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 2010

FINANCIAL HIGHLIGHTS

Revenue increased by approximately 40.4% to approximately RMB831.2 million (2009: approximately RMB592.1 million).

Profit attributable to equity holders of the parent decreased by approximately 17.8% to approximately RMB110.7 million for the six months ended 30 June 2010 (for the six months ended 30 June 2009: approximately RMB134.6 million).

AUDITED INTERIM RESULTS

The board of directors (the "Board") of China Sanjiang Fine Chemicals Company Limited (the "Company") is pleased to announce the audited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2010, together with the comparative figures for the corresponding period in 2009. The consolidated interim financial statements have been audited by Ernst & Young, the auditors of the Company, and have been reviewed by the Company's audit committee.

Consolidated income statement

	Six months ended 30 June	
	2010	**2009**
	RMB'000	*RMB'000*
		(Unaudited)
REVENUE	831,240	592,090
Cost of sales	(670,722)	(394,088)
Gross profit	160,518	198,002
Other income and gains	10,669	4,932
Selling and distribution cost	(911)	(1,302)
Administrative expenses	(20,851)	(14,202)
Other expenses	(621)	(244)
Finance costs	(8,739)	(17,754)
PROFIT BEFORE TAX	140,065	169,432
Income tax expense	(29,326)	(25,322)
PROFIT FOR THE PERIOD	110,739	144,110
Attributable to:		
Equity holders of the parent	110,695	134,619
Non-controlling interests	44	9,491
	110,739	144,110
Earnings per share attributable to equity holders of the parent		
Basic and diluted (RMB)	10.97 cents	13.34 cents

Consolidated statement of comprehensive income

	Six months ended 30 June	
	2010	**2009**
	RMB'000	*RMB'000*
		(Unaudited)
PROFIT FOR THE PERIOD	110,739	144,110
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	110,739	144,110
Attributable to:		
Equity holders of the parent	110,695	134,619
Non-controlling interests	44	9,491
	110,739	144,110

Consolidated statement of financial position

	As at 30 June 2010 *RMB'000*	As at 31 December 2009 *RMB'000*
NON-CURRENT ASSETS		
Property, plant and equipment	871,796	897,322
Prepaid land lease payments	45,957	48,539
Intangible assets	18,121	19,654
Advance payments for property, plant and equipment	175,210	53,941
Deferred tax assets	335	627
Total non-current assets	1,111,419	1,020,083
CURRENT ASSETS		
Inventories	64,755	67,717
Trade and notes receivables	30,307	38,763
Prepayments, deposits and other receivables	41,160	22,260
Due from related parties	–	142,403
Pledged deposits	429,065	236,547
Cash and cash equivalents	151,406	109,205
Total current assets	716,693	616,895
CURRENT LIABILITIES		
Trade and bills payables	205,462	254,083
Other payables and accruals	78,460	136,764
Interest-bearing bank borrowings	740,225	629,986
Due to directors	80	1,564
Due to related parties	4,376	5,878
Due to the parent and ultimate holding company	135,818	68,282
Dividends payable	113,068	172,036
Tax payable	20,473	11,865
Total current liabilities	1,297,962	1,280,458
NET CURRENT LIABILITIES	(581,269)	(663,563)
TOTAL ASSETS LESS CURRENT LIABILITIES	530,150	356,520

	As at 30 June 2010	As at 31 December 2009
	RMB'000	*RMB'000*
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	171,370	89,500
Deferred tax liabilities	43,718	32,822
Total non-current liabilities	215,088	122,322
Net assets	315,062	234,198
EQUITY		
Equity attributable to equity holders of the parent		
Share capital	901	901
Reserves	(30,689)	(51,379)
Retained profits	342,955	284,838
	313,167	234,360
Non-controlling interests	1,895	(162)
Total equity	315,062	234,198

Notes to the consolidated interim financial statements

1. BASIS OF PREPARATION

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong.

The financial statements have been prepared under the historical cost convention. The financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

2. GOING CONCERN ASSUMPTION

As at 30 June 2010, the Group's net current liabilities amounted to approximately RMB581 million, which comprised current assets of approximately RMB717 million and current liabilities of approximately RMB1,298 million. The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflows from operations and sufficient financing to meet its financial obligations as and when they fall due. In preparing the financial statements, the Directors of the Company have considered the Group's sources of liquidity and believe that adequate funding is available to fulfill the Group's debt obligations and capital expenditure requirements. Accordingly, the consolidated financial statements have been prepared on a basis that the Group will be able to continue as a going concern.

