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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 2022**

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 2022 (the “**period under review**”).

RESULTS HIGHLIGHTS	6 months ended 30 June 2022	6 months ended 30 June 2021	2022 1H vs. 2021 1H Change
	RMB'000	RMB'000	%
Revenue	4,864,325	4,776,597	1.8%
Gross profit	99,160	517,149	-80.8%
Net (loss)/profit attributable to shareholders	(62,689)	327,621	-119.1%
(Loss)/Earning per share — Basic (RMB)	(5.37) fens	27.85 fens	-119.3%
Interim dividend per share (HK\$)	—	12.5 cents	-100.0%
Gross profit margin (%)	2.0%	10.8%	-8.8%
Gearing — interesting-bearing borrowings to total asset basis	50.2%	39.4%	10.8%

MANAGEMENT DISCUSSION AND ANALYSIS

During the period under review, certain global emergencies and subsequent massive disruptions of trades, productions and logistics in crude oil and natural gas have brought unprecedented impacts to the oil and chemical sector (the “Sector”) and pushed up the pricings of cruel oil, natural gas and coal to an enormous extent in the People’s Republic of China (“PRC”) as well as the world whilst the demands of our certain products, in particular, ethylene glycol (“EG”), which is mainly used in textile industry, have been adversely impacted by the outbreak of the novel coronavirus global pandemic (the “COVID-19 Pandemic”). Revenue of the Group slightly increased by approximately 1.8% as both the average selling price (“ASP”) and production capacities of the Group’s major products namely ethylene oxide (“EO”), EG and polypropylene (“PP”) remained at a similar level when comparing to the corresponding period of 2021. Overall gross profit margin of the Group decreased by approximately 8.8% to approximately 2.0% and net loss attributable to shareholders was approximately RMB62.7 million and basic losses per share was approximately RMB5.37 fens, for the six months ended 30 June 2022, representing decreases of approximately 119.1% and 119.3% respectively as compared with the corresponding period of 2021. In view of the net loss the Group made during the period under review, the Board does not recommend the payment of an interim dividend for the six months ended 30 June 2022.

The decrease in overall gross profit margin of the Group by approximately 8.8% was primarily due to the decreases in gross profit margins of major line of businesses namely EO line of business, EG line of business and PP line of business by approximately 7.2%, 12.0% and 11.8% respectively as a result of the combined effects of: 1) the price increments of Methanol and Ethylene, which count for approximately 80% in total of the Group’s current feedstock procurement, increased by approximately 12.3% and 12.9% (on a simple average basis) respectively, which were more than the price increments of EO, EG and PP of approximately 2.3%, -0.9% (price reduction) and 0.6% (on a simple average basis) respectively during the period under review as a result of certain global emergencies, which led to higher average market prices of upstream feedstocks; and 2) the on-going impacts of COVID-19 Pandemic, which led to lower demands from downstream level as EO, EG and PP are tied to the demands of a variety of products/industries like cleaning and detergents, cement, textiles, packings and etc and the COVID-19 Pandemic prevention measures disrupted the trades, productions and logistics.

Apart from the decrease in overall gross profit margin of the Group by approximately 8.8%, the net loss attributable to shareholders of approximately RMB62.7 million was also due to the inclusion of certain one-off items in relation to: 1) foreign exchange losses of approximately RMB69.9 million resulted from the depreciation of RMB against USD; 2) the provision of impairment for sliver catalyst of approximately RMB41.6 million as a result of price fluctuation of sliver.

Despite the abovementioned downsides, the management of the Group is expecting a number of upsides in the second half of 2022 and first half of 2023. The Group's 6th phase EO/EG production facilities with 1,000,000MT output on a yearly basis and its ancillary upstream level production facilities will finish ramp-up in early 2023 and will commence operation during 2023. The Group expects the commercial operations, which will enable the Group not only to double its EO/EG market shares in the Eastern China area but also to rebalance/adjust its feedstocks composition in a large extent and further diversify business/market risks as to the price fluctuation of crude oil and nature gas/coal and the overall revenue of the Group is expected to be increased by more than 50% after the commercial operations of the 6th phase EO/EG production facilities and its ancillary upstream level production facilities. In the second half of 2022, the management of the Group expects the disruption of trades, productions and logistics as a result of COVID-19 Pandemic prevention measures will be improved to certain extent as communities have been adapting to the new norm of COVID-19 Pandemic and the demands for our downstream products, covering a variety of products/industries like cleaning and detergents, cement, textiles, packings and etc, are expected to be improved.

