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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 2023

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 2023 (the "**period under review**").

RESULTS HIGHLIGHTS	**6 months ended 30 June 2023** ***RMB'000***	6 months ended 30 June 2022 *RMB'000*	2023 1H vs. 2022 1H Change %
Revenue	**4,591,142**	4,864,325	−5.6%
Gross (loss)/profit	**(109,238)**	99,160	−210.2%
Net profit/(loss) attributable to equity holders of the parent	**26,121**	(62,689)	−141.7%
Earning/(loss) per share — Basic *(RMB)*	**2.22 fens**	(5.37) fens	−141.3%
Gross (loss)/profit margin *(%)*	**−2.4%**	2.0%	−4.4%
Gearing — interesting-bearing borrowings to total assets basis	**54.7%**	50.2%	4.5%

MANAGEMENT DISCUSSION AND ANALYSIS

During the period under review, although the oil and chemical sector (the "**Sector**") as well as the economy of the People's Republic of China ("**PRC**") were in the progress of recovering and resuming to pre-COVID-19 Pandemic level, the Group experienced a decline in gross profit margin, leading to a slight gross loss margin position of 2.4%, which was primarily due to the fact that the Group's major products namely ethylene oxide ("**EO**"), ethylene glycol ("**EG**") and polypropylene ("**PP**") are closely tied to the downstream applications of a variety of products/industries like cleaning and detergents, cement, textiles, packings and etc. and in turn subject to the recovery of the economy of PRC in general and the economy of PRC would require more time to recover and resume to pre-COVID-19 Pandemic level. With the ramp-up and commercial operation of the Group's new production facilities — the 6th phase EO/EG production facilities with 1,000,000MT output on a yearly basis and its ancillary upstream level production facilities during Q2 of 2023 which would enable the Group to diversify market risks in terms of feedstock procurement to rebalance the composition from the status of Ethylene, Propylene and Methanol on a 20%–10%–70% basis to the new status of the aggregate of Naphtha, Ethane and Propane and Methanol on a 70%–30% basis starting from Q3 of 2023, the Group expects the slight gross loss margin position would be improved in the second half of 2023.

Revenue of the Group slightly decreased by approximately 5.6% as both the average selling price ("**ASP**") and production capacities of the Group's major products namely EO, EG and PP decreased when comparing to the corresponding period of 2022. Overall gross profit margin of the Group decreased by approximately 4.4% to a gross loss margin position of approximately 2.4%. Despite the gross loss margin position, the net profit attributable to shareholders was approximately RMB26.1 million and basic earnings per share was approximately RMB2.22 fens, for the six months ended 30 June 2023, which was primarily attributable to the inclusion of one-off items derived from: −1) Lotte Chemical Corporation, the joint venture partner of joint operation between the Group and Lotte Chemical Corporation ("**Joint Operation**"), agreed to bear and repay the 50% bank loan amounted to approximately RMB115 million of the Joint Operation for the Group; and 2) Lotte Chemical Corporation agreed to transfer its 50% equity interest in the Joint Operation with net asset value amounted to approximately RMB85 million to the Group at zero consideration. During the period under review, the Board does not recommend the payment of an interim dividend for the six months ended 30 June 2023.

