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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 2020**

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 2020.

RESULTS HIGHLIGHTS	6 months ended 30 June 2020 RMB'000	6 months ended 30 June 2019 RMB'000	2020 1H vs. 2019 1H Change %
Revenue	3,778,300	4,190,077	-9.8%
Gross profit	632,603	206,338	206.6%
Net profit attributable to shareholders	373,660	32,275	1,057.7%
Earnings per share — Basic (RMB)	31.61 fens	3.15 fens	903.5%
Interim dividend per share (HK\$)	12.5 cents	5.0 cents	150.0%
Gross profit margin (%)	16.7%	4.9%	11.8%
Gearing — interesting-bearing borrowings to total asset basis	51.5%	35.2%	16.3%

MANAGEMENT DISCUSSION AND ANALYSIS

Since January 2020, the economy of the People's Republic of China (“**PRC**”) has been adversely affected by the outbreak of the novel coronavirus (“**COVID-19**”) and its global pandemic, which caused the prolonged production shutdowns and in turn, disturbances to certain key flows of industrial supply chains in China. Nevertheless, the Group has managed to operate and produce as usual and the overall utilization rate of its production capacities has been maintained at a relatively high level during the six months ended 30 June 2020 (the “**period under review**”) as the Group has been implementing various stringent measures to safeguard the health and safety of suppliers, customers, employees and our communities. During the period under review, revenue of the Group decreased by approximately 9.8%, primarily resulted from the combined effects of:- 1) the decrease in average selling price (“**ASP**”) of the Group's major products namely ethylene oxide (“**EO**”), ethylene glycol (“**EG**”) and polypropylene (“**PP**”) by a range from approximately 10.8% to approximately 18.4% in the first half of 2020 when comparing to the corresponding period of 2019; and 2) the increase in output of EO by approximately 28.4% as the Group's 5th phase EO/EG production facility operated in full capacity during the first half of 2020 and maximised its EO output through the swing option while the 5th phase EO/EG production facility was suspended operation during January and February 2019 due to a regular repair and maintenance process and leaned on providing more EG output through the swing option. Overall gross profit margin of the Group increased by approximately 11.8% to approximately 16.7% and net profit attributable to shareholders was approximately RMB373.7 million and basic earnings per share was approximately RMB31.61 cents, for the six months ended 30 June 2020, representing increases of approximately 1,057.7% and 903.5% respectively as compared with the first half of 2019. The Board has recommended an interim dividend of HK12.5 cents per share, representing a dividend payout ratio of approximately 35.8% calculated based on the net profit attributable to shareholders for the period under review.

The Group has been very cautious about the development of COVID-19 pandemic and the impacts that it may have on the business operations of the Group concerning, in particular, the potential disturbances to procurement, storage and delivery of feedstocks and finished goods. In order to respond to such an extraordinary situation, the Group has put in place numerous precautionary measures, including but not limited to, implementing regular health and travel log declaration for all employees and all visitors since January 2020, simplifying the document handling requirements and implementing social distancing requirements for drivers in relation to picking up finished goods at our plants, implementing regular disinfecting procedures, implementing various flexible working arrangements and providing adequate training and protective supplies to certain employees according to the nature and duties of each job position. With the aforesaid precautionary measures and the business natures of the Group and of the oil and chemical sector (the “**Sector**”), which are less labour-intensive and production-process-automation, the Group's overall utilization rate of production capacities has been maintained in a relatively high level during period under review.

The Group's Methanol-to-Olefins ("MTO") production facility, which serves as the upstream level of the Group (i.e. the process of converting Methanol to Ethylene/Propylene), achieved a substantial improvement of gross profit margin by 9.2% during the period under review (first half of 2020, gross profit margin for upstream alone: 7.3% compared to first half of 2019, gross loss margin for upstream alone: -1.9%) as Methanol pricing, one of dominant factors that affects the profitability of the Group stayed at a relatively low level of approximately RMB1,900/MT (on a simple average basis) during the period under review, representing a decrease of approximately 23.7% from approximately RMB2,490/MT (on a simple average basis) of the corresponding period of 2019 while the ASP of the Group's major products namely EO, EG and PP decreased in a less extent, ranging from decreases of approximately 10.8% to approximately 18.4% respectively. The decrease in Methanol pricing to a level below RMB2,000/MT is consistent with the view and expectation that the Group has been upholding since 2017, which directly contributed to the substantial improvement of gross profit margin of PP line of business by approximately 14.2% to approximately 18.1% during the period under view.

