三江化工
SANJIANG CHEMICAL

中國三江精細化工有限公司
CHINA SANJIANG FINE CHEMICALS COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 2198

Interim Report 2011

Third Phase Ethylene Oxide Production Facilities
commenced operation on 24 May 2011

CONTENT

Management Discussion and Analysis

Since the success of the listing (the "**Listing**") of the shares of China Sanjiang Fine Chemicals Company Limited (the "**Company**") on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 16 September 2010, it almost comes to the first anniversary of this milestone of our Company and its subsidiaries (the "**Group**") and we have achieved through a number of measures to strengthen our leading market position in China and accelerate our production capacity expansion.

During the period under review, revenue of the Group improved by approximately 7.6% reaching approximately RMB894.4 million as compared to revenue of approximately RMB831.2 million for the same period of 2010 while gross profit improved to a larger extent by approximately 16.0% reaching approximately RMB186.2 million as compared to the same period of 2010. Net profit attributable to equity holders of the Company was approximately RMB158.2 million and basic earnings per share was approximately RMB15.48 cents for the six months ended 30 June 2011, representing increases of approximately 42.9% and 41.1% respectively as compared to the same period last year.

The board of directors (the "**Board**") has recommended an interim dividend of HK$5.50 cents (2010: Nil) per share, representing a dividend payout ratio of approximately 29.5% for the six months ended 30 June 2011.

BUSINESS UPDATES FOR THE FIRST HALF OF 2011

50% increase in ethylene oxide production capacity

Due to the continued economic growth and the increasing living standard in the People's Republic of China ("**PRC**"), the demand for ethylene oxide ("**EO**") has been keen in the past years. The Group is optimistic towards the EO market in the PRC, and it has been the Group's strategy to continue expanding its production capacity in EO. During the period under review, the Group has strengthened the leading market position in the PRC through expanding production capacity. On 24 May 2011, the Group's third phase EO production facilities were put into commercial operation after an approximately three weeks full-loaded trial run and the Group's aggregate annual designed production capacity of EO has increased by 50% from 120,000 MT to 180,000 MT. The third phase EO production facilities contributed approximately 7,500 MT for EO production/sales during the six months ended 30 June 2011. The Group expects the third phase EO production facilities will contribute 30,000 MT for EO production/sales in the second half of 2011.

Overhaul for EO production line

Apart from production capacity expansion, the Group also places great emphasis on production safety as well as production efficiency which the management of the Group believes is very critical to enable the Group to operate in a sustainable basis. The Group performs overhaul every 2 to 2.5 years, depending on production schedule to ensure a high standard of production safety and production efficiency. In March 2011, the Group performed an overhaul for one EO production line which lasted for a period of approximately 25 days and led to a decrease in EO production/sales by approximately 4,000 MT during the six months ended 30 June 2011. During the course of the overhaul, the Group took a thorough checking of the production line and replaced the old catalysts with declining production efficiency with newer and more technological-advanced and efficient catalysts and management expects the production efficiency as well as the gross profit margin will then be improved.

BUSINESS UPDATES FOR THE FIRST HALF OF 2011 *(Continued)*

EO price fluctuation

During the period under review, EO selling price experienced fluctuation with price peak at a level of approximately RMB14,000/MT (VAT-inclusive) in March and April 2011 and price bottom at a level of approximately RMB12,000/MT (VAT-inclusive) in June 2011. Although the demand for EO in the PRC remained strong throughout the period under review, EO selling price faced downward pressure in the second quarter of 2011, primarily resulted from the price fluctuations of commodities, in particular, price fluctuation of international crude oil which induced a general expectation of EO customers in the PRC for a price downward adjustment. The management of the Group considers the EO price fluctuation was in line with the price fluctuations of commodities during the six months ended 30 June 2011. As a result of the above EO price adjustment, the Group's gross profit margin in the second quarter of 2011 was adversely affected to certain extent.

MOU with Haiyan Economic Development Zone of Zhejiang Province

In response to the keen market demand for EO and in order to speed up our EO production capacity expansion, our Group entered into a memorandum of understanding with the Management Committee of Haiyan Economic Development Zone of Zhejiang Province, another economic development zone located right next to our existing production plant located at Zhapu Economic Development Zone, on 31 May 2011, pursuant to which the Group will construct a EO production facility with designed annual production capacity of 200,000MT of EO.

The Group considers the EO production facilities in Haiyan Economic Development Zone as the fifth phase EO production facilities which is a new expansion plan and on top of the those EO production facilities which were originally planned and disclosed in the prospectus of the Company dated 3 September 2010. The Group expects the fifth phase EO production facilities will commence construction during the second quarter of 2012 and commence production by 2014.

Framework agreement with Zhejiang Institute of Applied Technology Research of Chinese Academy of Sciences*

As part of the Group's strategy is to strengthen its research and development capabilities, during the period under review, the Group entered into a framework agreement ("**Framework Agreement**") with Zhejiang Institute of Applied Technology Research of Chinese Academy of Sciences* ("**ZIATR**") (浙江中科院應用技術研究院), pursuant to which the Group would invest in and provide tangible assets such as land use right, buildings and equipment and ZIATR would provide intangible assets such as talents, technologies and know-how to form a research center for the purpose of providing technical advices and research supports to the Group and other entities associated with the Group and located in the Zhapu Economic Development Zone in particular in terms of product analysis, quality improvement and new product/application development with the mission to promote fine chemical industry in the region. The management of the Group considers the entering into the Framework Agreement is in line with the Group's growth strategy and facilitates our future production capacity expansion plan to a large extent.

