三江化工
SANJIANG CHEMICAL

CHINA SANJIANG FINE CHEMICALS COMPANY LIMITED
中國三江精細化工有限公司
(incorporated in the Cayman Islands with limited liability)
(stock code: 2198)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2013

CHAIRMAN'S STATEMENT

On behalf of the board (the "**Board**") of directors (the "**Directors**") of China Sanjiang Fine Chemicals Company Limited (the "**Company**"), I am pleased to announce the annual results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2013.

RESULTS HIGHLIGHTS

	2013	2012**	Change
	RMB'000	*RMB'000*	*%*
Revenue	**3,940,471**	2,410,125	63.5%
Gross profit	**638,212**	574,511	11.1%
Share of profits of joint ventures	**56,391**	-	>100.0%
Net profit attributable to owner of the parent	**605,131**	466,776	29.6%
Earnings per share – Basic (RMB)	**61.33 fens**	46.58 fens	31.6%
Interim dividend per share (HK$)	**-**	-	-
Final dividend per share (HK$)	**24.0 cents**	18.0 cents	33.3%
Gross profit margin	**16.2%**	23.8%	-7.6%
ROE – net profit for the year to total equity	**24.5%**	23.9%	0.6%
Dividend payout ratio (Approximate %)	**31.1%**	31.0%	0.1%
Gearing – interesting-bearing borrowings to total asset basis	**43.1%**	34.2%	8.9%
Actual production volume of EO (MT), including the contribution from 1st phase EO production facilities of JV	**376,103MT**	216,728MT	73.5%
Effective designed annual production capacity of EO (MT) during the year	**314,500MT**	190,400MT	65.2%
Designed annual production capacity of EO (MT) at year end	**330,000MT**	230,000MT	43.5%
Utilisation rate of EO production facilities (Approximate %)	**120%**	114%	6%

** *Certain 2012 figures have been restated to conform to the newly effective account standard namely **Hong Kong Financial Reporting Standard 11 – Joint Arrangements** adopted for accounting for the results of Sanjiang Honam Chemical Co., Ltd. (三江湖石化工有限公司) ("**Sanjiang Honam**") line by line with reference to the Group's shares held jointly and elimination of inter-transactions.*

2013 was quite challenging for our Group. Although we had strong growths in terms of revenue and actual production volume of ethylene oxide ("**EO**"), our Group's dominant product, both of which increased by 59.1% and 73.5% respectively during the year under review, we have been suffering from gross margin being eroded since July 2013, primarily resulted from substantial capacity additions of EO industry in the People's Republic of China ("**PRC**").

During the year under review, revenue of our Group improved by approximately 63.5% reaching approximately RMB3,940.5 million as compared to revenue of approximately RMB2,410.1 million for last year. The increase in revenue is primarily due to the increase in production volume of EO by approximately 73.5%, primarily resulted from the impact of:- 1) the first full-year operation of the 1st phase EO production facilities (the "**1st phase EO production facilities of JV**") of Sanjiang Honam, a sino-foreign joint venture company which the Group established in 2010 on a 50:50 basis with Lotte Chemical Corporation ("**Lotte Chemical**"), an independent third party; and 2) the commencement of commercial operation of the 4th phase EO production facilities on 24 February 2013 which led to the increase in effective designed annual production capacity and actual production volume of EO by approximately 65.2% and 73.5% respectively. Net profit attributable to shareholders was approximately RMB605.1 million and basic earnings per share was approximately RMB61.33 fens for the year ended 31 December 2013, representing increases of approximately 29.6% and 31.6% respectively as compared with last year.

The Board has recommended a final dividend of HK24.0 cents per share, representing a total payout of approximately RMB188.1 million and a dividend payout ratio of approximately 31.1% on an annual basis for the year ended 31 December 2013. In spite of the expected substantial capital expenditure, I would like to take this opportunity to emphasise that the Board will stick to the established dividend policy of making not less than 30% in terms of dividend payout ratio in the foreseeable future.