The Group has been very cautious about the impacts of COVID-19 Pandemic as to the business operations of the Group, in particular, the prevention measures as to the disruptions in trades, productions and logistics. The Group has an emergency plan in place, the measures of which includes putting together an operation team preparing for being isolated in the production plant for certain period of time to ensure normal production and etc. During the period under review and up to the date of this announcement, the Group has managed to operate and produce as usual and maintain the overall utilization rate of our production capacities.

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 2022	% of First Half revenue	First Half year 2021	% of revenue	Variance + / (-)
REVENUE (RMB'000)					
Ethylene oxide	1,356,817	28%	1,273,399	27%	6.6%
Ethylene glycol	507,313	10%	496,310	10%	2.2%
Polypropylene	1,794,413	37%	2,002,023	42%	-10.4%
Surfactants	470,174	10%	416,876	9%	12.8%
MTBE/C4	347,897	7%	219,540	5%	58.5%
Pentene	175,982	4%	176,661	4%	-0.4%
Polypropylene processing service	7,358	0%	13,291	0%	-44.6%
Surfactants processing service	27,206	1%	21,021	0%	29.4%
Others	177,165	3%	157,476	3%	12.5%
	<u>4,864,325</u>	100%	<u>4,776,597</u>	100%	<u>1.8%</u>
SALES VOLUME (MT)					
Ethylene oxide	199,279		190,212		4.8%
Ethylene glycol	111,550		108,690		2.6%
Polypropylene	240,468		273,937		-12.2%
Surfactants	55,564		52,648		5.5%
MTBE/C4	54,634		45,254		20.7%
Pentene	29,639		43,225		-31.4%
Polypropylene processing service	13,773		23,772		-42.1%
Surfactants processing service	90,957		70,342		29.3%
AVERAGE SELLING PRICE (RMB)					
Ethylene oxide	6,809		6,695		1.7%
Ethylene glycol	4,548		4,566		-0.4%
Polypropylene	7,462		7,308		2.1%
Surfactants	8,462		7,918		6.9%
MTBE/C4	6,368		4,851		31.3%
Pentene	5,938		4,087		45.3%
Polypropylene processing service	534		559		-4.5%
Surfactants processing service	299		298		0.3%

	First Half year 2022	% of First Half revenue year 2021	% of revenue	Variance +/(-)
GROSS PROFIT MARGIN (%)				
Ethylene oxide	5.9%	13.1%		-7.2%
Ethylene glycol	-11.8%	0.2%		-12.0%
Polypropylene	-1.8%	10.0%		-11.8%
Surfactants	2.5%	10.5%		-8.0%
MTBE/C4	12.3%	11.9%		0.4%
Pentene	-2.1%	0.6%		-2.7%
Polypropylene processing service	61.0%	64.8%		-3.8%
Surfactants processing service	70.8%	66.9%		3.9%

Ethylene oxide

During the period under review, the revenue from EO line of business amounted to approximately RMB1,356.8 million, representing an increase of approximately 6.6% when comparing to the corresponding period of 2021. The increase in EO revenue was primarily due to the increase in EO output by approximately 4.8% as there was regular maintenance of one of the Group's EO production facilities in the first half of 2021 while the Group's EO production facilities operated in full capacity in the first half of 2022.

Ethylene glycol

During the period under review, the revenue from EG line of business amounted to approximately RMB507.3 million, representing an increase of approximately 2.2% when comparing to the corresponding period of 2021. The increase in EG revenue was primarily due to the increase in EG output by approximately 2.6% during the period under review.

Polypropylene

During the period under review, the revenue from PP line of business decreased by approximately 10.4% when compared to the corresponding period of 2021, which was primarily resulted from the decrease in PP output as the COVID-19 Pandemic prevention measures disrupted the logistics in cities nearby our production plants.

Gross profit margin

Overall gross profit margin decreased by approximately 8.8%, primarily resulted from the combined effects of: 1) the price increments of Methanol and Ethylene, which count for approximately 80% in total of the Group's current feedstock procurement, increased by approximately 12.3% and 12.9% (on a simple average basis) respectively, which were more than the price increments of EO, EG and PP of approximately 2.3%, -0.9% (price reduction) and 0.6% (on a simple average basis) respectively during the period under review as a result of certain global emergencies, which led to higher average market prices of upstream feedstocks; and 2) the on-going impacts of COVID-19 Pandemic, which led to lower demands from downstream level as EO, EG and PP are tied to the demands of a variety of products/industries like cleaning and detergents, cement, textiles, packings and etc and the COVID-19 Pandemic prevention measures disrupted the trades, productions and logistics.

