



三江化工  
SANJIANG CHEMICAL

Interim Report 2017



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



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## Management Discussion and Analysis



During the six months ended 30 June 2017 (the “**period under review**”), revenue of the Group increased by approximately 45.4%, primarily resulted from:- 1) the increase in output of ethylene glycol (“**EG**”) by approximately 26.1% as the Group increased the overall utilisation rate of ethylene oxide (“**EO**”)/EG production facilities by approximately 14% during the period under review when comparing to the first half of 2016, which led to the increase in revenue from ethylene glycol (“**EG**”) sales by approximately RMB447 million; and 2) the increase in overall selling prices of its products by more than 20% in average, primarily due to the increase in market price of methanol, a major feedstock to the Group, by more than 40% in average during the period under review when comparing to the first half of 2016, which also led to the decrease in overall gross profit margin by 1.7%. Net profit attributable to shareholders was approximately RMB182 million and basic earnings per share was approximately RMB18.43 fens, for the six months ended 30 June 2017, representing slight increases of approximately 2.7% and 2.6% respectively as compared with the first half of 2016, which was primarily attributable to the combined effects of:- 1) increase in gross profit of amount RMB63 million; 2) increase in provision made for impairment of silver catalyst of amount RMB66 million; and 3) decrease in net interest/investment income of amount RMB75 million.

Methanol cost counts approximately two-third toward the cost of sales of the Group and methanol pricing has been fluctuating substantially since October 2016 and during the period under review. Before October 2016, methanol pricing was relatively stable moving in a range between approximately RMB1,800/MT and RMB2,000/MT during January 2016 and October 2016. Methanol price started soaring from approximately RMB2,080/MT earlier October 2016 to a price peak at approximately RMB3,300/MT in February 2017 and then adjusted downward to RMB2,400/MT in June 2017, respecting a price movement of more than 50% during that period of time. After the commercial operation of MTO production facility in Q2 of 2015, the ultimate feedstock to the Group, from vertical integration perspective, has been shifted to methanol (i.e. the downstream of coal or nature gas) from ethylene (i.e. a downstream of cruel oil) and any significant fluctuation of methanol price in a short period of time would have adverse impact to the Group’s gross profit as the market has to take certain time to absorb and adjust for the changes.

The significant fluctuation of methanol price since October 2016 was considered to be primarily attributable to a number of factors:- 1) Lower methanol supply in winter — Methanol producers in China use coal as their feedstock during the course of production of methanol and they were under regulatory pressures and measures to reduce





and limit their production capacities to a lower level than the required normal required level, in particular, during winter in light of the growing concern over air-pollution during winter and their rising costs incurred for environmental-related facilities and measures also pushed up the Methanol price; 2) Increase in feedstock cost — The price of coal, being the major feedstock for methanol producers, increased more than 50% by December 2016 when comparing to the price in January 2016 and methanol producers trend to pass majority of feedstock cost increment on to downstream producers in view of the slim profitability of the methanol production industry as a result of the low overall capacity utilization rate, which pushed up the methanol price in a large extent; and 3) Demand from new ramp-up of MTO/MTP — Methanol's demands from MTO/MTP production facilities have been growing in recent years at a growth rate of approximately 15% per annum in average, which is the major catalyst pushing up the price of methanol in general. Given the fact that lower methanol supply in winter is a seasonal factor and the overall capacity utilization rate for methanol producers stays in a relatively low level (i.e. approximately 60% as at 31 December 2016), management of the Group considers, going forwards, the major factor that affects the movement of methanol price is the coal price, which largely depends on the government policies on the industry and sufficiency of fundings in the market and therefore, it is a uncontrollable element to the Group. The Group has been developing a consumer-orientated and vertical-integrated production chain and the management of the Group believes such strategic move would mitigate the market risk associated with the coal price in a long run.

The Group has been entering into certain hedge arrangements with certain HK and PRC financial institutions for the purpose of mitigating the market risks in respect of the depreciation of RMB, the functional currency of the Group, and the appreciation of silver, being the major component of catalyst being included in each chemical reactors for production purpose. During the period under review, the Group incurred an investment loss of RMB49 million in respect of such hedge arrangements. The management of the Group considered entering into such hedge arrangements is necessary as the Group mainly receives RMB from customers and uses silver in every production facilities and has been benefiting from the appreciation of RMB and depreciation of silver, the impacts of which have been included in the cost of sales.

In view of the improvement of gearing level of the Group, the Board has recommended an interim dividend of HK10.5 cents per share, representing a dividend payout ratio of approximately 49% calculated based on the net profit attributable to shareholders for the period under review.

