CHINA SANJIANG FINE CHEMICALS COMPANY LIMITED

中國三江精細化工有限公司

(incorporated in the Cayman Islands with limited liability)

(stock code: 2198)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2016

The board (the "**Board**") of directors (the "**Directors**") of China Sanjiang Fine Chemicals Company Limited (the "**Company**") wishes to announce the unaudited consolidated interim results of the Company and its subsidiaries (the "**Group**") for the six months ended 30 June 2016.

RESULTS HIGHLIGHTS	**Six months ended 30 June 2016** *RMB'000*	**Six months ended 30 June 2015** *RMB'000*	**2016 1H vs. 2015 1H Change** *%*	***(for reference only)* 2015 Full year** *RMB'000*
Revenue	2,884,880	1,897,002	52.1%	*4,966,427*
Gross profit	291,045	191,820	51.7%	*164,449*
Net profit/(loss) attributable to shareholders	176,756	102,963	71.7%	*(145,502)*
Earnings/(loss) per share – Basic (RMB)	17.96 fens	10.44 fens	72.0%	*(14.79)fens*
Interim dividend per share (HK$)	Nil	Nil	-	-
Gross profit margin (%)	10.1%	10.1%	-	*3.3%*
Net Profit Margin (%)	6.1%	5.4%	0.7%	*N/A*
ROE – net profit for the period to total equity x 2	14.5%	8.0%	6.5%	*N/A*
Gearing – interesting-bearing borrowings to total asset basis	49.7%	49.5%	0.2%	*50.9%*

MANAGEMENT DISCUSSION AND ANALYSIS

During the six months ended 30 June 2016 (the "**period under review**"), revenue of the Group increased by approximately 52.1%, primarily resulted from the ramp-up of two major production facilities – the MTO production facility and the 5thphase ethylene oxide ("**EO**")/ethylene glycol ("**EG**") production facilities and put them into commercial operation in Q2 and Q3 of 2015 respectively which led to the increase in revenue from propylene sales by approximately RMB311 million and increase in revenue from EG sales by approximately RMB554 million when comparing to the first half of 2015. Net profit attributable to shareholders was approximately RMB177 million and basic earnings per share was approximately RMB17.96 fens, for the six months ended 30 June 2016, representing increases of approximately 71.7% and 72.0% respectively as compared with the first half of 2015, which was primarily attributable to the increases in revenue and gross profit of the Group from the full-year effect of capacity expansion and the lower effective tax rate due to unrecognized deferred tax assets in respect of available tax losses brought forwards from 2015. The Group has unrecognized deferred tax assets in respect of available tax losses of approximately RMB88.2 million in 2015.

During the first half of 2015, the Group recognized a one-off non-operating income of amount RMB153 million in relation to the disposal of Mei Fu Port and if that one-off non-operating income is excluded when comparing with the operating performances between the first half of 2015 and the first half of 2016, the Group's net profit attributable to shareholders increased from a loss of RMB50 million for the first half of 2015 to a profit of RMB177 million for the first half of 2016.

During the period under review, although the overall gross profit margin of the Group maintained in a similar level when comparing to the first half of 2015, the overall gross profit margin of the Group improved substantially to 10.1% from 3.3% when comparing to the full year of 2015. 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 methanol pricing has been fluctuating, during the full year of 2015 and the period under review, in a more stable manner with a range of around 20% (from 2014 vs. 2015: an average price decrease of approximately 15%; to 2015 2H vs. 2016 1H: a further average price decrease of approximately 6%) while ethylene has been fluctuating in a range of more than 40% (from 2014 vs. 2015: an average price decrease of approximately 34%; to 2015 2H vs. 2016 1H: an average price increase of approximately 8%) during the same period of time as ethylene, being one of the crude oil-derivative products, is highly sensitive to the fluctuation of crude oil pricing.

