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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 2021**

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 2021 (the “**period under review**”).

RESULTS HIGHLIGHTS	6 months ended 30 June 2021 RMB'000	6 months ended 30 June 2020 RMB'000	2021 1H vs. 2020 1H Change %
Revenue	4,776,597	3,778,300	26.4%
Gross profit	517,149	632,603	−18.3%
Net profit attributable to shareholders	327,621	373,660	−12.3%
Earnings per share — Basic (RMB)	27.85 fens	31.61 fens	−11.9%
Interim dividend per share (HK\$)	12.5 cents	12.5 cents	—
Gross profit margin (%)	10.8%	16.7%	−5.9%
Gearing — interesting-bearing borrowings to total asset basis	39.4%	51.5%	−12.1%

MANAGEMENT DISCUSSION AND ANALYSIS

During the period under review, the market conditions of the oil and chemical sector (the “Sector”) in the People’s Republic of China (“PRC”) have been experiencing an unprecedented period as a result of the outbreak of the novel coronavirus global pandemic (the “COVID-19 Pandemic”) with demands/supplies and pricings of certain feedstocks/products changing rapidly in response to the recovery of the economy of PRC. Revenue of the Group increased by approximately 26.4%, primarily resulted from the increase in the average selling price (“ASP”) of the Group’s major products namely ethylene oxide (“EO”), ethylene glycol (“EG”) and polypropylene (“PP”) with a range from approximately 11.6% to approximately 30.8% in the first half of 2021 when comparing to the corresponding period of 2020. Overall gross profit margin of the Group decreased by approximately 5.9% to approximately 10.8% and net profit attributable to shareholders was approximately RMB327.6 million and basic earnings per share was approximately RMB27.85 cents, for the six months ended 30 June 2021, representing decreases of approximately 12.3% and 11.9% respectively as compared with the corresponding period of 2020. The Board has recommended an interim dividend of HK12.5 cents per share, representing a dividend payout ratio of approximately 37.8% calculated based on the net profit attributable to shareholders for the period under review.

The decrease in overall gross profit margin of the Group by approximately 5.9% was primarily due to the decreases in gross profit margins of EO line of business and PP line of business by approximately 8.9% and 8.1% respectively as a result of the combined effects of: 1) the price increments of Ethylene and Propylene, which count for approximately 30% in total of the Group’s current feedstock procurement, increased by approximately 55.4% and 40.9% (on a simple average basis) respectively, which were more than the price increments of EO, EG and PP of approximately 7.9%, 29.7% and 16.9% (on a simple average basis) respectively during the period under review; and 2) Methanol pricing, which is one of the dominant factors that affect the profitability of the Group as Methanol counts for approximately 70% of the Group’s current feedstock procurement, increased in a substantial lesser extent when comparing to the price increments of Ethylene and Propylene (i.e. approximately 31.2% increment vs. approximately 55.4% and 40.9% increments), offsetting certain of the adverse impacts from the price increments of Ethylene and Propylene. The substantial price increments of Ethylene and Propylene during the period under review were mainly due to weather issue in USA during Q1 of 2021, which led to suspension of production of certain major oil-cracking plants in USA.

As mentioned in the Group's 2020 annual report, the Group is constructing two new production facilities — 1) the 6th phase EO/EG production facilities with 1,000,000MT output on a yearly basis as midstream level production capacity expansion; and 2) the Naphtha/Ethane/Propane-to-Ethylene/Propylene production facility with 1,250,000MT output on a yearly basis as upstream level production capacity expansion. Currently, the Group is in the progress of finalising the construction of the 6th phase EO/EG production facilities and expects its commercial operation will commence in Q1 of 2022, which will enable the Group to double its EO/EG market shares in the East China area and increase its revenue by more than 50% in 2022.

Weather issue in USA during Q1 of 2021 led to suspension of production of certain major oil-cracking plants in USA and in turn, prompted the price increments of Ethylene and Propylene. Weather issue is one of the typical types of event-oriented risks that the Group aims to mitigate and the Group expects another new production facility, the Naphtha/Ethane/Propane-to-Ethylene/Propylene production facility, will enable the Group to diversify business/market risks by rebalancing the composition of feedstocks from the current status of Ethylene, Propylene and Methanol on a 20%-10%-70% basis to the expected status of the ratio of the aggregate of Naphtha, Ethane and Propane (where the input ratio among Naphtha, Ethane and Propane can further be adjusted in a large extent responding to the market conditions) and Methanol on a 70%-30% basis. The Group expects the construction of the Naphtha/Ethane/Propane-to-Ethylene/Propylene production facility will complete in Q3 of 2022 and expects its commercial operation will commence before Q4 of 2022, which will also improve the overall gross profit margin of the Group in a long run.