The decrease in overall gross profit margin of the Group by approximately 4.4% to a gross loss margin position of approximately 2.4% was primarily due to the decreases in gross profit margins of major line of businesses namely the EO line of business, EG line of business and PP line of business by approximately 14.5%, 3.8% and 1.8% respectively as a result of the combined effects of: 1) the pricings of Methanol, which counted for approximately 70% in total of the Group's feedstock procurement (before the ramp-up of the 6th phase EO/EG production facilities with 1,000,000MT output on a yearly basis and its ancillary upstream level production facilities during Q2 of 2023) during the period under review decreased by approximately 12.0% (on a simple average basis), which was less than the price movements of EO, EG and PP of approximately −15.0%, −19.0%, −14.4% respectively during the period under review as a result of certain global emergencies, which led to higher average market prices of upstream commodities/ feedstocks on a relatively basis when comparing to downstream products which eroded the overall gross profit margin of the Group; and 2) the demands from downstream markets as well as the general economy of PRC during the period under review still required more time to re-build and resume to levels and scales before COVID-19 after the lifting of strict prevention measures in relation to COVID-19 in December 2022. During the period under review, in view of the negative profit spreads of EO, EG and PP, the Group has been actively adjusting its revenue composition by focusing more on downstream products and ancillary products of EO, EG and PP, which are considered to be less price elastic and have positive profit spreads in general. The Group's surfactants revenue increased by 95% in the first half of 2023 when comparing to the corresponding period of 2022.

Despite the aforementioned challenges, the Group's management anticipates an improvement in gross profit margin during the second half of 2023. This optimism stems from the Group's proactive measures to enhance its sales, marketing estimations, and reporting mechanisms. Additionally, by streamlining production processes, the Group is better positioned to swiftly adjust its production mix in response to market demands. Furthermore, the Group foresees the full impact of the 6th phase EO/EG production facilities and its ancillary upstream level production facilities in the second half of 2023. These facilities not only position the Group to double its market share in EO/EG in the Eastern China region but also empower it to recalibrate its feedstock composition substantially. This strategic move is expected to mitigate business risks associated with price volatility in crude oil, natural gas, and coal, which will mitigate and improve negative gross profit spread of EO, EG and PP.

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 2023	% of revenue	First Half year 2022	% of revenue	Variance +/(−)
REVENUE *(RMB'000)*					
Ethylene oxide	**745,844**	16%	1,356,817	28%	−45.0%
Ethylene glycol	**457,476**	10%	507,313	10%	−9.8%
Polypropylene	**1,463,004**	32%	1,794,413	37%	−18.5%
Surfactants	**917,249**	20%	470,174	10%	95.1%
MTBE/C4	**439,053**	10%	347,897	7%	26.2%
Pentene	**202,905**	4%	175,982	4%	15.3%
Polypropylene processing service	**6,787**	0%	7,358	0%	−7.8%
Surfactants processing service	**34,873**	1%	27,206	1%	28.2%
Others	**323,951**	7%	177,165	3%	82.9%
	4,591,142	100%	4,864,325	100%	−5.6%
SALES VOLUME *(MT)*					
Ethylene oxide	**128,923**		199,279		−35.3%
Ethylene glycol	**124,243**		111,550		11.4%
Polypropylene	**229,052**		240,468		−4.7%
Surfactants	**139,808**		55,564		151.6%
MTBE/C4	**69,511**		54,634		27.2%
Pentene	**32,674**		29,639		10.2%
Polypropylene processing service	**16,291**		13,773		18.3%
Surfactants processing service	**104,532**		90,957		14.9%
AVERAGE SELLING PRICE *(RMB)*					
Ethylene oxide	**5,785**		6,809		−15.0%
Ethylene glycol	**3,682**		4,548		−19.0%
Polypropylene	**6,387**		7,462		−14.4%
Surfactants	**6,561**		8,462		−22.5%
MTBE/C4	**6,316**		6,368		−0.8%
Pentene	**6,210**		5,938		4.6%
Polypropylene processing service	**417**		534		−21.9%
Surfactants processing service	**334**		299		11.7%

	First Half year 2023	% of revenue	First Half year 2022	% of revenue	Variance +/(–)
GROSS PROFIT MARGIN *(%)*					
Ethylene oxide	**–8.6%**		5.9%		–14.5%
Ethylene glycol	**–15.6%**		–11.8%		–3.8%
Polypropylene	**–3.6%**		–1.8%		–1.8%
Surfactants	**2.2%**		2.5%		–0.3%
MTBE/C4	**16.6%**		12.3%		4.3%
Pentene	**–2.6%**		–2.1%		–0.5%
Polypropylene processing service	**57.3%**		61.0%		–3.7%
Surfactants processing service	**55.8%**		70.8%		–15%

Ethylene oxide

During the period under review, the revenue from EO line of business amounted to approximately RMB745.8 million, representing a decrease of approximately 45.0% when comparing to the corresponding period of 2022. The decrease in EO revenue was primarily due to the decrease in EO output by approximately 35.3% as the Group lowered the production volume in view of negative spread and adverse market conditions.