Ethylene and Propylene, being the Group's other major feedstocks, also experienced substantial price decreases by approximately 33.3% and 17.4% (on a simple average basis) respectively, primarily attributable to the volatility of crude oil pricing as the demands for crude oil fell sharply during the first half of 2020. In particular, there was a slump in demands from certain industries including road transportations and aviation as a result of the massive lockdown and travel restrictions around the world. While the demands for the Group's major products, namely EO, EG and PP, are subject to different demand factors which allow the Group to diversify and mitigate business risks and market risks in such an extraordinary situation. For instance, there is a strong demand for EO as it is a core component in the productions of disinfectant products. The Group's 2020 interim results have once again demonstrated the success of its well-established and usual strategies that being a diversified vertical-integrated chemical group would, on a medium term basis, enable the Group to outperform the other chemical players in the industry.

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 2020	% of revenue	First Half year 2019	% of revenue	Variance +/(-)
REVENUE (RMB'000)					
Ethylene oxide	1,208,059	32%	1,054,980	25%	14.5%
Ethylene glycol	404,658	11%	520,321	12%	-22.2%
Polypropylene	1,333,638	35%	1,675,397	40%	-20.4%
Surfactants	378,603	10%	392,992	9%	-3.7%
MTBE/C4	163,172	4%	213,926	5%	-23.7%
Pentene	143,396	4%	176,001	4%	-18.5%
Polypropylene processing service	23,418	1%	30,681	1%	-23.7%
Surfactants processing service	20,836	0%	18,228	0%	14.3%
Others	102,520	3%	107,551	4%	-4.7%
	<u>3,778,300</u>	100%	<u>4,190,077</u>	100%	<u>-9.8%</u>

SALES VOLUME (MT)

Ethylene oxide	201,335		156,796		28.4%
Ethylene glycol	115,899		126,618		-8.5%
Polypropylene	229,749		235,568		-2.5%
Surfactants	52,592		49,267		6.7%
MTBE/C4	46,156		45,561		1.3%
Pentene	43,842		46,160		-5.0%
Polypropylene processing service	40,510		56,988		-28.9%
Surfactants processing service	71,760		56,176		27.7%

AVERAGE SELLING PRICE (RMB)

Ethylene oxide	6,000		6,728		-10.8%
Ethylene glycol	3,491		4,109		-15.0%
Polypropylene	5,805		7,112		-18.4%
Surfactants	7,199		7,977		-9.8%
MTBE/C4	3,535		4,695		-24.7%
Pentene	3,271		3,813		-14.2%
Polypropylene processing service	578		538		7.4%
Surfactants processing service	290		324		-10.5%

	First Half year 2020	% of revenue	First Half year 2019	% of revenue	Variance +/(-)
GROSS PROFIT MARGIN (%)					
Ethylene oxide	22.0%		7.0%		15.0%
Ethylene glycol	0.3%		-6.3%		6.6%
Polypropylene	18.1%		3.9%		14.2%
Surfactants	27.5%		12.0%		15.5%
MTBE/C4	-12.9%		-1.1%		-11.8%
Pentene	-9.6%		-1.0%		-8.6%
Polypropylene processing service	55.0%		56.3%		-1.3%
Surfactants processing service	69.7%		78.1%		-8.4%

Ethylene oxide

During the period under review, the revenue from EO line of business amounted to approximately RMB1,208.1 million, representing an increase of approximately 14.5% when comparing to the corresponding period of 2019. The increase in EO revenue was primarily due to the combined effects of:- 1) the increase in EO output by approximately 28.4% as the Group's 5th phase EO/EG production facility operated in full capacity during the first half of 2020 and maximised its EO output through the swing option while the 5th phase EO/EG production facility was suspended operation during January and February 2019 due to a regular repair and maintenance process and leaned on providing more EG output through the swing option during the corresponding period of 2019; and 2) the decrease in average selling price of EO by approximately 10.8% as the average selling price of Ethylene decreased by approximately 33.3% (on a simple average basis).