As mentioned in the Group's 2020 annual report, the aggregate capital expenditures for the 6th phase EO/EG production facilities and the Naphtha/Ethane/Propane-to-Ethylene/Propylene production facility are expected to be approximately RMB6.5 billion in total and the Group expects the gearing ratio will reach its peak level of 42.0% (on a total asset basis) by the end of 2021, representing an increment of 2.6% from 39.4% as at 30 June 2021, given the fact that the Group will benefit from the business model of EO/EG line of business which contribute negative working capital for running EO/EG line of business after the ramp-up of the 6th phase EO/EG production facilities in Q1 of 2022.

The Group has been very cautious about the impacts of COVID-19 Pandemic as to the business operations of the Group, in particular, its latest developments in August 2021 and the Group has been putting in place stringent measures, including but not limited to, implementing mask requirements for all employees in all premises, regular health and travel log declaration for all employees and etc. to safeguard the health and safety of our employees and our communities. During the period under review and up to the date of this announcement, the Group has managed to operate and produce as usual and maintain the overall utilization rate of our production capacities at a relatively high level.

FINANCIAL REVIEW

Revenue

The breakdown by line of business in terms of revenue, sales volume, average selling price and gross profit margin during the periods under review are set forth below:

	First Half year 2021	% of First Half revenue	First Half year 2020	% of revenue	Variance +/(%)
REVENUE (RMB'000)					
Ethylene oxide	1,273,399	27%	1,208,059	32%	5.4%
Ethylene glycol	496,310	10%	404,658	11%	22.6%
Polypropylene	2,002,023	42%	1,333,638	35%	50.1%
Surfactants	416,876	9%	378,603	10%	10.1%
MTBE/C4	219,540	5%	163,172	4%	34.5%
Pentene	176,661	4%	143,396	4%	23.2%
Polypropylene processing service	13,291	0%	23,418	1%	-43.2%
Surfactants processing service	21,021	0%	20,836	0%	0.9%
Others	157,476	3%	102,520	3%	53.6%
	<u>4,776,597</u>	100%	<u>3,778,300</u>	100%	<u>26.4%</u>

SALES VOLUME (MT)

Ethylene oxide	190,212	201,335	-5.5%
Ethylene glycol	108,690	115,899	-6.2%
Polypropylene	273,937	204,893	33.7%
Surfactants	52,648	52,592	0.1%
MTBE/C4	45,254	46,156	-2.0%
Pentene	43,225	43,842	-1.4%
Polypropylene processing service	23,772	40,510	-41.3%
Surfactants processing service	70,342	71,760	-2.0%

AVERAGE SELLING PRICE (RMB)

Ethylene oxide	6,695	6,000	11.6%
Ethylene glycol	4,566	3,491	30.8%
Polypropylene	7,308	6,509	12.3%
Surfactants	7,918	7,199	10.0%
MTBE/C4	4,851	3,535	37.2%
Pentene	4,087	3,271	24.9%
Polypropylene processing service	559	578	-3.3%
Surfactants processing service	229	290	-21.0%

	First Half year 2021	% of First Half revenue year 2020	% of revenue	Variance + / (-)
GROSS PROFIT MARGIN (%)				
Ethylene oxide	13.1%	22.0%		-8.9%
Ethylene glycol	0.2%	0.3%		-0.1%
Polypropylene	10.0%	18.1%		-8.1%
Surfactants	10.5%	27.5%		-17.0%
MTBE/C4	11.9%	-12.9%		24.8%
Pentene	0.6%	-9.6%		10.2%
Polypropylene processing service	64.8%	55.0%		9.8%
Surfactants processing service	66.9%	69.7%		-2.8%

Ethylene oxide

During the period under review, the revenue from EO line of business amounted to approximately RMB1,273.4 million, representing an increase of approximately 5.4% when comparing to the corresponding period of 2020. The increase in EO revenue was primarily due to the combined effects of: 1) the decrease in EO output by approximately 5.5% as a result of regular maintenance of one of the Group's EO production facilities; and 2) the increase in average selling price of EO by approximately 11.6% as the average selling price of Ethylene increased by approximately 55.4% (on a simple average basis).