* *for identification purpose only. 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.*

BUSINESS OUTLOOK FOR THE SECOND HALF OF 2011

EO price forecast in the second half of 2011

Although EO selling price experienced fluctuation in the first half of 2011, management is optimistic towards the EO selling price in the second half of 2011 and expects the EO selling price will either be stable or have upward price adjustment in the fourth quarter of 2011 as management expects certain EO manufacturer in the PRC will undergo overhaul and suspend EO production for certain part of its EO production lines for a period of approximately 1.5 months and the Group's gross profit margin in the second half of 2011 is expected to be benefited to a certain extent.

Additional ethylene storage tank

In response to the adverse impact of short term price volatility on ethylene which is primarily driven by a number of factors including but not limited to supply volatility of ethylene from Middle East, fluctuations in international crude oil prices and global inventory level of ethylene, the Group commenced the construction of an additional ethylene storage tank with a total storage capacity of approximately 22,000 cubic metres at Port of Zhapu, Jiaxing City, Zhejiang Province, PRC during the second quarter of 2010. The construction of the additional ethylene storage tank has been completed on 12 August 2011 and the Group expects the storage tank will be in a position for commercial use by early September 2011, subject to the approval of relevant authority. With the new storage tank, the Group can build up an inventory buffer in total for a period of approximately 1.5 months, which will minimise the volatility of our feedstock costs as well as improve our gross profit margin to a certain extent.

Alternative ethylene supply source

Currently, the Group sources and purchases ethylene from reputable Japan suppliers and maintains at least three suppliers at any point of time so as to avoid reliance on any single source of supply. The Group enters into legally binding contracts with these Japan suppliers on a yearly basis in order to secure a stable supply of ethylene and the pricing and terms offered by these Japan suppliers would be reviewed and compared every year upon contract renewal. Due to the above measures, the Group did not experience any shortage of ethylene at any point of time.

It is the Group's general strategy to proactively locate alternative supply source of ethylene in order to secure a more stable and reliable supply of ethylene with more favorable pricing and terms. The Group is now actively negotiating with certain suppliers in Middle East and expects long-term supply contracts of ethylene which offer relatively favorable pricing will be entered into during the second half of 2011.

Potential upstream development

Apart from proactively locating alternative ethylene supply source, the Group also takes initiative to consider strategies to secure ethylene supply in a long term basis, which includes but not limited to developing upstream production facility to produce ethylene directly. The Group is now actively considering and assessing an opportunity to develop and construct an ethylene production facility using Methanol-to-Olefin("**MTO**")-based technology which was developed by Dalian Institute of Chemical Physics, Chinese Academy of Sciences (中國科學院大連化學物理研究所). MTO is primarily used to convert methanol into ethylene and propylene.

Given the continued economic growth, the increasing living standard in China and the keen demand for EO, it has been the Group's strategy to continue expanding its production capacity in EO and the Group believes involving in upstream business to produce ethylene directly would secure the supply of ethylene and is consistent with the Group's growth strategy. The Group is now in a preliminary stage to study ways to obtain the MTO technology.

FINANCIAL REVIEW

Revenue

Revenue for the six months ended 30 June 2011 ("Interim Period") was approximately RMB894.4 million, an increase of approximately 7.6%, compared to revenue of approximately RMB831.2 million for the corresponding period of 2010. The increase in revenue was primarily due to the increase in sale of EO during the period under review.

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

	Six months ended 30 June 2011	**% of revenue**	Six months ended 30 June 2010	% of revenue
REVENUE (RMB'000)				
Ethylene oxide	**750,379**	**84%**	700,454	84%
Surfactants	**74,114**	**8%**	80,153	10%
Surfactants processing services	**7,386**	**1%**	7,079	1%
Others	**62,561**	**7%**	43,554	5%
	894,440	**100%**	831,240	100%
SALES VOLUME (MT)				
Ethylene oxide	**70,660**		67,587	
Surfactants	**4,944**		7,452	
Surfactants processing services	**16,771**		16,240	
AVERAGE SELLING PRICE (RMB per MT)				
Ethylene oxide	**10,620**		10,364	
Surfactants	**14,991**		10,756	
Surfactants processing services	**440**		436	

Ethylene oxide sales

The annual designed EO production capacities as at 30 June 2011 and 31 December 2010 were 180,000 MT/year and 120,000 MT/year respectively, while the weighted average annual designed EO production capacities during the six months ended 30 June 2011 and during the year ended 31 December 2010 were 127,500 MT/year and 120,000 MT/year respectively.

During the period under review, the revenue from EO sales amounted to RMB750.4 million, which represents an increase of approximately 7.1% or RMB49.9 million when comparing to the corresponding period of 2010. The increase in revenue was primarily due to the increase in sales volume by 3,073 MT or 4.5% during the six months ended 30 June 2011 as a result of the commencement of commercial operation of the third phase EO production facility in May 2011 which contributed approximately 7,500 MT for EO production/sales during the six months ended 30 June 2011.

FINANCIAL REVIEW *(Continued)*

Surfactants sales

The annual designed surfactants production capacities as at 30 June 2011 and 31 December 2010 were 218,000 MT/year, while the weighted average annual designed surfactants production capacities during the six months ended 30 June 2011 and during the year ended 31 December 2010 were 218,000 MT/year and 118,000 MT/year respectively. The increase in annual designed surfactants production capacity by 100,000 MT/year in 2010 was due to the completion of the second phase construction of the production facilities of surfactants in August 2010.

