



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

2014
Interim Report



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Management Discussion and Analysis



The panorama of MTO production facility (as at Mid-August 2014)

During the six months ended 30 June 2014 (the “**period under review**”), the Group has been experiencing a number of challenges and opportunities, in particular, the impacts, from both short-term and long-term perspectives, that the cyclicity and volatility of both ethylene oxide (“**EO**”) market and ethylene (the upstream/feedstock level of EO) market might have on the Group’s two ongoing major capacity expansion projects – the 5th phase EO/EG production facilities (please refer to **2012 Annual Report** for more details about this facility) and the Methanol-to-Olefin-based production facility (“**MTO production facility**”) (please refer to **2012 Annual Report** for more details about this facility). Revenue of the Group increased by approximately RMB217.7 million or 11.0% in the first half of 2014, primarily resulted from the combined impacts of the inclusion of Mei Fu Petrochemical’s June 2014 revenue (as Mei Fu Petrochemical is treated as a subsidiary of the Group with effect from 1 June 2014) of approximately RMB408.1 million and the decrease in EO revenue of approximately RMB119.9 million as the average selling price (“**ASP**”) of EO decreased by approximately 7.6% from RMB9,649/MT in the first half

of 2013 to RMB8,915/MT in the first half of 2014. Net profit attributable to shareholders was approximately RMB105.8 million and basic earnings per share was approximately RMB10.73 cents for the six months ended 30 June 2014, representing decreases of approximately 67.6% and 67.6% respectively as compared with the same period of last year. Same as last period, the Board will not recommend the payment of an interim dividend.

BUSINESS REVIEW AND OUTLOOK

During the period under review, unlike previous periods, the Group did not have any new ramp-up of EO production facility and the actual production volume of EO maintained in a similar level when comparing with the same period of last year which limited the growth of the Group in the first half of 2014 from a financial perspective although it is a common phenomenon for chemical companies having static growth during the construction period of production facilities whilst having strong growth after the commercial operation of production facilities. In terms of EO production, the Group expects the 5th phase EO/EG production

Management Discussion and Analysis



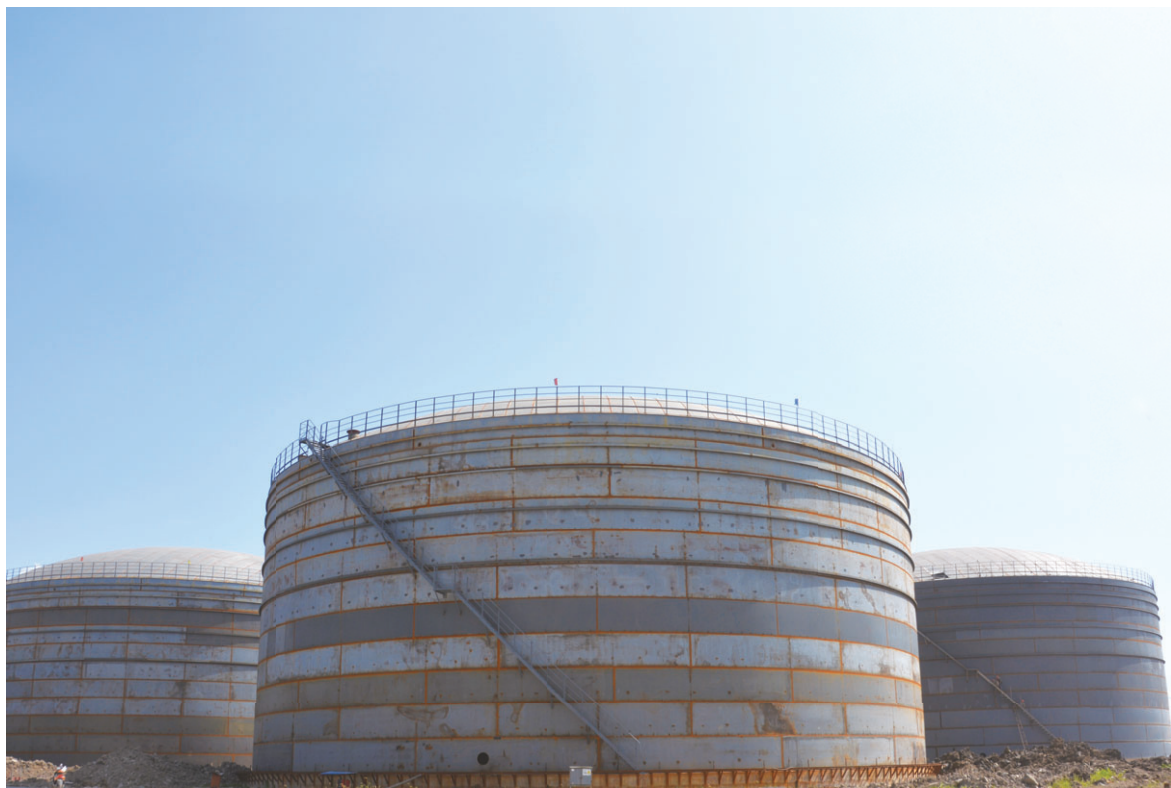
MTO's Reactors & Regenerators (as at Mid-August 2014)

facilities will come on stream by Q1 of 2015 which will have a total annual production capacity of not less than 350,000 MT in terms of EO and EG output and it represents a very significant growth when comparing with the Group's current total designed annual EO production capacity of 330,000 MT.