Administrative expenses

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCE POSITION

At 30 June 2022 — unaudited

		30 June 2022	31 December 2021
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		8,832,171	6,718,898
Investment properties		83,510	84,890
Right-of-use assets		706,123	709,690
Goodwill		108,434	108,434
Other intangible assets		89,576	94,294
Advance payments for property, plant and equipment		1,151,450	1,693,304
Equity investments designated at fair value through other comprehensive income		3,409	3,409
Pledged deposits	13	987,822	1,336,375
Deferred tax assets		17,738	11,346
Total non-current assets		11,980,233	10,760,640
CURRENT ASSETS			
Inventories	11	1,343,882	1,060,297
Trade and notes receivables	12	344,906	345,690
Prepayments, other receivables and other assets		435,581	280,630
Due from related parties	16	89,818	281,881
Derivative financial instruments		7,806	10,838
Financial assets at fair value through profit or loss	10	394,927	258,117
Pledged deposits	13	1,693,126	686,446
Cash and cash equivalents	13	342,806	593,708
Total current assets		4,652,852	3,517,607
CURRENT LIABILITIES			
Trade and bills payables	14	1,758,393	2,041,706
Other payables and accruals		1,555,514	861,885
Derivative financial instruments		13,098	2,424
Financial liabilities at fair value through profit or loss	10	147,118	157,958
Interest-bearing bank and other borrowings	15	5,672,959	4,308,548
Lease liabilities		5,046	4,240
Due to related parties	17	47,125	63,242
Tax payable		90,352	99,111
Total current liabilities		9,289,605	7,539,114
NET CURRENT LIABILITIES		(4,636,753)	(4,021,507)
TOTAL ASSETS LESS CURRENT LIABILITIES		7,343,480	6,739,133

	<i>Notes</i>	30 June 2022 RMB'000	31 December 2021 <i>RMB'000</i>
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	15	2,677,000	1,941,000
Lease liabilities		23,154	18,910
Deferred tax liabilities		38,435	38,657
		<hr/>	<hr/>
Total non-current liabilities		2,738,589	1,998,567
		<hr/> <hr/>	<hr/> <hr/>
Net assets		4,604,891	4,740,566
		<hr/> <hr/>	<hr/> <hr/>
EQUITY			
Equity attributable to owners of the parent			
Issued capital		102,662	102,662
Reserves		4,440,252	4,563,358
		<hr/>	<hr/>
Non-controlling interests		4,542,914	4,666,020
		61,977	74,546
		<hr/>	<hr/>
Total equity		4,604,891	4,740,566
		<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2022 — unaudited

		Six months ended 30 June	
		2022	2021
	Notes	RMB'000	RMB'000
REVENUE	4	4,864,325	4,776,597
Cost of sales	6	<u>(4,765,165)</u>	<u>(4,259,448)</u>
Gross profit		99,160	517,149
Other income and gains	4	269,248	190,461
Selling and distribution cost		(1,538)	(13,221)
Administrative expenses		(135,284)	(155,877)
Other expenses	4	(221,658)	(73,854)
Finance costs	5	(80,652)	(75,218)
Reversal of impairment losses on financial assets		<u>6,978</u>	<u>249</u>
(LOSS)/PROFIT BEFORE TAX	6	(63,746)	389,689
Income tax expense	7	<u>(11,512)</u>	<u>(39,168)</u>
(LOSS)/PROFIT FOR THE PERIOD		<u><u>(75,258)</u></u>	<u><u>350,521</u></u>
Attributable to:			
Equity holders of the parent		(62,689)	327,621
Non-controlling interests		<u>(12,569)</u>	<u>22,900</u>
		<u><u>(75,258)</u></u>	<u><u>350,521</u></u>
(LOSSES)/EARNINGS PER SHARE			
ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	8		
— Basic		<u><u>(5.37) fens</u></u>	<u><u>27.85 fens</u></u>
— Diluted		<u><u>(5.37) fens</u></u>	<u><u>27.85 fens</u></u>
INTERIM DIVIDEND DECLARED FOR THE PERIOD	9	<u><u>—</u></u>	<u><u>123,793</u></u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2022 — unaudited