Ethylene glycol

During the period under review, the revenue from EG line of business amounted to approximately RMB457.5 million, representing a decrease of approximately 9.8% when comparing to the corresponding period of 2022. The decrease in EG revenue was primarily due to the decrease in the average selling price of EG by approximately 19.0% during the period under review.

Polypropylene

During the period under review, the revenue from PP line of business decreased by approximately 18.5% when compared to the corresponding period of 2022, which was primarily due to the decrease in the average selling price of PP by approximately 14.4% during the period under review.

Gross profit margin

Overall gross profit margin of the Group decreased by approximately 4.4% to a gross loss margin negative of approximately 2.4% was primarily due to the decreases in gross profit margins of major line of businesses namely the EO line of business, EG line of business and PP line of business by approximately 14.5%, 3.8% and 1.8% respectively as a result of the combined effects of: 1) the pricings of Methanol, which counted for approximately 70% in total of the Group's feedstock procurement (before the ramp-up of the 6th phase EO/EG production facilities with 1,000,000MT output on a yearly basis and its ancillary upstream level production facilities during Q2 of 2023) during the period under review decreased by approximately 12.0% (on a simple average basis), which was less than the price movements of EO, EG and PP of approximately −15.0%, −19.0% and −14.4% respectively during the period under review as a result of certain global emergencies, which led to higher average market prices of upstream commodities/ feedstocks on a relatively basis when comparing to downstream products and it erodes the overall gross profit margin of the Group; and 2) the demands from downstream markets as well as the general economy of PRC during the period under review still required more time to re-build and resume to levels and scales before COVID-19 after the lifting of strict prevention measures in relation to COVID-19 in December 2022.

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 FINANCIAL POSITION

At 30 June 2023 — unaudited

	Notes	30 June 2023 RMB'000	31 December 2022 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**12,036,149**	10,398,128
Investment properties		**80,749**	82,129
Right-of-use assets		**753,956**	692,276
Goodwill		**108,434**	108,434
Other intangible assets		**64,195**	73,276
Advance payments for property, plant and equipment		**701,188**	926,759
Equity investments designated at fair value through other comprehensive income		**3,409**	3,409
Pledged deposits	13	**754,576**	1,017,984
Deferred tax assets		**48,939**	37,083
Total non-current assets		**14,551,595**	13,339,478
CURRENT ASSETS			
Inventories	11	**1,307,000**	1,067,372
Trade and notes receivables	12	**822,352**	606,641
Prepayments, other receivables and other assets		**875,334**	235,983
Due from related parties	16	**2,632**	90,545
Derivative financial instruments		**1,431**	11,017
Financial assets at fair value through profit or loss	10	**103,188**	143,878
Pledged deposits and time deposit	13	**2,519,658**	2,546,189
Cash and cash equivalents	13	**522,490**	217,493
Total current assets		**6,154,085**	4,919,118
CURRENT LIABILITIES			
Trade and bills payables	14	**1,238,134**	1,270,293
Other payables and accruals		**2,372,391**	1,673,128
Derivative financial instruments		**7,300**	19,393
Financial liabilities at fair value through profit or loss	10	**223,630**	219,580
Interest-bearing bank and other borrowings	15	**8,167,458**	7,228,416
Lease liabilities		**34,059**	3,738
Due to related parties	17	**1,024,728**	142,040
Tax payable		**56,555**	52,233
Total current liabilities		**13,124,255**	10,608,821
NET CURRENT LIABILITIES		**(6,970,170)**	(5,689,703)
TOTAL ASSETS LESS CURRENT LIABILITIES		**7,581,425**	7,649,775