## Management Discussion and Analysis

### FINANCIAL REVIEW

#### Revenue

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

	Six months ended 30 June 2017		Six months ended 30 June 2016		Variance +/(–)
		% of revenue		% of revenue	
<b>REVENUE (RMB'000)</b>					
Ethylene oxide	1,430,171	34%	1,125,040	39%	27.1%
Ethylene glycol	1,000,477	24%	553,585	19%	80.7%
Propylene (polypropylene)	950,764	23%	641,892	22%	48.1%
Surfactants & water reducing reagents	290,810	7%	205,339	7%	41.6%
C4	193,202	5%	156,509	5%	23.4%
C5	126,122	3%	82,883	3%	52.2%
Surfactants processing services	15,313	0%	25,454	1%	–39.8%
Others	188,848	4%	94,178	4%	100.5%
	<b>4,195,707</b>	<b>100%</b>	2,884,880	100%	45.4%
<b>SALES VOLUME (MT)</b>					
Ethylene oxide	167,894		162,843		3.1%
Ethylene glycol	163,915		130,013		26.1%
Propylene (polypropylene)	145,240		139,828		3.9%
Surfactants & water reducing reagents	28,660		26,934		6.4%
C4	47,536		45,806		3.8%
C5	24,829		19,497		27.3%
Surfactants processing services	47,207		58,552		–19.4%
<b>AVERAGE SELLING PRICE (RMB)</b>					
Ethylene oxide	8,518		6,909		23.3%
Ethylene glycol	6,104		4,258		43.3%
Propylene (polypropylene)	6,546		4,591		42.6%
Surfactants & water reducing reagents	10,147		7,624		33.1%
C4	4,064		3,417		19.0%
C5	5,080		4,251		19.5%
Surfactants processing services	324		435		–25.4%
<b>GROSS PROFIT MARGIN (%)</b>					
Ethylene oxide	17.7%		25.6%		–7.9%
Ethylene glycol	17.7%		7.9%		9.8%
Propylene (polypropylene)	–15.7%		–17.3%		1.6%
Surfactants & water reducing reagents	15.4%		11.8%		3.6%
C4	12.4%		–0.3%		12.7%
C5	–0.1%		–1.0%		0.9%
Surfactants processing services	68.9%		75.4%		–6.5%

## Management Discussion and Analysis

### **Ethylene oxide**

During the period under review, the revenue from EO sales amounted to RMB1,430 million, representing an increase of approximately 27.1% when comparing to the corresponding period of 2016. The increase in EO revenue was primarily due to the increase in average selling price of EO by approximately 23.3% as the market sentiment improved after the stabilization of cruel oil pricing.

### **Ethylene glycol**

During the period under review, the revenue from EG sales amounted to RMB1,000 million, representing an increase of approximately 80.7% when comparing to the corresponding period of 2016. The increase in EG revenue was primarily due to the combined effect of increase in sales volume by approximately 26.1% and the increase in average selling price by approximately 43.3% as the Group increased the overall utilization rate of the 5th Phase EO/EG production facilities and the market sentiment improved after the stabilization of cruel oil pricing respectively.

### **Propylene, C4 and C5**

During the period under review, the revenue from the business lines of propylene, C4 and C5 increased by 48.1%, 23.4% and 52.5% respectively as the market sentiment improved after the stabilization of cruel oil pricing.

### **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) decreased by 11.3% from 85,486MT for the first half of 2016 to 75,867MT for the first half of 2017. The decrease in overall production capacity was primarily due to the expiry of a long-term contract with a client that required surfactants processing service.

### **Gross profit margin**

The Group has been pursuing a consumer-orientated and vertical-integrated production chain since 2012 and management of the Group expect the overall gross profit margin would increase gradually in a long run as, by involving more in the process and production of every level among chemical chain, it allows the Group to capture the processing income in each level. The decrease in overall gross profit margin during the period under review was primarily due to the significant fluctuation of feedstock cost — methanol cost.

### **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 decrease in administrative expenses by RMB29.7 million for the period under review was primarily due to certain cost saving measures.

### **Income tax expense**

Effective tax rate for the first half of 2017 increased to approximately 35.5%, which was higher than the normal level of effective tax rate of around 19% to 20%. The increase in effective tax rate was primarily due to the unrecognized deferred tax assets of approximately RMB47 million in respect of available tax losses incurred during the period under review.

## Condensed Consolidated Statement of Finance Position

At 30 June 2017 – unaudited

	Notes	30 June 2017 RMB'000	31 December 2016 RMB'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		5,540,932	5,763,307
Prepaid land lease payments		298,008	301,476
Intangible assets		211,474	225,246
Due from related parties	17	481,153	609,000
Advance payments for property, plant and equipment		29,187	16,390
Available-for-sale investments	11	1,000	1,000
Deferred tax assets		4,159	—
Total non-current assets		6,565,913	6,916,419
<b>CURRENT ASSETS</b>			
Inventories	12	734,948	724,229
Trade and notes receivables	13	379,056	170,367
Prepayments, deposits and other receivables		391,067	406,338
Due from related parties	17	122,002	235,935
Available-for-sale investments	11	367,238	424,371
Derivative financial instruments		1,521	41,941
Pledged deposits	14	229,854	410,273
Cash and cash equivalents	14	189,353	348,224
Total current assets		2,415,039	2,761,678
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	15	1,418,347	1,454,312
Other payables and accruals		1,049,651	1,062,561
Derivative financial instruments		18,774	9,626
Interest-bearing bank borrowings	16	2,230,675	2,636,267
Due to related parties	18	552,643	595,897
Tax payable		81,889	86,340
Total current liabilities		5,351,979	5,845,003
<b>NET CURRENT LIABILITIES</b>		<b>(2,936,940)</b>	<b>(3,083,325)</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>3,628,973</b>	<b>3,833,094</b>