Ethylene glycol

During the period under review, the revenue from EG line of business amounted to approximately RMB404.7 million, representing a decrease of approximately 22.2% when comparing to the corresponding period of 2019. The decrease in EG revenue was primarily due to the decrease in average selling price of EG by approximately 15.0% as the average selling price of Ethylene decreased by approximately 33.3% (on a simple average basis) and the decrease in EG output by approximately 8.5% during the period under review as the Group's the 5th phase EO/EG production facility leaned on providing less EG output through the swing option during the period under review.

Polypropylene

During the period under review, the revenue from PP line of business decreased by approximately 20.4% when compared to the corresponding period of 2019, which was primarily resulted from the decrease in average selling price of PP by approximately 18.4% as the average selling price of Propylene decreased by approximately 17.4% (on a simple average basis) during the period under review.

Gross profit margin

Overall gross profit margin increased by approximately 11.8%, primarily because Methanol pricing stayed at a relatively low level of approximately RMB1,900/MT (on a simple average basis) during the period under review, representing a decrease of approximately 23.7% from approximately RMB2,490/MT (on a simple average basis) of the corresponding period of 2019 while the ASP of the Group's major products namely EO, EG and PP decreased in a less extent, ranging from decreases of approximately 10.8% to approximately 18.4% respectively.

Administrative expenses

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

Income tax expense

The effective tax rate of corporate income tax paid or payable was 17.2%, which was lower than the normal level of effective tax rate of around 19% to 20%, which was primarily due to the inclusion of the tax effect of tax concessions in respect of expenses incurred for research and development of amount RMB18.6 million.

CONDENSED CONSOLIDATED STATEMENT OF FINANCE POSITION

At 30 June 2020 — unaudited

		30 June 2020	31 December 2019
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		4,788,818	4,916,741
Right-of-use assets		436,407	442,197
Intangible assets		132,803	147,305
Due from related parties	16	579,508	275,158
Advance payments for property, plant and equipment		765,262	113,135
Equity investments designated at fair value through other comprehensive income		4,177	4,177
Deferred tax assets		15,322	13,211
		<hr/>	<hr/>
Total non-current assets		<u>6,722,297</u>	<u>5,911,924</u>
CURRENT ASSETS			
Inventories	11	1,046,705	878,674
Trade and notes receivables	12	445,759	565,834
Prepayments, other receivables and other assets		226,755	203,154
Due from related parties	16	3,693	8,946
Financial assets at fair value through profit or loss	10	1,093,143	678,105
Derivative financial instruments		—	555
Non-pledged time deposits with original maturity over three months	13	55,797	215,145
Pledged deposits	13	2,625,074	1,320,152
Cash and cash equivalents	13	532,849	591,671
		<hr/>	<hr/>
Total current assets		<u>6,029,775</u>	<u>4,462,236</u>