	Note	30 June 2023 RMB'000	31 December 2022 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	15	**3,152,033**	3,270,235
Lease liabilities		**61,238**	18,531
Deferred tax liabilities		**35,092**	35,314
Total non-current liabilities		**3,248,363**	3,324,080
Net assets		**4,333,062**	4,325,695
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**102,662**	102,662
Reserves		**4,221,182**	4,195,061
		4,323,844	4,297,723
Non-controlling interests		**9,218**	27,972
Total equity		**4,333,062**	4,325,695

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2023 — unaudited

		Six months ended 30 June	
		2023	2022
	Notes	***RMB'000***	*RMB'000*
REVENUE	4	**4,591,142**	4,864,325
Cost of sales	6	**(4,700,380)**	(4,765,165)
Gross (loss)/profit		**(109,238)**	99,160
Other income and gains	4	**763,996**	269,248
Selling and distribution cost		**(1,715)**	(1,538)
Administrative expenses		**(82,523)**	(135,284)
Other expenses	4	**(494,823)**	(221,658)
Finance costs	5	**(120,154)**	(80,652)
Reversal of impairment losses on financial assets		**—**	6,978
LOSS BEFORE TAX	6	**(44,457)**	(63,746)
Income tax (credit)/expense	7	**51,824**	(11,512)
PROFIT/(LOSS) FOR THE PERIOD		**7,367**	(75,258)
Attributable to:			
Equity holders of the parent		**26,121**	(62,689)
Non-controlling interests		**(18,754)**	(12,569)
		7,367	(75,258)
EARNINGS/(LOSSES) PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
— Basic and diluted (RMB)	8	**2.22 fens**	(5.37) fens

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2023 — unaudited

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
PROFIT/(LOSS) FOR THE PERIOD	**7,367**	(75,258)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	**7,367**	(75,258)
Attributable to:		
Equity holders of the parent	**26,121**	(62,689)
Non-controlling interests	**(18,754)**	(12,569)
	7,367	(75,258)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the six months ended 30 June 2023 — unaudited

		Six months ended 30 June	
		2023	2022
	Note	***RMB'000***	*RMB'000*
Net cash flows in respect of operating activities		**(337,562)**	(604,775)
Net cash flows in respect of investing activities		**(811,957)**	(1,603,676)
Net cash flows in respect of financing activities		**1,451,310**	1,955,920
Net increase/(decrease) in cash and cash equivalents		**301,791**	(252,531)
Cash and cash equivalents at beginning of period		**217,493**	593,708
Effect of foreign exchange rate change, net		**3,206**	1,629
CASH AND CASH EQUIVALENTS AT END OF PERIOD	13	**522,490**	342,806

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2023 — 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	Shares repurchased for share award plan	Retained profits	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*
At 1 January 2023	**102,662**	**795,387**	**(38,363)**	**1,352,311**	**2,371**	**2,409**	**(627,092)**	**(36,852)**	**2,744,890**	**4,297,723**	**27,972**	**4,325,695**
Profit for the period	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**26,121**	**26,121**	**(18,754)**	**7,367**
Total comprehensive income for the period	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**26,121**	**26,121**	**(18,754)**	**7,367**
Appropriation to statutory surplus/ safety production reserve	**—**	**35,279**	**—**	**—**	**—**	**—**	**—**	**—**	**(35,279)**	**—**	**—**	**—**
Safety production reserve used	**—**	**(4,855)**	**—**	**—**	**—**	**—**	**—**	**—**	**4,855**	**—**	**—**	**—**
At 30 June 2023	**102,662**	**825,811**	**(38,363)**	**1,352,311**	**2,371**	**2,409**	**(627,092)**	**(36,852)**	**2,740,587**	**4,323,844**	**9,218**	**4,333,062**
At 1 January 2022	102,662	769,410	(38,363)	1,352,311	2,371	2,409	(627,092)	(38,182)	3,140,494	4,666,020	74,546	4,740,566
Loss for the period	—	—	—	—	—	—	—	—	(62,689)	(62,689)	(12,569)	(75,258)
Total comprehensive loss for the period	—	—	—	—	—	—	—	—	(62,689)	(62,689)	(12,569)	(75,258)
Appropriation to statutory surplus/safety production reserve	—	27,851	—	—	—	—	—	—	(27,851)	—	—	—
Safety production reserve used	—	(3,572)	—	—	—	—	—	—	3,572	—	—	—
2021 final dividend paid	—	—	—	—	—	—	—	—	(61,747)	(61,747)	—	(61,747)
Equity-settled share award arrangement, offset with dividends	—	—	—	—	—	—	—	1,330	—	1,330	—	1,330
At 30 June 2022	102,662	793,689	(38,363)	1,352,311	2,371	2,409	(627,092)	(36,852)	2,991,779	4,542,914	61,977	4,604,891