Going forward, management of the Group considers there are two dominant factors that affect the profitability of the Group. One dominant factor is the volatility of crude oil pricing – a stable crude oil pricing would induce a stronger demand for crude oil-derivative products like ethylene, propylene, EO and EG as downstream producers are more willing to maximize their production capacities and increase the storage level for their finished goods after production if they have a clearer picture in terms of their own profitability, which would be materially deteriorated if crude oil pricing fluctuated substantially. Crude oil price dropped, since the second half of 2014, from approximately USD100 per barrel to approximately USD60 per barrel by June 2015 and then further dropped to approximately USD35 per barrel by the end of 2015 and that price fluctuation of crude oil did not improve in Q1 of 2016 with price per barrel further dropped to approximately USD30 and then rebounded to approximately USD38 by the end of Q1 of 2016, which dragged down the demand for crude oil-derivative products and made the overall gross profit margins of the Group in Q1 of 2016 stay in a level similar to that in 2015. Crude oil pricing stabilized in Q2 of 2016, which led to the improvement of the market sentiment as to the future movement of crude oil pricing and in turn the improvement of demand for and gross profit margin of crude oil-derivative products in Q2 of 2016.

Another dominant factor is whether the Group can be more vertical-integrated with more focus on downstream products like surfactants (i.e. downstream of EO and ethylene, from the Group's perspective) and polypropylene (i.e. downstream of propylene, from the Group's perspective). Propylene is one of the major outputs of MTO production facility and propylene pricing has been suffering from the increase in supply from Propane Dehydrogenation ("**PDH**") since 2015 while the profitability of polypropylene producers reached a high-end level of a range for the last 5 years, which means the pricing of downstream products are relatively stable and more consumer-orientated and developing a further vertical-integrated production chain can diversify market risks. During the period under review, apart from putting more marketing effort to push surfactant sales, which increased by approximately 123% in terms of sales volume when comparing to the first half of 2015, the Group also widened its downstream product mix by building up a polypropylene ("**PP**") production facility and put it into commercial operation in July 2016. The outputs of the PP production facility, on a yearly basis, are expected to be approximately 300,000 MT, which matches fully with the propylene output from MTO production facility and all the propylene that is required for the PP production purpose is expected to be able to source internally. By widening the Group's downstream product mix to PP, management of the Group expects the Group's propylene-line business (i.e. propylene sales together with PP sales) is able to achieve a breakdown position in terms of gross profit margin.

Same as last period, the Board will not recommend the payment of an interim dividend.

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 2016	% of revenue	Six months ended 30 June 2015	% of revenue	Variance +/(-)
REVENUE (RMB'000)					
Ethylene oxide	1,125,040	39%	1,226,383	65%	-8.3%
Propylene	641,892	22%	331,086	17%	93.9%
Ethylene glycol	553,585	19%	-	-	N/A
C4	156,509	6%	84,681	5%	84.8%
Surfactants	205,339	7%	93,858	5%	118.8%
Surfactants processing services	25,454	1%	21,708	1%	17.3%
Others	177,061	6%	139,286	7%	27.1%
	2,884,880	100%	1,897,002	100%	52.1%
SALES VOLUME (MT)					
Ethylene oxide	162,843		185,083		-12.0%
Propylene	139,828		53,373		162.0%
Ethylene glycol	130,013		-		N/A
C4	45,806		17,501		161.7%
Surfactants	26,934		12,057		123.4%
Surfactants processing services	58,552		50,971		14.9%
AVERAGE SELLING PRICE (RMB)					
Ethylene oxide	6,909		6,628		4.2%
Propylene	4,591		6,203		-26.0%
Ethylene glycol	4,258		-		N/A
C4	3,417		4,838		-29.4%
Surfactants	7,624		7,785		-2.1%
Surfactants processing services	435		426		2.1%
GROSS PROFIT MARGIN (%)					
Ethylene oxide	25.6%		13.9%		11.7%
Propylene	-17.3%		-6.2%		-11.1%
Ethylene glycol	7.9%		-		N/A
C4	-0.3%		-0.4%		0.1%
Surfactants	11.8%		13.3%		-1.5%
Surfactants processing services	75.4%		74.0%		1.4%

Ethylene oxide sales

During the period under review, the revenue from EO sales amounted to RMB1,125 million, representing a decrease of approximately 8.3% when comparing to the corresponding period of 2015. The decrease in EO revenue was primarily due to the decrease in sales volume of EO by approximately 12.0% as the Group was keen on pushing downstream sales and retained more EO for its own surfactants production purpose.

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) increased by 35.6% from 63,028MT for the first half of 2015 to 85,486MT for the first half of 2016. The increase in overall production capacity was primarily due to more marketing efforts the Group put into downstream level.

Propylene sales and Ethylene glycol sales

The Group finished the ramp-up of two major production facilities – the MTO production facility and the 5th phase EO/EG production facilities and put them into commercial operation in Q2 and Q3 of 2015 respectively. The increases in propylene sales and ethylene glycol sales were mainly due to full-year effect of those ramp-ups.

