Pursuant to the rules and regulations of the Cayman Islands, the Company 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% (2014: 16.5%) on the estimated assessable profits arising in Hong Kong during the period.

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 became effective on 1 January 2008, except for following entities who are entitled to favourable tax rates.

Pursuant to the approval of the tax bureau, Sanjiang Chemical Co., Ltd. (“**Sanjiang Chemical**”) was qualified as a high-new technology company since 2010 and enjoyed a favourable CIT tax rate of 15% from year 2013 to year 2015. Therefore, Sanjiang Chemical was subject to CIT at a rate of 15% for the six month ended 30 June 2015 (First half of 2015: 15%).

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	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Profit before tax	<u>155,187</u>	<u>126,453</u>
Tax at the statutory tax rates	38,797	31,613
Tax effect of tax concession and allowances	(34,706)	(27,513)
Tax losses not recognised	7,274	3,646
Expenses not deductible for tax	21	3,035
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	10,372	1,809
Others	<u>25,694</u>	<u>4,163</u>
Tax charge at the Group's effective rate	<u>47,452</u>	<u>16,753</u>

9 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	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Earnings		
Profit attributable to ordinary equity holders of the parent	<u>102,963</u>	<u>105,830</u>
	Six months ended 30 June	
	2015	2014
	<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>986,705</u>	<u>986,705</u>
Effect of dilution – weighted average number of ordinary shares:		
Share award plan	<u>5,347</u>	<u>4,347</u>
	<u>992,052</u>	<u>991,052</u>

10 DIVIDENDS

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

	Six months ended 30 June	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
No interim dividend 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	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
No final dividend declared in respect of the year ended 31 December 2014 (2013: HK24.0 cents per ordinary shares)	<u>-</u>	<u>188,188</u>

11 AVAILABLE-FOR-SALE INVESTMENTS

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.

12 INVENTORIES

	30 June 2015 RMB'000	31 December 2014 RMB'000
Raw materials	772,399	259,577
Finished goods	<u>69,830</u>	<u>31,017</u>
	<u><u>842,229</u></u>	<u><u>290,594</u></u>

13 TRADE AND NOTES RECEIVABLES

	30 June 2015 RMB'000	31 December 2014 RMB'000
Trade receivable	155,771	55,737
Notes receivables	<u>234,081</u>	<u>269,999</u>
	389,852	325,736
Less: Impairment	<u>-</u>	<u>-</u>
	<u><u>389,852</u></u>	<u><u>325,736</u></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 2015 and as at 31 December 2014.

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

	30 June 2015 RMB'000	31 December 2014 RMB'000
1 to 30 days	80,301	51,139
31 to 60 days	72,093	539
61 to 90 days	942	429
91 to 360 days	1,770	3,119
Over 360 days	<u>665</u>	<u>511</u>
	<u><u>155,771</u></u>	<u><u>55,737</u></u>

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

	30 June 2015 RMB'000	31 December 2014 RMB'000
Neither past due nor impaired	80,301	51,139
Less than 30 days past due	72,093	539
31 to 60 days past due	942	429
61 to 90 days past due	876	1,472
91 to 360 days past due	894	1,647
Over 360 days	<u>665</u>	<u>511</u>
	<u><u>155,771</u></u>	<u><u>55,737</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 a number of independent customers 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.

14 CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	30 June 2015 RMB'000	31 December 2014 RMB'000
Cash and bank balances	265,362	398,790
Time deposits	<u>1,483,120</u>	<u>1,214,895</u>
	1,748,482	1,613,685
Less: Pledged time deposits:		
Pledged for note payables	453,996	471,172
Pledged for bank loans	<u>1,029,124</u>	<u>743,723</u>
Cash and cash equivalents	<u>265,362</u>	<u>398,790</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.

15 TRADE AND BILLS PAYABLES

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 2015 RMB'000	31 December 2014 RMB'000
Within 3 months	936,154	1,070,214
3 to 6 months	358,246	168,455
6 to 12 months	161,018	63,433
12 to 24 months	35,981	1,370
24 to 36 months	638	117
Over 36 months	<u>405</u>	<u>609</u>
	<u>1,492,442</u>	<u>1,304,198</u>