3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised interpretations and amendments to HKFRSs for the first time for the current period's financial statements.

HKFRS 1 (Revised)	*First-time Adoption of HKFRSs*
HKFRS 1 Amendment	*Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters*
HKFRS 2 Amendments	*Amendments to* HKFRS 2 *Share-based Payment – Group Cash-settled Share-base Payment Transactions*
HKFRS 3 (Revised)	*Business Combinations*
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*
HKAS 39 Amendment	*Amendments to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
HK(IFRIC) – Int 17	*Distributions of Non-cash Assets to Owners*
Amendments to HKFRS 5 included in Improvements to HKFRSs 2008	*Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary*
HK-Interpretation 4 Amendment (Revised In December 2009)	*Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases*
HKFRSs (Amendments)	*Improvements to HKFRSs 2009*

The adoption of these new and revised HKFRSs has had no significant financial effect on the financial statements for the periods ended 30 June 2010 and 2009 and there have been no significant changes to the accounting policies applied in the financial statements.

4. ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRS 1 Amendment	Amendments to HKFRS 1 *Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*[2]
HKFRS 9	*Financial Instruments*[4]
HKAS 24 (Revised)	*Related Party Disclosures*[3]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*[1]
HK(IFRIC)-Int 14 Amendment	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*[3]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*[2]

Apart from the above, the HKICPA has issued the third batch of Improvements to HKFRSs in May 2010. Except for the amendments to HKFRS 3 and HKAS 27 which are effective for annual periods beginning on or after 1 July 2010, amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

1 Effective for annual periods beginning on or after 1 February 2010
2 Effective for annual periods beginning on or after 1 July 2010
3 Effective for annual periods beginning on or after 1 January 2011
4 Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised standards, amendments and interpretations upon initial application. So far, the Group considers that except for the adoption of HKFRS 9 which may result in changes in accounting policies, the other revised standards, amendments or interpretations are unlikely to have a significant impact on the Group's results of operations and financial position.

5. 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.

Entity-wide disclosures

Information about products

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

	Six months ended 30 June	
	2010	**2009**
	RMB'000	*RMB'000*
		(Unaudited)
Ethylene oxide	700,454	385,656
Surfactants	80,153	121,083
Other chemical products	41,944	24,220
Processing services	7,079	59,872
Others	1,610	1,259
	831,240	592,090

Geographical information

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

6. REVENUE, OTHER INCOME AND GAINS

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

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

	Six months ended 30 June	
	2010	**2009**
	RMB'000	*RMB'000*
		(Unaudited)
Revenue		
Sales of goods	822,551	530,959
Provision of services	7,079	59,872
Others	1,610	1,259
	831,240	592,090
Other income and gains		
Bank interest income	4,032	3,506
Government subsidies*	53	254
Foreign exchange gains, net	3,706	33
Other lease income	2,272	316
Others	606	823
	10,669	4,932

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

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	
	2010	**2009**
	RMB'000	*RMB'000*
		(Unaudited)
Current – PRC		
Charge for the period	18,138	11,687
Deferred	11,188	13,635
Total tax charge for the period	29,326	25,322

Pursuant to the relevant tax law of Hong Kong Special Administrative Region, Hong Kong profits tax is subject to tax rates of 16.5% for the six months ended 30 June 2010 and 2009 on the estimated assessable profits arising in Hong Kong during the periods. No provision of Hong Kong profits tax has been made as the Group had no taxable income derived from Hong Kong during the periods.

During the Fifth Session of the Tenth National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law (the "Corporate Income Tax Law") was approved and became effective on 1 January 2008. The Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rates for domestic-invested and foreign-invested enterprises at 25%. In this connection, Sanjiang Chemical Co., Limited ("Sanjiang Chemical"), Yongming Petrochemical Co., Limited ("Yongming Petrochemical"), Sanjiang Trading Co., Limited ("Sanjiang Trading") and Jiaxing Port Area Industrial Park Guanlang Co., Ltd. ("Guanlang") have been subject to corporate income tax ("CIT") at the rate of 25% since 2008.