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
(LOSS)/PROFIT FOR THE PERIOD	<u>(75,258)</u>	<u>350,521</u>
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD	<u><u>(75,258)</u></u>	<u><u>350,521</u></u>
Attributable to:		
Equity holders of the parent	(62,689)	327,621
Non-controlling interests	<u>(12,569)</u>	<u>22,900</u>
	<u><u>(75,258)</u></u>	<u><u>350,521</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2022 — unaudited

		Six months ended 30 June	
		2022	2021
	Notes	RMB'000	RMB'000
Net cash flows in respect of operating activities		(604,775)	1,055,768
Net cash flows in respect of investing activities		(1,603,676)	(1,523,221)
Net cash flows in respect of financing activities		<u>1,955,920</u>	<u>377,452</u>
Net decrease in cash and cash equivalents		(252,531)	(90,001)
Cash and cash equivalents at beginning of period		593,708	775,849
Effect of foreign exchange rate change, net		<u>1,629</u>	<u>(2,787)</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	13	<u>342,806</u>	<u>683,061</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2022 — unaudited

	Attributable to owners of the parent													
	Share Capital	Statutory surplus & safety production reserve	Special reserve	Share premium	Capital redemption reserve	Financial assets at FY through OCI revaluation reserve	Merger reserve	Share award reserve	Shares repurchased for share award plan	Retained profits	Proposed interim/final dividend	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2022	102,662	769,410	(38,363)	1,352,311	2,371	2,409	(627,092)	—	(38,182)	3,140,494	—	4,666,020	74,546	4,740,566
Loss for the period	—	—	—	—	—	—	—	—	—	(62,689)	—	(62,689)	(12,569)	(75,258)
Total comprehensive loss for the period	—	—	—	—	—	—	—	—	—	(62,689)	—	(62,689)	(12,569)	(75,258)
Appropriation to statutory surplus/safety production reserve	—	27,851	—	—	—	—	—	—	—	(27,851)	—	—	—	—
Safety production reserve Used	—	(3,572)	—	—	—	—	—	—	—	3,572	—	—	—	—
2021 final dividend paid	—	—	—	—	—	—	—	—	—	(61,747)	—	(61,747)	—	(61,747)
Equity-settled share award arrangement, offset with dividends	—	—	—	—	—	—	—	—	1,330	—	—	1,330	—	1,330
At 30 June 2022	102,662	793,689	(38,363)	1,352,311	2,371	2,409	(627,092)	—	(36,852)	2,991,779	—	4,542,914	61,977	4,604,891
At 1 January 2021	102,662	725,211	(38,363)	1,352,311	2,371	2,347	(627,092)	—	(31,704)	3,224,944	—	4,712,687	79,004	4,791,691
Profit for the period	—	—	—	—	—	—	—	—	—	327,621	—	327,621	22,900	350,521
Total comprehensive income for the period	—	—	—	—	—	—	—	—	—	327,621	—	327,621	22,900	350,521
Appropriation to statutory surplus/safety production reserve	—	34,995	—	—	—	—	—	—	—	(34,995)	—	—	—	—
Safety production reserve Used	—	(1,122)	—	—	—	—	—	—	—	1,122	—	—	—	—
2020 final dividend paid	—	—	—	—	—	—	—	—	—	(297,402)	—	(297,402)	—	(297,402)
Equity-settled share award arrangement, offset with dividends	—	—	—	—	—	—	—	—	(4,332)	—	—	(4,332)	—	(4,332)
At 30 June 2021	102,662	759,084	(38,363)	1,352,311	2,371	2,347	(627,092)	—	(36,036)	3,221,290	—	4,738,574	101,904	4,840,478

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 2021. 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 2021. 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 2022, the Group’s net current liabilities amounted to approximately RMB4,636,753,000. 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 condensed consolidated financial statements have been prepared on a basis that the Group will be able to continue as a going concern.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual financial statements for the year ended 31 December 2021, 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.

Property, Plant and Equipment: Proceeds before intended use — Amendments to HKAS 16	1 January 2022
Reference to the Conceptual Framework — Amendments to HKFRS 3	1 January 2022
Onerous Contracts — Cost of Fulfilling a Contract — Amendments to HKAS 37	1 January 2022
Annual Improvements to HKFRS Standards 2018–2020	1 January 2022

In addition, the HKICPA also published a number of new standards and amendments to standards which are effective for the financial year beginning on or after 1 January 2023 and have not been early adopted by the Group. Management is assessing the impact of such standards and will adopt the relevant standards in the subsequent periods as required.