		30 June	31 December
		2020	2019
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
CURRENT LIABILITIES			
Trade and bills payables	14	1,001,138	934,294
Other payables and accruals		747,056	859,033
Derivative financial instruments		1,091	1,338
Interest-bearing bank borrowings	15	5,337,604	4,095,668
Lease liabilities		1,733	1,668
Due to related parties	17	117,707	351,798
Tax payable		107,406	83,457
		<u>7,313,735</u>	<u>6,327,256</u>
Total current liabilities		<u>7,313,735</u>	<u>6,327,256</u>
NET CURRENT LIABILITIES		<u>(1,283,960)</u>	<u>(1,865,020)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>5,438,337</u>	<u>4,046,904</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	15	1,229,875	—
Lease liabilities		9,611	10,443
Deferred tax liabilities		16,630	18,059
		<u>1,256,116</u>	<u>28,502</u>
Total non-current liabilities		<u>1,256,116</u>	<u>28,502</u>
Net assets		<u>4,182,221</u>	<u>4,018,402</u>
EQUITY			
Equity attributable to owners of the parent			
Issued capital		102,662	102,662
Reserves		4,054,965	3,898,477
		<u>4,157,627</u>	<u>4,001,139</u>
Non-controlling interests		24,594	17,263
		<u>4,182,221</u>	<u>4,018,402</u>
Total equity		<u>4,182,221</u>	<u>4,018,402</u>

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2020 — unaudited

		Six months ended 30 June	
		2020	2019
	Notes	RMB'000	RMB'000
REVENUE	4	3,778,300	4,190,077
Cost of sales	6	<u>(3,145,697)</u>	<u>(3,983,739)</u>
Gross profit		632,603	206,338
Other income and gains	4	196,919	98,447
Selling and distribution cost		(12,809)	(13,122)
Administrative expenses		(163,512)	(134,067)
Other expenses	4	(125,010)	(29,973)
Finance costs	5	(70,499)	(86,782)
Reversal of impairment losses on financial assets		<u>2,347</u>	<u>2,435</u>
PROFIT BEFORE TAX	6	460,039	43,276
Income tax expense	7	<u>(79,048)</u>	<u>(40,347)</u>
PROFIT FOR THE PERIOD		<u><u>380,991</u></u>	<u><u>2,929</u></u>
Attributable to:			
Equity holders of the parent		373,660	32,275
Non-controlling interests		<u>7,331</u>	<u>(29,346)</u>
		<u><u>380,991</u></u>	<u><u>2,929</u></u>
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
— Basic	8	<u>31.61 fens</u>	<u>3.15 fens</u>
— Diluted		<u>31.61 fens</u>	<u>3.15 fens</u>
INTERIM DIVIDEND DECLARED FOR THE PERIOD	9	<u>133,594</u>	<u>53,254</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2020 — unaudited

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
PROFIT FOR THE PERIOD	<u>380,991</u>	<u>2,929</u>
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Equity investments designated at fair value through other comprehensive income (“OCI”) — change in fair value	<u>—</u>	<u>356</u>
	<u>—</u>	<u>356</u>
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	<u>—</u>	<u>356</u>
OTHER COMPREHENSIVE INCOME FOR THE PERIOD	<u>—</u>	<u>356</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u><u>380,991</u></u>	<u><u>3,285</u></u>
Attributable to:		
Equity holders of the parent	<u>373,660</u>	<u>32,631</u>
Non-controlling interests	<u>7,331</u>	<u>(29,346)</u>
	<u><u>380,991</u></u>	<u><u>3,285</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020 — unaudited

	Six months ended 30 June	
	2020	2019
Notes	RMB'000	RMB'000
Net cash flows in respect of operating activities	337,997	191,468
Net cash flows in respect of investing activities	(2,584,079)	(138,207)
Net cash flows in respect of financing activities	<u>2,186,595</u>	<u>225,186</u>
Net (decrease)/increase in cash and cash equivalents	(59,487)	278,447
Cash and cash equivalents at beginning of period	591,671	453,556
Effect of foreign exchange rate change, net	<u>665</u>	<u>31</u>
CASH AND CASH EQUIVALENTS		
AT END OF PERIOD	13 <u>532,849</u>	<u>732,034</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2020 — unaudited