Sanjiang Chemical was registered as a foreign-invested enterprise on 9 December 2003. Sanjiang Chemical was subject to CIT at the rate of 25% for the six months ended 30 June 2010. Pursuant to the approval of the tax bureau, Sanjiang Chemical was exempted from CIT for its first two profit-making years (after deducting losses incurred in previous years) and was entitled to a 50% tax reduction for the succeeding three years. The first profitable year of Sanjiang Chemical was 2006. Therefore, Sanjiang Chemical was subject to CIT at a reduced rate of 12.5% for the six months ended 30 June 2010 and 2009.

Yongming Petrochemical was registered as a foreign-invested enterprise on 9 December 2003 and subject to CIT at the rate of 25% for the six months ended 30 June 2010 and 2009. Pursuant to the approval of the tax bureau, Yongming Petrochemical was exempted from CIT for its first two profit-making years (after deducting losses incurred in previous years) and was entitled to a 50% tax reduction for the succeeding three years. In accordance with the Corporate Income Tax Law, a company would be deemed to trigger the tax holiday from 1 January 2008 even if it did not have taxable profits at that time. Although Yongming Petrochemical was under accumulative loss position as of 1 January 2008, its tax holiday was deemed to have started in 2008. Therefore, Yongming Petrochemical was subject to CIT rate of 12.5% for the six months ended 30 June 2010 and was exempted from CIT for the six months ended 30 June 2009.

Guanlang was registered as a domestic-invested enterprise on 29 September 2005 and was subject to CIT at the rate of 25% for the six months ended 30 June 2010 and 2009.

Sanjiang Trading was registered as a domestic-invested enterprise on 29 October 2004 and was subject to CIT at a rate of 25% for the six months ended 30 June 2010 and 2009.

Hangzhou Sanjiang Textile Auxiliaries Co., Ltd. ("Hangzhou Sanjiang") was registered as a domestic-invested enterprise on 1 April 2010 and was subject to CIT at a rate of 25% for the six months ended 30 June 2010.

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

	Six months ended 30 June	
	2010	**2009**
	RMB'000	*RMB'000*
		(Unaudited)
Profit before tax	140,065	169,432
Tax at the statutory tax rates	35,016	42,358
Tax effect of tax concession and allowances	(17,312)	(30,291)
Tax losses not recognised	202	160
Expenses not deductible for tax	615	1,257
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries	10,896	13,355
Tax losses utilized from previous years	(91)	(1,517)
Tax charge at the Group's effective rate	29,326	25,322

8. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share for the six months ended 30 June 2010 and 2009 is based on the following data:

	Six months ended 30 June	
	2010	**2009**
	RMB'000	*RMB'000*
		(Unaudited)
Profit for the period attributable to equity holders of the parent for the purpose of basic earnings per share	110,695	134,619
Number of ordinary shares for the purpose of basic earnings per share	1,009,303,000	1,009,303,000

The number of ordinary shares used to calculate the basic earnings per share for the six months ended 30 June 2010 and 2009 was based on the 1,009,303,000 ordinary shares, representing the number of shares of the Company immediately after the capitalisation issue as if the shares had been in issue throughout the six months ended 30 June 2010 and 2009.

9. DEFERRED TAX

The movements in deferred tax liabilities and assets during the periods are as follows:

Deferred tax liabilities

	Withholding tax on the distributable profits *RMB'000*
At 1 January 2009	14,110
Deferred tax charged to the income statement during the year	18,712
At 31 December 2009 and 1 January 2010	32,822
Deferred tax charged to the income statement during the period	10,896
At 30 June 2010	43,718

Deferred tax assets

	Impairment of assets *RMB'000*	**Pre-operating expense** *RMB'000*	**Unrealized profit attributable to intra-group transactions** *RMB'000*	**Total** *RMB'000*
At 1 January 2009	36	1,158	13	1,207
Deferred tax credited/(charged) to the income statement during the year	9	(579)	(10)	(580)
At 31 December 2009 and 1 January 2010	45	579	3	627
Deferred tax charged to the income statement during the period	–	(289)	(3)	(292)
At 30 June 2010	45	290	–	335

