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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 2018**

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 2018.

<b>RESULTS HIGHLIGHTS</b>	<b>6 months ended 30 June 2018 RMB'000</b>	6 months ended 30 June 2017 RMB'000	2018 1H vs. 2017 1H Change %
Revenue	<b>4,741,594</b>	4,195,707	13.0%
Gross profit	<b>557,703</b>	354,469	57.3%
Net profit attributable to shareholders	<b>244,296</b>	181,602	34.5%
Earnings per share — Basic (RMB)	<b>23.80 fens</b>	18.43 fens	29.1%
Interim dividend per share (HK\$)	<b>10.0 cents</b>	10.5 cents	-4.8%
Gross profit margin (%)	<b>11.8%</b>	8.4%	3.4%
Gearing-interesting-bearing borrowings to total asset basis	<b>31.7%</b>	39.2%	-7.5%

## MANAGEMENT DISCUSSION AND ANALYSIS

During the six months ended 30 June 2018 (the “**period under review**”), revenue of the Group increased by approximately 13.0%, primarily resulted from:- 1) the increase in output of ethylene glycol (“**EG**”) by approximately 18.0% as the Group increased the overall utilisation rate of ethylene oxide (“**EO**”)/EG production facilities during the period under review when comparing to the first half of 2017, which led to the increase in revenue from ethylene glycol (“**EG**”) sales by approximately RMB248 million; and 2) the increase in overall selling prices of its products by more than 10% in average, primarily due to the improvement of the market sentiments across the oil and chemical sector as the market price of crude oil increased by more than 18% in average during the first half of 2018 when comparing to the whole year of 2017. Overall gross profit margin of the Group improved by approximately 3.4%, which was primarily resulted from the overall improvement in the price spreads of the Group’s major products during the period under review, in particular, the improvement of gross profit margin in upstream level of the Group i.e. the process of converting Methanol to Ethylene/Propylene through Methanol-To-Olefins (“**MTO**”) production facility by approximately 2.3% (first half of 2018: Gross loss margin of upstream — 6.9% vs. first half of 2017: Gross loss margin of upstream — 9.2%). Net profit attributable to shareholders was approximately RMB244 million and basic earnings per share was approximately RMB23.80 cents, for the six months ended 30 June 2018, representing increases of approximately 34.5% and 29.1% respectively as compared with the first half of 2017, which was primarily attributable to the combined effects of:- 1) increase in gross profit of amount RMB203 million; 2) increase in provision made for impairment of silver catalyst of amount RMB51 million; and 3) the recognition of net foreign exchange loss of amount RMB56 million.

The Group was still suffering from the gross loss margin position in upstream level, which was primarily attributable to the unexpected pricing movements of Methanol during the first half of 2018. In a normal scenario where MTO production facility is operating in a full capacity without any production capacity adjustment and procurement adjustment measures, Methanol cost counts approximately two-third towards the feedstock procurement cost of the Group. During the period under review, Methanol pricing fluctuated significantly, soaring from the 2017 yearly average of approximately RMB2,850/MT to the first price peak at approximately RMB3,700/MT in January 2018 and then dropped to a price bottom of approximately RMB2,800/MT early March 2018. Shortly after that, Methanol pricing soared to another price peak at approximately RMB3,500/MT in May 2018 and settled at approximately RMB3,200/MT by July 2018. The Group has been considering that Methanol pricing would come down to a lower level gradually on a medium term basis with the target level of RMB2,400/MT in yearly average, after the expected new Methanol supply from Iran of approximately 4 million MT on an annual basis in 2018, which has been delayed since early 2017. The Group believed that the market has been pricing-in such new supply, which led to the aforesaid price bottom of approximately RMB2,800/MT early March

2018. However, Methanol pricing failed to come down further in March 2018 as previously estimated and the Group considered that the market sentiment as to Methanol pricing has turned to the opposite direction and has concern over the new Methanol supply from Iran since March 2018 after certain unexpected political issues and developments between USA and Iran, the outcome of which is still an unknown as of today. The Group has to admit that such sudden changes of market sentiment as to Methanol pricing is beyond its estimation and expectation.

Having taken into account the aforesaid political uncertainty, the Group is still upholding its view as to the downward trend of Methanol pricing on a medium term basis as such political uncertainty does not affect the fundamental economy of Methanol industry in a long run, the rationales of which have been elaborated in the Group's *2017 Annual Report*.

Nevertheless, The Group considers its well-established and usual strategies that being a diversified vertical-integrated chemical group will, on a medium term basis, enable the Group to be benefited from this Iran-political issue as crude oil pricing would be pushed up substantially given the fact that Iran exports more than one million barrel of crude oil per day and the pricing of crude oil-derivative products like ethylene, propylene, EO, EG and PP will be benefited accordingly.