The management of the Group considers both EO market and ethylene market are cyclical and experiencing alternating periods of high-profitability market and low-profitability market which is also a common phenomenon in chemical sector that profitability of a market shifts vertically among the chemical production chain, usually every five to ten years. Before 2013, ethylene market used to be a low-profitability market which gave rise to low level of investment in capacity expansion and in turn no meaningful addition of ethylene production capacity in recent years while the downstream of ethylene market, among others, EO market used to be high-profitability markets with relatively high level of investment and capacity expansion, which would, to certain point, reverse the situation and alternate between high-

profitability market and low-profitability market. During the period under review, the average market price of ethylene (the feedstock of EO) increased by approximately 16.8% or USD200/MT as the supply of ethylene remained tight. The management of the Group expects the average market price of ethylene will maintain in a relatively high level for a considerable amount of time as the adjustment of the market requires certain amount of time (i.e. construction period of the production facility). The ASP of EO decreased by approximately 7.6% during the first half of 2014, which was primarily attributable to the substantial capacity additions of EO market in 2013 (please refer to **2013 Annual Report** for more details). The management of the Group expects the ASP of EO will improve gradually in a relatively slow pace on the basis that a sign of slow price recovery has been seen with EO selling price increased twice during 2014, once on 16 January 2014 by RMB200/MT from RMB10,400/MT (VAT-inclusive) to RMB10,600/MT (VAT-inclusive) and another one on 31 July 2014 by RMB200/MT from RMB10,600/MT (VAT-inclusive) to RMB10,800/MT (VAT-inclusive).

Management Discussion and Analysis



Methanol storage tank (as at Mid-August 2014)

From a short-term perspective, the Group has been suffering from the abovementioned, both increase in average market price of ethylene by approximately 16.8% and decrease in ASP of EO by approximately 7.6% during the six months ended 30 June 2014, which gave rise to the gross margin being eroded by 12.7% from approximately 20.3% in the first half of 2013 to approximately 7.6% in 2014. However, from a medium-term or long-term perspective, the management of the Group considers it in an opposite way – a higher average market price of ethylene and a lower ASP of EO will just fit into the timing and strategy in respect of the Group's two ongoing major capacity expansion projects – the 5th phase EO/EG production facilities and the MTO production facility. There are a number of rationales behind:- 1) The Group expects both the 5th phase EO/EG production facilities and the MTO production facility will finish their constructions by December 2014 and come on stream by Q1 of 2015. MTO production facility means going upstream to produce ethylene and propylene on its own, which enables the Group to involve in a high-profitability market, hedge a substantial portion of the impact that a higher average market price of ethylene has on the

Group and diversify the Group's business into propylene and propylene-derivative products; 2) A higher average market price of ethylene and a lower ASP of EO will squeeze out those EO producers without upstream production facilities and halt all the new EO projects at their planning stage which, like what happened in ethylene market before 2013, to certain extent, limits the supply of EO and lays down a good foundation for EO market in the coming years; and 3) A lower ASP of EO also lays down a good foundation for the demand of the 5th phase EO/EG production facilities as it very much encourages those downstream producers of EO to expand their production capacities given the fact that the usual average capital expenditures for constructing new facilities (i.e. from planning stage to commercial operation stage) in downstream level only represent approximately 1/8 of what required in EO level and the usual average timings required for the whole construction period are normally less than 10 months. The relatively low capital expenditure requirement and relatively short construction period enable the downstream producers of EO to react dramatically to the market change.

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

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

	Six months ended 30 June 2014	% of revenue	Six months ended 30 June 2013	% of revenue	Variance + / (-)
REVENUE (RMB'000)					
Ethylene oxide	1,581,894	72%	1,701,765	86%	-7.0%
Surfactants	108,831	5%	170,591	9%	-36.2%
Surfactants processing services	19,106	1%	10,525	1%	81.5%
Propylene (only June 2014 revenue)	56,894	3%	-	-	>100%
Mixed aromatics (only June 2014 revenue)	197,274	9%	-	-	>100%
Heavy aromatics (only June 2014 revenue)	127,291	6%	-	-	>100%
Others	109,371	4%	100,053	4%	9.3%
	2,200,661	100%	1,982,934	100%	11.0%

SALES VOLUME (MT)					
Ethylene oxide	177,440		176,375		0.6%
Surfactants	9,040		16,485		-45.2%
Surfactants processing services	44,732		24,649		81.5%
Propylene (only June 2014 revenue)	7,228		-		>100%
Mixed aromatics (only June 2014 revenue)	31,816		-		>100%
Heavy aromatics (only June 2014 revenue)	22,830		-		>100%

AVERAGE SELLING PRICE (RMB per MT)					
Ethylene oxide	8,915		9,649		-7.6%
Surfactants	12,039		10,348		16.3%
Surfactants processing services	427		427		0.0%
Propylene (only June 2014 revenue)	7,871		-		>100%
Mixed aromatics (only June 2014 revenue)	6,200		-		>100%
Heavy aromatics (only June 2014 revenue)	5,576		-		>100%