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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 information for the six months ended 30 June 2023 has been prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34 *Interim Financial Reporting*. The Group's unaudited condensed consolidated interim financial information does 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 2022. The unaudited condensed consolidated interim financial information has been prepared under the historical cost convention. These financial information is 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 information has been reviewed by the audit committee of the Company.

Going concern assumption

As at 30 June 2023, the Group's net current liabilities amounted to approximately RMB6,970,170,000. 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 information, 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 condensed consolidated financial information has 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 consolidated financial statements for the year ended 31 December 2022, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards ("**HKFRSs**") for the first time for the current period's financial information.

HKFRS 17	*Insurance Contracts*
Amendments to HKFRS 17	*Insurance Contracts*
Amendment to HKFRS 17	*Initial Application of HKFRS 17 and HKFRS 9 — Comparative Information*
Amendments to HKAS 1 and HKFRS Practice Statement 2	*Disclosure of Accounting Policies*
Amendments to HKAS 8	*Definition of Accounting Estimates*
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to HKAS 12	*Hong Kong Tax Reform — Pillar Two Model Rules*

The nature and impact of the new and revised HKFRSs that are applicable to the Group are described below:

(a) Amendments to HKAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to HKFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The Group has applied the amendments since 1 January 2023. The amendments did not have any impact on the Group's interim condensed consolidated financial information but are expected to affect the accounting policy disclosures in the Group's annual consolidated financial statements.

(b) Amendments to HKAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The Group has applied the amendments to changes in accounting policies and changes in accounting estimates that occur on or after 1 January 2023. Since the Group's policy of determining accounting estimates aligns with the amendments, the amendments did not have any impact on the financial position or performance of the Group.

(c) Amendments to HKAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction narrow the scope of the initial recognition exception in HKAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions. The Group has applied the amendments on temporary differences related to leases as at 1 January 2022, with any cumulative effect recognised as a adjustment to the balance of retained profits or other component of equity as appropriate at that date. In addition, the Group has applied the amendments prospectively to transactions other than leases that occurred on or after 1 January 2022, if any.

Prior to the initial application of these amendments, the Group applied the initial recognition exception and did not recognise a deferred tax asset and a deferred tax liability for temporary differences for transactions related to leases. Upon initial application of these amendments, the Group recognised (i) a deferred tax asset for all deductible temporary differences associated with lease liabilities (provided that sufficient taxable profit is available), and (ii) a deferred tax liability for all taxable temporary differences associated with right-of-use assets as at 1 January 2022. The quantitative impact on the financial information is immaterial.