Pursuant to the PRC CIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprise established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax arrangement between China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable to withholding taxes on dividend distributed by foreign invested subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. The Group recognised deferred tax liabilities in respect of accumulated distributable earnings from its foreign invested subsidiaries established in Mainland China since 1 January 2008, no matter whether such earnings have been declared or not by the foreign invested subsidiaries at the reporting date.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

Deferred tax assets have not been recognised in respect of the losses of Yongming Petrochemical, Sanjiang Trading, Hangzhou Sanjiang and Guanlang as it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Deferred tax assets have not been recognised in respect of the following items:

	As at 30 June 2010 *RMB'000*	**As at 31 December 2009** *RMB'000*
Tax losses of Sanjiang Trading	56	14
Tax losses of Hangzhou Sanjiang	160	–
Tax losses of Guanlang	16	107
	232	121

Tax losses are available for five years to offset against future taxable profits at the companies in which the losses arose.

10. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	As at 30 June 2010 *RMB'000*	**As at 31 December 2009** *RMB'000*
Cash and bank balances	151,406	109,205
Time deposits	429,065	236,547
	580,471	345,752
Less: Pledged time deposits:		
Pledged for bank loans	387,310	221,150
Pledged for bills payables	41,755	15,397
Cash and cash equivalents	151,406	109,205

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

11. INTEREST-BEARING BANK BORROWINGS

	Effective Interest rate (%)	Maturity	As at 30 June 2010 RMB'000	As at 31 December 2009 RMB'000
Current				
Bank loans – secured *	1.184-8.127	Within 1 year	–	551,986
Bank loans – secured *	0.240-4.253	Within 1 year	740,225	–
			740,225	551,986
Current portion of long term bank loans – secured *	7.371-8.127		–	28,000
Discounted bank acceptances *	0.185-4.440		–	50,000
			740,225	629,986
Non-current				
Bank loans – secured *	7.371-8.280	2011.11.15-2013.4.26	–	89,500
	4.860-6.831	2011.7.15-2015.4.12	171,370	–
			171,370	89,500
			911,595	719,486
Repayable:				
Within one year or on demand			740,225	629,986
In the second year			115,000	42,000
In the third to fifth years, inclusive			56,370	47,500
			911,595	719,486

* The Group's bank borrowings are secured by:

(i) Mortgages over the Group's buildings and plant and machinery situated in the PRC with aggregate net book values of RMB195,686,000 as at 30 June 2010 (31 December 2009: RMB201,896,000).

(ii) No mortgages over the Group's leasehold land situated in the PRC as at 30 June 2010 (31 December 2009: RMB9,411,000).

(iii) Pledge of certain of the Group's time deposit amounting to RMB387,310,000 as at 30 June 2010 (31 December 2009: RMB221,150,000).

12. TRADE AND BILLS PAYABLES

	As at 30 June 2010 *RMB'000*	As at 31 December 2009 *RMB'000*
Trade payables	205,159	159,157
Bills payables	303	94,926
	205,462	254,083

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

	As at 30 June 2010 *RMB'000*	As at 31 December 2009 *RMB'000*
Within 3 months	154,881	189,799
3 to 6 months	49,049	62,172
6 to 12 months	756	259
12 to 24 months	240	1,095
24 to 36 months	160	89
Over 36 months	376	669
	205,462	254,083

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

13 DIVIDENDS PAYABLE

As at 30 June 2010, the Company recorded dividends payable of RMB113.1 million which represented the dividend payable to Sure Capital Holdings Limited, ultimate holding company. The dividends payable to ultimate holding company were fully settled.

14 TRADE AND NOTES RECEIVABLES

	As at 30 June 2010 *RMB'000*	As at 31 December 2009 *RMB'000*
Trade receivables	11,440	17,827
Notes receivables	18,867	21,202
	30,307	39,029
Less: Impairment	–	(266)
	30,307	38,763

The Group's trading terms with its customers are mainly on credit. The credit period is generally 15 to 30 days, extending up to three months for major 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.