BUSINESS REVIEW AND OUTLOOK

In terms of our existing dominant business – supply and production of EO, during the year under review, we had a new ramp-up of production facilities – the 4th phase EO production facilities, which has a designed annual production capacity of 100,000 metric tonnes ("**MT**") for EO and has been operating on a full-load basis since 24 February 2013 after trial run for a number of weeks. Together with the additional EO production volume contributed by the 1st phase EO production facilities of JV, which come on stream in October 2012, as a result of its first full-year operation, our actual production volume of EO increased by approximately 73.5% from approximately 216,728 MT in 2012 to approximately 376,103 MT in 2013, which led to the increase in revenue by approximately 63.5% reaching approximately RMB3,940.5 million. Our overall utilisation rate of EO production facilities was maintained at a relatively high level (2013: 120%; 2012: 114%), which was attributable to the strong demand of EO market in PRC.

However, the upside of increase in EO production capacity and volume for 2013 was partially offset by the decrease in gross profit margin by approximately 7.6% from approximately 23.8% in 2012 to approximately 16.2% in 2013, which was primarily attributable to the decrease in average selling price ("**ASP**") of EO by approximately 8.3% from RMB9,966/MT in 2012 to RMB9,138/MT in 2013 as a result of substantial capacity additions of EO market in the PRC, in particular in the first half of 2013 where, based on our estimation, the total production capacity of EO market in the PRC increased by more than 25% when comparing to the end of 2012. Furthermore, we were also suffered from the increase in average market price of ethylene, the feedstock of EO, which, during the year under review, increased by approximately 7.4% from approximately USD1,222/MT of ethylene in 2012 to approximately USD1,312/MT of ethylene, primarily attributable to the fact that there was no meaningful addition of ethylene production capacity in the region in recent years. For the expected ASP of EO in 2014, on the basis that we have seen a sign of bottoming out with EO selling price increased, for the first time after the price flatted for a period of more than 4 months, by RMB200/MT on 16 January 2014 from RMB10,400/MT (VAT-inclusive) to RMB10,600/MT (VAT-inclusive), we expect the ASP will recover gradually in 2014 given that, based on our estimation, additions of EO capacity in the PRC will be significantly smaller in 2014 when comparing to 2013.

We have been fully aware of the potential risk in respect of the increase in market price of EO's feedstock – ethylene, which might be subject to both, from a macro perspective, insufficient additions of ethylene production capacity in the region and, from a micro perspective, the expected increase by approximately 100% of our ethylene procurement requirement (when comparing to our current ethylene requirement level) by the end of 2014/Q1 of 2015 due to the expected ramp-up of our 5th phase EO/EG production facilities (please refer to ***2012 Annual Report*** for more details) and, to respond to that, we have been carrying out a number of measures/strategies since 2012, during which we initiated a vertical integration to build an upstream production facility based on Methanol-to-Olefin-based and related ancillary technologies ("**MTO Technology**") to produce ethylene and propylene through the acquisition of a connected limited liability company established in the PRC namely *Zhejiang Xingxing New Energy Technology Co., Ltd.** (浙江興興新能源科技有限公司) *("**Xingxing New Energy**")*, which not only enables us to secure the supply of ethylene, the core feedstock of EO, on a long term basis at a relatively reasonable and controllable material cost but also opens up the opportunity for us to diversify our business into propylene-derivative products. As highlighted in our ***2012 Annual Report***, we have been constructing the MTO Technology-based production facility ("**MTO production facility**") since October 2012 and we expect it will come on stream by the end of 2014/Q1 of 2015. The expected major inputs of the MTO production facility on an annual basis will be the feedstock of approximately 1,800,000 MT for methanol while the expected major outputs on an annual basis will be approximately 300,000 MT, 420,000 MT, 23,000 MT and 26,000 MT for ethylene, propylene, C4 and C5 respectively, which means, even after the ramp-up the 5th phase EO/EG production facilities by the end of 2014/Q1 of 2015, we will be able to maintain our ethylene external procurement requirement at the current level and around half of our ethylene procurement requirement will be fulfilled internally by our own integrated facility. As at the date of this announcement, the MTO production facility's construction progress is on schedule.