The Group has finished the ramp-up of the 2nd Phase polypropylene (“PP”) production facility, which has a 300,000MT production capacity on a yearly basis, in April 2018 and such capacity addition will further improve the gross profit margin of the Group's polypropylene line of business in the second half of 2018. The Group expects another capacity addition will be derived from the fine-tuning of the production processes of the 5th Phase EO/EG production, which is expected to contribute additional 60,000MT of EO/EG capacity on a yearly basis by Q4 of 2018.

The Board has recommended an interim dividend of HK10.0 cents per share, representing a dividend payout ratio of approximately 42.5% calculated based on the net profit attributable to shareholders for the period under review.

## 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 2018	% of revenue	First Half Year 2017	% of revenue	Variance +/(-)
<b>REVENUE (RMB'000)</b>					
Ethylene oxide	1,482,171	31%	1,430,171	34%	3.6%
Ethylene glycol	1,248,836	26%	1,000,477	24%	24.8%
Polypropylene	1,022,375	22%	950,764	23%	7.5%
Surfactants	397,690	8%	306,123	7%	29.9%
MTBE/C4	275,446	6%	193,198	5%	42.6%
C5	96,025	2%	126,122	3%	-23.9%
Others	219,051	5%	188,852	4%	16.0%
	<u>4,741,594</u>	100%	<u>4,195,707</u>	100%	13.0%

### SALES VOLUME (MT)

Ethylene oxide	163,497		167,894		-2.6%
Ethylene glycol	193,430		163,915		18.0%
Polypropylene	132,753		145,240		-8.6%
Surfactants	44,900		35,298		27.2%
MTBE/C4	52,786		44,318		19.1%
C5	17,718		24,829		-28.6%

### AVERAGE SELLING PRICE (RMB)

Ethylene oxide	9,065		8,518		6.4%
Ethylene glycol	6,456		6,104		5.8%
Polypropylene	7,701		6,546		17.6%
Surfactants	8,857		8,673		2.1%
MTBE/C4	5,218		4,359		19.7%
C5	5,420		5,080		6.7%

### GROSS PROFIT MARGIN (%)

Ethylene oxide	18.8%		17.7%		1.1%
Ethylene glycol	19.4%		17.7%		1.7%
Polypropylene	-9.9%		-18.6%		8.7%
Surfactants	19.7%		18.1%		1.6%
MTBE/C4	8.0%		11.1%		-3.1%
C5	-1.4%		-1.3%		-0.1%

### ***Ethylene oxide***

During the period under review, the revenue from EO line of business amounted to approximately RMB1,482 million, representing an increase of approximately 3.6% when comparing to the corresponding period of 2017. The increase in EO revenue was primarily due to the increase in average selling price of EO by approximately 6.4% as the market sentiment improved after the stabilization of cruel oil pricing.

### ***Ethylene glycol***

During the period under review, the revenue from EG line of business increased by approximately 24.8% when compared to the corresponding period of 2017 as the Group maximized the output capacity of EG and, in turn, the sales volume of EG for the 5th phase EO/EG production facilities by approximately 18.0%. The increase in average selling price by approximately 5.8% also contributed to the increase in revenue from EG line of business.

### ***Polypropylene***

During the period under review, the revenue from polypropylene line of business increased by approximately 7.5% when compared to the corresponding period of 2017, which was primarily resulted from the increase in average selling price of Propylene by approximately 22.0% (on a simple average basis) in the first half of 2018 when comparing to the corresponding period of 2017 which pushed up the selling price of polypropylene.

### **Gross profit margin**

Overall gross profit margin improved by approximately 3.4%, primarily resulted from the increase in average selling price of Propylene by approximately 22.0% (on a simple average basis) in the first half of 2018 when comparing to the corresponding period of 2017 which pushed up the selling price of polypropylene, and in turn led to the improvement of gross profit margin in upstream level of the Group by approximately 2.3% (first half of 2018: Gross loss margin of upstream — 6.9% vs. first half of 2017: Gross loss margin of upstream — 9.2%).

### **Administrative expenses**

Administrative expenses mainly consist of staff related costs, various local taxes and educational surcharge, depreciation, amortization of land use rights, operating lease rental expenses, audit fee and miscellaneous expenses. The increase in administrative expenses by RMB58.7 million for the period under review was primarily due to the increase in repair and maintenance costs of RMB65.7 million.

### **Income tax expense**

Effective tax rate for the first half of 2018 represented approximately 28.9%, which was higher than the normal level of effective tax rate of around 19% to 20%. The higher of effective tax rate was primarily due to the unrecognized deferred tax assets of approximately RMB48.3 million in respect of available tax losses incurred during the period under review.