GROSS PROFIT MARGIN (%)					
Ethylene oxide	5.3%		20.1%		-14.8%
Surfactants	14.7%		15.9%		-1.2%
Surfactants processing services	47.6%		47.8%		-0.2%
Propylene (only June 2014 revenue)	13.7%		-		13.7%
Mixed aromatics (only June 2014 revenue)	8.3%		-		8.3%
Heavy aromatics (only June 2014 revenue)	4.6%		-		4.6%

Management Discussion and Analysis

Revenue – Overall

During the six months ended 30 June 2014, revenue of the Group increased by approximately RMB217.7 million or 11.0%, primarily resulted from the combined impacts of the inclusion of Mei Fu Petrochemical's June 2014 revenue of approximately RMB408.1 million and the decrease in EO revenue of approximately RMB119.9 million.

Ethylene oxide sales

During the period under review, the revenue from EO sales amounted to RMB1,581.9 million, representing a decrease of approximately 7.0% when comparing to the corresponding period of 2013. The decrease in EO revenue was primarily due to the decrease in ASP of EO by approximately 7.6% from RMB9,649/MT in the first half of 2013 to RMB8,915/MT in the first half of 2014.

Surfactants sales and Surfactants processing services

During the period under review, the overall surfactants production capacity (including production capacities for both surfactants sales and surfactants processing services) improved by 30.7% from 41,134MT for the first half of 2013 to 53,772MT for the first half of 2014. The decrease in overall revenue of surfactants sales and surfactants processing services was primarily due to change in sales mix while overall gross profit increased as overall utilisation rate increased.

Propylene, Mixed aromatics & Heavy aromatics

With effect from 1 June 2014, Mei Fu Petrochemical becomes a subsidiary of the Company and Propylene, Mixed aromatics and Heavy aromatics are the major products of Mei Fu Petrochemical and represent Mei Fu Petrochemical's June 2014 revenue.

Gross profit margin

The Group's overall gross profit margin decreased by 12.7%, primarily due to the increase in average market price of ethylene by approximately 16.8% and decrease in ASP of EO by approximately 7.6% during the six months ended 30 June 2014.

Administrative expenses

Administrative expenses mainly consist of staff related costs, various local taxes and educational surcharge, depreciation, amortization of land use rights, operating lease rental expenses, audit fee and miscellaneous expenses. The increase in administrative expenses by RMB17.5 million for the period under review was primarily due to the increase in staff related costs.

Condensed Consolidated Statement of Finance Position

At 30 June 2014 – unaudited

	Notes	30 June 2014 RMB'000	31 December 2013 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		4,587,827	2,585,704
Prepaid land lease payments		380,417	313,893
Intangible assets		119,991	114,058
Advance payments for property, plant and equipment		352,958	329,099
Investments in joint ventures	7	159,695	378,003
Goodwill		71,982	–
Deferred tax assets		68,668	19,455
Total non-current assets		5,741,538	3,740,212
CURRENT ASSETS			
Inventories	12	879,880	247,580
Trade and notes receivables	13	553,511	202,959
Prepayments, deposits and other receivables		1,222,215	336,014
Due from related parties		147	1,074,921
Available-for-sale investments	11	462,089	476,133
Derivative financial instruments		1,946	–
Pledged deposits	14	1,615,584	742,186
Cash and cash equivalents	14	331,478	253,981
Total current assets		5,066,850	3,333,774
CURRENT LIABILITIES			
Trade and bills payables	15	1,428,801	1,183,427
Other payables, accruals and provisions		705,506	267,618
Derivative financial instruments		–	4,907
Interest-bearing bank and other borrowings	16	4,524,961	2,528,823
Due to related parties		77,673	34,606
Tax payable		29,057	49,116
Total current liabilities		6,765,998	4,068,497
NET CURRENT LIABILITIES		(1,699,148)	(734,723)
TOTAL ASSETS LESS CURRENT LIABILITIES		4,042,390	3,005,489

Condensed Consolidated Statement of Finance Position

	Notes	30 June 2014 RMB'000	31 December 2013 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	16	1,440,994	511,506
Deferred tax liabilities		29,511	26,614
Total non-current liabilities		1,470,505	538,120
Net assets		2,571,885	2,467,369
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital		86,048	86,048
Reserves		661,227	628,681
Retained profits		1,519,725	1,442,124
Proposed final dividend	10	–	188,118
		2,267,000	2,344,971
Non-controlling interests		304,885	122,398
Total equity		2,571,885	2,467,369