(d) Amendments to HKAS 12 Hong Kong Tax Reform — Pillar Two Model Rules introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The amendments also introduce disclosure requirements for the affected entities to help users of the financial statements better understand the entities' exposure to Pillar Two income taxes, including the disclosure of current tax related to Pillar Two income taxes separately in the periods when Pillar Two legislation is effective and the disclosure of known or reasonably estimable information of their exposure to Pillar Two income taxes in periods in which the legislation is enacted or substantively enacted but not yet in effect. Entities are required to disclose the information relating to their exposure to Pillar Two income taxes in annual periods beginning on or after 1 January 2023, but are not required to disclose such information for any interim periods ending on or before 31 December 2023. The Group has applied the amendments retrospectively. Since the Group did not fall within the scope of the Pillar Two model rules, the amendments did not have any impact to 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	
	2023	2022
	RMB'000	*RMB'000*
Sales of goods	**4,541,659**	4,822,234
Provision of services	**41,660**	34,564
Others	**7,823**	7,527
	4,591,142	4,864,325

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	
	2023	2022
	RMB'000	*RMB'000*
Other income and gains		
Interest/investment income derived from banks&related parties, financial assets at fair value through profit or loss and fair value changes of financial instruments	**81,320**	108,758
Sales in respect of trading of oil and chemicals	**448,023**	132,556
Government subsidies*	**27,539**	17,047
Other lease income	**2,493**	4,911
Gains from bargain purchase of a subsidiary	**198,265**	—
Others	**6,356**	5,976
	763,996	269,248

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
Other expenses		
Provision for impairment for inventory — silver (being part of catalyst)	**18,699**	41,590
Cost of sales in respect of trading of oil and chemicals	**425,026**	108,704
Foreign exchange loss, net	**39,004**	69,861
Fair value loss, net:		
Financial assets at fair value through profit or loss — mandatorily classified as such	**4,050**	—
Others	**8,044**	1,503
	494,823	221,658

Note:

* 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	
	2023	2022
	RMB'000	*RMB'000*
Interest on bank and other borrowings	**75,569**	28,837
Interest on discounted notes receivables	**44,263**	50,683
Interest on lease liabilities	**322**	1,132
	120,154	80,652

6 LOSS BEFORE TAX

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

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
Cost of inventories sold	**4,680,373**	4,751,823
Cost of service provided	**20,007**	13,342
Depreciation of property, plant and equipment	**235,220**	257,238
Depreciation of right-of-use assets	**10,202**	12,039
Amortisation of intangible assets	**14,735**	14,169

7 INCOME TAX

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	
	2023	2022
	RMB'000	*RMB'000*
Current		
Charge for the period	**4,950**	20,132
Overprovision in prior period	**(44,695)**	—
Deferred	**(12,079)**	(8,620)
Total tax (credit)/charge for the period	**(51,824)**	11,512

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% (2022: 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/(LOSSES) PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings/(losses) per share amounts is based on the profit/(loss) 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/(losses) per share amounts is based on the profit/(loss) 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. The Group had no potentially dilutive ordinary shares in issue during the period ended 30 June 2023 and 2022.

The calculations of basic and diluted earnings/(losses) per share are based on:

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
Earnings/(losses)		
Profit/(loss) attributable to ordinary equity holders of the parent	**26,121**	(62,689)
	Number of shares	
	'000	*'000*
Shares		
Weighted average number of ordinary shares in issue during the period	**1,176,119**	1,167,576

9 DIVIDENDS

i) The Board did not recommend to declare an interim dividend during the period ended 30 June 2023 and 2022.

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	
	2023	2022
	RMB'000	*RMB'000*
Final dividend in respect of the financial year ended 31 December 2022, approved and paid during the following period, of HK$Nil (2021: HK6.0 cents per ordinary shares), calculated based on the number of ordinary shares used in the basic earnings per share calculation	**—**	61,747

10 FINANCIAL ASSETS/LIABILITIES 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
	2023	2022
	RMB'000	*RMB'000*
Raw materials	**1,101,698**	967,826
Finished goods	**205,302**	99,546
	1,307,000	1,067,372