During the period under review, the revenue from surfactants sales decreased by approximately 7.5% to RMB74.1 million for the six months ended 30 June 2011 from RMB80.2 million for the corresponding period of 2010. The decrease in revenue from surfactants sales was primarily due to the combination effect of 1) decrease in sales volume by 33.7% from 7,452 MT during the six months ended 30 June 2010 to 4,944 MT during the six months ended 30 June 2011 and 2) increase in average selling price of surfactants by 39.4% from RMB10,756/MT during the six months ended 30 June 2010 to RMB14,991/MT during the six months ended 30 June 2011. The decrease in sales volume by 33.7% for the six months ended 30 June 2011 was primarily due to the fact that less EO was being allocated to the production of surfactants as a result of the strong market demand for EO, and therefore more EO was allocated for direct sales instead of internal consumption. The increase in average selling price of surfactants by 39.4% was primarily due to the significant increase in the market price of fatty alcohol, another core feedstock used in the production of surfactants during the period under review. The financial impact of such increase in average selling price was partially offset by the decrease in sales volume.

Gross profit and gross margin

The Group's overall gross profit and gross margin maintained at a similar level in the first half of 2011 when comparing to corresponding period of 2010 (First half of 2011: RMB186.2 and 20.8% respectively; First half of 2010: RMB160.5 million and 19.3% respectively).

Administrative expenses

Administrative expenses consist mainly of staff related costs, various local taxes and educational surcharge, depreciation, amortization of land use rights, operating lease rental expenses, audit fee and miscellaneous expenses. The increase in administrative expenses by RMB3.7 million or 17.9% for the period under review was primarily due to the inclusion of office expenses of approximately RMB2 million paid for the Group's registered office in Hong Kong and the increase in accrual for staff salaries and bonus.

Condensed Consolidated Statement of Financial Position

At 30 June 2011 – unaudited

	Notes	30 June 2011 RMB'000	31 December 2010 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**1,104,462**	1,051,112
Prepaid land lease payments		**44,948**	45,467
Intangible assets		**33,449**	17,339
Advance payments for property, plant and equipment		**17,451**	77,218
Investment in jointly-controlled entity	9	**69,504**	29,103
Available-for-sale investments	13	**–**	50,000
Deferred tax assets		**638**	45
Total non-current assets		**1,270,452**	1,270,284
CURRENT ASSETS			
Inventories	14	**172,941**	103,952
Trade and notes receivables	15	**72,183**	35,662
Prepayments, deposits and other receivables		**46,028**	32,985
Due from related parties		**216**	–
Available-for-sale investments	13	**50,000**	–
Entrusted loan receivable	20	**150,000**	–
Pledged deposits	16	**546,690**	492,910
Time deposits	16	**220,000**	–
Cash and cash equivalents	16	**400,116**	601,249
Total current assets		**1,658,174**	1,266,758
CURRENT LIABILITIES			
Trade and bills payables	17	**403,840**	202,433
Other payables, accruals and provisions		**123,264**	132,050
Interest-bearing bank borrowings	18	**890,022**	745,400
Due to directors		**272**	7,863
Due to related parties		**11,258**	5,218
Tax payable		**28,949**	27,996
Total current liabilities		**1,457,605**	1,120,960
NET CURRENT ASSETS		**200,569**	145,798
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,471,021**	1,416,082

Condensed Consolidated Statement of Financial Position *(continued)*

At 30 June 2011 – unaudited

	Notes	**30 June 2011 RMB'000**	31 December 2010 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	18	**24,360**	48,360
Deferred tax liabilities	19	**39,850**	32,911
Total non-current liabilities		**64,210**	81,271
Net assets		**1,406,811**	1,334,811
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital		**88,419**	88,419
Reserves		**763,575**	763,338
Retained profits		**510,718**	399,166
Proposed interim/final dividend	12	**46,668**	81,852
Shares held under share award plan		**(4,808)**	–
		1,404,572	1,332,775
Non-controlling interests		**2,239**	2,036
Total equity		**1,406,811**	1,334,811

Condensed Consolidated Income Statement

For the six months ended 30 June 2011 – unaudited

	Notes	Six months ended 30 June **2011** **RMB'000**	 2010 RMB'000
REVENUE	6	**894,440**	831,240
Cost of sales	8	**(708,266)**	(670,722)
Gross profit		**186,174**	160,518
Other income and gains	6	**70,578**	10,669
Selling and distribution cost		**(1,561)**	(911)
Administrative expenses		**(24,581)**	(20,851)
Other expenses		**(23,313)**	(621)
Finance costs	7	**(12,047)**	(8,739)
Share of losses of jointly-controlled entity	9	**(783)**	–
PROFIT BEFORE TAX	8	**194,467**	140,065
Income tax expense	10	**(36,044)**	(29,326)
PROFIT FOR THE PERIOD		**158,423**	110,739
Attributable to:			
Equity holders of the parent		**158,220**	110,695
Non-controlling interests		**203**	44
		158,423	110,739
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT – Basic and diluted	11	**15.48 cents**	10.97 cents
INTERIM DIVIDEND DECLARED DURING THE PERIOD	12	**46,668**	–

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2011 – unaudited

	Notes	Six months ended 30 June **2011** **RMB'000**	 2010 RMB'000
Net cash flows from operating activities		**246,516**	290,270
Net cash flows used in investing activities		**(476,888)**	(331,383)
Net cash flows from financing activities		**20,272**	79,608
Net (decrease)/increase in cash and cash equivalents		**(210,100)**	38,495
Cash and cash equivalents at beginning of period		**601,249**	109,205
Effect of foreign exchange rate change, net		**8,967**	3,706
CASH AND CASH EQUIVALENTS AT END OF PERIOD	16	**400,116**	151,406