## Condensed Consolidated Statement of Finance Position

At 30 June 2017 – unaudited

	Notes	30 June 2017 RMB'000	31 December 2016 RMB'000
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank borrowings	16	<b>880,710</b>	1,081,011
Deferred tax liabilities		<b>17,386</b>	22,913
Total non-current liabilities		<b>898,096</b>	1,103,924
<b>Net assets</b>		<b>2,730,877</b>	2,729,170
<b>EQUITY</b>			
<b>Equity attributable to owners of the parent</b>			
Issued capital		<b>86,048</b>	86,048
Reserves		<b>2,473,865</b>	2,376,516
Proposed interim/final dividend	10	<b>89,087</b>	101,675
		<b>2,649,000</b>	2,564,239
Non-controlling interests		<b>81,877</b>	164,931
<b>Total equity</b>		<b>2,730,877</b>	2,729,170

## Condensed Consolidated Income Statement

For the six months ended 30 June 2017 — unaudited

	Notes	Six months ended 30 June	
		2017 RMB'000	2016 RMB'000
<b>REVENUE</b>	4	<b>4,195,707</b>	2,884,880
Cost of sales	6	<b>(3,841,238)</b>	(2,593,835)
Gross profit		<b>354,469</b>	291,045
Other income and gains	4	<b>345,740</b>	271,634
Selling and distribution cost		<b>(13,083)</b>	(13,611)
Administrative expenses		<b>(109,677)</b>	(139,334)
Other expenses	4	<b>(337,490)</b>	(147,121)
Finance costs	5	<b>(87,072)</b>	(138,011)
Share of profit of a joint venture	7	—	70,905
<b>PROFIT BEFORE TAX</b>	6	<b>152,887</b>	195,507
Income tax expense	8	<b>(54,339)</b>	(20,598)
<b>PROFIT FOR THE PERIOD</b>		<b>98,548</b>	174,909
Attributable to:			
Equity holders of the parent		<b>181,602</b>	176,756
Non-controlling interests		<b>(83,054)</b>	(1,847)
		<b>98,548</b>	174,909
<b>EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT</b>	9		
— Basic		<b>18.43 fens</b>	17.96 fens
— Diluted		<b>18.39 fens</b>	17.90 fens
<b>INTERIM DIVIDEND DECLARED FOR THE PERIOD</b>	10	<b>89,087</b>	—

## Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2017 – unaudited

	Notes	Six months ended 30 June	
		2016 RMB'000	2017 RMB'000
Net cash flows in respect of operating activities		<b>103,780</b>	21,801
Net cash flows in respect of investing activities		<b>407,755</b>	109,353
Net cash flows in respect of financing activities		<b>(668,124)</b>	(102,315)
Net (decrease)/increase in cash and cash equivalents		<b>(156,589)</b>	28,839
Cash and cash equivalents at beginning of period		<b>348,224</b>	91,743
Effect of foreign exchange rate change, net		<b>(2,282)</b>	895
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	14	<b>189,353</b>	121,477

## Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2017 — unaudited

	Attributable to owners of the parent													
	Statutory surplus & safety				Available for-sale Capital investment			Shares repurchased		Proposed interim/final		Non-controlling interests		Total equity
	Share Capital	production reserve	Treasury shares	Share premium	redemption reserve	revaluation reserve	Merger reserve	Share award reserve	for share plan	Retained profits	dividend	Total	interests	
	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 2017	86,048	375,496	—	1,004,906	2,371	(1,982)	(627,092)	6,262	(26,748)	1,643,303	101,675	2,564,239	164,931	2,729,170
Profit for the period	—	—	—	—	—	—	—	—	—	181,602	—	181,602	(83,054)	98,548
Change in fair value of available-for-sale investment, net of tax	—	—	—	—	—	1,997	—	—	—	—	—	1,997	—	1,997
Total comprehensive income for the period	—	—	—	—	—	1,997	—	—	—	181,602	—	183,599	(83,054)	100,545
Appropriation to statutory surplus/safety production reserve	—	55,993	—	—	—	—	—	—	—	(55,993)	—	—	—	—
Safety production reserve used	—	(4,338)	—	—	—	—	—	—	—	4,338	—	—	—	—
2016 final dividend paid	—	—	—	—	—	—	—	—	—	(100,696)	(100,696)	—	—	(100,696)
Exchange difference	—	—	—	—	—	—	—	—	—	979	(979)	—	—	—
Proposed 2017 interim dividend	—	—	—	—	—	—	—	—	—	(89,087)	89,087	—	—	—
Equity-settled share award arrangement	—	—	—	—	—	—	—	691	1,167	—	—	1,858	—	1,858
At 30 June 2017	86,048	427,151	—	1,004,906	2,371	15	(627,092)	6,953	(25,581)	1,685,142	89,087	2,649,000	81,877	2,730,877
At 1 January 2016	86,048	321,484	—	1,006,429	2,371	(9,510)	(627,092)	8,131	(33,012)	1,374,769	—	2,129,618	118,694	2,248,312
Profit for the period	—	—	—	—	—	—	—	—	—	176,756	—	176,756	(1,847)	174,909
Change in fair value of available-for-sale investment, net of tax	—	—	—	—	—	7,776	—	—	—	—	—	7,776	—	7,776
Total comprehensive income for the period	—	—	—	—	—	7,776	—	—	—	176,756	—	184,532	(1,847)	182,685
Appropriation to statutory surplus/safety production reserve	—	26,556	—	—	—	—	—	—	—	(26,556)	—	—	—	—
Safety production reserve used	—	(171)	—	—	—	—	—	—	—	171	—	—	—	—
Equity-settled share award arrangement	—	—	—	—	—	—	—	(2,449)	4,269	—	—	1,820	—	1,820
At 30 June 2016	86,048	347,869	—	1,006,429	2,371	(1,734)	(627,092)	5,682	(28,743)	1,525,140	—	2,315,970	116,847	2,432,817