Gross profit margin

Gross profit margin – Ethylene oxide sales

During the period under review, the gross profit margin of EO sales improved by 11.7% from 13.9% in the first half of 2015 to 25.6% in the first half of 2016, primarily due to the commencement of commercial operation of MTO production facility, which enabled the Group to take up the ethylene production function on its own and hedged the risk derived from the strong ethylene market.

Gross profit margin – Propylene

During the period under review, propylene sales had a negative gross margin of approximately 17.3% which was primarily resulted from the abnormal low pricing of propylene, primarily due to the increase in supply from PDH since 2015.

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 RMB64.4 million for the period under review was primarily due to the increase in depreciation and amortization after the ramp-ups of the MTO production facility and the 5th phase EO/EG production facilities.

Income tax expense

Effective tax rate for the first half of 2016 increased to approximately 10.5%, which was lower than the normal level of effective tax rate of around 19% to 20%. The decrease in effective tax rate was mainly due to the unrecognized deferred tax assets in respect of available tax losses brought forwards from 2015. The Group has unrecognized deferred tax assets in respect of available tax losses of approximately RMB88.2 million in 2015.

CONDENSED CONSOLIDATED STATEMENT OF FINANCE POSITION

At 30 June 2016 – unaudited

	Notes	30 June 2016 RMB'000	31 December 2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		5,808,401	5,789,464
Prepaid land lease payments		304,944	308,412
Intangible assets		239,663	246,719
Due from related parties	18	48,103	96,451
Advance payments for property, plant and equipment		55,387	58,784
Investment in a joint venture	7	266,011	195,106
Prepayments, deposits and other receivables		338	2,007
Available-for-sale investments	11	1,000	1,000
Deferred tax assets		3,655	13,183
Total non-current assets		6,727,502	6,711,126
CURRENT ASSETS			
Inventories	12	582,005	499,598
Trade and notes receivables	13	484,472	702,609
Prepayments, deposits and other receivables		533,481	548,051
Due from related parties	18	1,042,251	969,259
Derivative financial instruments		22,403	20,388
Available-for-sale investments	11	360,961	422,949
Pledged deposits	14	489,292	701,464
Cash and cash equivalents	14	121,477	91,743
Total current assets		3,636,342	3,956,061
CURRENT LIABILITIES			
Trade and bills payables	15	1,181,542	1,254,516
Other payables, and accruals		1,037,967	1,331,048
Derivative financial instruments		3,988	13,280
Interest-bearing bank and other borrowings	16	3,327,327	3,471,123
Short-term bond	17	626,926	605,868
Due to related parties	19	492,258	325,880
Tax payable		46,064	46,773
Total current liabilities		6,716,072	7,048,488
NET CURRENT LIABILITIES		(3,079,730)	(3,092,427)
TOTAL ASSETS LESS CURRENT LIABILITIES		3,647,772	3,618,699
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	16	1,193,875	1,351,850
Deferred tax liabilities		21,080	18,537
Total non-current liabilities		1,214,955	1,370,387
Net assets		2,432,817	2,248,312
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital		86,048	86,048
Reserves		704,782	668,801
Retained profits		1,525,140	1,374,769
Proposed final dividend	10	-	-
		2,315,970	2,129,618
Non-controlling interests		116,847	118,694
Total equity		2,432,817	2,248,312

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2016 – unaudited

		Six months ended 30 June	
		2016	**2015**
	Notes	*RMB'000*	*RMB'000*
REVENUE	4	2,884,880	1,897,002
Cost of sales	6	(2,593,835)	(1,705,182)
Gross profit		291,045	191,820
Other income and gains	4	271,634	450,033
Selling and distribution cost		(13,611)	(9,614)
Administrative expenses		(139,334)	(74,974)
Other expenses	4	(147,121)	(414,485)
Finance costs	5	(138,011)	(115,869)
Investment income from disposal of Mei Fu Port		-	153,127
Share of profit/(losses) of joint ventures	7	70,905	(24,851)
PROFIT BEFORE TAX	6	195,507	155,187
Income tax expense	8	(20,598)	(47,452)
PROFIT FOR THE PERIOD		174,909	107,735
Attributable to:			
Equity holders of the parent		176,756	102,963
Non-controlling interests		(1,847)	4,772
		174,909	107,735
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	9		
- Basic		17.96 fens	10.44 fens
- Diluted		17.90 fens	10.38 fens
INTERIM DIVIDEND DECLARED DURING THE PERIOD	10	-	-