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2011 – unaudited

	Attributable to owners of the parent										
	Share Capital RMB'000	Statutory surplus reserve RMB'000	Share premium RMB'000	Merger reserve RMB'000	Share award reserve# RMB'000	Shares held under 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 2011	88,419	86,337	1,270,593	(593,592)	–	–	399,166	81,852	1,332,775	2,036	1,334,811
Profit for the period	–	–	–	–	–	–	158,220	–	158,220	203	158,423
Total comprehensive income for the period	–	–	–	–	–	–	158,220	–	158,220	203	158,423
Dividend approved and paid for previous year	–	–	–	–	–	–	–	(81,852)	(81,852)	–	(81,852)
Dividends declared to ultimate holding company	–	–	–	–	–	–	(46,668)	46,668	–	–	–
Equity-settled share award arrangement#	–	–	–	–	237	(4,808)	–	–	(4,571)	–	(4,571)
At 30 June 2011	88,419	86,337	1,270,593	(593,592)	237	(4,808)	510,718	46,668	1,404,572	2,239	1,406,811
At 1 January 2010	901	56,331	493,934	(601,644)	–	–	284,838	–	234,360	(162)	234,198
Profit for the period	–	–	–	–	–	–	110,695	–	110,695	44	110,739
Total comprehensive income for the period	–	–	–	–	–	–	110,695	–	110,695	44	110,739
Deemed distribution to equity holders	–	–	–	8,052**	–	–	–	–	8,052	2,013	10,065
Dividends declared to ultimate holding company	–	–	–	–	–	–	(39,940)	–	(39,940)	–	(39,940)
Appropriation to statutory reserve	–	12,638	–	–	–	–	(12,638)	–	–	–	–
At 30 June 2010	901	68,969	493,394	(593,592)	–	–	342,955	–	313,167	1,895	315,062

\# The Group adopted a share award plan on 31 March 2011 to recognise and reward the contribution of its certain employees. During the period under review, the Group has set up a trust specifically for the management of the share award plan and through the trust, a total of 1,912,000 shares of the Company have been purchased to form a share pool. As at 30 June 2011, a total of 1,912,000 shares of the Company were granted to certain employees of the Group and the shares granted will be transferred to those selected employees after 5 years from the date of grant. The fair value of services received in return for shares granted is measured by reference to the fair value of shares granted. The estimate of the fair value of the shares granted is measured based on fair market value of the shares (i.e. the actual consideration paid for the shares), adjusted for the exclusion of expected dividends to be received in the next 5 years.

** As part of the corporate reorganisation for the purpose of the listing of the shares of the Company on the Main Board of the Stock Exchange, on 1 April 2010, the Group acquired the EO trading and surfactant manufacture and sales businesses (the "Acquired Businesses") from Hangzhou Haoming Investment Co., Limited (formerly known as Hangzhou Xiaoshan Sanjiang Fine Chemical Co., Limited and Xiaoshan City Sanjiang Fine Chemical Co., Limited) ("Hangzhou Haoming"). Except for the assets and liabilities acquired by the Group, the land use right, buildings and motor vehicles related to the Acquired Businesses retained by Hangzhou Haoming have been reflected as a distribution to the ultimate shareholder in the consolidated statement of changes in equity on the date of completion of the business acquisition.

Notes to the 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 of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

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

2 BASIS OF PRESENTATION AND PREPARATION

The Group's unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong, the disclosure requirements of Hong Kong Companies Ordinance and applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange ("**Listing Rules**").

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.

3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

HKFRS 1 Amendment	Amendments to HKFRS 1 Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters
HKAS 24 (Revised)	Related Party Disclosures
HKAS 32 Amendment	Amendment to HKAS 32 Financial Instruments: Presentation – Classification of Rights Issues
HK(IFRIC)-Int 14	Amendments to HK(IFRIC)-Int 14 Prepayments of a Amendments Minimum Funding Requirement
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments
Improvements to HKFRSs 2010 issued in May 2010	Amendments to a number of HKFRSs issued in May 2010

The adoption of these new and revised HKFRSs has had no significant financial effect on the financial statements.

4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs that have been issued but are not yet effective, in these financial statements.

HKFRS 7 Amendments	Amendments to HKFRS 7 Financial Instruments: *Disclosures – Transfers of financial Assets*[1]
HKFRS 9	*Financial Instruments*[2]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2013

Further information about those changes that are expected to significantly affect the Group is as follows:

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 Financial Instruments: Recognition and Measurement. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "**Additions**"). The changes resulting from the Amendments only affect the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("**FVO**"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("**OCI**"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other requirements in HKAS 39 in respect of liabilities are carried forward into HKFRS 9. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of these additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting, derecognition and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2013.

5 SEGMENT INFORMATION

For management purpose, the Group did not organise into business units based on their products and services and only has one reportable operating segment. Management monitors the operating results of its operating segment as a whole for the purpose of making decisions about resource allocation of performance assessment.