# 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**”), ethylene glycol (“**EG**”), ethylene, propylene 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 C4, C5, polypropylene and industrial gases, namely oxygen, nitrogen and argon. EO is a key intermediary component for the production of ethylene derivative products such as ethanolamines and glycol ethers and a wide range of surfactants. 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.

## 2 BASIS OF PRESENTATION AND PREPARATION

The Group’s unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard (“**HKAS**”) 34 Interim Financial Reporting. The Group’s unaudited condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2016. 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 2016.

The unaudited condensed consolidated interim financial statements have been prepared under the historical cost convention. These financial statements are presented in Renminbi (“**RMB**”) and all values are rounded to the nearest thousand except when otherwise indicated.

The Group’s unaudited condensed consolidated interim financial statements have been reviewed by the audit committee of the Company.

### Going concern assumption

As at 30 June 2017, the Group’s net current liabilities amounted to approximately RMB2,936,940,000. 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.



## Notes to Condensed Consolidated Financial Statements

**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 major product line during the periods:

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Ethylene oxide	1,430,171	1,125,040
Ethylene glycol	1,000,477	553,585
Propylene (polypropylene)	950,764	641,892
Surfactants & water reducing reagents	290,810	205,339
C4	193,202	156,509
C5	126,122	82,883
Surfactants processing services	15,313	25,454
Others	188,848	94,178
	<b>4,195,707</b>	<b>2,884,880</b>

**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	
	2017 RMB'000	2016 RMB'000
Revenue		
Sales of goods	4,174,729	2,854,700
Provision of services	15,313	25,454
Others	5,665	4,726
	<b>4,195,707</b>	<b>2,884,880</b>

## Notes to Condensed Consolidated Financial Statements

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

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
<b>Other income and gains</b>		
Interest/investment income from banks & joint ventures, available-for-sale investments and fair value change of financial derivatives	<b>46,210</b>	90,923
Sales in respect of trading of oil and chemicals	<b>268,625</b>	217,707
Government subsidies*	<b>9,716</b>	4,439
Foreign exchange difference, net	<b>18,490</b>	(47,251)
Other lease income	<b>111</b>	597
Gain on disposal/holding of silver, net	<b>—</b>	1,840
Others	<b>2,588</b>	3,379
	<b>345,740</b>	271,634
<b>Other expenses</b>		
Provision/(Reversal) for impairment for inventory — silver (being part of catalyst)	<b>23,169</b>	(42,351)
Cost of sales in respect of trading of oil and chemicals	<b>264,024</b>	176,987
Investment loss from available-for-sale investments and fair value change of financial derivatives	<b>49,468</b>	12,482
Others	<b>829</b>	3
	<b>337,490</b>	147,121

Notes:

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

**5 FINANCE COSTS**

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Interest on bank loans wholly repayable within five years	<b>87,072</b>	138,011
Less: interest capitalized	<b>—</b>	—
	<b>87,072</b>	138,011

## Notes to Condensed Consolidated Financial Statements

**6 PROFIT BEFORE TAX**

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

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Cost of inventories sold	<b>3,835,074</b>	2,586,344
Cost of service provided	<b>4,771</b>	7,491
Depreciation	<b>286,862</b>	203,948
Recognition of prepaid land lease payments	<b>3,468</b>	3,468
Amortisation of intangible assets	<b>13,751</b>	15,114
Minimum lease payments under operating leases	<b>191</b>	648

**7 INVESTMENT IN A JOINT VENTURE**

	30 June	31 December
	2017	2016
	RMB'000	RMB'000
Share of net assets	—	—
Goodwill on acquisition	—	—
	—	—

The Group's trade and non-trade receivable and payable balances due from and to joint ventures are disclosed separately in this report.