	Attributable to owners of the parent																											
	Share Capital RMB'000	Statutory production reserve RMB'000	Special reserve RMB'000	Share premium RMB'000	Capital redemption reserve RMB'000	Financial assets at FV through OCI 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	Total equity RMB'000														
At 1 January 2020	102,662	602,847	(10,688)	1,352,311	2,371	3,177	(627,092)	—	(13,891)	2,589,442	—	4,001,139	17,263	4,018,402														
Profit for the period	—	—	—	—	—	—	—	—	—	373,660	—	373,660	7,331	380,991														
Change in fair value, net of tax	—	—	—	—	—	—	—	—	—	—	—	—	—	—														
Total comprehensive income for the period	—	—	—	—	—	—	—	—	—	373,660	—	373,660	7,331	380,991														
Appropriation to statutory surplus/safety production reserve	—	60,941	—	—	—	—	—	—	—	(60,941)	—	—	—	—														
Safety production reserve used	—	(7,917)	—	—	—	—	—	—	—	7,917	—	—	—	—														
2019 final dividend paid	—	—	—	—	—	—	—	—	—	(218,508)	—	(218,508)	—	(218,508)														
Equity-settled share award arrangement, offset with dividends	—	—	—	—	—	—	—	—	1,336	—	—	1,336	—	1,336														
At 30 June 2020	102,662	655,871	(10,688)	1,352,311	2,371	3,177	(627,092)	—	(12,555)	2,691,570	—	4,157,627	24,594	4,182,221														
At 1 January 2019	102,662	545,845	(10,688)	1,352,311	2,371	2,114	(627,092)	—	(14,659)	2,251,271	—	3,604,135	(9,760)	3,594,375														
Profit for the period	—	—	—	—	—	—	—	—	—	32,275	—	32,275	(29,346)	2,929														
Change in fair value, net of tax	—	—	—	—	—	356	—	—	—	—	—	356	—	356														
Total comprehensive income for the period	—	—	—	—	—	356	—	—	—	32,275	—	32,631	(29,346)	3,285														
Appropriation to statutory surplus/safety production reserve	—	44,906	—	—	—	—	—	—	—	(44,906)	—	—	—	—														
Safety production reserve used	—	(2,446)	—	—	—	—	—	—	—	2,446	—	—	—	—														
2018 final dividend paid	—	—	—	—	—	—	—	—	—	(101,763)	—	(101,763)	—	(101,763)														
Equity-settled share award arrangement, offset with dividends	—	—	—	—	—	—	—	—	510	—	—	510	—	510														
At 30 June 2019	102,662	588,305	(10,688)	1,352,311	2,371	2,470	(627,092)	—	(14,149)	2,139,323	—	3,535,513	(39,106)	3,496,407														

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 CORPORATE INFORMATION

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

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

2.1 BASIS OF PRESENTATION AND PREPARATION

The Group’s unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard (“**HKAS**”) 34 Interim Financial Reporting. The Group’s unaudited condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2019. 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 2019. 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 2020, the Group’s net current liabilities amounted to approximately RMB1,283,960,000. The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflows from operations and sufficient financing to meet its financial obligations as and when they fall due. In preparing the financial statements, the directors of the Company have considered the Group’s sources of liquidity and believe that adequate funding is available to fulfill the Group’s debt obligations and capital expenditure requirements. Accordingly, the consolidated financial statements have been prepared on a basis that the Group will be able to continue as a going concern.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of the following revised Hong Kong Financial Reporting Standards ("HKFRSs") for the first time for the current period's financial information.

Amendments to HKFRS 3	<i>Definition of a Business</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendments to HKFRS 16	<i>Covid-19-Related Rent Concessions (early adopted)</i>
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>

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

- (a) Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.
- (b) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedge relationships.

- (c) Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective retrospectively for annual periods beginning on or after 1 June 2020 with earlier application permitted. The Group has adopted the amendments from 1 June 2020. The amendment did not have any impact on the Group's interim consolidated financial information.
- (d) Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. The amendments did not have any impact on the Group's interim condensed consolidated financial information.