## CONDENSED CONSOLIDATED STATEMENT OF FINANCE POSITION

*At 30 June 2018 — unaudited*

		30 June 2018	31 December 2017
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		5,406,448	5,525,528
Prepaid land lease payments		362,191	366,297
Intangible assets		184,643	197,723
Due from related parties	16	47,425	99,697
Advance payments for property, plant and equipment		45,566	17,866
Financial assets at fair value through other comprehensive income		3,206	1,000
Deferred tax assets		5,349	8,316
		<b>6,054,828</b>	<b>6,216,427</b>
<b>TOTAL non-current assets</b>			
<b>CURRENT ASSETS</b>			
Inventories	11	1,059,399	1,007,914
Trade and notes receivables	12	443,485	347,926
Prepayments, deposits and other receivables		292,775	291,931
Due from related parties	16	213,682	221,229
Financial assets at fair value through profit or loss	10	652,590	235,962
Derivative financial instruments		15,059	19,651
Pledged deposits	13	68,815	50,000
Cash and cash equivalents	13	530,254	273,678
		<b>3,276,059</b>	<b>2,448,291</b>
<b>TOTAL current assets</b>			
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	14	1,616,144	1,365,415
Other payables and accruals		851,773	927,201
Derivative financial instruments		3,104	36,646
Interest-bearing bank borrowings	15	2,597,255	1,753,337
Due to related parties	17	170,526	343,066
Tax payable		129,435	110,363
		<b>5,368,237</b>	<b>4,536,028</b>
<b>TOTAL current liabilities</b>			
<b>NET CURRENT LIABILITIES</b>		<b>(2,092,178)</b>	<b>(2,087,737)</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
		<b>3,962,650</b>	<b>4,128,690</b>

	<i>Notes</i>	<b>30 June 2018 RMB'000</b>	31 December 2017 RMB'000
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank borrowings	15	<b>361,706</b>	598,262
Deferred tax liabilities		<b>17,254</b>	13,771
		<hr/>	<hr/>
Total non-current liabilities		<b>378,960</b>	612,033
		<hr/> <hr/>	<hr/> <hr/>
<b>Net assets</b>		<b>3,583,690</b>	3,516,657
		<hr/> <hr/>	<hr/> <hr/>
<b>EQUITY</b>			
<b>Equity attributable to owners of the parent</b>			
Issued capital		<b>102,662</b>	102,662
Reserves		<b>3,344,046</b>	3,206,232
Proposed interim/final dividend	9	<b>103,826</b>	119,800
		<hr/>	<hr/>
Non-controlling interests		<b>3,550,534</b>	3,428,694
		<b>33,156</b>	87,963
		<hr/>	<hr/>
<b>Total equity</b>		<b>3,583,690</b>	3,516,657
		<hr/> <hr/>	<hr/> <hr/>

## CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2018 — unaudited

		Six months ended 30 June	
		2018	2017
	Notes	RMB'000	RMB'000
REVENUE	4	<b>4,741,594</b>	4,195,707
Cost of sales	6	<b>(4,183,891)</b>	(3,841,238)
Gross profit		<b>557,703</b>	354,469
Other income and gains	4	<b>461,560</b>	345,740
Selling and distribution cost		<b>(11,695)</b>	(13,083)
Administrative expenses		<b>(168,351)</b>	(109,677)
Other expenses	4	<b>(508,709)</b>	(337,490)
Finance costs	5	<b>(63,826)</b>	(87,072)
PROFIT BEFORE TAX	6	<b>266,682</b>	152,887
Income tax expense	7	<b>(77,193)</b>	(54,339)
PROFIT FOR THE PERIOD		<b>189,489</b>	98,548
Attributable to:			
Equity holders of the parent		<b>244,296</b>	181,602
Non-controlling interests		<b>(54,807)</b>	(83,054)
		<b>189,489</b>	98,548
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	8		
— Basic		<b>23.80 fens</b>	18.43 fens
— Diluted		<b>23.76 fens</b>	18.39 fens
INTERIM DIVIDEND DECLARED FOR THE PERIOD	9	<b>103,826</b>	89,087



## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018 — unaudited

		Six months ended 30 June	
		2018	2017
	Notes	RMB'000	RMB'000
Net cash flows in respect of operating activities		<b>682,718</b>	103,780
Net cash flows in respect of investing activities		<b>(671,120)</b>	407,755
Net cash flows in respect of financing activities		<b>246,570</b>	<u>(668,124)</u>
Net increase/(decrease) in cash and cash equivalents		<b>258,168</b>	(156,589)
Cash and cash equivalents at beginning of period		<b>273,678</b>	348,224
Effect of foreign exchange rate change, net		<b>(1,592)</b>	<u>(2,282)</u>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	13	<b><u>530,254</u></b>	<b><u>189,353</u></b>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
*For the six months ended 30 June 2018 — unaudited*