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	
	2022	2021
	RMB'000	RMB'000
Sales of goods	4,822,234	4,732,682
Provision of services	34,564	34,312
Others	7,527	9,603
	<u>4,864,325</u>	<u>4,776,597</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	
	2022	2021
	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	108,758	68,699
Sales in respect of trading of oil and chemicals	132,556	84,261
Government subsidies*	17,047	14,133
Other lease income	4,911	4,101
Foreign exchange loss, net	—	15,436
Others	5,976	3,831
	<u>269,248</u>	<u>190,461</u>
	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Other expenses		
Provision for impairment for inventory — silver (being part of catalyst)	41,590	180
Cost of sales in respect of trading of oil and chemicals	108,704	73,532
Foreign exchange loss, net	69,861	—
Others	1,503	142
	<u>221,658</u>	<u>73,854</u>

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	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Interest on bank and other borrowings	79,151	75,062
Interest on discounted notes receivables	1,113	—
Interest on lease liabilities	388	156
	<u>80,652</u>	<u>75,218</u>

6 (LOSS)/PROFIT BEFORE TAX

The Group's (loss)/profit before tax is arrived at after charging:

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Cost of inventories sold	4,751,823	4,247,807
Cost of service provided	13,342	11,641
Depreciation of property, plant and equipment	257,238	244,499
Depreciation of right-of-use assets	12,039	8,387
Amortisation of intangible assets	14,169	13,839
	<u>4,751,823</u>	<u>4,247,807</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	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Current		
Charge for the period	20,132	39,914
Deferred	(8,620)	(746)
	<u>11,512</u>	<u>39,168</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% (2021: 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 bureaux.

8 (LOSSES)/EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The calculation of basic (losses)/earnings per share amounts is based on the (loss)/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 (losses)/earnings per share amounts is based on the (loss)/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 (losses)/earnings per share are based on:

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
(Losses)/Earnings		
(Loss)/Profit attributable to ordinary equity holders of the parent	<u>(62,689)</u>	<u>327,621</u>
	Number of shares	
	'000	'000
Shares		
Weighted average number of ordinary shares in issue during the period	1,167,576	1,176,236
Effect of dilution — weighted average number of ordinary shares:		
Share award plan	—	—
	<u>1,167,576</u>	<u>1,176,236</u>

9 DIVIDENDS

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

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Proposed interim — Nil (2021: HK12.5 cents)	—	123,793

The Board did not declare an interim dividend during the period ended 30 June 2022 (2021: HK12.5 cents).

- 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	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Final dividend in respect of the financial year ended 31 December 2021, approved and paid during the following period, of HK6.0 cents per ordinary shares (2020: HK30.0 cents), calculated based on the number of ordinary shares used in the basic earnings per share calculation	61,747	297,402

10 FINANCIAL ASSETS/LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

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

11 INVENTORIES

	30 June	31 December
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	1,162,313	963,324
Finished goods	181,569	96,973
	<u>1,343,882</u>	<u>1,060,297</u>

12 TRADE AND NOTES RECEIVABLES

	30 June 2022 RMB'000	31 December 2021 RMB'000
Trade receivables	86,987	46,113
Notes receivable	<u>261,225</u>	<u>309,861</u>
	348,212	355,974
Impairment	<u>(3,306)</u>	<u>(10,284)</u>
	<u>344,906</u>	<u>345,690</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 2022 RMB'000	31 December 2021 RMB'000
1 to 30 days	82,052	32,903
31 to 60 days	313	758
61 to 90 days	33	57
91 to 360 days	829	2,105
Over 360 days	<u>3,760</u>	<u>10,290</u>
	<u>86,987</u>	<u>46,113</u>

13 CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	30 June 2022 RMB'000	31 December 2021 RMB'000
Cash and bank balances	342,806	593,708
Time deposits	2,680,948	2,022,821
	3,023,754	2,616,529
Less: Pledged time deposits:		
Pledged for notes payable	1,102,687	888,993
Pledged for letters of credit	405,076	140,050
Pledged for bank loans	1,173,185	993,778
	2,680,948	2,022,821
Cash and cash equivalents	342,806	593,708