Condensed Consolidated Income Statement

For the six months ended 30 June 2014 – unaudited

	Notes	Six months ended 30 June	
		2014 RMB'000	2013 RMB'000
REVENUE	4	2,200,661	1,982,934
Cost of sales	6	(2,034,135)	(1,581,020)
Gross profit		166,526	401,914
Other income and gains	4	302,760	353,569
Selling and distribution cost		(7,197)	(8,357)
Administrative expenses		(63,215)	(45,700)
Other expenses	4	(185,279)	(294,926)
Finance costs	5	(69,008)	(34,602)
Share of profits of joint ventures	7	(17,792)	–
PROFIT BEFORE TAX	6	126,795	371,898
Income tax expense	8	(17,785)	(45,406)
PROFIT FOR THE PERIOD		109,010	326,492
Attributable to:			
Equity holders of the parent		105,830	326,182
Non-controlling interests		3,180	310
		109,010	326,492
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	9		
– Basic		10.73 fens	33.11 fens
– Diluted		10.68 fens	33.01 fens
INTERIM DIVIDEND DECLARED DURING THE PERIOD	10	–	–

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2014 – unaudited

	Notes	Six months ended 30 June	
		2014 RMB'000	2013 RMB'000
Net cash flows from operating activities		89,681	725,008
Net cash flows used in investing activities		(586,004)	(1,031,821)
Net cash flows from financing activities		573,259	166,367
Net increase in cash and cash equivalents		76,936	(140,446)
Cash and cash equivalents at beginning of period		253,981	345,781
Effect of foreign exchange rate change, net		561	(622)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	14	331,478	204,713

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2014 – unaudited

	Attributable to owners of the parent													
	Share Capital	Statutory surplus & safety production reserve	Treasury shares	Share premium	Capital redemption reserve	Available for-sale investment 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 2014	86,048	266,851	-	1,006,429	2,371	(1,654)	(627,092)	2,379	(20,603)	1,442,124	188,118	2,344,971	122,398	2,467,369
Profit for the period	-	-	-	-	-	-	-	-	-	105,830	-	105,830	3,180	109,010
Change in fair value of available-for-sale investment, net of tax	-	-	-	-	-	2,802	-	-	-	-	-	2,802	-	2,802
Total comprehensive income for the period	-	-	-	-	-	2,802	-	-	-	105,830	-	108,632	3,180	111,812
Appropriation to statutory surplus/safety production reserve	-	41,459	-	-	-	-	-	-	-	(41,459)	-	-	-	-
Safety production reserve used	-	(13,230)	-	-	-	-	-	-	-	13,230	-	-	-	-
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	129,307	129,307
Capital injection by MI	-	-	-	-	-	-	-	-	-	-	-	-	50,000	50,000
2013 final dividend paid	-	-	-	-	-	-	-	-	-	-	(188,118)	(188,118)	-	(188,118)
Equity-settled share award arrangement [#]	-	-	-	-	-	-	-	1,515	-	-	-	1,515	-	1,515
At 30 June 2014	86,048	295,080	-	1,006,429	2,371	1,148	(627,092)	3,894	(20,603)	1,519,725	-	2,267,000	304,885	2,571,885
At 1 January 2013	87,144	203,803	(6,356)	1,039,320	1,275	1,144	(627,092)	1,001	(11,314)	1,089,255	144,818	1,922,998	27,769	1,950,767
Profit for the period	-	-	-	-	-	-	-	-	-	326,182	-	326,182	310	326,492
Change in fair value of available-for-sale investment, net of tax	-	-	-	-	-	(1,622)	-	-	-	-	-	(1,622)	-	(1,622)
Total comprehensive income for the period	-	-	-	-	-	(1,622)	-	-	-	326,182	-	324,560	310	324,870
Repurchase and cancellation of ordinary shares	(1,096)	-	6,356	(32,891)	1,096	-	-	-	-	(1,096)	-	(27,631)	-	(27,631)
Appropriation to statutory surplus/safety production reserve	-	17,325	-	-	-	-	-	-	-	(17,325)	-	-	-	-
Transfer from available-for-sale investment revaluation reserve	-	-	-	-	-	(1,144)	-	-	-	-	-	(1,144)	-	(1,144)
Capital injection by MI	-	-	-	-	-	-	-	-	-	-	-	-	75,000	75,000
Final 2012 dividend declared	-	-	-	-	-	-	-	-	-	-	(144,818)	(144,818)	-	(144,818)
Equity-settled share award arrangement [#]	-	-	-	-	-	-	-	590	-	-	-	590	-	590
At 30 June 2013	86,048	221,128	-	1,006,429	2,371	(1,622)	(627,092)	1,591	(11,314)	1,397,016	-	2,074,555	103,079	2,177,634

[#] The Group adopted a share award plan on 31 March 2011 and has set up a trust specifically for the management of the share award plan for the purpose of recognising and rewarding the contribution of its employees. Under the share award plan, certain of the Company's shares were granted to certain employees of the Company 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 share 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.

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**”) are principally engaged in the manufacturing and supplying of ethylene oxide (“**EO**”), surfactants, propylene and aromatics. 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. Propylene is used in a wide variety of applications including packaging and labeling, textiles, stationery, plastic parts and reusable containers of various types, laboratory equipment, loudspeakers, automotive components, and polymer banknotes. Aromatics are widely used as chemical feedstocks, solvents and additives to gasoline to raise its octane rating.

2 BASIS OF PRESENTATION AND PREARATION

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 2013.