	Attributable to owners of the parent													Total equity RMB'000
	Share Capital RMB'000	Statutory surplus & safety production reserve RMB'000	Special reserve RMB'000	Share premium RMB'000	Capital redemption reserve RMB'000	Financial assets at FV through OCI revaluation reserve RMB'000	Merger reserve RMB'000	Share award reserve RMB'000	Shares repurchased for share award plan RMB'000	Retained profits RMB'000	Proposed interim/ final dividend RMB'000	Total RMB'000	Non- controlling interests RMB'000	
At 1 January 2018	102,662	464,762	(10,688)	1,353,639	2,371	922	(627,092)	4,520	(19,764)	2,037,562	119,800	3,428,694	87,963	3,516,657
Profit for the period	—	—	—	—	—	—	—	—	—	244,296	—	244,296	(54,807)	189,489
Adoption of new accounting standards	—	—	—	—	—	2,779	—	—	—	—	—	2,779	—	2,779
Change in fair value, net of tax	—	—	—	—	—	(1,495)	—	—	—	—	—	(1,495)	—	(1,495)
Total comprehensive income for the period	—	—	—	—	—	1,284	—	—	—	244,296	—	245,580	(54,807)	190,773
Appropriation to statutory surplus/safety production reserve	—	48,780	—	—	—	—	—	—	—	(48,780)	—	—	—	—
Safety production reserve used	—	(7,242)	—	—	—	—	—	—	—	7,242	—	—	—	—
2017 final dividend paid	—	—	—	—	—	—	—	—	—	(120,991)	(120,991)	—	(120,991)	—
Exchange difference	—	—	—	—	—	—	—	—	—	(1,191)	1,191	—	—	—
Proposed 2018 interim dividend	—	—	—	—	—	—	—	—	—	(103,826)	103,826	—	—	—
Equity-settled share award arrangement	—	—	—	—	—	—	—	563	(3,312)	—	—	(2,749)	—	(2,749)
At 30 June 2018	102,662	506,300	(10,688)	1,353,639	2,371	2,206	(627,092)	5,083	(23,076)	2,135,303	103,826	3,550,534	33,156	3,583,690
At 1 January 2017	86,048	375,496	—	1,004,906	2,371	(1,982)	(627,092)	6,262	(26,748)	1,643,303	101,675	2,564,239	164,931	2,729,170
Profit for the period	—	—	—	—	—	—	—	—	—	181,602	—	181,602	(83,054)	98,548
Change in fair value of available-for-sale investment, net of tax	—	—	—	—	—	1,997	—	—	—	—	—	1,997	—	1,997
Total comprehensive income for the period	—	—	—	—	—	1,997	—	—	—	181,602	—	183,599	(83,054)	100,545
Appropriation to statutory surplus/safety production reserve	—	55,993	—	—	—	—	—	—	—	(55,993)	—	—	—	—
Safety production reserve used	—	(4,338)	—	—	—	—	—	—	—	4,338	—	—	—	—
2016 final dividend paid	—	—	—	—	—	—	—	—	—	(100,696)	(100,696)	—	(100,696)	—
Exchange difference	—	—	—	—	—	—	—	—	—	979	(979)	—	—	—
Proposed 2017 interim dividend	—	—	—	—	—	—	—	—	—	(89,087)	89,087	—	—	—
Equity-settled share award arrangement	—	—	—	—	—	—	—	691	1,167	—	—	1,858	—	1,858
At 30 June 2017	86,048	427,151	—	1,004,906	2,371	15	(627,092)	6,953	(25,581)	1,685,142	89,087	2,649,000	81,877	2,730,877

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1 CORPORATE INFORMATION

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

The Company and its subsidiaries (the “**Group**”) was principally engaged in the manufacture and supply of ethylene oxide (“**EO**”), ethylene glycol (“**EG**”), polypropylene (“**PP**”), methyl tert-butyl ether (“**MTBE**”) and surfactants in the PRC. The Group was also engaged in the provision of processing services for PP, MTBE and surfactants to its customers and the production and supply of other chemical products such as C4, crude pentene and industrial gases, namely oxygen, nitrogen and argon in the PRC. EO is a key intermediary component for the production of ethylene derivative products such as ethanalamines 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.

In the opinion of the Directors, the holding company and the ultimate holding company of the Company is Sure Capital Holdings Limited (“**Sure Capital**”), which is incorporated in the British Virgin Islands.

### 2 BASIS OF PRESENTATION AND PREPARATION

The Group’s unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard (“**HKAS**”) 34 Interim Financial Reporting. The Group’s unaudited condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2017. The accounting policies adopted in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2017. The unaudited condensed consolidated interim financial statements have been prepared under the historical cost convention. These financial statements are presented in Renminbi (“**RMB**”) and all values are rounded to the nearest thousand except when otherwise indicated. The Group’s unaudited condensed consolidated interim financial statements have been reviewed by the audit committee of the Company.