On 17 June 2016, the Group entered into the sale and purchase agreement with two related companies, Sure Capital Holdings Limited and Jiaying Gangqu Jianghao Investment Development Company Limited\* (嘉興港區江浩投資發展有限公司), pursuant to which, the Group has conditionally agreed to sell its 51% equity interest in Mei Fu Petrochemical for a consideration of RMB306,000,000. The sale and purchase transaction has been completed in 2016 and the Company has ceased to have any interest in Mei Fu Petrochemical, and Mei Fu Petrochemical has ceased to be a joint venture of the Company.

## Notes to Condensed Consolidated Financial Statements

**7 INVESTMENT IN A JOINT VENTURE** *(continued)*

Before the completion of the aforesaid sale and purchase transaction, particulars of the Group's material joint ventures are as follows:

Name	Place and date of registration and place of 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	US\$39,550,000	51%	57%	74.1%	Manufacture and sale of polyethylene and derivative products

\* On 1 July 2014, the Group entered into contractual management agreements with the shareholders of Mei Fu Petrochemical, Guansheng Petroleum Co., Ltd. (Singapore) ("Guansheng Petroleum") and Hangzhou Weiyu Industrial investment Co., Ltd. ("Hangzhou Weiyu"), pursuant to which Guansheng Petroleum granted the Group and Hangzhou Weiyu the rights to operate and manage Mei Fu Petrochemical from 1 June 2014 to 31 May 2017.

Pursuant to the contractual management agreements, the Group and Hangzhou Weiyu have (a) the rights to operate and manage Mei Fu Petrochemical; (b) the rights to make decision over all operational and financial activities of Mei Fu Petrochemical, including appointment of senior management; (c) the rights to receive the distributable profits and the obligation to fund the losses of Mei Fu Petrochemical generated and incurred during the contractual management period according to an agreed percentage of sharing between the Group and Hangzhou Weiyu of 74.1% and 25.9%, respectively. For the contractual management period from 1 June 2014 to 31 May 2017, the Group is obligated to pay a fixed fee of RMB14,450,000 to Guangsheng Petroleum. In this connection, the Group's percentage of profit sharing in Mei Fu Petrochemical increased from 50% to 74.1% since 1 June 2014.

The above investment was indirectly held by the Company.

## Notes to Condensed Consolidated Financial Statements

**7 INVESTMENT IN A JOINT VENTURE** (continued)

The following table illustrates the summarised financial information of Mei Fu Petrochemical and Zhejiang Zhapu Meifu Port & Storage Co., Ltd. (“**Mei Fu Port**”) adjusted for any differences in accounting policies, fair value adjustments and reconciled to the carrying amount in the financial statements:

	At 30 June 2016	
	Mei Fu Port RMB'000	Mei Fu Petrochemical RMB'000
Cash and cash equivalents	—	76,314
Other current assets	—	1,361,929
Current assets	—	1,438,243
Non-current assets, excluding goodwill	—	1,180,351
Current liabilities	—	(2,240,646)
Non-current liabilities	—	(33,153)
Net assets, excluding goodwill	—	344,795
Reconciliation to the Group's interest in the joint venture:		
Proportion of the Group's profit sharing	—	74.1%
Group's share of net assets of the joint venture, excluding goodwill	—	194,029
Goodwill on acquisition	—	71,982
Carrying amount of the investment	—	266,011

Results of the joint ventures:

	For the six months ended 30 June 2016	
	Mei Fu Port RMB'000	Mei Fu Petrochemical RMB'000
Revenue	—	1,252,290
Interest income	—	11,537
Cost of sales	—	(1,029,035)
Depreciation and Amortization	—	(40,894)
Interest expenses	—	(62,739)
Income tax expense	—	(31,557)
Profit and total comprehensive income for the period	—	95,689
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	
	2017	2016
	RMB'000	RMB'000
Current – PRC		
Charge for the period	<b>64,024</b>	8,527
Deferred	<b>(9,685)</b>	12,071
Total tax charge for the period	<b>54,339</b>	20,598

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% (2016: 16.5%) on the estimated assessable profits arising in Hong Kong during the period.

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

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

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Profit before tax	<b>152,887</b>	195,507
Tax at the statutory tax rates	<b>39,045</b>	48,877
Tax effect of tax concession and allowances	<b>(37,796)</b>	(30,047)
Tax losses not recognised	<b>47,282</b>	16,202
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	<b>2,193</b>	2,543
Others	<b>3,615</b>	(16,977)
Tax charge at the Group's effective rate	<b>54,339</b>	20,598

## Notes to Condensed Consolidated Financial Statements

**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	
	2017	2016
	RMB'000	RMB'000
<b>Earnings</b>		
Profit attributable to ordinary equity holders of the parent	<b>181,602</b>	176,756
	Number of shares	
	'000	'000
<b>Shares</b>		
Weighted average number of ordinary shares in issue during the period	<b>985,240</b>	983,964
Effect of dilution — weighted average number of ordinary shares:		
Share award plan	<b>2,166</b>	3,512
	<b>987,406</b>	987,476

**10 DIVIDENDS**

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

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Proposed interim — HK 10.5 cents (2016: Nil)	<b>89,087</b>	—

The Board has declared that an interim dividend of HK10.5 cents (2016: Nil) per share for the six months ended 30 June 2017 to shareholders whose names appear in the Register of Members on 14 September 2017.