Apart from serving as a hedge tool against the market price increase of ethylene, we are also of the view that MTO production facility is the core of our Group's future growth and going upstream to build a MTO production facility is one of the most important strategic developments of our Group in recent years. There are a number of reasons behind:- 1) MTO production facility has cost advantage of feedstock when comparing with those oil refineries in the PRC in terms of ethylene and propylene production due to the different type of ultimate feedstock used (i.e. for MTO, it is natural gas vs. for oil refineries, it is crude oil) and we expect the feedstock advantage of methanol will be larger in long run due to shale gas advantage. Methanol, being the feedstock of MTO production facility, is produced from either natural gas or coal where natural-gas-based approach is considered as the most economical and widely used way to produce methanol. On the contrary, although there are a number of ways to produce ethylene (our existing feedstock), the current most widely used (i.e. just widely used, not most economical) way to produce ethylene in the PRC is crude-oil-based approach while, for propylene production, crude-oil-based approach is the only available option; 2) Propylene could only be produced from crude-oil-based approach in the old days while MTO production facility opens up the opportunity for us to produce propylene directly and diversify our business into propylene-derivative products, which changes the competition landscape of the propylene market in the PRC and at the same time, enables us to enjoy relatively lower cost of feedstock when comparing to the crude-oil-based approach; 3) MTO production facility secures our ongoing competitive position as we expect substantial additions of natural-gas-based methanol production capacities will come on stream in particular in North America in the next 2-3 years, which will increase global supply of methanol and lower methanol price while we only expect a few additions in crude oil refinery capacities in the same period of time, which increases the price upside for ethylene; 4) Methanol when comparing to ethylene, in terms of transportation, is much easier to procure and import as ethylene is required stored as liquid at very low temperatures (i.e. around -102°C) on transportation by vessel and the capacity of those ethylene-specific vessels normally ranges from 3,000 MT to 5,000 MT while methanol is not required to be transported at low temperatures and the capacity of those methanol-specific vessels normally ranges between 10,000 MT to 20,000 MT, which led to the fact that methanol has lower transportation cost/MT when comparing to ethylene; 5) Methanol when comparing to ethylene, in terms of availability in the market, is much easier to procure as majority of ethylene producers are equipped with their integrated ethylene-derivative production facilities, which limits the regular supply of ethylene to the market, while majority of methanol producers sell their methanol to the market as they normally do not have downstream production facilities; and 6) last but not least, MTO production facility brings to us additional benefit of an amount of approximately RMB140 million per annum in total through synergy effect with EO production facility as we can have both saving for sharing nitrogen and saving for import duty and transportation cost. We can get enormous amount of nitrogen from air separation facilities during the EO production process and we have no use for certain amount of nitrogen except for supplying to MTO production facility, the benefit of which is expected to be approximately RMB50 million per annum. Nowadays, we are charged by the custom 2% import duty for every MT of ethylene imported from overseas into China and by increasing self-sufficiency through MTO production facility, together with the transportation cost saving, we can save the procurement cost in respect of importing approximately 300,000 MT of ethylene, the benefit of which is expected to be approximately RMB90 million per annum.