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

16 INTEREST-BEARING BANK AND OTHER BORROWINGS

	<i>Effective Interest rate (%)</i>	<i>Maturity</i>	30 June 2015 RMB'000	31 December 2014 RMB'000
Current				
Bank loans – secured	1.857 - 3.764	2015	-	814,461
	1.777 - 1.783	2015	-	51,693
	0.585 - 6.550	2015 - 2016	1,415,099	-
Bank loans – unsecured	1.032 - 6.732	2015	-	2,095,185
	0.683 - 6.600	2015 - 2016	2,049,307	-
	6.400	2015	-	100,000
	6.550	2015	-	200,000
			<u>3,464,406</u>	<u>3,261,339</u>
Non-current				
Bank loans – secured	5.125 - 6.550	2016 - 2019	754,718	1,497,100
Bank loans – unsecured	5.329 - 6.550	2016 - 2019	810,497	-
	6.400	2016	400,000	400,000
			<u>1,965,215</u>	<u>1,897,100</u>
Repayable:				
Within one year			3,464,406	3,261,339
In the second year			77,000	700,000
In the third to fifth years, inclusive			1,888,215	1,197,100
Beyond five years			-	-
			<u>5,429,621</u>	<u>5,158,439</u>

Notes: Certain of the Group's bank borrowings are secured by:

- (i) the pledge of certain of the Group's time deposits amounting to RMB1,029,124,000 at the end of the reporting period (31 December 2014: RMB743,723,000);
- (ii) the pledge of certain of the Group's notes receivable amounting to RMB234,081,000 at the end of the reporting period (31 December 2014: RMB201,109,000);
- (iii) mortgages over the Group's property, plant and equipment, which had an aggregate carrying value at the end of the reporting period of approximately RMB550,000,000 (31 December 2014: RMB559,772,000); and
- (iv) mortgages over the Group's leasehold land, which had an aggregate carrying value at the end of the reporting period of approximately RMB203,345,000 (31 December 2014: RMB207,632,000).

17 SHORT-TERM BOND

	<i>Effective interest rate (%)</i>	<i>Maturity</i>	30 June 2015 RMB'000	31 December 2014 RMB'000
Current				
Short term bond	8.010	2015	<u>521,549</u>	<u>502,042</u>

On 25 November 2014, Sanjiang Chemical, a subsidiary of the Company, issued a short term unsecured corporate bond of RMB500,000,000 to a number of financial institutions with China Citic Banking Corp., Ltd. as the principal underwriter, with a maturity period of 1 year and a fixed nominal interest rate of 7.5% per annum. The principal and the interest will be repaid at the end of the term on 24 November 2015.

CAPITAL COMMITMENTS

As at 30 June 2015, the Group has capital commitments amounted to approximately RMB248.8 million which were primarily related to the retention money in respect of the procurement of plant and machinery for the constructions of additional production capacities.

CONTINGENT LIABILITIES

As at 30 June 2015, 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 2015, the Group employed a total of 1,103 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

The Group's gearing, expressed as a percentage of total interest-bearing bank borrowings to total assets, was 44.3% as at 30 June 2015, improved by 6.0% when comparing to 50.3% as at 31 December 2014, primarily resulted from the fact that the Group has substantially finished its capacity expansion plans for various production facilities during the first half of 2015. The Group has a gearing guidance of not more than 66.7% on total interest-bearing borrowings to total assets basis, which management considers 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 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.

The inventory turnover days increased by approximately 31.7 days during the period under review (First half of 2015: 60.6 days; 31 December 2014: 28.9 days), primarily due to the increase in sliver, being the catalyst in the production process and methanol, being the buffer stock in relation to the MTO production facility.

The trade and notes receivables turnover days increased by approximately 7.9 days during the period under review (First half of 2015: 34.4 days; 31 December 2014: 26.5 days), primarily due to the change in sale mix in 2015.

The trade and notes payables turnover days maintained at a similar level as at 30 June 2015 when comparing to 31 December 2014 (First half of 2015: 150.0 days; 31 December 2014: 135.1 days).

INTERIM DIVIDEND

No interim dividends were declared by the Board of Directors for the six months ended 30 June 2015.

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 2015 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 2015 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 and Mui Ho Cheung, Gary and Ms. Pei Yu, 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 2015.

REMUNERATION COMMITTEE

As at the date of this announcement, the Remuneration Committee has three members, namely Messrs. Mui Ho Cheung, Gary and Guan Jianzhong and Ms. Pei Yu of whom Mr. Mui Ho Cheung, Gary and Ms. Pei Yu 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. Mui Ho Cheung, Gary. 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 and Shen Kaijun and Ms. Pei Yu, of whom Mr. Shen Kaijun and Ms. Pei Yu 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, 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 2015.

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 2015 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, 30 August 2015

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. SHEN Kaijun, Mr. MUI Ho Cheung, Gary and Ms. PEI Yu.

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.*