### Going concern assumption

As at 30 June 2018, the Group's net current liabilities amounted to approximately RMB2,092,178,000. The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflows from operations and sufficient financing to meet its financial obligations as and when they fall due. In preparing the financial statements, the directors of the Company have considered the Group's sources of liquidity and believe that adequate funding is available to fulfill the Group's debt obligations and capital expenditure requirements. Accordingly, the consolidated financial statements have been prepared on a basis that the Group will be able to continue as a going concern.

### 3 SEGMENT INFORMATION

For management purpose, the Group did not organise into business units based on their products and services and only has one reportable operating segment. Management monitors the operating results of its operating segment as a whole for the purpose of making decisions about resource allocation 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	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Sales of goods	4,704,927	4,174,729
Provision of services	31,967	15,313
Others	4,700	5,665
	<u>4,741,594</u>	<u>4,195,707</u>

#### Geographical information

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

#### 4 REVENUE, OTHER INCOME AND GAINS AND OTHER EXPENSES

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

An analysis of revenue is shown in Note 3 above.

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

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
<b>Other income and gains</b>		
Interest/investment income derived from banks & related companies, financial assets at fair value through profit or loss and fair value changes of financial instruments	44,385	46,210
Sales in respect of trading of oil and chemicals	457,818	268,625
Government subsidies*	10,901	9,716
Foreign exchange (loss)/gain, net	(55,879)	18,490
Other lease income	1,453	111
Gain on disposal/holding of silver, net	11	—
Others	2,871	2,588
	<u>461,560</u>	<u>345,740</u>
	<b>461,560</b>	<b>345,740</b>
<b>Other expenses</b>		
Provision/(Reversal) for impairment for inventory — silver (being part of catalyst)	51,460	23,169
Cost of sales in respect of trading of oil and chemicals	450,736	264,024
Investment loss derived from fair value change of financial derivatives	6,498	49,468
Others	15	829
	<u>508,709</u>	<u>337,490</u>
	<b>508,709</b>	<b>337,490</b>

Note:

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

## 5 FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Interest on bank loans wholly repayable within five years	63,826	87,072
Less: interest capitalized	—	—
	<u>63,826</u>	<u>87,072</u>

## 6 PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Cost of inventories sold	4,169,101	3,835,074
Cost of service provided	12,826	4,771
Depreciation	259,653	286,862
Recognition of prepaid land lease payments	4,106	3,468
Amortisation of intangible assets	13,962	13,751
Minimum lease payments under operating leases	656	595
	<u>656</u>	<u>595</u>

## 7 INCOME TAX EXPENSE

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

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

	Six months ended 30 June	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Current — PRC		
Charge for the period	70,743	64,024
Deferred	6,450	(9,685)
	<u>77,193</u>	<u>54,339</u>

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

Pursuant to the relevant tax law of the Hong Kong Special Administrative Region, Hong Kong profits tax has been provided at the rate of 16.5% (2017: 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 PRC 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.

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:

	<b>Six months ended 30 June</b>	
	<b>2018</b>	2017
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Profit before tax	<u><b>266,682</b></u>	<u>152,887</u>
Tax at the statutory tax rates	<b>66,671</b>	39,045
Tax effect of tax concession and allowances	<b>(38,467)</b>	(37,796)
Tax losses not recognised	<b>48,266</b>	47,282
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	<b>3,098</b>	2,193
Others	<u><b>(2,375)</b></u>	<u>3,615</u>
Tax charge at the Group's effective rate	<u><b>77,193</b></u>	<u>54,339</u>

## **8 EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT**

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

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

	<b>Six months ended 30 June</b>	
	<b>2018</b>	2017
	<b>RMB'000</b>	RMB'000
<b>Earnings</b>		
Profit attributable to ordinary equity holders of the parent	<u>244,296</u>	<u>181,602</u>
	<b>Number of shares</b>	
	'000	'000
<b>Shares</b>		
Weighted average number of ordinary shares in issue during the period	<u>1,026,452</u>	<u>985,240</u>
Effect of dilution — weighted average number of ordinary shares:		
Share award plan	<u>1,633</u>	<u>2,166</u>
	<u>1,028,085</u>	<u>987,406</u>

## 9 DIVIDENDS

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

	<b>Six months ended 30 June</b>	
	<b>2018</b>	2017
	<b>RMB'000</b>	RMB'000
Proposed interim — HK10.0 cents (2017: HK10.5 cents)	<u>103,826</u>	<u>89,087</u>

The Board has declared that an interim dividend of HK10.0 cents (2017: HK10.5 cents) per share for the six months ended 30 June 2018 to shareholders whose names appear in the Register of Members on 17 September 2018.