## Notes to Condensed Consolidated Financial Statements

**10 DIVIDENDS** *(continued)*

- 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	
	2017	2016
	RMB'000	RMB'000
Final dividend in respect of the financial year ended 31 December 2016, approved and paid during the following period, of HK\$11.5 cents per ordinary shares (2015: Nil), calculated based on the number of ordinary shares used in the basic earnings per share calculation	<b>101,675</b>	—

**11 AVAILABLE-FOR-SALE INVESTMENTS**

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 2017	31 December 2016
	RMB'000	RMB'000
Raw materials	<b>664,541</b>	646,387
Finished goods	<b>70,407</b>	77,842
	<b>734,948</b>	724,229

**13 TRADE AND NOTES RECEIVABLES**

	30 June 2017	31 December 2016
	RMB'000	RMB'000
Trade receivables	<b>65,189</b>	44,307
Notes receivable	<b>316,450</b>	128,643
	<b>381,639</b>	172,950
Impairment	<b>(2,583)</b>	(2,583)
	<b>379,056</b>	170,367

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.

## Notes to Condensed Consolidated Financial Statements

**13 TRADE AND NOTES RECEIVABLES** *(continued)*

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

	<b>30 June 2017 RMB'000</b>	31 December 2016 RMB'000
1 to 30 days	<b>32,894</b>	39,925
31 to 60 days	<b>28,850</b>	202
61 to 90 days	<b>442</b>	318
91 to 360 days	<b>719</b>	1,289
Over 360 days	<b>2,284</b>	2,573
	<b>65,189</b>	44,307

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

	<b>30 June 2017 RMB'000</b>	31 December 2016 RMB'000
Neither past due nor impaired	<b>60,775</b>	39,925
Less than 30 days past due	<b>969</b>	202
31 to 60 days past due	<b>442</b>	318
61 to 90 days past due	<b>187</b>	542
91 to 360 days past due	<b>532</b>	747
Over 360 days	<b>2,284</b>	2,573
	<b>65,189</b>	44,307

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**

	<b>30 June 2017 RMB'000</b>	31 December 2016 RMB'000
Cash and bank balances	<b>189,353</b>	348,224
Time deposits	<b>229,854</b>	410,273
	<b>419,207</b>	758,497
Less: Pledged time deposits:		
Pledged for notes payable	<b>182,155</b>	322,064
Pledged for letters of credit	—	69,400
Pledged for bank loans	<b>47,497</b>	13,805
Pledged for forward contract	<b>2</b>	3,834
Pledged for options	<b>200</b>	1,170
	<b>229,854</b>	410,273
Cash and cash equivalents	<b>189,353</b>	348,224

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.



## Notes to Condensed Consolidated Financial Statements

**15 TRADE AND BILLS PAYABLES**

	<b>30 June 2017 RMB'000</b>	31 December 2016 RMB'000
Trade payables	<b>1,023,567</b>	803,409
Bills payable	<b>394,780</b>	650,903
	<b>1,418,347</b>	1,454,312

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

	<b>30 June 2017 RMB'000</b>	31 December 2016 RMB'000
Within 3 months	<b>1,108,631</b>	1,301,188
3 to 6 months	<b>99,857</b>	17,097
6 to 12 months	<b>205,784</b>	132,218
12 to 24 months	<b>1,858</b>	2,160
24 to 36 months	<b>1,991</b>	1,638
Over 36 months	<b>226</b>	11
	<b>1,418,347</b>	1,454,312

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

## Notes to Condensed Consolidated Financial Statements

## 16 INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)	Maturity	30 June 2017 RMB'000	31 December 2016 RMB'000
<b>Current</b>				
Finance lease payables	4.750-5.250	2017	116,184	292,115
Bank loans — secured	1.600-4.350	2017	408,710	297,046
Bank loans — unsecured	4.350-4.568	2018	76,300	—
	1.124-4.850	2017	1,215,481	1,683,106
Current portion of long-term loans	4.900	2018	200,000	—
— secured	4.900	2017	150,000	300,000
			<b>2,166,675</b>	2,572,267
Discounted notes receivable	2.960	2017	64,000	64,000
			<b>2,230,675</b>	2,636,267
<b>Non-current</b>				
Finance lease payables	4.750-5.250	2018	—	29,625
Bank loans-secured	4.750-5.329	2018-2019	880,710	1,051,386
			<b>880,710</b>	1,081,011
			<b>3,111,385</b>	3,717,278
<b>Analysed into:</b>				
Bank loans repayable:				
Within one year			2,114,491	2,344,152
In the second year			427,710	402,812
In the third to fifth years, inclusive			453,000	648,574
			<b>2,995,201</b>	3,395,538
Other borrowings repayable:				
Within one year			116,184	292,115
In the second year			—	29,625
			<b>116,184</b>	321,740
			<b>3,111,385</b>	3,717,278

## Notes to Condensed Consolidated Financial Statements

### 16 INTEREST-BEARING BANK AND OTHER BORROWINGS *(continued)*

Notes:

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

- (i) the pledge of certain of the Group's time deposits amounting to RMB47,497,000 as at 30 June 2017 (31 December 2016: RMB13,805,000);
- (ii) the pledge of certain of the Group's notes receivable amounting to 51,423,000 as at 30 June 2017 (31 December 2016: Nil);
- (iii) the mortgages over the Group's property, plant and equipment, which had an aggregate carrying value at the end of the reporting period of approximately RMB186,760,000 (31 December 2016: RMB358,321,000);
- (iv) the mortgages over the Group's leasehold land, which had an aggregate carrying value at the end of the reporting period of approximately RMB163,244,000 (31 December 2016: RMB165,018,000); and
- (v) the pledge of certain unlisted investments amounting to RMB102,000,000 as at 30 June 2017 (31 December 2016: RMB237,000,000).

Xing Xing New Energy entered into a syndicated loan agreement with Industrial and Commercial Bank of China Limited, China Construction Bank Limited and Bank of China Limited in June 2013 in relation to the funding requirement for the construction of the MTO production facility with a total loan amount of RMB1,600,000,000 which was guaranteed by its shareholders, Sanjiang Chemical, holding 75% of its equity interest, and Zhejiang Jiahua Group Co., Ltd., holding 12% of its equity interest, for amounts not exceeding RMB1,200,000,000 and RMB400,000,000, respectively.

Sanjiang New Material entered into a syndicated loan agreement with Industrial and Commercial Bank of China Limited and CMB in September 2014 in relation to the funding requirement for the construction of the 5th phase EO/EG production facilities with a total loan amount of RMB500,000,000 which was guaranteed by Sanjiang Chemical and Xing Xing New Energy for amounts not exceeding RMB600,000,000 and RMB600,000,000, respectively.

Sanjiang Chemical entered into a sale and lease back agreement with International Far Eastern Leasing Co., Ltd in November 2016 with a total present value of minimum lease payments of RMB140,740,000 which was secured by certain of its plant and machinery as disclosed in note (iii) above. Xingxing New Energy entered into a sale and lease back agreement with International Far Eastern Leasing Co., Ltd in November 2016 with a total present value of minimum lease payments of RMB150,000,000 which was secured by certain of its plant and machinery as included in the disclosure in note (iii) above. Sanjiang Honam entered into a sale and lease back agreement with Lotte Financial Leasing Co.,Ltd in December 2016 with a total present value of minimum lease payments of RMB31,000,000 which was secured by certain of its plant and machinery as included in the disclosure in note (iii) above.

## Notes to Condensed Consolidated Financial Statements

## 17 DUE FROM RELATED PARTIES

	30 June 2017 RMB'000	31 December 2016 RMB'000
Sure Capital Holdings Limited (a)	—	5,619
Mei Fu Petrochemical (b)	<b>547,950</b>	728,549
Hangzhou Haoming Investment Co., Limited	—	122
Zhejiang Jiahua Group Co., Ltd.	<b>92</b>	92
Zhejiang Jiahua Import Export Co., Ltd.	<b>284</b>	284
Zhejiang Jiahua Energy Chemical Co., Ltd. (c)	<b>54,829</b>	110,269
	<b>603,155</b>	844,935

Notes:

- (a) The amount due from Sure Capital Holdings Limited was derived solely in relation to the Sales and Purchases Agreement entered into on 17 June 2016 to dispose 51% equity interest in Zhejiang Mei Fu Petrochemical Co., Ltd to Sure Capital Holdings Limited and Jiaxing Gangqu Jianghao Investment Development Company Limited. The amount due from Sure Capital Holdings Limited has been fully settled after 31 December 2016 in accordance with the terms and conditions as set out in the aforesaid Sales and Purchases Agreement.
- (b) The amount due from Zhejiang Mei Fu Petrochemical Co., Ltd was mainly derived in relation to the Loan and Guarantee agreement entered into on 17 June 2016 being executed together with the Sales and Purchases Agreement entered into on 17 June 2016 to dispose 51% equity interest in Zhejiang Mei Fu Petrochemical Co., Ltd to Sure Capital Holdings Limited and Jiaxing Gangqu Jianghao Investment Development Company Limited.
- (c) The amount due from Zhejiang Jiahua Energy Chemical Co., Ltd. was derived solely in relation to the Sales and Purchases Agreements entered into on 19 March 2015 to dispose 51% equity interest in Zhejiang Zhapu Mei Fu Port & Storage Co. Ltd. to Zhejiang Jiahua Energy Chemical Co., Ltd.

The balances with related parties are unsecured, interest-free and repayable on demand, except the loan balances due from Mei Fu Petrochemical, which bear interest at 7% to 12% per annum and are repayable within three years.