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 2013, except for the adoption of the new and revised Hong Kong Financial Reporting Standards (“**HKFRSs**”) (which include all Hong Kong Financial Reporting Standards, HKASs and Interpretations) issued by the HKICPA for annual periods beginning 1 January 2014. The effect of the adoption of these standards, amendments and interpretations was not material to the Group’s operations and financial position.

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.

Notes to Condensed Consolidated Financial Statements

2 BASIS OF PRESENTATION AND PREPARATION *(Continued)***Going concern assumption**

As at 30 June 2014, the Group's net current liabilities amounted to approximately RMB1,699,148,000. The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflows from operations and sufficient financing to meet its financial obligations as and when they fall due. In preparing the financial statements, the directors of the Company have considered the Group's sources of liquidity and believe that adequate funding is available to fulfill the Group's debt obligations and capital expenditure requirements.

Accordingly, the consolidated financial statements have been prepared on a basis that the Group will be able to continue as a going concern.

Change in accounting treatment for an investment in a joint venture – Mei Fu Petrochemical

The Group changed its accounting treatment for Zhejiang Meifu Petrochemical Co., Ltd. ("**Mei Fu Petrochemical**") with effect from 1 June 2014 to treat it as a subsidiary instead of a joint venture on the basis that, having further clarified the interpretation of the constitutional documents of Mei Fu Petrochemical with the board of directors of Mei Fu Petrochemical and further considered the matter on 1 June 2014, the Group is of the view that the Group has control over Mei Fu Petrochemical and Mei Fu Petrochemical is regarded as a subsidiary of the Company with effect from 1 June 2014.

The financial information of the Mei Fu Petrochemical is consolidated into the consolidated financial statements of the Group with effect from 1 June 2014.

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 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	
	2014	2013
	RMB'000	RMB'000
Ethylene oxide	1,581,894	1,701,765
Surfactants	108,831	170,591
Propylene	56,894	–
Mixed aromatics	197,274	–
Heavy aromatics	127,291	–
Other chemical products	104,799	96,130
Processing services	19,106	10,525
Others	4,572	3,923
	2,200,661	1,982,934

Notes to Condensed Consolidated Financial Statements

3 SEGMENT INFORMATION *(Continued)***Entity-wide disclosures – 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.

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, other income and gains and other expenses is as follows:

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Revenue		
Sales of goods	2,176,983	1,968,486
Provision of services	19,106	10,525
Others	4,572	3,923
	2,200,661	1,982,934
Other income and gains		
Interest income from banks, available-for-sale investments and joint ventures	115,468	65,374
Sales of cooling water	–	8,173
Ethylene procurement service for Sanjiang Honam	3,978	2,538
Sales of silver (being part of catalyst) to Sanjiang Honam	–	34,660
Sales of low sulphur fuel oil to a joint venture	185,000	187,506
Project management income	5	2,572
Government subsidies*	22,112	1,519
Foreign exchange difference, net	(31,221)	45,571
Other lease income	2,329	1,594
Gain on disposal/holding of silver, net**	918	326
Others	4,171	3,736
	302,760	353,569
Other expenses		
Impairment for inventory – silver (being part of catalyst)	4,810	80,027
Cost of sales of silver (being part of catalyst) to Sanjiang Honam	–	30,077
Cost of sales of low sulphur fuel oil to a joint venture	179,770	184,736
Other lease expenses	211	–
Others	488	86
	185,279	294,926

Notes to Condensed Consolidated Financial Statements

4 REVENUE, OTHER INCOME AND GAINS AND OTHER EXPENSES *(Continued)*

Notes:

- * 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.
- ** Silver is one of the core components of the catalyst used in the EO production facilities. The Group obtains silver through leasing arrangements and performs catalyst as well as silver changeout in every overhaul for EO production facilities. Gain on disposal/holding of silver represents the excess for the Group from choosing to buy and hold silver at favorable market conditions over disposing silver at unfavorable market conditions.

5 FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Interest on bank loans wholly repayable within five years	98,662	34,602
Less: interest capitalized	(29,654)	–
	69,008	34,602

6 PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Cost of inventories sold	2,022,597	1,574,283
Cost of service provided	11,538	6,737
Depreciation	86,922	66,350
Recognition of prepaid land lease payments	2,677	882
Amortisation of intangible assets	4,227	3,853
Minimum lease payments under operating leases	850	810

Notes to Condensed Consolidated Financial Statements

7 INVESTMENTS IN JOINT VENTURES

	30 June 2014 RMB'000	31 December 2013 RMB'000
Share of net assets – Mei Fu Petrochemical	–	154,768
Share of net assets – Mei Fu Port	99,300	90,858
Goodwill on acquisition – Mei Fu Petrochemical	–	71,982
Goodwill on acquisition – Mei Fu Port	60,395	60,395
	159,695	378,003

Particulars of the Group's joint ventures are as follows:

Name	Place and date of incorporation/ registration and operations	Registered paid-up capital	Percentage of			Principal activities
			Ownership interest	Voting power	Profit sharing	
Zhejiang Meifu Petrochemical Co., Ltd. ("Mei Fu Petrochemical")	PRC/ Mainland China 20 March 2003	USD39,550,000	51%	57%	50%	Manufacture and sale of polyethylene and derivative products
Zhejiang Zhapu Meifu Port & Storage Co., Ltd. ("Mei Fu Port")	PRC/ Mainland China 20 March 2003	USD24,490,000	51%	57%	50%	Port service including loading and storage

The above investments are indirectly held by the Company.