Entity-wide disclosures

Information about products

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

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
Ethylene oxide	**750,379**	700,454
Surfactants	**74,114**	80,153
Other chemical products	**59,800**	41,944
Processing services	**7,386**	7,079
Others	**2,761**	1,610
	894,440	831,240

Geographical information

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

6 REVENUE, OTHER INCOME AND GAINS

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

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

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
Revenue		
Sales of goods	**884,293**	822,551
Provision of services	**7,386**	7,079
Others	**2,761**	1,610
	894,440	831,240
Other income and gains		
Bank interest income	**25,121**	4,032
Government subsidies*	**1,330**	53
Foreign exchange gains, net	**8,928**	3,706
Other lease income	**38**	2,272
Sales of used recycled material	**33,942**	–
Others	**1,219**	606
	70,578	10,669

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

7 FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
Interest on bank loans wholly repayable within five years	**13,690**	9,355
Less: interest capitalized	**(1,643)**	(616)
	12,047	8,739

8 PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
Cost of inventories sold	**707,444**	669,903
Others	**822**	819
	708,266	670,722
Depreciation	**37,782**	34,528
Recognition of prepaid land lease payments	**519**	550
Amortisation of intangible assets	**1,459**	1,533
Loss on disposal of property, plant and equipment	**–**	20

9 INVESTMENT IN A JOINTLY-CONTROLLED ENTITY

	30 June 2011	31 December 2010
	RMB'000	RMB'000
Share of net assets	**69,504**	29,103

Particulars of the jointly-controlled entity are as follows:

Name	**Place and date of incorporation/ registration and operations**	**Nominal value of issued ordinary share/ registered paid-up capital**	**Percentage of equity interest attributable to the Group**	**Principal activities**
Sanjiang Honam Petrochemical Company Limited	People's Republic of China 11 May 2010	US$44,000,000	50 (indirect holding)	Manufacture of ethylene oxide

9 INVESTMENT IN A JOINTLY-CONTROLLED ENTITY *(Continued)*

The following table illustrates the summarised financial information of the Group's jointly-controlled entity:

	30 June 2011 RMB'000	31 December 2010 RMB'000
Share of the jointly-controlled entity's assets and liabilities:		
Current assets	**49,414**	24,253
Non-current assets	**20,129**	4,850
Current liabilities	**(39)**	–
Non-current liabilities	**–**	–
Net assets	**69,504**	29,103
Share of the jointly-controlled entity's results:		
Total expenses	**(783)**	(330)
Tax	**–**	–
Loss after tax	**(783)**	(330)

10 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 expenses of the Group for the periods are analysed as follows:

	Six months ended 30 June	
	2011 RMB'000	2010 RMB'000
Current – PRC		
Charge for the period	**29,698**	18,138
Deferred	**6,346**	11,188
Total tax charge for the period	**36,044**	29,326

10 INCOME TAX EXPENSE *(Continued)*

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

Pursuant to the relevant tax law of Hong Kong Special Administrative Region, Hong Kong profits tax has been provided at the rate of 16.5% (2010: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. No provision of income tax has been made as the Group had no taxable income derived from Hong Kong during the period.

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

Sanjiang Chemical was registered as a foreign-invested enterprise on 9 December 2003. Sanjiang Chemical was subject to CIT at the rate of 25% for the six months ended 30 June 2011 (2010: 25%). Pursuant to the approval of the tax bureau, Sanjiang Chemical is regarded as involving in high-tech industry and is entitled to a preferential CIT rate of 15% for 2011, 2012 and 2013. Therefore, Sanjiang Chemical was subject to CIT at a reduced rate of 15% for the six months ended 30 June 2011 (2010: 12.5%).

Yongming Petrochemical was registered as a foreign-invested enterprise on 9 December 2003 and subject to CIT at the rate of 25% for the six months ended 30 June 2011 (2010: 25%). Pursuant to the approval of the tax bureau, Yongming Petrochemical was exempted from CIT for its first two profit-making years (after deducting losses incurred in previous years) and was entitled to a 50% tax reduction for the succeeding three years. In accordance with the Corporate Income Tax Law, the tax concession would be deemed to be to commence from 1 January 2008 even if the Company did not have taxable profits at that time. Although Yongming Petrochemical was in an accumulative loss position as of 1 January 2008, its tax concession was deemed to have started in 2008. Therefore, Yongming Petrochemical was subject to CIT rate of 12.5% for the six months ended 30 June 2011 (2010: 12.5%).

Guanlang was registered as a domestic-invested enterprise on 29 September 2005 and was subject to CIT at the rate of 25% for the six months ended 30 June 2011 (2010: 25%).

Sanjiang Trading was registered as a domestic-invested enterprise on 29 October 2004 and was subject to CIT at a rate of 25% for the six months ended 30 June 2011 (2010: 25%).

Hangzhou Sanjiang was registered as a domestic-invested enterprise on 1 April 2010 and was subject to CIT at a rate of 25% for the six months ended 30 June 2011 (2010: 25%).

10 INCOME TAX EXPENSE *(Continued)*

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

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
Profit before tax	**194,467**	140,065
Tax at the statutory tax rates	**48,617**	35,016
Tax effect of tax concession and allowances	**(22,150)**	(17,312)
Tax losses not recognised	**1,686**	202
Expenses not deductible for tax	**1,046**	615
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	**6,939**	10,896
Tax losses utilized from previous years	**(94)**	(91)
Tax charge at the Group's effective rate	**36,044**	29,326

11 EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The calculations of basic earnings per share are based on:

	Six months ended 30 June	
	2011	2010
Profit attributable to ordinary equity holders of the Company use in basic earnings per share calculation (RMB)	**158,220,000**	110,695,000
Number of ordinary shares in issue during the period used in the basic earnings per share calculation	**1,022,303,000**	1,009,303,000

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

12 DIVIDENDS

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

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
Interim dividend declared after the Interim Period of HK$5.5 cents per ordinary shares (2010: Nil)	**46,668**	–

The interim dividend has not been recognized as a liability as at 30 June 2011.