Ethylene glycol

During the period under review, the revenue from EG line of business amounted to approximately RMB496.3 million, representing an increase of approximately 22.6% when comparing to the corresponding period of 2020. The increase in EG revenue was primarily due to the increase in average selling price of EG by approximately 30.8% as the average selling price of Ethylene increased by approximately 55.4% (on a simple average basis) and the decrease in EG output by approximately 6.2% during the period under review as a result of regular maintenance of one of the Group's EO production facilities.

Polypropylene

During the period under review, the revenue from PP line of business increased by approximately 50.1% when compared to the corresponding period of 2020, which was primarily resulted from the increase in average selling price of PP by approximately 12.3% as the average selling price of Propylene increased by approximately 40.9% (on a simple average basis) and the increase in output of PP as there was no regular maintenance scheduled during the period under review while one of the PP production facilities has been suspended for regular maintenance during the corresponding period of 2020.

Gross profit margin

Overall gross profit margin decreased by approximately 5.9%, primarily resulted from the combined effects of: 1) the pricings of Ethylene and Propylene increased by approximately 55.4% and 40.9% (on a simple average basis) respectively, which were more than the price increments of EO, EG and PP of approximately 7.9%, 29.7% and 16.9% (on a simple average basis) during the period under review; and 2) Methanol pricing increased in a substantial less extent when comparing to the price increments of Ethylene and Propylene (i.e. approximately 31.2% increment vs. approximately 55.4% and 40.9% increments), offsetting certain of the adverse impacts from the price increments of Ethylene and Propylene.

Administrative expenses

Administrative expenses mainly consist of staff related costs, various local taxes and educational surcharge, depreciation, audit fee and miscellaneous expenses.

CONDENSED CONSOLIDATED STATEMENT OF FINANCE POSITION

At 30 June 2021 — unaudited

		30 June 2021 RMB'000	31 December 2020 RMB'000
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment		6,159,737	4,998,987
Right-of-use assets		588,519	440,670
Intangible assets		105,488	117,589
Due from related parties	16	522,117	590,948
Advance payments for property, plant and equipment		1,031,595	1,360,815
Equity investments designated at fair value through other comprehensive income		3,347	3,347
Prepayments, other receivables and other assets		83,000	—
Pledged deposits		880,000	560,000
Deferred tax assets		7,222	7,241
Total non-current assets		9,381,025	8,079,597
CURRENT ASSETS			
Inventories	11	809,423	948,500
Trade and notes receivables	12	393,354	249,056
Prepayments, other receivables and other assets		406,362	252,950
Due from related parties	16	48,025	4,190
Financial assets at fair value through profit or loss	10	507,756	501,177
Pledged deposits	13	347,000	207,338
Cash and cash equivalents	13	683,061	775,849
Total current assets		3,194,981	2,939,060
CURRENT LIABILITIES			
Trade and bills payables	14	1,615,646	961,017
Other payables and accruals		906,495	798,757
Derivative financial instruments		613	8,378
Interest-bearing bank borrowings	15	3,303,512	3,035,889
Lease liabilities		2,156	2,104
Due to related parties	17	130,263	67,203
Tax payable		85,206	150,107
Total current liabilities		6,043,891	5,023,455
NET CURRENT LIABILITIES		(2,848,910)	(2,084,395)
TOTAL ASSETS LESS CURRENT LIABILITIES		6,532,115	5,995,202

		30 June 2021 RMB'000	31 December 2020 RMB'000
	<i>Notes</i>		
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	15	1,652,000	1,162,000
Lease liabilities		13,034	14,143
Deferred tax liabilities		26,603	27,368
		<u> </u>	<u> </u>
Total non-current liabilities		<u>1,691,637</u>	<u>1,203,511</u>
Net assets		<u>4,840,478</u>	<u>4,791,691</u>
EQUITY			
Equity attributable to owners of the parent			
Issued capital		102,662	102,662
Reserves		4,635,912	4,610,025
		<u> </u>	<u> </u>
		4,738,574	4,712,687
Non-controlling interests		101,904	79,004
		<u> </u>	<u> </u>
Total equity		<u>4,840,478</u>	<u>4,791,691</u>