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	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Sales of goods	3,729,209	4,136,439
Provision of services	44,254	48,909
Others	4,837	4,729
	<u>3,778,300</u>	<u>4,190,077</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	
	2020	2019
	RMB'000	RMB'000
Other income and gains		
Interest/investment income derived from banks & related companies, financial assets at fair value through profit or loss and fair value changes of financial instruments	83,967	46,744
Sales in respect of trading of oil and chemicals	69,640	32,965
Government subsidies*	39,290	10,830
Other lease income	1,930	758
Gain on disposal/holding of silver, net	—	3,576
Others	2,092	3,574
	<u>196,919</u>	<u>98,447</u>
	196,919	98,447
	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Other expenses		
Provision/(reversal) for impairment for inventory — silver (being part of catalyst)	14,244	(10,708)
Cost of sales in respect of trading of oil and chemicals	61,376	24,246
Foreign exchange loss, net	10,027	16,285
Investment loss derived from fair value change of financial derivatives	38,083	—
Others	1,280	150
	<u>125,010</u>	<u>29,973</u>
	125,010	29,973

Notes:

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

5 FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Interest on bank loans wholly repayable within one year	70,239	86,707
Interest on lease liabilities	260	75
	<u>70,499</u>	<u>86,782</u>

6 PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Cost of inventories sold	3,125,302	3,964,635
Cost of service provided	20,395	17,405
Depreciation	272,397	276,791
Recognition of prepaid land lease payments	5,855	4,813
Amortisation of intangible assets	14,699	14,575
	<u>3,438,648</u>	<u>4,284,219</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	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Current		
Charge for the period	80,596	45,813
Deferred	(1,548)	(5,466)
	<u>79,048</u>	<u>40,347</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% (2019: 16.5%) on the estimated assessable profits arising in Hong Kong during the period.

The Group conducts a significant portion of its business in Mainland China and the applicable income tax rate of its subsidiaries operating in Mainland China is generally 25% in accordance with the Corporate Income Tax Law which was approved and became effective on 1 January 2008, except for certain entities who are entitled to preferential tax rates of 15%, subject to the approval of the relevant tax bureaus.

8 EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

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

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

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Earnings		
Profit attributable to ordinary equity holders of the parent	<u>373,660</u>	<u>32,275</u>
	<i>Number of shares</i>	
	<i>'000</i>	<i>'000</i>
Shares		
Weighted average number of ordinary shares in issue during the period	1,181,931	1,025,661
Effect of dilution — weighted average number of ordinary shares:		
Share award plan	<u>—</u>	<u>489</u>
	<u>1,181,931</u>	<u>1,026,150</u>

9 DIVIDENDS

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

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Proposed interim — HK12.5 cents (2019: HK5.0 cents)	<u>133,594</u>	<u>53,254</u>

The Board has declared that an interim dividend of HK12.5 cents (2019: HK5.0 cents) per share for the six months ended 30 June 2020 to shareholders whose names appear in the Register of Members on 18 September 2020.

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

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Final dividend in respect of the financial year ended 31 December 2019, approved and paid during the following period, of HK20.0 cents per ordinary shares (2018: HK10.0 cents), calculated based on the number of ordinary shares used in the basic earnings per share calculation	<u>218,508</u>	<u>101,763</u>

10 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

11 INVENTORIES

	30 June	31 December
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	923,009	757,334
Finished goods	<u>123,696</u>	<u>121,340</u>
	<u>1,046,705</u>	<u>878,674</u>

12 TRADE AND NOTES RECEIVABLES

	30 June 2020 RMB'000	31 December 2019 RMB'000
Trade receivables	43,574	55,653
Notes receivable	<u>413,026</u>	<u>521,852</u>
	456,600	577,505
Impairment	<u>(10,841)</u>	<u>(11,671)</u>
	<u>445,759</u>	<u>565,834</u>

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

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

	30 June 2020 RMB'000	31 December 2019 RMB'000
1 to 30 days	33,201	35,089
31 to 60 days	—	8,519
61 to 90 days	—	2,228
91 to 360 days	702	—
Over 360 days	<u>9,671</u>	<u>9,817</u>
	<u>43,574</u>	<u>55,653</u>