Mei Fu Petrochemical is regarded as a subsidiary of the Group and in turn ceased to be a joint venture with effect from 1 June 2014.

Mei Fu Port remains to be treated as a joint venture of the Group as Mei Fu Port operates in infrastructure and logistic sector, which is different from chemical sector where the Group and Mei Fu Petrochemical operate and the business and management of Mei Fu Port are considered more stable and independent, which gives rise to the existence of substantive participating rights held by the minority shareholder of Mei Fu Port.

Notes to Condensed Consolidated Financial Statements

7 INVESTMENTS IN JOINT VENTURES *(Continued)*

The following table illustrates the summarised financial information of Mei Fu Petrochemical and Mei Fu Port adjusted for any differences in accounting policies, fair value adjustments and reconciled to the carrying amount in the financial statements:

As at 30 June 2014

	Mei Fu Port RMB'000
Cash and cash equivalents	922
Other current assets	44,071
Current assets	44,993
Non-current assets	191,713
Current liabilities	(31,017)
Non-current liabilities	(7,089)
Net assets (excluding goodwill)	198,600
Reconciliation to the Group's interest in the joint venture:	
Proportion of the Group's ownership	50%
Group's share of net assets of the joint venture, excluding goodwill	99,300
Goodwill on acquisition	60,395
Carrying amount of the investment	159,695

Results of the joint ventures for the six months ended 30 June 2014

	Mei Fu Petrochemical (January – May 2014) RMB'000	Mei Fu Port RMB'000
Revenue	1,436,252	31,866
Interest income	1,591	99
Cost of sales	(1,402,749)	(4,390)
Depreciation and amortisation	(36,650)	(6,743)
Interest expenses	(60,121)	(1,112)
Income tax expense	(12,747)	(5,861)
Profit and total comprehensive income for the year	(52,468)	16,884
Dividend received	–	–

Notes to Condensed Consolidated Financial Statements

7 INVESTMENTS IN JOINT VENTURES *(Continued)***As at 31 December 2013**

	Mei Fu Petrochemical RMB'000	Mei Fu Port RMB'000
Cash and cash equivalents	111,770	16,506
Other current assets	1,387,282	6,156
Current assets	1,499,052	22,662
Non-current assets	1,314,797	201,607
Current liabilities	(2,489,392)	(35,378)
Non-current liabilities	(14,921)	(7,176)
Net assets (excluding goodwill)	309,536	181,715

	Mei Fu Petrochemical RMB'000	Mei Fu Port RMB'000
Reconciliation to the Group's interest in the joint venture:		
Proportion of the Group's ownership	50%	50%
Group's share of net assets of the joint venture, excluding goodwill	154,768	90,858
Goodwill on acquisition	71,982	60,395
Carrying amount of the investment	226,750	151,253

Results of the joint ventures for the period from From 16 July 2013 (the acquisition date) to 31 December 2013

	Mei Fu Petrochemical RMB'000	Mei Fu Port RMB'000
Revenue	2,496,810	24,548
Interest income	4,512	62
Cost of sales	(2,311,088)	(5,198)
Depreciation and amortisation	(39,572)	(6,720)
Interest expenses	(60,592)	(1,246)
Income tax expense	(37,554)	(3,178)
Profit and total comprehensive income for the year	103,738	9,044
Dividend received	–	–

Notes to Condensed Consolidated Financial Statements

8 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	
	2014 RMB'000	2013 RMB'000
Current – PRC		
Charge for the period	23,028	51,819
Deferred	(5,243)	(6,413)
Total tax charge for the period	17,785	45,406

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% (2013: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. No provision for income tax has been made as the Group has accumulated losses offsetting with assessable profits during the period (First half of 2013: Nil).

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

Pursuant to the approval of the tax bureau, Sanjiang Chemical Co., Ltd. ("**Sanjiang Chemical**") was qualified as a high-new technology company since 2010 and enjoyed a favourable CIT tax rate of 15% from year 2013 to year 2015. Therefore, Sanjiang Chemical was subject to CIT at a rate of 15% for the six month ended 30 June 2014 (First half of 2013: 15%).

Pursuant to the approval of the tax bureau, Jiaying Yongming Petrochemical Co., Ltd. ("**Yongming Petrochemical**") was qualified as a high-new technology company since 2013 and enjoyed a favourable CIT tax rate of 15% from year 2013 to year 2015. Therefore, Yongming Chemical was subject to CIT at a rate of 15% for the six month ended 30 June 2014 (First half of 2013: 15%).