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2021 — unaudited

		Six months ended 30 June	
		2021	2020
	Notes	RMB'000	RMB'000
REVENUE	4	4,776,597	3,778,300
Cost of sales	6	<u>(4,259,448)</u>	<u>(3,145,697)</u>
Gross profit		517,149	632,603
Other income and gains	4	190,461	196,919
Selling and distribution cost		(13,221)	(12,809)
Administrative expenses		(155,877)	(163,512)
Other expenses	4	(73,854)	(125,010)
Finance costs	5	(75,218)	(70,499)
Reversal of impairment losses on financial assets		<u>249</u>	<u>2,347</u>
PROFIT BEFORE TAX	6	389,689	460,039
Income tax expense	7	<u>(39,168)</u>	<u>(79,048)</u>
PROFIT FOR THE PERIOD		<u>350,521</u>	<u>380,991</u>
Attributable to:			
Equity holders of the parent		327,621	373,660
Non-controlling interests		<u>22,900</u>	<u>7,331</u>
		<u>350,521</u>	<u>380,991</u>
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	8		
— Basic		<u>27.85 fens</u>	<u>31.61 fens</u>
— Diluted		<u>27.85 fens</u>	<u>31.61 fens</u>
INTERIM DIVIDEND DECLARED FOR THE PERIOD	9	<u>123,793</u>	<u>133,594</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2021 — unaudited

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
PROFIT FOR THE PERIOD	<u>350,521</u>	<u>380,991</u>
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Equity investments designated at fair value through other comprehensive income (“OCI”) — change in fair value	<u>—</u>	<u>—</u>
	<u>—</u>	<u>—</u>
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	<u>—</u>	<u>—</u>
OTHER COMPREHENSIVE INCOME FOR THE PERIOD	<u>—</u>	<u>—</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u><u>350,521</u></u>	<u><u>380,991</u></u>
Attributable to:		
Equity holders of the parent	327,621	373,660
Non-controlling interests	<u>22,900</u>	<u>7,331</u>
	<u><u>350,521</u></u>	<u><u>380,991</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2021 — unaudited

		Six months ended 30 June	
		2021	2020
	Notes	RMB'000	RMB'000
Net cash flows in respect of operating activities		1,055,768	337,997
Net cash flows in respect of investing activities		(1,523,221)	(2,584,079)
Net cash flows in respect of financing activities		<u>377,452</u>	<u>2,186,595</u>
Net (decrease)/increase in cash and cash equivalents		(90,001)	(59,487)
Cash and cash equivalents at beginning of period		775,849	591,671
Effect of foreign exchange rate change, net		<u>(2,787)</u>	<u>665</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	13	<u><u>683,061</u></u>	<u><u>532,849</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2021 — unaudited

	Attributable to owners of the parent														
	Share Capital	Statutory surplus & safety production reserve	Special reserve	Share premium	Capital redemption reserve	Financial assets at FV through OCI revaluation reserve	Merger reserve	Share award reserve	Shares repurchased for share award plan	Retained profits	Proposed interim/final dividend	Total	Non-controlling interests	Total equity	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 1 January 2021	102,662	725,211	(38,363)	1,352,311	2,371	2,347	(627,092)	—	(31,704)	3,224,944	—	4,712,687	79,004	4,791,691	
Profit for the period	—	—	—	—	—	—	—	—	—	327,621	—	327,621	22,900	350,521	
Change in fair value, net of tax	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Total comprehensive income for the period	—	—	—	—	—	—	—	—	—	327,621	—	327,621	22,900	350,521	
Appropriation to statutory surplus/safety production reserve	—	34,995	—	—	—	—	—	—	—	(34,995)	—	—	—	—	
Safety production reserve Used	—	(1,122)	—	—	—	—	—	—	—	1,122	—	—	—	—	
2020 final dividend paid	—	—	—	—	—	—	—	—	—	(297,402)	—	(297,402)	—	(297,402)	
Equity-settled share award arrangement, offset with dividends	—	—	—	—	—	—	—	—	(4,332)	—	—	(4,332)	—	(4,332)	
At 30 June 2021	102,662	759,084	(38,363)	1,352,311	2,371	2,347	(627,092)	—	(36,036)	3,221,290	—	4,738,574	101,904	4,840,478	
At 1 January 2020	102,662	602,847	(10,688)	1,352,311	2,371	3,177	(627,092)	—	(13,891)	2,589,442	—	4,001,139	17,263	4,018,402	
Profit for the period	—	—	—	—	—	—	—	—	—	373,660	—	373,660	7,331	380,991	
Change in fair value, net of tax	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Total comprehensive income for the period	—	—	—	—	—	—	—	—	—	373,660	—	373,660	7,331	380,991	
Appropriation to statutory surplus/safety production reserve	—	60,941	—	—	—	—	—	—	—	(60,941)	—	—	—	—	
Safety production reserve used	—	(7,917)	—	—	—	—	—	—	—	7,917	—	—	—	—	
2019 final dividend paid	—	—	—	—	—	—	—	—	—	(218,508)	—	(218,508)	—	(218,508)	
Equity-settled share award arrangement, offset with dividends	—	—	—	—	—	—	—	—	1,336	—	—	1,336	—	1,336	
At 30 June 2020	102,662	655,871	(10,688)	1,352,311	2,371	3,177	(627,092)	—	(12,555)	2,691,570	—	4,157,627	24,594	4,182,221	