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

	<b>Six months ended 30 June</b>	
	<b>2018</b>	2017
	<b>RMB'000</b>	RMB'000
Final dividend in respect of the financial year ended 31 December 2017, approved and paid during the following period, of HK\$12.5 cents per ordinary shares (2016: HK11.5 cents), calculated based on the number of ordinary shares used in the basic earnings per share calculation	<u>119,800</u>	<u>101,675</u>



## 10 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The Group has investments in certain financial assets (unlisted investment, at fair value) and paper silver issued by licensed financial institutions in the PRC. The investments have a maturity term of less than 6 months and bear expected yield rates of 1.65% to 5.0% (31 December 2017: 2.3% to 5.3%) per annum upon maturity.

## 11 INVENTORIES

	<b>30 June 2018 RMB'000</b>	31 December 2017 RMB'000
Raw materials	<b>906,132</b>	940,244
Finished goods	<b>153,267</b>	67,670
	<b><u>1,059,399</u></b>	<u>1,007,914</u>

The carrying amount of inventories carried at net realisable value was RMB365,123,000 (31 December 2017: RMB189,410,000) as at 30 June 2018.

## 12 TRADE AND NOTES RECEIVABLES

	<b>30 June 2018 RMB'000</b>	31 December 2017 RMB'000
Trade receivables	<b>128,799</b>	56,045
Notes receivable	<b>317,269</b>	294,464
	<b>446,068</b>	350,509
Impairment	<b>(2,583)</b>	(2,583)
	<b><u>443,485</u></b>	<u>347,926</u>

The credit period is generally 15 to 30 days, extending up to three months for certain customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. The maturity of notes receivables is due within six months.

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

	<b>30 June 2018 RMB'000</b>	31 December 2017 RMB'000
1 to 30 days	<b>102,755</b>	51,610
31 to 60 days	<b>1,150</b>	663
61 to 90 days	<b>14,162</b>	136
91 to 360 days	<b>7,742</b>	647
Over 360 days	<b>2,990</b>	2,989
	<b><u>128,799</u></b>	<u>56,045</u>

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

	<b>30 June 2018 RMB'000</b>	31 December 2017 RMB'000
Neither past due nor impaired	<b>101,348</b>	50,203
Less than 30 days past due	<b>2,558</b>	2,071
31 to 60 days past due	<b>14,162</b>	136
61 to 90 days past due	<b>535</b>	149
91 to 360 days past due	<b>7,206</b>	497
Over 360 days	<b>2,990</b>	2,989
	<b><u>128,799</u></b>	<u>56,045</u>

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

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

### 13 CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	<b>30 June 2018 RMB'000</b>	31 December 2017 RMB'000
Cash and bank balances	530,254	273,678
Time deposits	<u>68,815</u>	<u>50,000</u>
	<u>599,069</u>	<u>323,678</u>
Less: Pledged time deposits:		
Pledged for notes payable	<u>68,815</u>	<u>50,000</u>
	<u>68,815</u>	<u>50,000</u>
Cash and cash equivalents	<u><u>530,254</u></u>	<u><u>273,678</u></u>

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

### 14 TRADE AND BILLS PAYABLES

	<b>30 June 2018 RMB'000</b>	31 December 2017 RMB'000
Trade payables	1,596,223	1,245,598
Bills payable	<u>19,921</u>	<u>119,817</u>
	<u><u>1,616,144</u></u>	<u><u>1,365,415</u></u>

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

	<b>30 June 2018 RMB'000</b>	31 December 2017 RMB'000
Within 3 months	1,565,690	1,230,755
3 to 6 months	42,024	128,253
6 to 12 months	5,608	3,110
12 to 24 months	978	1,443
24 to 36 months	702	1,341
Over 36 months	<u>1,142</u>	<u>513</u>
	<u><u>1,616,144</u></u>	<u><u>1,365,415</u></u>

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

## 15 INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)	Maturity	30 June 2018 RMB'000	31 December 2017 RMB'000
<b>Current</b>				
Finance lease payables	4.750	2018	—	29,625
Bank loans — secured	3.700	2018	166,539	—
	2.265–3.500	2018	—	140,810
Bank loans — unsecured	3.105–5.873	2018	1,877,716	—
	1.930–4.850	2017	—	1,129,902
Current portion of long-term loans	4.750–4.900	2018	553,000	—
— secured	4.900	2017	—	453,000
			<u>2,597,255</u>	<u>1,753,337</u>
<b>Non-current</b>				
Bank loans — secured	4.750–4.900	2019	361,706	598,262
			<u>361,706</u>	<u>598,262</u>
			<u>2,958,961</u>	<u>2,351,599</u>
<b>Analysed into:</b>				
Bank loans repayable:				
Within one year			2,597,255	1,723,712
In the second year			361,706	598,262
In the third to fifth years, inclusive			—	—
			<u>2,958,961</u>	<u>2,321,974</u>
Other borrowings repayable:				
Within one year			—	29,625
			<u>2,958,961</u>	<u>2,351,599</u>