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

	As at 30 June 2010 *RMB'000*	**As at 31 December 2009** *RMB'000*
1 to 30 days	15,695	12,947
31 to 60 days	2,607	6,691
61 to 90 days	10,108	5,032
91 to 360 days	1,294	3,537
Over 360 days	603	10,822
	30,307	39,029

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

	As at 30 June 2010 *RMB'000*	**As at 31 December 2009** *RMB'000*
Neither past due nor impaired	29,052	23,207
Less than 30 days past due	132	3,449
31 to 60 days past due	138	739
61 to 90 days past due	–	103
91 to 360 days past due	382	709
Over 360 days	603	10,556
	30,307	38,763

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND FINANCIAL REVIEW

Overview

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

Revenue

Revenue for the period under review was approximately RMB831.2 million, an increase of approximately 40.4%, as compared to revenue of approximately RMB592.1 million for the same period last year. The increase in revenue was primarily due to the increase in sales of ethylene oxide during the period.

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

	Six months ended 30 June 2010	% of revenue	Six months ended 30 June 2009	% of revenue
REVENUE (RMB'000)				
Ethylene oxide	700,454	84%	385,656	65%
Surfactants	80,153	10%	121,083	21%
Ethylene oxide processing services	–	–	53,580	9%
Surfactants processing services	7,079	1%	6,292	1%
Other	43,554	5%	25,479	4%
	831,240	100%	592,090	100%

	Six months ended 30 June 2010	% of revenue	Six months ended 30 June 2009	% of revenue
SALES VOLUME (MT)				
Ethylene oxide	67,587		46,167	
Surfactants	7,452		14,064	
Ethylene oxide processing services	–		15,672	
Surfactants processing services	16,240		14,432	
AVERAGE SELLING PRICE (RMB)				
Ethylene oxide	10,364		8,353	
Surfactants	10,756		8,609	
Ethylene oxide processing services	–		3,419	
Surfactants processing services	436		436	

Ethylene oxide sales

Except for those ethylene oxide that are generally not traded on the market for the purpose of ethylene glycol production through integrated production system, the demand for and consumption of ethylene oxide in China is closely correlated with its downstream production activities, in particular, the production of non-ionic surfactants. In 2009, the production of non-ionic surfactants accounted for 60% of the total consumption of ethylene oxide (excluding the non-market-trading ethylene oxide) in China. The remaining 40% of the total consumption was occupied by the production of other downstream products, including ethanolamine, ethylene glycol ethers and other chemicals. It is expected that the market for non-ionic surfactants will continue to dominate the demand for ethylene oxide in China. Further, it is also expected that China's demand for ethylene oxide will remain strong, with a projected growth at a CAGR of 17% from 2009 to 2014, reaching 1,564,017 MT in volume or a total value of US$2,813.6 million by 2014, which is primarily due to an expected growth in demand for ethylene oxide from the non-ionic surfactants downstream industries, and in particular, manufacturers of detergent and cleansing products.

During the period under review, the annual designed ethylene oxide production capacity as at both 30 June 2009 and 30 June 2010 was 120,000 MT/year. The sales volume of ethylene oxide for the six months ended 30 June 2010 increased by approximately 46.4% from 46,167 MT for the 6 months ended 30 June 2009 to 67,587 MT for the 6 months ended 30 June 2010 which is mainly due to the increase in market demand for ethylene oxide, primarily due to the recovery of the PRC economy from the financial crisis in 2009.

As ethylene oxide is a downstream product of ethylene, ethylene oxide is normally priced with reference to the price of ethylene. As such, fluctuation of ethylene price has direct effect on the prices of ethylene oxide. At the same time, since ethylene is one of the chemical products derived from crude oil, the price of ethylene is directly affected by crude oil price. As a result of the increase in crude oil price from the range of approximately US$39.2 to US$71.7 per barrel in the first half of 2009 to the range of approximately US$69.6 to US$88.8 per barrel in the first half of 2010, the average cost of ethylene increased from RMB5,007/MT to RMB8,723/MT during the same period. Accordingly, the average selling price of our ethylene oxide for the six months ended 30 June 2010 increased by 24.1% to RMB10,364/MT from RMB8,353/MT for the same period of 2009.

As a result of the increase in sales volume and average selling price, our sales of ethylene oxide increased by approximately 81.6% to approximately RMB700.5 million for the six months ended 30 June 2010 as compared with the same period of 2009.