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**”) was principally engaged in the manufacture and supply of ethylene oxide (“**EO**”), ethylene glycol (“**EG**”), polypropylene (“**PP**”), methyl tert-butyl ether (“**MTBE**”) and surfactants in the PRC. The Group was also engaged in the provision of processing services for PP, MTBE and surfactants to its customers and the production and supply of other chemical products such as C4, crude pentene and industrial gases, namely oxygen, nitrogen and argon in the PRC. EO is a key intermediary component for the production of ethylene derivative products such as ethanolamines and glycol ethers and a wide range of surfactants. EG is a type of semi-finished goods that is used to produce other bio-organic chemical products such as mono ethylene glycol which is used to produce polyester and anti-frozen chemical liquids. PP is a kind of thermoplastic resin, which can be used in knitting products, injection molding products, film products, fiber products, pipes etc. Surfactants are widely applied in different industries as scouring agents, moisturising agents, emulsifiers and solubilisers. MTBE is a gasoline additive, used as an oxygenate to raise the octane number and is almost exclusively used as a fuel component in fuel for gasoline engines.

2.1 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 2020. 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 2020. 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 2021, the Group’s net current liabilities amounted to approximately RMB2,848,910,000. 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.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual financial statements for the year ended 31 December 2020, except for the adoption of the following revised Hong Kong Financial Reporting Standards ("HKFRSs") for the first time for the current period's financial information.

Amendments to HKFRS 9, HKAS 39, *Interest Rate Benchmark Reform — Phase 2*
HKFRS 7, HKFRS 4 and
HKFRS 16

Amendment to HKFRS 16 *Covid-19-Related Rent Concessions beyond 30 June 2021*
(early adopted)

The nature and impact of the revised HKFRSs are described below:

- (a) Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate ("RFR"). The phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy.

The amendments did not have any impact on the financial position and performance of the Group.

- (b) Amendment to HKFRS 16 issued in April 2021 extends the availability of the practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted.

The Group has early adopted the amendment on 1 January 2021 and the amendment did not have any impact on the financial position and performance of the Group.

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 and performance assessment.

Information about products and services

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

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Sales of goods	4,732,682	3,729,209
Provision of services	34,312	44,254
Others	9,603	4,837
	<u>4,776,597</u>	<u>3,778,300</u>

Geographical information

All external revenue of the Group during the periods is attributable to customers established in the PRC, the place of domicile of the Group's operating entities. The Group's non-current assets are all located in Mainland China.

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 is shown in Note 3 above.

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

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Other income and gains		
Interest/investment income derived from banks & related companies, financial assets at fair value through profit or loss and fair value changes of financial instruments	68,699	83,967
Sales in respect of trading of oil and chemicals	84,261	69,640
Government subsidies*	14,133	39,290
Other lease income	4,101	1,930
Foreign exchange loss, net	15,436	—
Others	3,831	2,092
	190,461	196,919
	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Other expenses		
Provision for impairment for inventory		
— silver (being part of catalyst)	180	14,244
Cost of sales in respect of trading of oil and chemicals	73,532	61,376
Foreign exchange loss, net	—	10,027
Investment loss derived from fair value change of financial derivatives	—	38,083
Others	142	1,280
	73,854	125,010

Notes:

- * Government subsidies mainly represented incentive provided by local government for the Group to operate in Jiaxing 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	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Interest on bank borrowings	75,062	70,239
Interest on lease liabilities	156	260
	<u>75,218</u>	<u>70,499</u>

6 PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Cost of inventories sold	4,247,807	3,204,908
Cost of service provided	11,641	20,395
Depreciation of property, plant and equipment	244,499	272,397
Depreciation of right-of-use assets	8,387	5,855
Amortisation of intangible assets	13,839	14,699
	<u>4,526,182</u>	<u>3,518,254</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	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Current		
Charge for the period	39,914	80,596
Deferred	(746)	(1,548)
	<u>39,168</u>	<u>79,048</u>

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% (2020: 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 operating in Mainland China is generally 25% in accordance with the Corporate Income Tax Law which was approved and became effective on 1 January 2008, except for certain entities who are entitled to preferential tax rates of 15%, subject to the approval of the relevant tax bureaus.