Cash at banks earns interest at floating rates based on daily bank deposit rates. Pledged short term time deposits are made for periods with a maturity of the underlying notes payable, letters of credit and bank loans secured by these deposits. Time deposits earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

14 TRADE AND BILLS PAYABLES

	30 June 2022 RMB'000	31 December 2021 RMB'000
Trade payables	869,232	1,207,339
Bills payable	889,161	834,367
	<u>1,758,393</u>	<u>2,041,706</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 2022 RMB'000	31 December 2021 RMB'000
Within 3 months	1,282,582	1,659,671
3 to 6 months	325,206	368,391
6 to 12 months	144,962	9,654
12 to 24 months	4,426	3,135
24 to 36 months	824	424
Over 36 months	393	431
	<u>1,758,393</u>	<u>2,041,706</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 2022 RMB'000	31 December 2021 RMB'000
Current				
Bank loans — unsecured	3.350–4.250		1,000,849	701,510
Bank loans — secured	5.142		42,000	—
US\$15,016,604				
secured bank loans	1.689–1.856		100,782	—
US\$6,837,366				
secured bank loans	0.507		—	43,593
US\$135,283,113				
unsecured bank loans	0.400–3.330		907,234	—
US\$104,753,306				
unsecured bank loans	0.724–1.932		—	668,097
US\$38,232,943				
unsecured bank loans	0.680–2.400		260,138	—
US\$21,393,657				
unsecured bank loans	0.531–1.900		—	136,398
EUR21,188,132				
unsecured bank loans	0.400–1.300		148,496	—
			2,459,499	1,549,598
Other loans — unsecured			50,000	—
Discounted notes receivable	1.800–3.700		—	1,030,050
Discounted notes receivable	1.850–3.650		1,461,000	—
Discounted letter of credit	2.400–3.550		—	1,728,900
Discounted letter of credit	1.100–3.684		1,702,460	—
			5,672,959	4,308,548
Non-Current				
Bank loans — secured	3.580–5.142	2023	47,000	—
Bank loans — secured	3.580	2023	—	10,000
Bank loans — secured	3.580–5.142	2024	518,000	104,000
Bank loans — secured	3.580–5.142	2025	559,000	—
Bank loans — secured	5.142	2025	—	424,000
Bank loans — secured	5.142	2026	623,000	623,000
Bank loans — secured	5.142–5.292	2027	—	780,000
Bank loans — secured	4.600–5.292	2027	930,000	—
			2,677,000	1,941,000
			8,349,959	6,249,548
Analysed into:				
Bank loans repayable:				
Within one year			5,672,959	4,308,548
In the second year			47,000	10,000
In the third to fifth year			1,700,000	1,151,000
Beyond five years			930,000	780,000
			8,349,959	6,249,548

Notes:

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

- (i) mortgages over the Group's leasehold lands, which had an aggregate carrying value at the end of the reporting period of approximately RMB220,407,000 as at 30 June 2022 and approximately RMB223,079,000 as at 31 December 2021;
- (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 RMB2,796,922,000 as at 30 June 2022 and approximately RMB2,884,971,000 as at 31 December 2021;
- (iii) the Group's financial assets at fair value through profit or loss which had an aggregate carrying value amounting to approximately RMB263,712,000 as at 30 June 2022 and RMB180,000,000 as at 31 December 2021;
- (iv) the Group's pledged deposit, which had an aggregate carrying value amounting to approximately RMB1,578,261,000 as at 30 June 2022 and RMB1,133,828,000 as at 31 December 2021;
- (v) guarantees from Lotte Chemical Corporation with mortgages over the Group's property, plant and equipment, which had an aggregate carrying value amounting to approximately RMB193,985,000 as at 30 June 2022 and RMB207,671,000 as at 31 December 2021;
- (vi) guarantees from Hangzhou Haoming Investment Co., Ltd. ("**Hangzhou Haoming**"), a related company and a company established in the PRC with limited liability, for an amount not exceeding approximately RMB650,000,000 as at 30 June 2022 and RMB650,000,000 as at 31 December 2021; and
- (vii) mortgages over 100% of the equity interest of Hangzhou Haoming.

Sanjiang Chemical Company Limited, one of the Group's wholly owned subsidiaries, entered into a syndicated loan agreement with Bank of Communications Corporation Limited, China CITIC Bank Corporation Limited, Agricultural Bank of China Limited and China Minsheng Banking Corporation Limited in 2020 in relation to the funding requirement for the construction of an additional EO/EG production facility with a total loan amount of RMB3,160,000,000, out of which RMB2,469,000,000 and RMB1,841,000,000 has been used as at 30 June 2022 and 31 December 2021 respectively.