### Notes:

Certain of the Group's bank borrowings and finance lease payables are secured by:

- (i) mortgages over the Group's leasehold land, which had an aggregate carrying value at the end of the reporting period of approximately RMB159,694,541 (31 December 2017: RMB161,469,000);
- (ii) mortgages over the Group's property, plant and equipment, which had an aggregate carrying value at 31 December 2017 of approximately RMB151,458,000. The aforesaid mortgages have been discharged and released during the six months period ended 30 June 2018.

Xingxing New Energy entered into a syndicated loan agreement with Industrial and Commercial Bank of China Limited, China Construction Bank Limited and Bank of China Limited in June 2013 in relation to the funding requirement for the construction of the Methanol-To-Olefins (“MTO”) production facility with a total loan amount of RMB1,600,000,000 which was guaranteed by its shareholders, Sanjiang Chemical, holding 77.5% of Xingxing New Energy’s equity interest, and Zhejiang Jiahua Group Co., Ltd. (“Jiahua Group”), holding 9.5% of Xingxing New Energy’s equity interest, for amounts not exceeding RMB1,200,000,000 and RMB400,000,000, respectively. Xingxing New Energy had used RMB661,706,000 of the facility of as at 30 June 2018 (2017: RMB798,262,000) and the facility was also secured by its leasehold land with a carrying value of approximately RMB159,694,541 as at 30 June 2018 (2017: RMB161,469,000) which was included in the amount in note (i) above.

Sanjiang New Material entered into a syndicated loan agreement with Industrial and Commercial Bank of China Limited and China Merchants Bank in September 2014 in relation to the funding requirement for the construction of the EO/EG production facility with a total loan amount of RMB500,000,000 which was guaranteed by Sanjiang Chemical and Xingxing New Energy for amounts not exceeding RMB600,000,000 and RMB600,000,000, respectively. Sanjiang New Material had used RMB253,000,000 of the facility as at 30 June 2018 (2017: RMB253,000,000).

Sanjiang Chemical entered into a sale and lease back agreement with International Far Eastern Leasing Co., Ltd. in November 2016 with a total present value of minimum lease payments of RMB29,625,000 as at 31 December 2017 which was secured by certain of its plant and machinery amounting to RMB151,458,000 which were included in the amount in note (ii) above. It has become due in March 2018.

## 16 DUE FROM RELATED PARTIES

	<b>30 June 2018</b>	31 December 2017
	<b>RMB’000</b>	RMB’000
Zhejiang Mei Fu Petrochemical Co., Ltd. (a)	<b>259,870</b>	261,479
Hangzhou Haoming Investment Co., Limited	—	122
Zhejiang Jiahua Group Co., Ltd.	<b>860</b>	2
Zhejiang Jiahua Import Export Co., Ltd.	<b>377</b>	720
Zhejiang Jiahua Energy Chemical Co., Ltd. (b)	—	58,603
	<b>261,107</b>	320,926

### Notes:

- (a) The amount due from Zhejiang Mei Fu Petrochemical Co., Ltd was mainly derived in relation to the Loan and Guarantee agreement entered into on 17 June 2016 being executed together with the Sales and Purchases Agreement entered into on 17 June 2016 to dispose 51% equity interest in Zhejiang Mei Fu Petrochemical Co., Ltd to Sure Capital Holdings Limited and Jiaying Gangqu Jianghao Investment Development Company Limited.
- (b) The amount due from Zhejiang Jiahua Energy Chemical Co., Ltd. was derived solely in relation to the Sales and Purchases Agreements entered into on 19 March 2015 to dispose 51% equity interest in Zhejiang Zhapu Mei Fu Port & Storage Co. Ltd. to Zhejiang Jiahua Energy Chemical Co., Ltd.

The balances due from related parties are unsecured, interest-free and repayable on demand, except the loan balances due from Mei Fu Petrochemical, which bear interest at 8% to 10% per annum and are repayable within three years from the date of completion of the disposal transaction.