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	
	2021	2020
	RMB'000	RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent	<u>327,621</u>	<u>373,660</u>
	Number of shares	
	'000	'000
Shares		
Weighted average number of ordinary shares in issue during the period	1,176,236	1,181,931
Effect of dilution — weighted average number of ordinary shares:		
Share award plan	<u>—</u>	<u>—</u>
	<u>1,176,236</u>	<u>1,181,931</u>

9 DIVIDENDS

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

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Proposed interim — HK12.5 cents (2020: HK12.5 cents)	123,793	133,594

The Board has declared that an interim dividend of HK12.5 cents (2020: HK12.5 cents) per share for the six months ended 30 June 2021 to shareholders whose names appear in the Register of Members on 17 September 2021.

- 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	
	2021	2020
	RMB'000	RMB'000
Final dividend in respect of the financial year ended 31 December 2020, approved and paid during the following period, of HK30.0 cents per ordinary shares (2019: HK20.0 cents), calculated based on the number of ordinary shares used in the basic earnings per share calculation	297,402	218,508

10 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The Group has investments in certain wealth management products issued by banks in Mainland China. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

11 INVENTORIES

	30 June	31 December
	2021	2020
	RMB'000	RMB'000
Raw materials	708,463	863,161
Finished goods	100,960	85,339
	809,423	948,500

12 TRADE AND NOTES RECEIVABLES

	30 June 2021 <i>RMB'000</i>	31 December 2020 <i>RMB'000</i>
Trade receivables	56,384	52,157
Notes receivable	<u>347,853</u>	<u>207,937</u>
	404,237	260,094
Impairment	<u>(10,883)</u>	<u>(11,038)</u>
	<u><u>393,354</u></u>	<u><u>249,056</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.

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 2021 <i>RMB'000</i>	31 December 2020 <i>RMB'000</i>
1 to 30 days	41,537	40,593
31 to 60 days	11	905
61 to 90 days	1,521	367
91 to 360 days	3,251	475
Over 360 days	<u>10,064</u>	<u>9,817</u>
	<u><u>56,384</u></u>	<u><u>52,157</u></u>

13 CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	30 June 2021 <i>RMB'000</i>	31 December 2020 <i>RMB'000</i>
Cash and bank balances	683,061	775,849
Time deposits	<u>1,227,000</u>	<u>767,338</u>
	<u>1,910,061</u>	<u>1,543,187</u>
Less: Pledged time deposits:		
Pledged for notes payable	1,002,000	298,736
Pledged for bank loans	<u>225,000</u>	<u>468,602</u>
	<u>1,227,000</u>	<u>767,338</u>
Cash and cash equivalents	<u><u>683,061</u></u>	<u><u>775,849</u></u>

Cash at banks earns interest at floating rates based on daily bank deposit rates. Pledged short term time deposits are made for periods with a maturity of the underlying notes payable, letters of credit and bank loans secured by these deposits. Time deposits earn interest at the respective short term time 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 2021 <i>RMB'000</i>	31 December 2020 <i>RMB'000</i>
Trade payables	635,266	474,233
Bills payable	<u>980,380</u>	<u>486,784</u>
	<u>1,615,646</u>	<u>961,017</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 2021 <i>RMB'000</i>	31 December 2020 <i>RMB'000</i>
Within 3 months	1,103,143	708,540
3 to 6 months	504,683	242,400
6 to 12 months	5,103	6,973
12 to 24 months	2,159	1,783
24 to 36 months	6	782
Over 36 months	<u>552</u>	<u>539</u>
	<u>1,615,646</u>	<u>961,017</u>

Trade payables are non-interest-bearing and have an average credit term of three months and bills payable were all aged within one year.