Surfactants sales

For surfactants products, the Group focuses primarily on non-ionic surfactants, in particular, the AEO surfactants. According to SAI report (i.e. a report we commissioned with Strategic Analysis Inc. to analyse, among other things, the market conditions of ethylene oxide and non-ionic surfactant products, in particular AEO surfactants, in China), it is expected that the demand for AEO surfactants will experience growth at a CAGR of 5% from 2009 to 2014, reaching 529,500 MT in volume or US$1,077.6 million in value by 2014. The supply of AEO surfactants in China is mainly made up of domestic production, while any shortfall is imported from overseas. In 2009, domestically produced AEO surfactants accounted for approximately 68% of the total demand in China, while imports represented the remaining 32%. It is expected that the situation where total demand exceed domestic production in China will continue in the foreseeable future.

The annual designed surfactants production capacities as at both 30 June 2009 and 30 June 2010 was 118,000 MT/year. During the period under review, the sales volume of surfactants for the six months ended 30 June 2010 was 7,452 MT which represents a decrease by 47.0% from 14,064MT for the same period of 2009.

As a downstream product of ethylene oxide, the price of surfactant is affected by the price of ethylene oxide which is in turn affected by the price of ethylene as well as crude oil price. Therefore, the average selling price of our surfactants increased by 24.9% to RMB10,756/MT for the six months ended 30 June 2010 when comparing to the same period of 2009.

The decrease in surfactants sales by 33.8% for the six months ended 30 June 2010 when comparing to the same period of 2009 was mainly due to the fact that less ethylene oxide produced in-house was being allocated to the production of surfactants while at the same time we increased our surfactants processing services volume. In order to secure a steady stream of revenue for our newly expanded surfactant production capacities, we entered into a surfactants processing service contract with a major surfactant customer on a yearly basis. As such, more self-manufactured ethylene oxide was allocated to provide surfactants processing services. Furthermore, we increased our sales of ethylene oxide in 2010 which resulted in less ethylene oxide being allocated for surfactants sales thereby decreasing our sales volume of surfactants.

Income from provision of processing service

Sales of our processing services decreased by approximately 88.2% from approximately RMB59.9 million for the six months ended 30 June 2009 to approximately RMB7.1 million for the six months ended 30 June 2010. The decrease was primarily due to the fact that we provided ethylene oxide processing services during the six months ended 30 June 2009 generating approximately RMB53.6 million of sales in view of the uncertainty arising from the financial crisis whereas we did not engage in such processing services in 2010. The decrease in sales of our ethylene oxide processing services for the six months ended 30 June 2010 was partially offset by the increase in surfactants processing services as we secured a yearly surfactant processing contract for 2010. Our volume of surfactants processed increase by approximately 12.5% from 14,432 MT for the six months ended 30 June 2009 to 16,240 MT for the six months ended 30 June 2010.

Others

Others mainly represent sales of other chemical products such as ethylene glycol, polymer grade ethylene, industrial gases, namely oxygen, nitrogen and argon and rental income.

Gross profit and gross profit margin

Overall gross profit decreased to approximately RMB160.5 million for the six months ended 30 June 2010 (for the six months ended 30 June 2009: RMB198.0 million) and the overall gross profit margin decreased from 33.4% to 19.3% for the six months ended 30 June 2010. The primary factor that caused the decrease in gross profit margin was the decrease in gross profit margin of ethylene oxide.

The following table set forth the approximate gross profit margins of our major products during the periods under review:

	Six months ended 30 June 2010	**Six months ended 30 June 2009**
Gross profit margin (%)		
Ethylene oxide	19.5%	36.6%
Surfactants	16.2%	19.0%

The decrease in gross profit margin of sales of ethylene oxide for the six months ended 30 June 2010 when comparing to the same period in 2009 is mainly due to the increase in average cost of ethylene (Jan-Jun 2009: RMB5,007/MT; Jan-Jun 2010: RMB8,723/MT) as a result of 1) the increase in crude oil price during the first half of 2010; 2) the 2% additional customs levy imposed on imported ethylene implemented by the General Administration of Customs of the PRC starting from 1 January 2010; and 3) the decrease in the supply of ethylene due to the suspension of production of ethylene by major overseas ethylene suppliers as they underwent periodic maintenance during the first half of 2010.