Notes to Condensed Consolidated Financial Statements

8 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	
	2014	2013
	RMB'000	RMB'000
Profit before tax	126,795	371,898
Tax at the statutory tax rates	31,697	92,975
Tax effect of tax concession and allowances	(27,513)	(37,177)
Tax losses not recognised	3,646	343
Expenses not deductible for tax	3,035	2,475
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	1,809	(10,490)
Others	5,111	(2,720)
Tax charge at the Group's effective rate	17,785	45,406

9 EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares in issue during the period.

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

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

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent	105,830	326,182

Notes to Condensed Consolidated Financial Statements

9 EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT *(Continued)*

	Six months ended 30 June	
	2014	2013
	Number of shares	
	'000	'000
Shares		
Weighted average number of ordinary shares in issue during the period	986,705	985,188
Effect of dilution – weighted average number of ordinary shares:		
Share award plan	4,347	3,045
	991,052	988,233

10 DIVIDENDS

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

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
No interim dividend was declared after the Interim period	–	–

- 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	
	2014	2013
	RMB'000	RMB'000
Final dividend in respect of the financial year ended 31 December 2013, approved and paid during the following period, of HK24.0 cents per ordinary shares (2013: HK18.0 cents), calculated based on the number of ordinary shares used in the basic earnings per share calculation	188,118	144,818

Notes to Condensed Consolidated Financial Statements

11 AVAILABLE-FOR-SALE INVESTMENTS

	30 June 2014 RMB'000	31 December 2013 RMB'000
Current		
Unlisted equity investment, at fair value	462,089	476,133
Non-current		
Unlisted equity investment, at fair value	–	–
	462,089	476,133

The Group has investments in trust financial products provided by certain financial institutions, which have a fixed maturity term of less than 6 months and no fixed coupon rate. These trust financial products have been accounted for as available-for-sale investment and have been valued based on the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics.

12 INVENTORIES

	30 June 2014 RMB'000	31 December 2013 RMB'000
Raw materials – Mei Fu Petrochemical	450,519	–
Raw materials	368,651	229,579
Finished goods – Mei Fu Petrochemical	38,474	–
Finished goods	22,236	18,001
	879,880	247,580

Notes to Condensed Consolidated Financial Statements

13 TRADE AND NOTES RECEIVABLES

	30 June 2014 RMB'000	31 December 2013 RMB'000
Trade receivables – Mei Fu Petrochemical	341,608	–
Trade receivable due from the JV partner – Lotte Chemical Corporation	27,387	38,342
Trade receivable due from other customers	28,347	14,973
Notes receivables – Mei Fu Petrochemical	101,788	–
Notes receivables	54,381	149,644
	553,511	202,959
Less: Impairment	–	–
	553,511	202,959

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. No provision for impairment of trade receivables was made as at 30 June 2014 and as at 31 December 2013.

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

	30 June 2014 RMB'000	31 December 2013 RMB'000
1 to 30 days	261,365	48,970
31 to 60 days	131,193	991
61 to 90 days	1,927	592
91 to 360 days	1,801	2,665
Over 360 days	1,056	97
	397,342	53,315

Notes to Condensed Consolidated Financial Statements

13 TRADE AND NOTES RECEIVABLES *(Continued)*

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

	30 June 2014 RMB'000	31 December 2013 RMB'000
Neither past due nor impaired	261,365	48,970
Less than 30 days past due	131,193	991
31 to 60 days past due	1,927	592
61 to 90 days past due	932	1,398
91 to 360 days past due	869	1,276
Over 360 days	1,056	97
	397,342	53,315

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

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

Notes to Condensed Consolidated Financial Statements

14 CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	30 June 2014 RMB'000	31 December 2013 RMB'000
Cash and bank balances – Mei Fu Petrochemical	9,079	–
Cash and bank balances	322,399	253,981
Time deposits – Mei Fu Petrochemical	625,230	–
Time deposits	990,354	742,186
	1,947,062	996,167
Less: Pledged time deposits:		
Pledged for note payables	356,559	225,842
Pledged for bank loans	1,259,025	516,344
Cash and cash equivalents	331,478	253,981

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

15 TRADE AND BILLS PAYABLES

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 2014 RMB'000	31 December 2013 RMB'000
Within 3 months	1,192,525	964,878
3 to 6 months	228,242	215,813
6 to 12 months	4,748	633
12 to 24 months	1,597	1,366
24 to 36 months	983	139
Over 36 months	706	598
	1,428,801	1,183,427

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

Notes to Condensed Consolidated Financial Statements

16 INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective Interest rate (%)	Maturity	30 June 2014 RMB'000	31 December 2013 RMB'000
Current				
Bank loans – secured	1.777 – 6.600	2014 – 2015	4,131,088	–
	1.082 – 5.600	2014	–	938,953
Bank loans – unsecured	2.738 – 6.600	2014	–	253,620
	2.477 – 4.730	2014	393,873	–
	0.253 – 5.880	2014	–	1,026,141
Short-term bond	5.300	2014	–	310,109
			4,524,961	2,528,823
Non-current				
Bank loans – secured	1.778 – 6.550	2015 – 2019	–	511,506
	6.550	2015 – 2019	1,036,044	–
Bank loans – unsecured	3.450	2015	404,950	–
			1,440,994	511,506
Repayable:				
Within one year			4,524,961	2,528,823
In the second year			404,950	51,506
In the third to fifth years, inclusive			896,044	40,000
Beyond five years			140,000	420,000
			5,965,955	3,040,329

Notes:

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

- (i) the pledge of certain of the Group's time deposits amounting to RMB1,259,025,000 as at 30 June 2014 (31 December 2013: RMB516,344,000);
- (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 RMB1,304,904,000 (31 December 2013: RMB110,323,000); and
- (iii) mortgages over the Group's leasehold land, which had an aggregate carrying value at the end of the reporting period of approximately RMB200,723,000 (31 December 2013: RMB185,334,000).