15 INTEREST-BEARING BANK BORROWINGS

	Effective interest rate (%)	Maturity	30 June 2021 RMB'000	31 December 2020 RMB'000
Current				
Bank loans — secured	3.350	2021	205,000	100,000
Bank loans — secured	3.350	2022	45,000	—
Bank loans — unsecured	3.750–4.400	2021	278,000	813,000
Bank loans — unsecured	3.750–4.000	2022	183,000	—
US\$78,640,000 unsecured bank loans	0.451–1.938	2021	508,022	—
US\$46,989,000 unsecured bank loans	2.000	2021	303,554	—
JP¥118,700,000 unsecured bank loans	2.000	2021	6,935	—
US\$80,400,000 unsecured bank loans	0.835–2.700	2021	—	452,167
US\$51,253,000 unsecured bank loans	0.607–2.181	2021	—	334,424
			1,529,511	1,699,591
Discounted notes receivable	2.650–3.700	2021	377,000	879,301
Discounted notes receivable	2.650–3.700	2022	96,000	—
Discounted letter of credit	2.700–3.925	2021	612,000	456,987
Discounted letter of credit	2.700–3.925	2022	689,001	—
			3,303,512	3,035,889
Non-Current				
Bank loans — secured	5.142	2026	584,000	458,000
Bank loans — secured	5.142	2024	14,000	—
Bank loans — secured	5.142	2025	274,000	—
Bank loans — secured	5.142–5.292	2027	780,000	704,000
			1,652,000	1,162,000
			4,955,512	4,197,889
Analysed into:				
Bank loans repayable:				
Within one year			3,303,512	3,035,889
In the second year			—	—
In the third to fifth year			872,000	—
Beyond five years			780,000	1,162,000
			4,955,512	4,197,889

Notes:

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

- (i) mortgages over the Group's leasehold lands, which had an aggregate carrying value at the end of the reporting period of approximately RMB196,825,000 as at 30 June 2021 and approximately RMB199,090,000 as at 31 December 2020;
- (ii) mortgages over the Group's property, plant and equipment, which had an aggregate carrying value at the end of the reporting period of approximately RMB3,116,977,000 as at 30 June 2021 and approximately RMB3,242,602,000 as at 31 December 2020;
- (iii) the Group's financial assets at fair value through profit or loss which had an aggregate carrying value amounting to approximately RMB250,000,000 as at 30 June 2021 and RMB356,716,000 as at 31 December 2020;
- (iv) the Group's pledged deposit, which had an aggregate carrying value amounting to approximately RMB225,000,000 as at 30 June 2021 and RMB468,602,000 as at 31 December 2020;
- (v) guarantees from Lotte Chemical Corporation with mortgages over the Group's property, plant and equipment, which had an aggregate carrying value amounting to approximately RMB221,356,000 as at 30 June 2021 and RMB235,045,000 as at 31 December 2020;
- (vi) guarantees from Hangzhou Haoming Investment Co., Ltd. ("**Hangzhou Haoming**"), a related company and a company established in the PRC with limited liability, for an amount not exceeding approximately RMB650,000,000 as at 30 June 2021 and RMB650,000,000 as at 31 December 2020; and
- (vii) mortgages over 100% of the equity interest of Hangzhou Haoming.

Sanjiang Chemical Company Limited, one of the Group's wholly owned subsidiaries, entered into a syndicated loan agreement with Bank of Communications Corporation Limited, China CITIC Bank Corporation Limited, Agricultural Bank of China Limited and China Minsheng Banking Corporation Limited in 2020 in relation to the funding requirement for the construction of an additional EO/EG production facility with a total loan amount of RMB3,160,000,000, out of which RMB1,652,000,000 and RMB1,162,000,000 has been used as at 30 June 2021 and 31 December 2020 respectively.

16 DUE FROM RELATED PARTIES

	30 June 2021 <i>RMB'000</i>	31 December 2020 <i>RMB'000</i>
Sure Capital Holdings Limited (a)	1	1
Zhejiang Mei Fu Petrochemical Co., Ltd. (b)	569,721	593,713
Guangqu Gangan Industrial Equipment Installation Co., Ltd.	—	1,000
Zhejiang Jiahua Group Co., Ltd.	—	4
Zhejiang Jiahua Import Export Co., Ltd.	376	320
Jiaxing Hangzhouwan Petrochemical Logistics Co., Ltd.	44	100
	<u>570,142</u>	<u>595,138</u>

Notes:

- (a) The amount due from Sure Capital Holdings Limited was derived solely in relation to the Sales and Purchases Agreement entered into on 17 June 2016 to dispose 51% equity interest in Zhejiang Mei Fu Petrochemical Co., Ltd. to Sure Capital Holdings Limited and Jiaying Gangqu Jianghao Investment Development Company Limited.
- (b) The amount due from Zhejiang Mei Fu Petrochemical Co., Ltd. was mainly derived in relation to the 2nd Supplemental LG agreement entered into on 12 September 2019 between the Company and Zhejiang Mei Fu Petrochemical Co., Ltd. as to the provision of Renewed loan to Zhejiang Mei Fu Petrochemical Co., Ltd.