## Notes to Condensed Consolidated Financial Statements

## 18 DUE TO RELATED PARTIES

	30 June 2017 RMB'000	31 December 2016 RMB'000
Grand Novel Developments Limited	6,942	9,929
Mei Fu Petrochemical	1,136	30,080
Mei Fu Port	14,235	8,269
Zhejiang Jiahua Energy Chemical Co., Ltd.	77,511	67,253
Zhejiang Jiahua Group Co., Ltd.	448,380	435,201
Jiaxing Xinggang Rewang Co., Ltd.	934	392
Zhejiang Jiahua Import Export Co., Ltd.	—	42,320
Zhejiang Hao Xing Energy Saving Technology Co., Ltd* (浙江浩星節能科技有限公司)	902	1,763
Jiaxing Port Industrial Equipment Installation Co., Ltd* (嘉興港區港安工業設備安裝有限公司)	2,603	690
	<b>552,643</b>	595,897

The balances with related parties are unsecured, interest-free and repayable on demand, except the loan balance due to Jiahua Group, of which RMB160,000,000 bears interest at 4.35% and is repayable within one year, RMB270,000,000 bears interest at 8% per annum and is repayable within three years.



## 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 2017 and up to the date of this report, 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	498,451,000 (Note)	50.19%
	Beneficial owner	Long position	990,000	0.10%
Han Jianhong ("Ms. Han")	Interests of spouse	Long position	499,441,000 (Note)	50.29%

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 2017.

## Other Information

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

As at 30 June 2017 and up to the date of this report, 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	498,451,000 (Note 1)	50.19%

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 2017.

### 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;

## Other Information

- (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 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 2017, no share option has been granted by the Company.

## Other Information

### DIRECTORS

The board of the Directors comprises four executive Directors: Mr. GUAN Jianzhong, Ms. HAN Jianhong, Mr. HAN Jianping and Mr. RAO Huotao and three independent non-executive Directors: Mr. SHEN Kaijun, Ms. PEI Yu and Mr. KONG Liang.

### CAPITAL COMMITMENTS

As at 30 June 2017, the Group has capital commitments amounted to approximately RMB16.9 million which were primarily related to the procurements for regular repair and maintenances.

### CONTINGENT LIABILITIES

As at 30 June 2017, 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 2017, the Group employed a total of 1,079 full time employees. The Group's employee benefits included housing subsidies, shift subsidies, bonuses, allowances, medical check-up, staff quarters, social insurance contributions, housing fund contributions and share award scheme. The remuneration committee of the Company (the "**Remuneration Committee**") reviews such packages annually, or when the occasion requires. The executive Directors, who are also employees of the Company, receive remuneration in the form of salaries, bonuses and other allowances.

### LIQUIDITY AND FINANCIAL RESOURCES

The Group's gearing, expressed as a percentage of total interest-bearing borrowings to total assets, was 39.2% as at 30 June 2017, improved by 3.7% when comparing to 42.9% as at 31 December 2016, primarily resulted from the fact that the Group has substantially finished its major capacity expansion plans since 2015. The Group has a gearing guidance of not more than 66.7% on total interest-bearing borrowings to total assets basis, which management considers is a better measure when comparing to total interest-bearing borrowings to total equity basis as the Group will have rapid expansion of various production facilities in the coming years and there is a time lag of approximately 2 years between the construction period of production facilities and the profit and revenue generated from these facilities.

The inventory turnover days maintained in a similar level during the period under review (30 June 2017: 34.7 days; 31 December 2016: 38.9 days).

The trade and notes receivables turnover days maintained at a relatively low level during the period under review (30 June 2017: 11.9 days; 31 December 2016: 24.0 days).

The trade and notes payables turnover days maintained at a similar level during the period under review (30 June 2017: 68.2 days; 31 December 2016: 86.1 days).

## INTERIM DIVIDEND

The Board has declared an interim dividend of HK10.5 cents per share for the six months ended 30 June 2017 to shareholders whose names appear on the Register of Members on 14 September 2017. It is expected that the interim dividend will be paid around 22 September 2017.

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 12 September 2017 to 14 September 2017, both days inclusive, during which period no transfer of shares in the Company can be registered. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrars, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on 11 September 2017.

## 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 2017 and up to the date of this report.

## 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 2017 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 Kong Liang and Ms. Pei Yu, all of whom are independent non-executive Directors. The chairman of the Audit Committee is Mr. Shen Kaijun. The primary responsibilities of the Audit Committee include, among others, reviewing and supervising the financial reporting process and internal control system of the Group, nominating and monitoring external auditors and providing advice and comments to the Board.

The Audit Committee has reviewed 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 2017.

## REMUNERATION COMMITTEE

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

## Other Information

### **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 2017.

### **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 2017 will be dispatched to the shareholders of the Company and published on the websites of the Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)) and the Company ([www.chinasanjiang.com](http://www.chinasanjiang.com)) in due course.

## Corporate Information

### DIRECTORS

#### Executive Directors

GUAN Jianzhong (Chairman)  
HAN Jianhong  
HAN Jianping  
RAO Huotao

#### Independent non-executive Directors

SHEN Kaijun  
PEI Yu  
KONG Liang

### 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

DLA Piper Hong Kong  
17th Floor, Edinburgh Tower, The Landmark  
15 Queen's Road Central,  
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 1702, 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  
Level 22, Hopewell Centre,  
183 Queen's Road East, Hong Kong

### CORPORATE WEBSITE

[www.chinasanjiang.com](http://www.chinasanjiang.com)