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

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
Final dividend in respect of the financial year ended 31 December 2010, approved and paid during the following period, of HK$9.5 cents per ordinary shares (2010: HK$9.2 cents), calculated based on the number of ordinary shares used in the basic earnings per share calculation	**81,852**	93,139

13 AVAILABLE-FOR SALE INVESTMENTS

	30 June 2011 RMB'000	31 December 2010 RMB'000
Current		
Unlisted equity investment, at fair value	**50,000**	–
Non-current		
Unlisted equity investment, at fair value	**–**	50,000
	50,000	50,000

The above investments consist of investments in equity securities which have a fixed maturity of less than 12 months from the date of this report and no fixed coupon rate.

14 INVENTORIES

	30 June 2011 RMB'000	31 December 2010 RMB'000
Raw materials	**150,389**	100,436
Finished goods	**22,552**	3,516
	172,941	103,952

15 TRADE AND NOTES RECEIVABLES

	30 June 2011 RMB'000	31 December 2010 RMB'000
Trade receivables	**14,945**	13,023
Notes receivables	**57,238**	22,639
	72,183	35,662
Less: Impairment	**–**	–
	72,183	35,662

The credit term generally arranges from 15 days to 30 days, extending up to three months for certain major customers.

The movement in provision for impairment of trade receivables is as follows:

	30 June 2011 RMB'000	31 December 2010 RMB'000
At beginning of period	**–**	266
Amount written off as uncollectible	**–**	(266)
At end of period	**–**	–

15 TRADE AND NOTES RECEIVABLES *(Continued)*

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

	30 June 2011 RMB'000	31 December 2010 RMB'000
1 to 30 days	**69,353**	33,111
31 to 60 days	**1,879**	342
61 to 90 days	**282**	86
91 to 360 days	**233**	1,511
Over 360 days	**436**	612
	72,183	35,662

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

	30 June 2011 RMB'000	31 December 2010 RMB'000
Neither past due nor impaired	**70,093**	33,792
Less than 30 days past due	**1,318**	292
31 to 60 days past due	**102**	86
61 to 90 days past due	**233**	636
91 to 360 days past due	**42**	558
Over 360 days	**395**	298
	72,183	35,662

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

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

16 CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	30 June 2011 RMB'000	31 December 2010 RMB'000
Cash and bank balances	**222,367**	601,249
Time deposits	**944,439**	492,910
	1,166,806	1,094,159
Less:		
(i) Pledged time deposits for bank loans	**546,690**	492,910
(ii) Time deposits with maturity for more than 3 months	**220,000**	–
Cash and cash equivalents	**400,116**	601,249

The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

17 TRADE AND BILLS PAYABLES

	30 June 2011 RMB'000	31 December 2010 RMB'000
Trade payables	**403,840**	202,433

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

	30 June 2011 RMB'000	31 December 2010 RMB'000
Within 3 months	**316,101**	193,976
3 to 6 months	**85,228**	7,535
6 to 12 months	**4**	137
12 to 24 months	**1,978**	380
24 to 36 months	**121**	20
Over 36 months	**408**	385
	403,840	202,433

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

18 INTEREST-BEARING BANK BORROWINGS

	Effective Interest rate (%)	Maturity	30 June 2011 RMB'000	31 December 2010 RMB'000
Current				
Bank loans – secured#	1.950-4.614	Within 1 year	**856,437**	–
Bank loans – secured#	1.101-4.253	Within 1 year	**–**	618,182
Bank loans – unsecured	3.209-3.210	Within 1 year	**33,585**	–
Bank loans – unsecured	1.876-5.598	Within 1 year	**–**	106,218
Discounted bank acceptances#	3.641-4.430		**–**	21,000
			890,022	745,400
Non-current				
Bank loans – secured#	PBOC Bench – mark rate*110%	2011.06.19 – 2013.12.20	**24,360**	–
	5.598	2012.12.20 – 2014.12.20	**–**	48,360
			24,360	48,360
			914,382	793,760
Repayable:				
Within one year or on demand			**890,022**	745,400
In the second year			**–**	28,360
In the third to fifth years, inclusive			**24,360**	20,000
			914,382	793,760

The Group's bank borrowings are secured by the Group's time deposit amounting to RMB546,690,000, as at 30 June 2011 (31 December 2010: RMB492,910,000).

19 DEFERRED TAX LIABILITIES

The movement in deferred tax liabilities during the periods is as follows:

	Withholding tax on the Distributable profits RMB'000
At 1 January 2010	32,822
Deferred tax charged to the income statement during the year	8,088
Deferred tax utilised during the year	(7,999)
At 31 December 2010 and 1 January 2011	32,911
Deferred tax charged to the income statement during the period	6,939
At 30 June 2011	39,850

20 ENTRUSTED LOAN RECEIVABLE

As at 30 June 2011, the Group has an entrusted loan receivable due from Jiaxing Xinhu Zhongfang Zhiye Co., Ltd* ("**Jiaxing Xinhu**") (嘉興新湖中房置業有限公司), an independent third party, which amounted to RMB150 million. The amount due form Jiaxing Xinhu is interest bearing at a rate of 12.0% per annum, secured by guarantee given by a major shareholder of Jiaxing Xinhu and repayable within one year.

The directors of the Company are of the opinion that no provision for impairment is necessary in respect of the balance and the balance is considered fully recoverable on maturity.