The balances with related parties are unsecured, interest-free and repayable on demand.

17 DUE TO RELATED PARTIES

	30 June 2021 RMB'000	31 December 2020 RMB'000
Zhejiang Jiahua Energy Chemical Co., Ltd.	90,002	47,997
Zhejiang Zhapu Mei Fu Port & Storage Co. Ltd.	9,319	8,454
Jiaying Hangzhouwan Petrochemical Logistics Co., Ltd.	3,281	4,010
Grand Novel Developments Limited	20,128	2,209
Zhejiang Mei Fu Petrochemical Co., Ltd.	—	228
Zhejiang Jiahua Group Co., Ltd.	78	711
Jiaying Xinggang Rewang Co., Ltd.	670	388
Zhejiang HaoXing Energy Saving Technology Co., Ltd.	3,010	1,136
Guangqu Gangan Industrial Equipment Installation Co., Ltd.	3,176	1,567
Zhejiang Jiafu New Materials Technology Co., Ltd.	525	300
Jiaying Zhapu Construction Investment Co., Ltd.	63	63
Jiaying Jianghao Eco-agriculture Co., Ltd.	11	140
	<u>130,263</u>	<u>67,203</u>

The balances due to related parties are unsecured, interest-free and repayable on demand.

CAPITAL COMMITMENTS

As at 30 June 2021, the Group had capital commitments amounted to approximately RMB4,309.9 million which was primarily related to the procurements of plant and machinery for the constructions of additional production capacities and for regular repair and maintenances.

CONTINGENT LIABILITIES

As at 30 June 2021, the Group did not have material contingent liabilities not provided for in the financial statements.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2021, the Group employed a total of 1,006 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 borrowings to total assets maintained in a similar level during the period under review (30 June 2021: 39.4%; 31 December 2020: 38.1%). 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 maintained in a similar level during the period under review (30 June 2021: 37.8 days; 31 December 2020: 49.6 days).

The trade and notes receivables turnover days maintained at a relatively low level during the period under review (30 June 2021: 12.3 days; 31 December 2020: 17.9 days).

The trade and notes payables turnover days maintained at a similar level during the period under review (30 June 2021: 55.4 days; 31 December 2020: 51.4 days).

INTERIM DIVIDEND

The Board has declared an interim dividend of HK12.5 cents per share for the six months ended 30 June 2021 to shareholders whose names appear on the Register of Members on 17 September 2021. It is expected that the interim dividend will be paid on 24 September 2021.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 16 September 2021 to 17 September 2021, both days inclusive, during which period no transfer of shares in the Company can be registered. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar, Tricor Investor Services Limited Level 54, Hopewell Centre, 183 Queen's Road East Hong Kong, for registration no later than 4:30 p.m. on 15 September 2021.

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 2021 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 2021 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 Shen Kaijun and Kong Liang and Pei Yu, all of whom are independent non-executive Directors. The chairman of the Audit Committee is 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 the interim results of the Group for the six months ended 30 June 2021, including the accounting principles and practices adopted by the Group, and the Group's internal control functions.

REMUNERATION COMMITTEE

As at the date of this announcement, the Remuneration Committee has three members, namely Pei Yu, Han Jianhong and Kong Liang of whom Kong Liang and Pei Yu are independent non-executive Directors and Han Jianhong is the Chairlady of the Board and an executive Director. The chairman of the Remuneration Committee is Pei Yu. 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 Han Jianhong, Shen Kaijun and Ms. Pei Yu, of whom Shen Kaijun and Pei Yu are independent non-executive Directors and Han Jianhong is the Chairlady of the Board and an executive Director. The chairlady of the Nomination Committee is Han Jianhong. 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 2021.

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 2021 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
HAN Jianhong
Chairlady and Executive Director

The People's Republic of China, 26 August 2021

As at the date of this announcement, the Board comprises four executive Directors: Ms. HAN Jianhong, Mr. RAO Huotao, Ms. CHEN Xian and Ms. GUAN Siyi and three independent non-executive Directors: Mr. SHEN Kaijun, Ms. PEI Yu and Mr. KONG Liang.

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.*