12 TRADE AND NOTES RECEIVABLES

	30 June 2023 *RMB'000*	31 December 2022 *RMB'000*
Trade receivables	**91,860**	75,073
Notes receivable	**734,570**	535,646
	826,430	610,719
Impairment	**(4,078)**	(4,078)
	822,352	606,641

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 2023 *RMB'000*	31 December 2022 *RMB'000*
1 to 30 days	**59,375**	64,660
31 to 60 days	**12,244**	4,051
61 to 90 days	**520**	1,526
91 to 360 days	**15,334**	870
Over 360 days	**4,387**	3,966
	91,860	75,073

13 CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	30 June 2023 *RMB'000*	31 December 2022 *RMB'000*
Cash and bank balances	**522,490**	217,493
Time deposits	**3,274,234**	3,564,173
	3,796,724	3,781,666
Less: Pledged time deposits		
Pledged for forward contract	**—**	2,321
Pledged for options	**708**	18,990
Pledged for a lawsuit	**—**	1,000
Pledged for bills payable	**169,026**	646,519
Pledged for letters of credit	**14,551**	54,665
Pledged for bank loans	**3,067,104**	2,833,614
Pledged for letter of guarantee	**17,752**	—
Non-pledged time deposits with original maturity of over three months	**5,093**	7,064
	3,274,234	3,564,173
Cash and cash equivalents	**522,490**	217,493

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 2023 *RMB'000*	31 December 2022 *RMB'000*
Trade payables	**192,070**	501,550
Bills payable	**1,046,064**	768,743
	1,238,134	1,270,293

An aged analysis of the trade 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 2023	31 December 2022
	RMB'000	*RMB'000*
Within 3 months	**615,685**	863,369
3 to 6 months	**150,984**	361,656
6 to 12 months	**123,951**	31,286
12 to 24 months	**341,223**	11,953
24 to 36 months	**4,369**	1,228
Over 36 months	**1,922**	801
	1,238,134	1,270,293

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 AND OTHER BORROWINGS

	Effective interest rate *(%)*	Maturity	**30 June 2023** ***RMB'000***	31 December 2022 *RMB'000*
Current				
Bank loans — secured	3.350–4.600		—	114,342
Bank loans — unsecured	3.500–4.000		—	1,290,271
Bank loans — unsecured	3.400–3.800		1,382,139	—
US$21,986,000 secured bank loans	1.260–5.319		—	153,127
US$10,384,000 secured bank loans	5.732–6.550		75,035	—
US$71,388,000 unsecured bank loans	1.200–5.746		—	497,191
US$107,200,000 unsecured bank loans	5.215–7.250		774,607	—
EUR€22,356,000 secured bank loans	1.260–1.951		—	165,947
EUR€16,021,000 secured bank loans	1.500–4.150		126,198	—
EUR€12,893,000 unsecured bank loans	3.046–3.200		—	95,708
Current portion of long term bank loans — secured	3.200–5.412		425,500	279,000
Current portion of long term other borrowing — secured	5.120		73,235	—
Discounted notes receivable	1.100–2.770		2,735,784	2,246,310
Discounted letter of credit	1.400–3.000		2,574,960	2,386,520
			8,167,458	7,228,416
Non-current				
Bank loans — secured	3.580–5.142	2024	368,000	538,000
Bank loans — secured	5.142	2025	520,000	520,000
Bank loans — secured	5.142	2026	623,000	623,000
Bank loans — secured	5.142–5.292	2027	780,000	780,000
Bank loans — unsecured	3.200–3.580	2024	62,000	124,000
Bank loans — unsecured	3.200–3.580	2025	225,000	225,000
Bank loans — unsecured	3.200–3.200	2026	126,000	126,000
Bank loans — unsecured	3.200–4.600	2027	371,268	334,235
Other borrowing — secured	5.120	2025	76,765	—
			3,152,033	3,270,235
			11,319,491	10,498,651
Analysed into:				
Bank loans repayable:				
Within one year			**8,167,458**	7,228,416
In the second year			**506,765**	662,000
In the third to fifth year			**2,645,268**	2,608,235
			11,319,491	10,498,651