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016 – unaudited

		Six months ended 30 June	
		2016	**2015**
	Notes	*RMB'000*	*RMB'000*
Net cash flows in respect of operating activities		21,801	(603,177)
Net cash flows in respect of investing activities		109,353	397,863
Net cash flows in respect of financing activities		(102,315)	71,676
Net increase/(decrease) in cash and cash equivalents		28,839	(133,638)
Cash and cash equivalents at beginning of period		91,743	398,790
Effect of foreign exchange rate change, net		895	210
CASH AND CASH EQUIVALENTS AT END OF PERIOD	14	121,477	265,362

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016 – 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 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	-	-	-	-
2015 final dividend paid	-	-	-	-	-	-	-	-	-	-	-	-	-	-
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
At 1 January 2015	86,048	296,582	-	1,006,429	2,371	(4,500)	(627,092)	5,292	(33,012)	1,545,173	-	2,277,291	200,424	2,477,715
Profit for the period	-	-	-	-	-	-	-	-	-	102,963	-	102,963	4,772	107,735
Change in fair value of available- -for-sale investment, net of tax	-	-	-	-	-	(861)	-	-	-	-	-	(861)	-	(861)
Total comprehensive income for the period	-	-	-	-	-	(861)	-	-	-	102,963	-	102,102	4,772	106,874
Appropriation to statutory surplus/safety production reserve	-	32,621	-	-	-	-	-	-	-	(32,621)	-	-	-	-
Safety production reserve used	-		-	-	-	-	-	-	-	-	-	-	-	-
2015 final dividend paid	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity-settled share award arrangement	-	-	-	-	-	-	-	1,393	-	-	-	1,393	-	1,393
At 30 June 2015	86,048	329,203	-	1,006,429	2,371	(5,361)	(627,092)	6,685	(33,012)	1,615,515	-	2,380,786	205,196	2,585,982

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, polymer grade ethylene 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 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 2015. 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 2015.

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 2016, the Group's net current liabilities amounted to approximately RMB3,079,730,000. 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.

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	
	2016	**2015**
	RMB'000	*RMB'000*
Ethylene oxide	1,125,040	1,226,383
Propylene	641,892	331,086
Ethylene glycol	553,585	-
C4	156,509	84,681
Surfactants	205,339	93,858
Surfactants processing services	25,454	21,708
Others	177,061	139,286
	2,884,880	1,897,002

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	
	2016	**2015**
	RMB'000	*RMB'000*
Revenue		
Sales of goods	2,854,700	1,871,355
Provision of services	25,454	21,708
Others	4,726	3,939
	2,884,880	1,897,002

	Six months ended 30 June 2016 RMB'000	2015 RMB'000
Other income and gains		
Interest/investment income from banks & joint ventures, available-for-sale investments and fair value change of financial derivatives	90,923	124,368
Sales in respect of trading of oil and chemicals	217,707	329,624
Government subsidies*	4,439	-
Foreign exchange difference, net	(47,251)	(15,768)
Other lease income	597	1,986
Gain on disposal/holding of silver, net	1,840	-
Others	3,379	9,823
	271,634	450,033
Other expenses		
(Reversal)/provision for impairment for inventory – silver (being part of catalyst)	(42,351)	71,390
Cost of sales in respect of trading of oil and chemicals	176,987	342,684
Investment loss from available-for-sale investments and fair value change of financial derivatives	12,482	-
Others	3	411
	147,121	414,485

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.

5 FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June 2016 RMB'000	2015 RMB'000
Interest on bank loans wholly repayable within five years	138,011	115,869
Less: interest capitalized	-	-
	138,011	115,869

6 PROFIT BEFORE TAX

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

	Six months ended 30 June 2016 RMB'000	2015 RMB'000
Cost of inventories sold	2,586,344	1,696,666
Cost of service provided	7,491	8,516
Depreciation	203,948	139,804
Recognition of prepaid land lease payments	3,468	4,287
Amortisation of intangible assets	15,114	6,405
Minimum lease payments under operating leases	648	850

7 INVESTMENT IN A JOINT VENTURE

	30 June 2016 *RMB'000*	31 December 2015 *RMB'000*
Share of net assets	194,029	123,124
Goodwill on acquisition	71,982	71,982
	266,011	195,106

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

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 Ownership interest	Percentage of Voting power	Profit sharing	Principal activities
Zhejiang Meifu Petrochemical Co., Ltd. ("Mei Fu Petrochemical")*	PRC/ Mainland China 20March 2003	US$39,550,000	51%	57%	74.1%	Manufacture and sale of polyethylene andderivative 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 is indirectly held by the Company.