## 17 DUE TO RELATED PARTIES

	<b>30 June 2018 RMB'000</b>	31 December 2017 RMB'000
Grand Novel Developments Limited	26,743	26,686
Zhejiang Mei Fu Petrochemical Co., Ltd	1,416	494
Zhejiang Zhapu Mei Fu Port & Storage Co. Ltd.	28,843	23,199
Zhejiang Jiahua Energy Chemical Co., Ltd.	109,337	82,993
Zhejiang Jiahua Group Co., Ltd.	—	200,566
Jiaxing Xinggang Rewang Co., Ltd.	2,474	2,262
Zhejiang Hao Xing Energy Saving Technology Co., Ltd (浙江浩星節能科技有限公司)	269	924
Jiaxing Port Industrial Equipment Installation Co., Ltd (嘉興港區港安工業設備安裝有限公司)	1,408	5,940
Jiaxing Jianghao Eco-agriculture Co., Ltd. (嘉興市江浩生態農業有限公司)	36	2
	<u>170,526</u>	<u>343,066</u>

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

## CAPITAL COMMITMENTS

As at 30 June 2018, the Group has capital commitments amounted to approximately RMB12.5 million (31 December 2017: RMB16.9 million) which were primarily related to the procurements for regular repair and maintenances.

## CONTINGENT LIABILITIES

At the end of the reporting periods, contingent liabilities not provided for in the financial statements were as follows:

	<b>30 June 2018 RMB'000</b>	31 December 2017 RMB'000
Guarantees given to banks in connection with facilities granted to: Zhejiang Mei Fu Petrochemical Co., Ltd.	<u><b>787,200</b></u>	<u>787,200</u>

The guarantees granted to Zhejiang Mei Fu Petrochemical Co., Ltd was derived in relation to the Loan and Guarantee agreement entered into on 17 June 2016 being executed together with the Sales and Purchases Agreement entered into on 17 June 2016 to dispose 51% equity interest in Zhejiang Mei Fu Petrochemical Co., Ltd to Sure Capital Holdings Limited and Jiaxing Gangqu Jianghao Investment Development Company Limited. As at 30 June 2018, the banking facility granted to Zhejiang Mei Fu Petrochemical Co., Ltd subject to guarantees given to banks by the Group was utilised to the extent of approximately RMB475,100,000 (31 December 2017: RMB295,227,000).

## EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2018, the Group employed a total of 1,045 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 2018: 31.7%; 31 December 2017: 27.1%). The Group has a gearing guidance of not more than 66.7% on total interest-bearing borrowings to total assets basis, which management considers is a better measure when comparing to total interest-bearing borrowings to total equity basis as the Group will have rapid expansion of various production facilities in the coming years and there is a time lag of approximately 2 years between the construction period of production facilities and the profit and revenue generated from these facilities.

The inventory turnover days maintained in a similar level during the period under review (30 June 2018: 45.1 days; 31 December 2017: 40.5 days).

The trade and notes receivables turnover days maintained at a relatively low level during the period under review (30 June 2018: 15.2 days; 31 December 2017: 10.6 days).

The trade and notes payables turnover days maintained at a similar level during the period under review (30 June 2018: 65.0 days; 31 December 2017: 65.9 days).

## **INTERIM DIVIDEND**

The Board has declared an interim dividend of HK10.0 cents per share for the six months ended 30 June 2018 to shareholders whose names appear on the Register of Members on 17 September 2018. It is expected that the interim dividend will be paid on 26 September 2018.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Company will be closed from 14 September 2018 to 17 September 2018, both days inclusive, during which period no transfer of shares in the Company can be registered. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrars, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on 13 September 2018.



## **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 2018 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 2018 and up to the date of this announcement.

## **AUDIT COMMITTEE**

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

The Audit Committee has reviewed the interim results of the Group for the six months ended 30 June 2018, 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 Messrs. Kong Liang and Guan Jianzhong and Ms. Pei Yu of whom Mr. Kong Liang and Ms. Pei Yu are independent non-executive Directors and Mr. Guan Jianzhong is the Chairman of the Board and an executive Director. The chairman of the Remuneration Committee is Ms. 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 Messrs. Guan Jianzhong and Shen Kaijun and Ms. Pei Yu, of whom Mr. Shen Kaijun and Ms. Pei Yu are independent non-executive Directors and Mr. Guan Jianzhong is the Chairman of the Board and an executive Director. The chairman of the Nomination Committee is Mr. Guan Jianzhong. The primary responsibilities of the Nomination Committee include, among others, considering and recommending to the Board suitably qualified persons to become the member of the Board and reviewing the structure, size and composition of the Board on a regular basis and as required.

## **PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES**

During the period under review, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30 June 2018.

## **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 2018 will be dispatched to the shareholders of the Company and published on the websites of the Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)) and the Company ([www.chinasanjiang.com](http://www.chinasanjiang.com)) in due course.

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

People’s Republic of China, 27 August 2018

*As at the date of this announcement, the Board comprises four executive Directors: Mr. GUAN Jianzhong, Ms. HAN Jianhong, Mr. HAN Jianping and Mr. RAO Huotao 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.*