13 CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	30 June 2020 RMB'000	31 December 2019 RMB'000
Cash and bank balances	532,849	591,671
Time deposits	<u>2,680,871</u>	<u>1,535,297</u>
	<u>3,213,720</u>	<u>2,126,968</u>
Less: Pledged time deposits:		
Pledged for notes payable	150,000	10,000
Pledged for letter of credit	—	120,002
Pledged for bank loans	1,922,200	1,190,150
Pledged for certain procurements of plant and machinery	552,874	—
Non-pledged time deposits with original maturity of over three months when acquired	<u>55,797</u>	<u>215,145</u>
	<u>2,680,871</u>	<u>1,535,297</u>
Cash and cash equivalents	<u><u>532,849</u></u>	<u><u>591,671</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

	30 June 2020 RMB'000	31 December 2019 RMB'000
Trade payables	821,138	924,294
Bills payable	180,000	10,000
	<u>1,001,138</u>	<u>934,294</u>

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

	30 June 2020 RMB'000	31 December 2019 RMB'000
Within 3 months	988,699	900,188
3 to 6 months	4,819	28,419
6 to 12 months	4,846	3,741
12 to 24 months	1,994	1,009
24 to 36 months	275	465
Over 36 months	505	472
	<u>1,001,138</u>	<u>934,294</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 2020 RMB'000	31 December 2019 RMB'000
Current (within one year)				
US\$39,208,000 secured bank loans	3.059–3.710	2020	—	273,521
US\$9,500,000 secured bank loans	3.059	2020	67,578	—
Bank loans — secured	3.120–4.350	2020	55,000	205,000
Bank loans — secured	3.690	2021	80,000	—
Bank loans — unsecured	3.120–4.050	2020	295,000	636,000
Bank loans — unsecured	3.050–4.408	2021	653,000	—
US\$107,568,000 unsecured bank loans	1.044–3.800	2020	761,526	—
US\$63,889,000 unsecured bank loans	1.640–2.850	2021	452,300	—
US\$23,373,000 unsecured bank loans	2.264–3.800	2020	—	163,057
US\$52,249,000 unsecured bank loans	2.735–3.600	2020	—	364,500
Current portion of long-term loans				
— secured	—	—	—	—
			2,364,404	1,642,078
Discounted noted receivables	2.000–4.000	2020	1,918,200	1,753,590
Discounted noted receivables	2.600–3.500	2021	660,000	—
Discounted letter of credit	2.250–3.700	2020	235,000	700,000
Discounted letter of credit	2.900	2021	160,000	—
			5,337,604	4,095,668
Non-Current				
Bank loans — secured	1.580	2022	77,875	—
Bank loans — secured	5.142	2026	458,000	—
Bank loans — secured	5.142–5.292	2027	694,000	—
			1,229,875	—
			6,567,479	4,095,668

Notes:

Certain of the Group's bank borrowings 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 RMB168,048,000 (31 December 2019: Nil) as at 30 June 2020;
- (ii) mortgages over the Group's property, plant and equipment, which had an aggregate carrying value at the end of the reporting period of approximately RMB3,481,829,000 (31 December 2019: Nil) as at 30 June 2020;
- (iii) the Group's financial assets at fair value through profit or loss which had an aggregate carrying value amounting to RMB1,049,000,000 (31 December 2019: RMB451,227,000) as at 30 June 2020;
- (iv) the Group's pledged deposit, which had an aggregate carrying value amounting to RMB1,922,200,000 (31 December 2019: RMB1,190,150,000) as at 30 June 2020;
- (v) guarantees from Lotte Chemical Corporation, a third party, which is secured by the mortgages over the property, plant and equipment with an aggregate carrying value amounting to RMB234,694,000 (31 December 2019: RMB278,398,000) as at 30 June 2020, held by a joint operation owned as to 50% by the Group and 50% by Lotte Chemical Corporation;
- (vi) guarantees from Hangzhou Haoming Investment Co., Ltd. ("**Hangzhou Haoming**"), a related company and a company established in the PRC with limited liability on 26 March 1998, and owned as to 75% by Guan Jianzhong, an executive director of the Company, 20% by Han Jianhong, an executive director of the Company, and 5% by Han Jianping, an executive director of the Company, for an amount not exceeding RMB650,000,000; and
- (vii) mortgages over 100% of the equity interest of Hangzhou Haoming.