* *for identification purpose only. 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.*

Other Information

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2011, the interests and short positions of the Directors and/or chief executives of the Company in any shares of the Company (the "**Shares**"), underlying Shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("**SFO**")) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have under such provisions of the SFO), or which are required, pursuant to Section 352 of Part XV of the SFO, to be entered in the register kept by the Company, or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules are as follows:

Interest in shares of the Company

Name of the directors	Capacity/ Nature of interest	Long/Short position	Number of shares held	Approximate % of issued share capital
Guan Jianzhong ("**Mr. Guan**")	Interests in controlled corporation	Long position	462,911,000 (Note)	45.28%
	Beneficial owner	Long position	990,000	0.10%
Han Jianhong ("**Ms. Han**")	Interests of spouse	Long position	463,901,000 (Note)	45.38%

Note: These Shares were held by Sure Capital Holdings Limited ("**Sure Capital**"), the entire issued ordinary shares of which were owned as to 84.71% by Mr. Guan and 15.29% by Ms. Han, the spouse of Mr. Guan. By virtue of the SFO, Mr. Guan was deemed to be interested in the Shares held by Sure Capital, and Ms. Han was deemed to be interested in the Shares in which Mr. Guan was interested for the purposes of Divisions 2 and 3 of Part XV of the SFO.

Interest in shares of associated corporation of the Company

Name of the directors	Name of associated corporation	Capacity/ Nature of interest	Long/Short position	Number of shares held	Approximate % of issued share capital
Mr. Guan	Sure Capital	Beneficial owner	Long position	8,471	84.71%
Ms. Han	Sure Capital	Beneficial owner	Long position	1,529	15.29%

Save as disclosed above, none of the Directors and the chief executive of the Company was interested or had any short position in any shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as at 30 June 2011.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2011, so far as is known to the Directors, the following persons (other than the Directors or chief executive of the Company), who have interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company in accordance with the provision of Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein, are as follows:

Name of the substantial shareholders	Capacity/ Nature of interest	Long/Short position	Number of shares held	Approximate % of issued share capital
Sure Capital	Beneficial owner	Long position	462,911,000 (Note)	45.28%

Note: These Shares are held by Sure Capital, the entire issued ordinary shares of which are owned as to 84.71% by Mr. Guan and 15.29% by Ms. Han, the spouse of Mr. Guan.

Save as disclosed above, no other interest or short position in the shares and underlying shares of the Company were recorded in the register required to be kept under section 336 of the SFO as at 30 June 2011.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "**Share Option Scheme**"), which was adopted on 24 August 2010 (the "**Adoption Date**"), for the purpose of providing incentives or rewards to selected eligible participants for their contribution to the Group. Unless otherwise cancelled or amended, the Share Option Scheme will remain in force for 10 years from the Adoption Date.

Eligible participants of the Share Option Scheme include the following:

(i) any employee (whether full time or part time) of the Group or any entity (the "**Invested Entity**") in which any member of the Group holds any shareholding (including any executive director but excluding any non-executive director of the Group or any Invested Entity);

(ii) any non-executive directors (including independent non-executive directors) of the Group or any Invested Entity;

(iii) any supplier of goods or services to any member of the Group or any Invested Entity;

(iv) any customer of the Group or any Invested Entity;

(v) any person or entity that provides research, development or other technological support to the Group or any Invested Entity;

(vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity;

(vii) any adviser (professional or otherwise) or consultant to any area of business or business development of the Group or any Invested Entity; and

(viii) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliances or other business arrangement to the development and growth of the Group.

As at the date of this interim report, the total number of Shares available for issue under the Share Option Scheme is 100,930,300, representing approximately 9.87% of the issued share capital of the Company as at the date of this interim report. The maximum number of Shares issuable upon exercise of the options which may be granted under the Share Option Scheme and any other share option scheme of the Group (including both exercised and outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being. Any further grant of share options in excess of this limit is subject to Shareholders' approval in a general meeting.

Share options granted to a Director, chief executive or substantial shareholder of the Company, or to any of their respective associates (as defined under the Listing Rules), are subject to approval in advance by the independent non-executive Directors (excluding independent non-executive Director who is the grantee of the options). In addition, where any grant of share options to a substantial shareholder or an independent non-executive Director, or to any of their respective associates, would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in excess of 0.1% of the Shares in issue and with an aggregate value (based on the closing price of the Shares at the date of the grant) in excess of HK$5 million, in a 12-month period up to and including the date of grant, such grant of share options are subject to Shareholders' approval in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK$1 by the grantee. The exercise period for the share options granted is determined by the Board, which period may commence from the date of acceptance of the offer for the grant of share options but shall end in any event not later than 10 years from the date of the grant of the option subject to the provisions for early termination under the Share Option Scheme.

The subscription price for Shares under the Share Option Scheme shall be a price determined by the Board, but shall not be less than the highest of:

(i) the closing price of Shares as stated in the daily quotations sheet of the Stock Exchange on the date of the offer of the grant, which must be a business day;

(ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of the offer of grant; and

(iii) the nominal value of the Shares.

Since the Adoption Date and up to 30 June 2011, no share option has been granted by the Company.

INTERIM DIVIDEND

The Board has recommended an interim dividend of HK$5.5 cents per ordinary share in respect of the Interim Period, representing a total payout of RMB46.7 million (corresponding period of 2010: Nil), or a distribution of 29.5% (corresponding period of 2010: Nil) of the Interim Period's profit attributable to equity shareholders. The interim dividend will be distributed on or about 3 October 2011 to the shareholders whose names appear on the register of members of the Company at the close of business on 23 September 2011.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Monday, 19 September 2011 to Friday, 23 September 2011, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed interim dividend, all transfers, accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4.30 p.m. on Friday, 16 September 2011.

CAPITAL COMMITMENTS

As at 30 June 2011, the Group has capital commitments amounted to approximately RMB86.9 million which was primarily related to the procurement of plant and machinery for the constructions of additional production capacities and investment in a jointly-controlled entity.