We understand that our shareholder or potential investors may have a concern over the price soaring of methanol in Q4 of 2013, during which methanol price increased from approximately USD400/MT early October 2013 to approximately USD550/MT by the end of 2013 as it may hurt the economics of our MTO production facility. During 2012 and Q1-Q3 of 2013, methanol price was relatively stable with methanol price arranged between USD350/MT and USD400/MT. Based on our understanding and estimation, the reason why the methanol price soared in Q4 of 2013 was primarily due to suspension of production of a number of methanol plants for unknown reasons which led to tightness of methanol supply in a short period of time. We have been seeing easing of the tightness of supply since early 2014 and, as at the end of February 2014, the methanol price has come down to approximately USD490/MT. We expect the methanol price/MT will come down further to approximately USD400/MT by the end of 2014 due to resumptions of operation of those previously-shut-down plants and in turn, increase in stable supply of methanol, which we consider just fit in our timing to start up our MTO production facility. For the purpose of providing a profitability guidance of MTO production facility to our shareholder or potential investors, we did an assessment to compare the average market prices for the last 12 months of all the outputs and inputs after taking into account the expected processing costs and finance costs and based on that assessment, we expect the MTO production facility can generate a ROA of around 13% (it was around 20% when we did the same assessment one year ago) on a yearly basis.

Another concern our shareholders and potential investors may have on MTO production facility is related to our strategy for procuring methanol. In terms of methanol source, we have been negotiating with various methanol producers for available options since 2012. In view of the expected increase in global supply of methanol as a result of substantial additions of natural-gas-based methanol production capacities in North America in the next 2-3 years, we expect there will be sufficient spot methanol available in the market by the end of 2014 and we will keep looking into the available options in the market. On the other hand, in terms of logistic, we are fully aware of the fact that the feedstock requirement of the MTO production facility (i.e. approximately 1,800,000 MT of methanol per annum) is enormous and for the purpose of ensuring a smooth and cost-effective logistic for importing methanol, during the year under review, we took a strategic initiative and have managed to acquire 51% of the equity interest of a local port runner – Zhejiang Zhapu Mei Fu Port & Storage Co. Ltd.* (浙江乍浦美福码头仓储有限公司) ("**Mei Fu Port**"), which owns the biggest port in the same region of the Group's existing production plant – Port Area, Zhapu Economic Development Zone, Jiaxing City, Zhejiang Province, the PRC. Mei Fu Port has an annual loading capacity of approximately 5,000,000 MT and a storage capacity of 80,000 MT, which is good enough to fulfill the logistic need of our MTO production facility.

Along with the acquisition of Mei Fu Port, we acquired 51% of the equity interest of an affiliated company of Mei Fu Port – Zhejiang Mei Fu Petrochemical Co. Ltd.* (浙江美福石油化工有限责任公司) ("**Mei Fu Petrochemical**") (hereinafter, together with Mei Fu Port, collectively referred to as the "**Mei Fu Entities**"), a local fuel oil cracker with a processing capacity of 800,000 MT per annum (please refer to ***2013 Interim Report*** for more details about the acquisition and the Mei Fu Entities). Apart from serving the strategic purpose to ensure smooth and cost-effective logistic for MTO production facility, we considered the acquisition of Mei Fu Entities was very successful, solely from valuation perspective. We finished the acquisition of Mei Fu Entities on July 2013 and the aggregate consideration we paid for the 51% of equity interests of Mei Fu Entities amounted to RMB327.1 million while we got RMB56.4 million from our sharing of the 50% of Mei Fu Entities' net profits for the period from July 2013 to December 2013 (i.e. we adopt equity accounting to account for the 51% equity interests of Mei Fu Entities) which means the annualised sharing of the 50% of Mei Fu Entities' net profits could be up to RMB112.8 million, representing a Price/Earnings Ratio ("**P/E ratio**") of 2.9x, which is much lower when comparing with the average P/E ratio of chemical sectors in both PRC and HK markets. The reason why we could achieve this low-P/E acquisition was primarily attributable to the very experienced management team and strong financial position of our Group. Due to operation execution and working capital issue, Mei Fu Petrochemical was unable to commence its commercial operation until May 2013, one month before when we stepped in to take up the operation of and to provide working capital supports and offshore trade financing platform to Mei Fu Petrochemical. In terms of the provision of working capital supports, we charge Mei Fu Petrochemical interest rates of 5% to 10% and the working capital support amount has been gradually decreasing from approximately RMB1.3 billion at the early stage when we stepped in to approximately RMB1.0 billion by the end of February 2014 as Mei Fu Petrochemical is replacing our supports with external bank financing support after making profits which increases the liquidity as well as the profitability of our Group and Mei Fu Petrochemical as a whole. We expect our working capital support to Mei Fu Petrochemical will keep on decreasing going forward.