16 DUE FROM RELATED PARTIES

	30 June 2022 RMB'000	31 December 2021 RMB'000
Sure Capital Holdings Limited (a)	1	1
Zhejiang Mei Fu Petrochemical Co., Ltd. (b)	86,737	278,800
Grand Novel Developments Limited	2,320	2,320
Zhejiang HaoXing Energy Saving Technology Co., Ltd.	440	440
Zhejiang Jiahua Import Export Co., Ltd.	320	320
	89,818	281,881

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 2022 RMB'000	31 December 2021 RMB'000
Zhejiang Jiahua Energy Chemical Co., Ltd.	38,626	53,131
Zhejiang Zhapu Mei Fu Port & Storage Co. Ltd.	3,610	5,268
Jiaxing Hangzhouwan Petrochemical Logistics Co., Ltd.	1,875	2,501
Zhejiang Jiahua Group Co., Ltd.	711	711
Jiaxing Xinggang Rewang Co., Ltd.	670	378
Guangqu Gangan Industrial Equipment Installation Co., Ltd.	711	622
Zhejiang Jiafu New Materials Technology Co., Ltd.	576	285
Jiaxing Zhapu Construction Investment Co., Ltd.	63	63
Jiaxing Jianghao Eco-agriculture Co., Ltd.	283	283
	47,125	63,242

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

CAPITAL COMMITMENTS

As at 30 June 2022, the Group had capital commitments amounted to approximately RMB2,159.7 million which primarily related to the procurements of plant and machinery for the construction of additional production capacities and for regular repair and maintenances.

CONTINGENT LIABILITIES

As at 30 June 2022, the Group did not have material contingent liabilities not provided for in the financial statements.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2022, the Group employed a total of 986 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 2022: 50.2%; 31 December 2021: 39.4%). 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 2022: 45.4 days; 31 December 2021: 35.7 days).

The trade and notes receivables turnover days maintained at a relatively low level during the period under review (30 June 2022: 12.8 days; 31 December 2021: 11.5 days).

The trade and notes payables turnover days maintained at a similar level during the period under review (30 June 2022: 71.8 days; 31 December 2021: 58.0 days).

INTERIM DIVIDEND

The Board does not recommend an interim dividend for the six months ended 30 June 2022.

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 2022 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 2022 and up to the date of this announcement.

AUDIT COMMITTEE

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

The Audit Committee has reviewed the interim results of the Group for the six months ended 30 June 2022, including the accounting principles and practices adopted by the Group, and the Group’s internal control functions.

REMUNERATION COMMITTEE

As at the date of this announcement, the Remuneration Committee has three members, namely Pei Yu, Han Jianhong and Kong Liang of whom Kong Liang and Pei Yu are independent non-executive Directors and Han Jianhong is the Chairlady of the Board and an executive Director. The chairman of the Remuneration Committee is Pei Yu. The primary responsibilities of the Remuneration Committee include, among others, evaluating the performance and making recommendation on the remuneration package of the Directors and senior management, and evaluating and making recommendation on the share award plan of the Company.

NOMINATION COMMITTEE

As at the date of this announcement, the nomination committee of the Company (the “**Nomination Committee**”) consists of three members, namely Han Jianhong, Shen Kaijun and Ms. Pei Yu, of whom Shen Kaijun and Pei Yu are independent non-executive Directors and Han Jianhong is the Chairlady of the Board and an executive Director. The chairlady of the Nomination Committee is Han Jianhong. The primary responsibilities of the Nomination Committee include, among others, considering and recommending to the Board suitably qualified persons to become the member of the Board and reviewing the structure, size and composition of the Board on a regular basis and as required.

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES

During the period under review, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30 June 2022.

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 2022 will be dispatched to the shareholders of the Company and published on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (www.chinasanjiang.com) in due course.

By order of the Board
China Sanjiang Fine Chemicals Company Limited
HAN Jianhong
Chairlady and Executive Director

The People’s Republic of China, 31 August 2022

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

In this announcement, if there is any inconsistency between the Chinese names of the entities or enterprises established in the PRC and their English translations, the Chinese names shall prevail. The English translation of names or any descriptions in Chinese which are marked with “” is for identification purpose only.*