Other income and gains

For the period under review, other income and gains increased by approximately RMB5.7 million from approximately RMB4.9 million for the six months ended 30 June 2009 to approximately RMB10.7 million for the six months ended 30 June 2010 which was mainly due to increase in foreign exchange gains (Jan-Jun 2010: approximately RMB3.7 million; Jan-Jun 2009: approximately RMB33,000) as a result of appreciation of RMB against USD in 2010 and majority of our purchases are denominated in USD.

Administrative and other expenses

Administrative and other expenses consist mainly of staff related costs, various local taxes and educational surcharge, depreciation, amortization of land use rights, operating lease rental expenses, audit fee and miscellaneous expenses. The increase in administrative and other expenses for the six months ended 30 June 2010 was mainly due to the accrual of professional fees in relation to the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 16 September 2010 (the "Listing Date").

Finance costs

The Group borrows loans from banking institutions in the PRC for financing its working capital and its overseas procurement. The decrease in finance costs for the six months ended 30 June 2010 was mainly due to the lower effective interest rate of approximately 3.32% in 2010 when comparing to the same period of 2009 of approximately 5.99%.

Income tax

The Company had an overall income tax expense of approximately RMB29.3 million for the six months ended 30 June 2010, or 20.9% of pre-tax income as compared to the income tax expense of approximately RMB25.3 million for the six months ended 30 June 2009, or 14.9% of pre-tax income as Yongming Petrochemical commenced to pay its corporate income tax from 2010 onwards.

Profit for the period

The Group generated profit attributable to equity holders of the parent for the six months ended 30 June 2010 of approximately RMB110.7 million, as compared to profit attributable to equity holders of the parent of approximately RMB134.6 million for the same period last year.

Liquidity and financial resources

Net current liabilities

The net current liabilities position of our Group improved from approximately RMB663.6 million as at 31 December 2009 to approximately RMB581.3 million as at 30 June 2010. To the best knowledge and belief of the Directors and having confirmed with the principal bankers of our Group, it is a common practice in the PRC for the local banks to extend working capital loans to enterprises with maturity not more than 12 months. Although our Group recorded net current liabilities during the three financial years ended 31 December 2009 and the four months ended 30 April 2010 ("Track Record Period"), we were able to repay and renew bank borrowings and had not recorded default on bank borrowings.

Financial Position and bank borrowings

The Group had cash and bank balances of approximately RMB151.4 million as at 30 June 2010 (31 December 2009: approximately RMB109.2 million), most of which were denominated in Renminbi. The Group had interest-bearing bank borrowings of approximately RMB911.6 million as at 30 June 2010 (31 December 2009: approximately RMB719.5 million). Please refer to note 11 to the consolidated interim financial statements of this announcement for the details of borrowings and the respective charge of assets. The Group's net gearing, expressed as a percentage of total interest-bearing liabilities to total assets, was at 49.8% as at 30 June 2010 as compared to 44.0% as at 31 December 2009. The increase in the interest-bearing bank borrowings and gearing ratio was primarily attributable to the purchase of property, plant and equipment to expand the ethylene oxide production capacity of the Group.

Working Capital

Total inventories as at 30 June 2010 were approximately RMB64.8 million as compared to approximately RMB67.7 million as at 31 December 2009. The average inventory turnover days for the six months ended 30 June 2010 was 17.8 days (for the year ended 31 December 2009: 28.4 days). The decrease in average inventory turnover days was primarily attributable to the increase in revenue contribution from ethylene oxide which did not bear any inventory such that the average inventory of finished goods was reduced.

Average trade and notes receivables turnover days for the six months ended 30 June 2010 was 7.5 days (for the year ended 31 December 2009: 12.0 days). The decrease in trade and notes receivables turnover days was due to the fact that majority of our ethylene oxide customers are required to pay in advance before delivery in order to secure supply of our products.

Average trade and bills payables turnover days for the six months ended 30 June 2010 was 61.7 days (for the year ended 31 December 2009: 106.2 days). The decrease of trade and bills payable turnover days was attributable to the fact that the Group used more letters of credit with a maturity period of on average of 90 days to settle our trade payables and then financed the payments through the use of short-term bank borrowings.

Capital expenditure, Capital commitment and Human Resources

Please refer to the prospectus dated 3 September 2010 regarding the Listing of the Company for the latest status of the captioned items.