Apart from MTO production facility, during the year under review, we are also working on another capacity expansion – the 5th phase EO/EG production facilities, which we expect will come on stream by the end of 2014/Q1 of 2015. As highlighted in our ***2012 Annual Report***, the expected output of the 5th phase EO/EG production facilities on an annual production capacity basis will be inbetween:- option 1) EO output at a maximum level of 240,000 MT and EG output at a minimum level of 130,000 MT; and option 2) EO output at a minimum level of 100,000 MT and EG output at a maximum level of 250,000 MT. As at the date of this announcement, the 5th phase EO/EG production facilities' construction progress is on schedule.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to take this opportunity to express my thanks to our shareholders, banks, customers and vendors for their support and trust as well as our management and all staffs for their hard workings and commitments during the year.

GUAN Jianzhong
Chairman
People's Republic of China, 19th March 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2013

	Notes	2013	2012 (restated)[note]
		RMB'000	*RMB'000*
REVENUE	4	3,940,471	2,410,125
Cost of sales		(3,302,259)	(1,835,614)
Gross profit		638,212	574,511
Other income and gains	4	649,481	250,201
Selling and distribution expenses		(18,499)	(1,845)
Administrative expenses		(135,146)	(94,955)
Other expenses	4	(429,701)	(99,068)
Finance costs	5	(74,967)	(67,195)
Share of profits of joint ventures – Mei Fu Entities	7	56,391	-
PROFIT BEFORE TAX	6	685,771	561,649
Income tax expense	8	(81,011)	(94,639)
PROFIT FOR THE YEAR		604,760	467,010
Attributable to:			
Owners of the parent		605,131	466,776
Non-controlling interests		(371)	234
		604,760	467,010
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic		61.33 fens	46.58 fens
Diluted		61.12 fens	46.55 fens
PROPOSED FINAL DIVIDEND FOR THE YEAR	10	188,118	144,818

Note: *Certain 2012 figures have been restated to conform to the newly effective account standard namely* ***Hong Kong Financial Reporting Standard 11 – Joint Arrangement*** *adopted for accounting for the results of Sanjiang Honam line by line with reference to the Group's shares held jointly and elimination of inter-transactions.*

CONSOLIDATED STATEMENT OF FINANCE POSITION

At 31 December 2013

	Notes	2013 RMB'000	2012 (Restated) (note) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		2,585,704	1,697,228
Prepaid land lease payments		313,893	79,389
Intangible assets		114,058	36,464
Advance payments for property, plant and equipment		329,099	49,975
Investments in joint ventures – Mei Fu Entities	7	378,003	-
Deferred tax assets		19,455	3,160
Total non-current assets		3,740,212	1,866,216
CURRENT ASSETS			
Inventories	12	247,580	437,076
Trade and notes receivables	13	202,959	144,151
Prepayments, deposits and other receivables	14	336,014	290,189
Due from related parties	20	1,074,921	300
Available-for-sale investments	11	476,133	587,307
Derivative financial instruments		-	607
Pledged deposits	15	742,186	1,139,102
Cash and cash equivalents	15	253,981	345,781
Total current assets		3,333,774	2,944,513
CURRENT LIABILITIES			
Trade and bills payables	16	1,183,427	827,482
Other payables, and accruals	17	267,618	279,407
Derivative financial instruments		4,907	4,576
Interest-bearing bank borrowings	18	2,218,714	1,578,817
Short-term bond	19	310,109	-
Due to related parties	21	34,606	6,776
Tax payable		49,116	67,070
Total current liabilities		4,068,497	2,764,128
NET CURRENT (LIABILITIES)/ASSETS		(734,723)	180,385
TOTAL ASSETS LESS CURRENT LIABILITIES		3,005,489	2,046,601
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	18	511,506	68,263
Deferred tax liabilities		26,614	27,571
Total non-current liabilities		538,120	95,834
Net assets		2,467,369	1,950,767
EQUITY			
Equity attributable to owners of the parent			
Issued capital	22	86,048	87,144
Treasury shares		-	(6,356)
Reserves		2,070,805	1,697,392
Proposed final dividend	10	188,118	144,818
		2,344,971	1,922,998
Non-controlling interests		122,398	27,769
Total equity		2,467,369	1,950,767