On 17 June 2016, the Group entered into the sale and purchase agreement with two related companies, Sure Capital Holdings Limited and Jiaxing 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 is yet to be completed as at the date of this announcement. Upon Completion, the Company will cease to have any interest in Mei Fu Petrochemical, and Mei Fu Petrochemical would cease to be a joint venture of the Company.

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		At 31 December 2015	
	Mei Fu Port RMB'000	Mei Fu Petrochemical RMB'000	Mei Fu Port RMB'000	Mei Fu Petrochemical RMB'000
Cash and cash equivalents	-	76,314	-	15,948
Other current assets	-	1,361,929	-	1,518,460
Current assets	-	1,438,243	-	1,534,408
Non-current assets, excluding goodwill	-	1,180,351	-	1,221,314
Current liabilities	-	(2,240,646)	-	(2,494,045)
Non-current liabilities	-	(33,153)	-	(12,573)
Net assets, excluding goodwill	-	344,795	-	249,104
Reconciliation to the Group's interest in the joint venture:				
Proportion of the Group's profit sharing	-	74.1%	-	74.1%
Group's share of net assets of the joint venture, excluding goodwill	-	194,029	-	123,124
Goodwill on acquisition	-	71,982	-	71,982
Carrying amount of the investment	-	266,011	-	195,106

<u>Results of the joint ventures</u>:

	For the six months ended 30 June 2016		For the year ended 31 December 2015	
	Mei Fu Port RMB'000	Mei Fu Petrochemical RMB'000	Mei Fu Port RMB'000 ***(Jan-Apr)***	Mei Fu Petrochemical RMB'000
Revenue	-	1,252,290	29,976	2,678,626
Interest income	-	11,537	347	14,164
Cost of sales	-	(1,029,035)	(4,240)	(2,340,705)
Depreciation and Amortization	-	(40,894)	(3,671)	(96,560)
Interest expenses	-	(62,739)	-	(124,634)
Income tax expense	-	31,557	(5,941)	(27,764)
Profit and total comprehensive income for the year	-	(95,689)	17,609	75,214
Dividend received	-	-	-	-

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	
	2016	**2015**
	RMB'000	*RMB'000*
Current - PRC		
Charge for the period	8,527	58,850
Deferred	12,071	(11,398)
Total tax charge for the period	20,598	47,452

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% (2015: 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	
	2016	**2015**
	RMB'000	*RMB'000*
Profit before tax	195,507	155,187
Tax at the statutory tax rates	48,877	38,797
Tax effect of tax concession and allowances	(30,047)	(34,706)
Tax losses not recognised	16,202	7,274
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	2,543	10,372
Others	(16,977)	25,715
Tax charge at the Group's effective rate	20,598	47,452

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	
	2016	**2015**
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent	176,756	102,963

	Six months ended 30 June 2016	2015
	Number of shares	
	'000	*'000*
Shares		
Weighted average number of ordinary shares in issue during the period	983,964	986,705
Effect of dilution – weighted average number of ordinary shares:		
Share award plan	3,512	5,347
	987,476	992,052

10 DIVIDENDS

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

	Six months ended 30 June 2016s	2015
	RMB'000	*RMB'000*
No interim dividend 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 2016	2015
	RMB'000	*RMB'000*
No final dividend declared in respect of the year ended 31 December 2015 and 2014	-	-

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 2016	31 December 2015
	RMB'000	*RMB'000*
Raw materials	541,641	454,279
Finished goods	40,364	45,319
	582,005	499,598

13 TRADE AND NOTES RECEIVABLES

	30 June 2016 *RMB'000*	31 December 2015 *RMB'000*
Trade receivable	42,222	41,236
Notes receivables	442,250	661,373
	484,472	702,609

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 2016 and as at 31 December 2015.