Sanjiang Chemical Company Limited, one of the Group's wholly owned subsidiaries, entered into a syndicated loan agreement with Bank of Communications Corporation Limited, China Citic Bank Corporation Limited, Agricultural Bank of China Limited and China Minsheng Banking Corporation Limited in 2020 in relation to the funding requirement for the constructions of additional EO/EG production facility with a total loan amount of RMB3,160,000,000, out of which RMB1,152,000,000 has been used as at 30 June 2020.

16 DUE FROM RELATED PARTIES

	30 June 2020 RMB'000	31 December 2019 RMB'000
Sure Capital Holdings Limited (a)	1	1
Zhejiang Mei Fu Petrochemical Co., Ltd. (b)	582,273	280,716
Zhejiang Jiahua New Materials Co., Ltd	—	108
Zhejiang Jiahua Group Co., Ltd.	451	1,018
Zhejiang Jiahua Import Export Co., Ltd.	376	376
Jiaxing Hangzhouwan Petrochemical Logistics Co., Ltd.	100	100
Zhejiang Jiahua Energy Chemical Co., Ltd.	—	1,785
	<u>583,201</u>	<u>284,104</u>

Notes:

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

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

17 DUE TO RELATED PARTIES

	30 June 2020 RMB'000	31 December 2019 RMB'000
Zhejiang Jiahua Energy Chemical Co., Ltd.	77,278	219,189
Zhejiang Zhapu Mei Fu Port & Storage Co. Ltd.	13,681	44,847
Grand Novel Developments Limited	18,797	67,915
Zhejiang Mei Fu Petrochemical Co., Ltd.	948	421
Zhejiang Jiahua Group Co., Ltd.	785	711
Jiaxing Xinggang Rewang Co., Ltd.	340	1,372
Zhejiang Hao Xing Energy Saving Technology Co., Ltd.	2,618	5,198
Guangqu Gangan Industrial Equipment Installation Co., Ltd.	2,642	11,553
Qixia Baohua Property Co., Ltd.	—	500
Zhejiang Jiafu New Materials Technology Co., Ltd.	520	—
Jiaxing Zhapu Construction Investment Co., Ltd.	63	63
Jiaxing Jianghao Eco-agriculture Co., Ltd.	35	29
	<u>117,707</u>	<u>351,798</u>

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

CAPITAL COMMITMENTS

As at 30 June 2020, the Group had capital commitments amounted to approximately RMB4,917.2 million which was primarily related to the procurements of plant and machinery for the constructions of additional production capacities and for regular repair and maintenances.

CONTINGENT LIABILITIES

As at 30 June 2020, the Group did not have material contingent liabilities not provided for in the financial statements.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2020, the Group employed a total of 980 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 2020: 51.5%; 31 December 2019: 39.5%). 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 2020: 55.9 days; 31 December 2019: 45.7 days).

The trade and notes receivables turnover days maintained at a relatively low level during the period under review (30 June 2020: 24.3 days; 31 December 2019: 21.6 days).

The trade and notes payables turnover days maintained at a similar level during the period under review (30 June 2020: 56.1 days; 31 December 2019: 56.1 days).

INTERIM DIVIDEND

The Board has declared an interim dividend of HK12.5 cents per share for the six months ended 30 June 2020 to shareholders whose names appear on the Register of Members on 18 September 2020. It is expected that the interim dividend will be paid on 25 September 2020.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 17 September 2020 to 18 September 2020, 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 Level 54, Hopewell Centre, 183 Queen's Road East Hong Kong, for registration no later than 4:30 p.m. on 16 September 2020.

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 2020 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 2020 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 2020, 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 2020.

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 2020 will be dispatched to the shareholders of the Company and published on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (www.chinasanjiang.com) in due course.

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

The People's Republic of China, 27 August 2020

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.*