Capital expenditure and capital commitments

Capital expenditure for the six months ended 30 June 2010 amounted to approximately RMB137.7 million and capital commitments as at 30 June 2010 amounted to approximately RMB140.0 million. Both the capital expenditure and capital commitments were mainly related to the constructions of additional production capacities as well as investment in Sanjiang Honam Chemical Co., Ltd.. The Group planned to fund those commitments from listing proceeds, operating cash flow, bank borrowings and other sources of finance when appropriate.

Contingent liabilities

Contingent liabilities as at 30 June 2010 amounted to approximately RMB30 million. The contingent liabilities were mainly related to the guarantees given to banks in connection with loans granted to related parties and they were fully released on 20 July 2010.

Employees and remuneration policy

As at 30 June 2010, the Group employed a total of 462 full time employees. For the six months ended 30 June 2010, the employee benefit expense was approximately RMB12.6 million. The Group's employee benefits included housing subsidies, shift subsidies, bonuses, allowances, medical check-up, staff quarters, social insurance contributions and housing fund contributions. The remuneration committee of the Company reviews such packages annually, or when the occasion requires. The executive Directors, who are also employees of the Company, receive compensation in the form of salaries, bonuses and other allowances.

Outlook

2010 has been a busy and constructive year for our Group. The listing ("Listing") of the shares of the Company on the Stock Exchange has provided our Group with the financial platform to accelerate our Group's expansion in production capacities and sales network. The Company issued 252,400,000 new Shares at the offer price of HK$3.38 per share and raised estimated net proceeds of approximately HK$789.6 million, excluding the exercise of over-allotment option and after deducting underwriting commissions, the incentive fee and other fees and expenses payable by the Company in connection with the Listing. Our Group will continue to follow the business strategies as stated in the prospectus of the Company dated 3 September 2010, including but not limited to, strengthening our leading market position in China through expansion of production capacity, expanding product coverage and functionality as well as improving product quality.

Looking into the second half of 2010, it is expected that the demand for our products will continue to grow as a result of the expected increase in domestic demand for household cleansing and cosmetic products benefiting from the continuous economic growth in the PRC as well as the consumption power of PRC citizens. However, our business will continue to be affected by the fluctuation in international crude oil price which in turn will affect the ethylene price. In order to further minimize the adverse impact of short term price fluctuation of ethylene, we commenced the construction of an additional ethylene storage tank with a total storage capacity of approximately 22,000 cubic metres at a parcel of land owned by us at Port of Zhapu, Jiaxing City, Zhejiang Province, PRC in the second quarter of 2010. It is expected that the construction will be completed by the second quarter of 2011.

Interim dividend

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2010.

Corporate governance

During the six months ended 30 June 2010 when the shares of the Company have not yet been listed on the Stock Exchange, the Company has not yet adopted the Code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"). Since the date of the Listing on 16 September 2010 and up to the date of this interim results announcement, the Company has adopted the code provisions of the CG Code and has complied with all the code provisions of the CG Code.

Model code for securities transactions by directors

During the six months ended 30 June 2010 when the shares of the Company have not yet been listed on the Main Board of the Stock Exchange, the Company has not adopted any model code for securities transactions by Directors (the "Model Code"). The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as its Model Code on 24 August 2010. Having made a specific enquiry, all the Directors confirmed that they have complied with the Model Code since the Listing Date and up to the date of this results announcement.

Audit committee

The Company has established an audit committee with written terms of reference as suggested under the CG Code set out in Appendix 14 to the Listing Rules.

Our audit committee has three members, namely Messrs. Shen Kaijun, Wang Wanxu and Li Zhihong, all of whom are independent non-executive Directors. The chairman of our audit committee is Mr. Shen Kaijun.

The primary responsibilities of our audit committee include, among others, reviewing and supervising the financial reporting process and internal control system of our Group, nominating and monitoring external auditors and providing advice and comments to our Directors.

Purchase, sale or redemption of the Company's listed securities

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 2010 and up to the date of this interim results announcement.

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 2010 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.jxsjchem.com) in due course.

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

Hong Kong, 29 September 2010

As at the date of this announcement, the Board comprises the Executive directors: Mr. GUAN Jianzhong, Ms. HAN Jianhong, Mr. NIU Yingshan, Mr. HAN Jianping and Independent non-executive directors: Mr. WANG Wanxu, Mr. SHEN Kaijun and Mr. LI Zhihong.