Note: *Certain 2012 figures have been restated to conform to the newly effective account standard namely* ***Hong Kong Financial Reporting Standard 11 – Joint Arrangement*** *adopted for accounting for the results of Sanjiang Honam line by line with reference to the Group's shares held jointly and elimination of inter-transactions.*

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

In the opinion of the directors, the holding company and the ultimate holding company of the Company is Sure Capital Holdings Limited ("**Sure Capital**"), which is incorporated in the British Virgin Islands.

2 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), accounting principles generally accepted in Hong Kong, and the disclosure requirements of the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention, except for available-for-sale investments and derivative financial instruments, which have been measured at fair value. These financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

Going concern assumption

As at 31 December 2013, the Group's net current liabilities amounted to approximately RMB734,723,000, which comprised current assets of approximately RMB3,333,774,000 and current liabilities of approximately RMB4,068,497,000. 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.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2013. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

3 OPERATING SEGMENT INFORMATION

For management purposes, the Group is not organised 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 resources allocation and performance assessment.

Entity-wide disclosures

Information about products and services

The following table sets forth the total revenue from external customers by product and service during the year:

	2013 *RMB'000*	2012 *RMB'000*
EO	3,437,001	2,159,995
Surfactants	226,088	85,971
Liquefied nitrogen, EG and others	233,053	133,175
Processing services	35,750	23,923
Rental income	8,579	7,061
	3,940,471	2,410,125

Geographical information

All external revenue of the Group during the year is attributable to customers established in the PRC, the place of domicile of the Group's operating entities.

The Group's non-current assets are all located in Mainland China.

Information about a major customer

Revenue of approximately RMB286,298,000 (2012: RMB236,039,000) was derived from sales to a single customer.

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 value-added tax and government surcharges, and after allowances for returns and trade discounts; and the value of services rendered.

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

	2013 *RMB'000*	2012 *RMB'000*
Revenue		
Sale of goods	3,896,142	2,379,141
Rendering of services	35,750	23,923
Others	8,579	7,061
	3,940,471	2,410,125
Other income		
Bank interest income	78,916	106,846
Interest income from joint ventures – Mei Fu Entities	60,428	-
Government subsidies (a)	26,762	18,140
Sales of circular water to Sanjiang Honam	25,816	6,706
Sales of low sulphur fuel oil to Mei Fu Petrochemical	185,710	-
Sales of propylene to Mei Fu Petrochemical	72,694	-
Sales of silver catalyst to Sanjiang Honam	33,184	-
Sales of ethylene to Sanjiang Honam	27,681	59,046
Gross rental income	2,610	4,262
Commission fee	1,479	569
Project management service income from Sanjiang Honam	-	10,593
Sales of raw materials	378	6,942
Others	7,655	3,562
	523,313	216,666
Gains		
Foreign exchange gains, net	96,829	598
Fair value gains on derivative financial instruments	13,086	1,469
Investment income from available-for-sale investments	16,253	23,194
Gain on disposal of silver catalysts (b)	-	8,274
	126,168	33,535
	649,481	250,201
Other expenses		
Cost of sales of low sulphur fuel oil to Mei Fu Petrochemical	183,350	-
Impairment loss for inventories (c)	99,928	15,627
Cost of sales of propylene to Mei Fu Petrochemical	71,962	-
Cost of sales of silver catalyst to Sanjiang Honam	31,974	-
Cost of sales of ethylene to Sanjiang Honam	25,155	54,473
Fair value losses on derivative financial instruments	9,929	-
Loss on disposal of silver catalysts (b)	3,732	-
Lease expense	215	2,971
Commission fee	107	-
Cost of sales of raw materials	46	-
Project management expenses for Sanjiang Honam	-	21,186
Others	3,303	4,811
	429,701	99,068

Notes:

(a) Government subsidies mainly represent incentives provided by the local government to the Group for its operation in Jiaxing, Zhejiang Province, the PRC. There are no unfulfilled conditions or contingencies attached to these government grants.