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 RMB390,968,000 as at 30 June 2023 and approximately RMB395,689,000 as at 31 December 2022;

(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 RMB3,198,188,000 as at 30 June 2023 and approximately RMB3,496,255,000 as at 31 December 2022;

(iii) the Group's financial assets at fair value through profit or loss which had an aggregate carrying value amounting to approximately RMB50,980,000 as at 30 June 2023 and RMB50,476,000 as at 31 December 2022;

(iv) the Group's pledged deposit, which had an aggregate carrying value amounting to approximately RMB3,081,655,000 as at 30 June 2023 and RMB2,888,279,000 as at 31 December 2022;

(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 nil as at 30 June 2023 and RMB90,900,500 as at 31 December 2022;

(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 2023 and RMB650,000,000 as at 31 December 2022; 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 RMB2,607,000,000 and RMB2,469,000,000 has been used as at 30 June 2023 and 31 December 2022 respectively.

16 DUE FROM RELATED PARTIES

	30 June 2023 *RMB'000*	31 December 2022 *RMB'000*
Sure Capital Holdings Limited	**1**	1
Zhejiang Mei Fu Petrochemical Co., Ltd.	**—**	87,282
Grand Novel Developments Limited	**2,631**	2,534
Zhejiang HaoXing Energy Saving Technology Co., Ltd.	**—**	352
Zhejiang Jiahua Import Export Co., Ltd.	**—**	376
	2,632	90,545

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

17 DUE TO RELATED PARTIES

	30 June 2023 *RMB'000*	31 December 2022 *RMB'000*
Zhejiang Jiahua Energy Chemical Co., Ltd.	**289,969**	123,154
Zhejiang Mei Fu Petrochemical Co., Ltd.	**262,325**	—
Zhejiang Jiahua Import Export Co., Ltd.	**199,624**	—
Zhejiang Zhongxin Enterprise Management Co., Ltd	**120,000**	—
Zhejiang HaoXing Energy Saving Technology Co., Ltd.	**1,078**	—
Zhejiang Zhapu Mei Fu Port & Storage Co. Ltd.	**31,039**	12,603
Jiaxing Hangzhouwan Petrochemical Logistics Co., Ltd.	**1,913**	1,206
Zhejiang Jiahua Group Co., Ltd.	**68,714**	711
Jiaxing Xinggang Rewang Co., Ltd.	**670**	378
Guangqu Gangan Industrial Equipment Installation Co., Ltd.	**48,474**	2,790
Zhejiang Jiafu New Materials Technology Co., Ltd.	**579**	285
Jiaxing Zhapu Construction Investment Co., Ltd.	**63**	63
Jiaxing Jianghao Eco-agriculture Co., Ltd.	**280**	850
	1,024,728	142,040

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

CAPITAL COMMITMENTS

As at 30 June 2023, the Group had capital commitments amounted to approximately RMB1,279.4 million which primarily related to the procurements of plant and machinery for the construction of additional production capacities and for regular repair and maintenances.

CONTINGENT LIABILITIES

As at 30 June 2023, the Group did not have material contingent liabilities not provided for in the financial information.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2023, the Group employed a total of 1,165 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 2023: 54.67%; 31 December 2022: 57.50%). 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 2023: 46 days; 31 December 2022: 44 days).

The trade and notes receivables turnover days maintained at a relatively low level during the period under review (30 June 2023: 28 days; 31 December 2022: 20 days).

The trade and notes payables turnover days maintained at a similar level during the period under review (30 June 2023: 48 days; 31 December 2022: 68 days).

INTERIM DIVIDEND

The Board does not recommend an interim dividend for the six months ended 30 June 2023.

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 2023 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 2023 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 2023, 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 2023.

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 2023 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.chinasanjiangfinechemicals.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, 31 August 2023

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.*