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 2014, 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	478,678,000 (Note)	48.20%
	Beneficial owner	Long position	990,000	0.10%
Han Jianhong ("Ms. Han")	Interests of spouse	Long position	479,668,000 (Note)	48.30%

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	8,473	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 2014.

Other Information

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

As at 30 June 2014, 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	478,678,000 (Note 1)	48.20%

Notes:

- The entire issued ordinary shares of Sure Capital were owned as to approximately 84.71% by Mr. Guan and approximately 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.

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 2014.

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:

- 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);
- any non-executive directors (including independent non-executive directors) of the Group or any Invested Entity;
- any supplier of goods or services to any member of the Group or any Invested Entity;
- any customer of the Group or any Invested Entity;
- any person or entity that provides research, development or other technological support to the Group or any Invested Entity;
- 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;
- any adviser (professional or otherwise) or consultant to any area of business or business development of the Group or any Invested Entity; and

Other Information

- (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 99,310,400, representing approximately 10.0% 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 2014, no share option has been granted by the Company.

DIRECTORS

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. SHEN Kaijun, Mr. MUI Ho Cheung, Gary and Ms. PEI Yu.

CAPITAL COMMITMENTS

As at 30 June 2014, the Group has capital commitments amounted to approximately RMB2,327.7 million which were primarily related to the procurement of plant and machinery for the constructions of additional production capacities.

Other Information

CONTINGENT LIABILITIES

As at 30 June 2014, 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 2014, the Group employed a total of 820 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 bank borrowings to total assets, was 54.9% as at 30 June 2014, increased by 11.8% when comparing to 43.1% as at 31 December 2013, primarily resulted from the increase in bank borrowings for the expansion of various production facilities. 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 increased by approximately 12.8 days during the period under review (First half of 2014: 50.6 days 31 December 2013: 37.8 days), primarily due to the inclusion of Mei Fu Petrochemical's inventory in the Group's inventory as at 30 June 2014 while only one month's income statement impact of Mei Fu Petrochemical was included.

The trade and notes receivables turnover days increased by approximately 15.3 days during the period under review (First half of 2014: 31.4 days 31 December 2013: 16.1 days), primarily due to the inclusion of Mei Fu Petrochemical's trade and note receivables in the Group's trade and note receivables as at 30 June 2014 while only one month's income statement impact of Mei Fu Petrochemical was included.

The trade and notes payables turnover days maintained at a similar level as at 30 June 2014 when comparing to 31 December 2013 (First half of 2014: 117.2 days; 31 December 2013: 111.1 days).

INTERIM DIVIDEND

No interim dividends were declared by the Board of Directors for the six months ended 30 June 2014 and 2013.

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 2014 and up to the date of this report.

Other Information

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 2014 and up to the date of this report.

AUDIT COMMITTEE

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

The Audit Committee has reviewed with the management and agreed with 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 2014.

REMUNERATION COMMITTEE

As at the date of this report, the Remuneration Committee has three members, namely Messrs. Mui Ho Cheung, Gary and Guan Jianzhong and Ms. Pei Yu of whom Mr. Mui Ho Cheung, Gary and Ms. Pei Yu are independent non-executive Directors and Mr. Guan Jianzhong is the Chairman of the Board and an executive Director. The chairman of the Remuneration Committee is Mr. Mui Ho Cheung, Gary. 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 report, the nomination committee of the Company (the “**Nomination Committee**”) consists of three members, namely Messrs. Guan Jianzhong and Shen Kaijun and Ms. Pei Yu, of whom Mr. Shen Kaijun and Ms. Pei Yu are independent non-executive Directors and Mr. Guan Jianzhong is the Chairman of the Board and an executive Director. The chairman of the Nomination Committee is Mr. Guan Jianzhong. The primary responsibilities of the Nomination Committee include, among others, considering and recommending to the Board suitably qualified persons to become the member of the Board and reviewing the structure, size and composition of the Board on a regular basis and as required.

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES

During the period under review, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2014.

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 2014 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.

Corporate Information

DIRECTORS

Executive Directors

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

Independent non-executive Directors

WANG Wanxu (resigned on 28 March 2014)
SHEN Kaijun
MUI Ho Cheung, Gary
PEI Yu (appointed on 30 June 2014)

SHARE LISTING

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

AUDITORS

Ernst & Young
22nd Floor, CITIC Tower
1 Tim Mei Avenue, 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, Henry, FCPA FCCA

PRINCIPAL BANKER IN HONG KONG

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

Deutsche Bank AG
Hong Kong Branch
Level 52, International Commerce Centre
1 Austin Road West, Kowloon, 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