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

	30 June 2016 *RMB'000*	31 December 2015 *RMB'000*
1 to 30 days	36,627	36,166
31 to 60 days	2,930	1,078
61 to 90 days	262	1,271
91 to 360 days	1,661	1,760
Over 360 days	742	961
	42,222	41,236

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

	30 June 2016 *RMB'000*	31 December 2015 *RMB'000*
Neither past due nor impaired	36,627	36,166
Less than 30 days past due	2,930	1,078
31 to 60 days past due	262	1,271
61 to 90 days past due	541	905
91 to 360 days past due	1,120	855
Over 360 days	742	961
	42,222	41,236

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.

14 CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	30 June 2016 *RMB'000*	**31 December 2015** *RMB'000*
Cash and bank balances	121,477	91,743
Time deposits	489,292	701,464
	610,769	793,207
Less: Pledged time deposits:		
Pledged for notes payable	211,906	318,381
Pledged for bank loans	190,596	319,398
Pledged for letters of credit	86,790	63,685
	489,292	701,464
Cash and cash equivalents	121,477	91,743

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

	30 June 2016 *RMB'000*	**31 December 2015** *RMB'000*
Trade payables	783,542	812,731
Bills payable	398,000	441,785
	1,181,542	1,254,516

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 2016 *RMB'000*	**31 December 2015** *RMB'000*
Within 3 months	1,027,940	1,092,677
3 to 6 months	145,500	154,518
6 to 12 months	4,400	3,641
12 to 24 months	1,950	2,045
24 to 36 months	900	1,230
Over 36 months	852	405
	1,181,542	1,254,516

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

16 INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective Interest rate (%)	Maturity	**30 June 2016** *RMB'000*	**31 December 2015** *RMB'000*
Current				
Bank loans – secured	0.800 - 5.600	2016	-	343,893
	0.517 - 3.750	2016 - 2017	439,383	-
Bank loans – unsecured	1.010 - 5.885	2016	-	2,199,606
	0.914 - 4.785	2016 - 2017	1,811,741	-
Current portion of Non-current bank loans - secured	6.550	2016/2017	300,000	300,000
	6.400	2016	400,000	400,000
Discounted notes receivables	2.650 - 3.557	2016	376,203	227,624
			3,327,327	3,471,123
Non-current				
Bank loans – secured	5.125 - 6.550	2016 - 2019	1,193,875	1,351,850
Bank loans (only) - Analysed into:				
Within one year			3,327,327	3,471,123
In the second year			350,000	189,644
In the third to fifth years, inclusive			843,875	1,162,206
			4,521,202	4,822,973

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

(i) the pledge of certain of the Group's time deposits amounting to RMB190,596,000 as at 30 June 2016 (31 December 2015: RMB319,398,000);

(ii) the pledge of certain of the Group's notes receivable amounting to RMB209,772,000 as at 30 June 2016 (31 December 2015: RMB268,884,000);

(iii) mortgages over the Group's property, plant and equipment, which had an aggregate carrying value at the end of the reporting period of approximately RMB416,936,000 (31 December 2015: RMB431,055,000);

(iv) mortgages over the Group's leasehold land, which had an aggregate carrying value at the end of the reporting period of approximately RMB192,048,000 (31 December 2015: RMB194,097,000); and

(v) the pledge of certain unlisted investments amounting to RMB152,000,000 as at 30 June 2016 (31 December 2015: RMB58,222,000).

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.

17 SHORT-TERM BOND

	Effective Interest rate (%)	Maturity	**30 June 2016** *RMB'000*	**31 December 2015** *RMB'000*
Current				
Short term bond	7.000	2016	626,926	605,868

On 10 November 2015, Sanjiang Chemical, a subsidiary of the Company, with China CITIC Banking Corp., Ltd. as the principal underwriter, issued a short term unsecured corporate bond of RMB600,000,000 to a number of financial institutions, with a maturity period of 1 year and a fixed nominal interest rate of 7.0% per annum. The principal and the interest will be repaid at the end of the term on 9 November 2016.

18 DUE FROM RELATED PARTIES

	30 June 2016 *RMB'000*	**31 December 2015** *RMB'000*
Mei Fu Petrochemical	986,272	910,268
Hangzhou Haoming Investment Co., Limited	-	150
Jiaxing Xinggang Rewang Co., Ltd.	-	-
Zhejiang Jiahua Group Co., Ltd.	92	93
Zhejiang Jiahua Import Export Co., Ltd.	283	283
Zhejiang Jiahua Energy Chemical Co., Ltd.		
- Non-current	48,103	96,451
- Current	55,604	58,465
	1,090,354	1,065,710

The amount due from related parties are unsecured, interest-free and repayable on demand except for the amount due from Mei Fu Petrochemical, which bears interest at 10% per annum and are repayable within one year, which, the Group considers, is conducted on normal commercial terms.