CONTINGENT LIABILITIES

As at 30 June 2011, the Group had not provided any form of guarantee for any company outside the Group. The Group is not involved in any current material legal proceedings, nor is our Group aware of any pending or potential material legal proceedings involving the Group.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2011, the Group employed a total of 443 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 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

Financial position

There is no significant change in the Group's financial position as at 30 June 2011 as compared to 31 December 2010. The Group's gearing, expressed as a percentage of total interest-bearing bank borrowings to total equity, were 0.65x and 0.59x as at 30 June 2011 and 31 December 2010 respectively. The increase was mainly attributable to the increase in bank borrowings.

Working capital

Total inventories as at 30 June 2011 were approximately RMB172.9 million as compared to approximately RMB104.0 million as at 31 December 2010. The average inventory turnover days increased by approximately 10.1 days or 39.5% in the first half of 2011 (First half of 2011: 35.2 days; Full year of 2010: 25.6 days), primarily due to the fact that the Group's EO production capacity increased by 50% since the commercial operation of the third phase EO facility in May 2011 and the Group purchased more ethylene in May and June 2011 as buffer stock for production.

The average trade and notes receivables turnover days was considered short and maintained at a similar level in 2011 as compared to 2010 (First half of 2011: 10.9 days; Full year of 2010: 8.6 days), primarily due to the fact that majority of our EO customers are required to pay in advance before delivery in order to secure supply of our products.

Average trade and bills payables turnover days was at 77.0 days as at 30 June 2011 (Full year of 2010: 68.2 days). The increase in average trade and bills payable turnover days was attributable to the fact that the Group purchased more ethylene in May and June 2011 as buffer stock for production after the commercial operation of the third phase EO facility in May 2011 and the Group used more letters of credit with a maturity period of average 90 days to settle trade payables.

CORPORATE GOVERNANCE

The Company has adopted the code provisions of the Code on Corporate Governance Practices ("**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on the Stock Exchange as its own code of corporate governance. In the opinion of the Board, the Company has complied with all the code provisions of the CG Code throughout the six months ended 30 June 2011.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its model code for Directors' securities dealing. Having made specific enquiries, all the Directors confirmed that they have complied with the Model Code throughout the six months ended 30 June 2011 and up to the date of this report.

AUDIT COMMITTEE

As at the date of this report, the Audit Committee has three members, namely Messrs. Shen Kaijun, Wang Wanxu and Mui Ho Cheung, Gary, 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 with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited condensed consolidated financial statements for the six months ended 30 June 2011.

REMUNERATION COMMITTEE

As at the date of this report, the Remuneration Committee has three members, namely Messrs. Wang Wanxu, Mui Ho Cheung, Gary and Guan Jianzhong, of whom Messrs. Wang Wanxu and Mui Ho Cheung, Gary are independent non-executive Directors and Mr. Guan is the Chairman of the Board and an executive Director. The chairman of the Remuneration Committee is Mr. Wang Wanxu. 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.

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2011.

DIRECTORS

As at the date of this report, the board of the Directors comprises four executive Directors: Mr. GUAN Jianzhong, Ms. HAN Jianhong, Mr. NIU Yingshan and Mr. HAN Jianping and three independent non-executive Directors: Mr. WANG Wanxu, Mr. SHEN Kaijun and Mr. MUI Ho Cheung, Gary.

Corporate Information

DIRECTORS

Executive Directors

GUAN Jianzhong *(Chairman)*
HAN Jianhong
NIU Yingshan
HAN Jianping

Independent non-executive Directors

WANG Wanxu
SHEN Kaijun
MUI Ho Cheung, Gary

SHARE LISTING

Main Board of The Stock Exchange of Hong Kong Limited
Stock code: 2198

AUDITORS

Ernst & Young
18th Floor, Two International Finance Centre
8 Finance Street, Central
Hong Kong

LEGAL ADVISERS AS TO HONG KONG LAW

Chiu & Partners
40th Floor, Jardine House
1 Connaught Place, Hong Kong

PRINCIPAL PLACE OF BUSINESS IN THE PRC AND HEADQUARTERS

Pinghai Road, Jiaxing Port Area,
Zhejiang Province, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 601-602, Infinitus Plaza 199
Des Voeux Road Central, Sheung Wan, Hong Kong

REGISTERED OFFICE

Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 609
Grand Cayman KY1-1107
Cayman Islands

COMPANY SECRETARY

Yip Ngai Hang, HKICPA

COMPLIANCE ADVISER

Daiwa Capital Markets Hong Kong Limited

PRINCIPAL BANKER IN HONG KONG

Bank of Communications Co., Ltd.
Hong Kong Branch,
20 Pedder Street, Central,
Hong Kong

PRINCIPAL BANKERS IN THE PRC

Agricultural Bank of China
Pinghu Zhapu Branch
42 Tianfei Road, Zhapu District
Pinghu City, Zhejiang Province, PRC

Bank of Communications
Pinghu City Branch
325 Xinhua Road, Pinghu City
Zhejiang Province, PRC

Industrial and Commercial Bank of China
Pinghu City Branch
338 Yashan Road Central, Pinghu City
Zhejiang Province, PRC

Bank of China
Pinghu City Branch
40 Chengnan Road West, Pinghu City
Zhejiang Province, PRC

China CITIC Bank
Jiaxing Branch
639 Zhongshan Road East, Jiaxing City
Zhejiang Province, PRC

China Construction Bank
Pinghu Zhapu Branch
1 Tianfei Road, Zhapu District
Pinghu City, Zhejiang Province, PRC

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

CORPORATE WEBSITE

www.chinasanjiang.com