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.

19 DUE TO RELATED PARTIES

	30 June 2016 *RMB'000*	31 December 2015 *RMB'000*
Grand Novel Developments Limited	9,489	9,299
Sure Capital Holdings Limited	15,883	-
Mei Fu Petrochemical	43,370	55,291
Zhejiang Zhapu Mei Fu Port & Storage Co. Ltd.	11,695	5,077
Zhejiang Jiahua Energy Chemical Co., Ltd.	95,145	69,788
Jiaxing Xinggang Rewang Co., Ltd.	534	932
Zhejiang Jiahua Group Co., Ltd.	286,025	185,493
Jiaxing Jianghao Property Co., Ltd.	29,850	-
Sanjiang Honam Chemical Ltd.	117	-
Hangzhou Haoming Investment Co., Limited	150	-
	492,258	325,880

The amount due to related parties are unsecured, interest-free and repayable on demand except for the amount due to Zhejiang Jiahua Group Co., Ltd., which bears interest at 10% per annum, which, the Group considers, is conducted on normal commercial terms.

CAPITAL COMMITMENTS

As at 30 June 2016, the Group has capital commitments amounted to approximately RMB276.9 million which were primarily related to the retention money in respect of the procurement of plant and machinery for the constructions of additional production capacities.

CONTINGENT LIABILITIES

As at 30 June 2016, 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 2016, the Group employed a total of 1,012 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 49.7% as at 30 June 2016, improved by 1.2% when comparing to 50.9% as at 31 December 2015, primarily resulted from the fact that the Group has substantially finished its capacity expansion plans for various production facilities in 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 increased by approximately 8.1 days during the period under review (30 June 2016: 38.1 days; 31 December 2015: 30.0 days), primarily due to the full-period impact of operation after the ramp-up of two major production facilities - the MTO production facility and the 5th phase EO/EG production facilities and put them into commercial operation in Q2 and Q3 of 2015 respectively.

Trade and notes receivables turnover days maintained in a similar level during the period under review (30 June 2016: 37.6 days; 31 December 2015: 37.8 days).

Trade and notes payables turnover days maintained at a similar level during the period under review (30 June 2016: 85.7 days; 31 December 2015: 97.2 days).

INTERIM DIVIDEND

No interim dividends were declared by the Board of Directors for the six months ended 30 June 2016.

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 2016 and up to the date of this announcement.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code for securities transactions by Directors and senior management. Having made specific enquiries, all the Directors confirmed that they have complied with the Model Code throughout the six months ended 30 June 2016 and up to the date of this announcement.

CLARIFICATION ON CERTAIN DISCLOUSRES IN 2015 ANNUAL REPORT – CONTINUING CONNECTED TRANSACTIONS

The Company wishes to make the following clarification in relation to the disclosure as to related party transactions entered into during the year ended 31 December 2015 constitutes continuing connected transactions for the Company under the Listing Rules and are required to be disclosed in 2015 Annual Report in accordance with Chapter 14A of the Listing Rules.

On page 24 of the 2015 Annual Report, the connected relationship of Xing Xing should read as follow with the change duly underlined:-

"Xing Xing is a non-wholly owned subsidiary of the Company, which was indirectly owned as to 75% by the Company, 12% by Zhejiang Jiahua Group Co., Ltd.* (浙江嘉化集團股份有限公司) and 13% by independent third parties as at the date of this annual report."

AUDIT COMMITTEE

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

The Audit Committee has reviewed 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 2016.

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES

During the period under review, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2016.

PUBLICATION OF INTERIM REORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

The Company's Interim Report for the six months ended 30 June 2016 will be dispatched to the shareholders of the Company and published on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (www.chinasanjiang.com) in due course.

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

People's Republic of China, 29 August 2016

As at the date of this announcement, the Board comprises four executive Directors: Mr. GUAN Jianzhong, Ms. HAN Jianhong, Mr. NIU Yingshan, Mr. HAN Jianping and three independent non-executive Directors: Mr. SHEN Kaijun, Ms. PEI Yu and Mr. KONG Liang.

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