(b) Gain or loss on disposal of silver catalysts represents the gain or loss from disposal of silver catalysts used in production which were replaced during overhaul for the EO production line.

(c) Impairment loss for inventories represents the impairment provision for the silver catalysts in inventories.

5 FINANCE COSTS

An analysis of finance costs is as follows:

	2013 *RMB'000*	2012 *RMB'000*
Interest on bank loans wholly repayable within five years	85,196	68,889
Less: Interest capitalised	(10,229)	(1,694)
	74,967	67,195

6 PROFIT BEFORE TAX

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

	2013 *RMB'000*	2012 *RMB'000*
Cost of inventories sold	3,293,428	1,827,875
Cost of services provided	8,831	7,739
Depreciation*	157,832	104,201
Amortisation of prepaid land lease payments	3,176	1,536
Amortisation of intangible assets**	7,963	5,363
Loss on disposal of items of property, plant and equipment	-	1,300
Write-down of inventories to net realisable value	98,478	15,448
Auditors' remuneration	2,250	1,465
Minimum lease payments under operating leases	2,455	2,570
Employee benefit expense (including directors' remuneration):		
Wages and salaries	78,700	59,851
Pension scheme contributions	2,589	1,740
Staff welfare expenses	3,423	3,467
Equity-settled share award plan expense	1,378	651
	86,090	65,709

* The depreciation of property, plant and equipment for the year is included in "Cost of sales" with an amount of RMB153,830,000 (2012: RMB87,845,000) in the consolidated statement of profit or loss.

** The amortisation of technology use rights for the year is included in "Cost of sales" in the consolidated statement of profit or loss.

7 INVESTMENTS IN JOINT VENTURES

	2013 *RMB'000*	2012 *RMB'000*
Share of net assets	245,626	-
Goodwill on acquisition	132,377	
	378,003	-

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

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

The above investments in joint ventures are indirectly held by the Company.

The Group considered the existence of substantive participating rights held by the minority shareholder which provide that minority shareholder with a veto right over the significant financial and operating policies of Mei Fu Petrochemical and Mei Fu Port and determined that as a result of these rights, the Group did not have control over Mei Fu Petrochemical and Mei Fu Port despite the Group's 51% ownership interest and 57% voting power.

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

	Mei Fu Petrochemical 2013 *RMB'000*	Mei Fu Port 2013 *RMB'000*
Cash and cash equivalents	111,770	16,506
Other current assets	1,387,282	6,156
Current assets	1,499,052	22,662
Non-current assets	1,314,797	201,607
Current liabilities	(2,489,392)	(35,378)
Non-current liabilities	(14,921)	(7,176)
Net assets (excluding goodwill)	309,536	181,715

	Mei Fu Petrochemical 2013 *RMB'000*	Mei Fu Port 2013 *RMB'000*
Reconciliation to the Group's interest in the joint venture:		
Proportion of the Group's profit sharing	50%	50%
Group's share of net assets of the joint venture, excluding goodwill	154,768	90,858
Goodwill on acquisition	71,982	60,395
Carrying amount of the investment	226,750	151,253

Results of the joint ventures:

	From 16 July 2013 (the acquisition date) to 31 December 2013	
	RMB'000	RMB'000
Revenue	2,496,810	24,548
Interest income	4,512	62
Cost of sales	(2,311,088)	(5,198)
Depreciation and amortisation	(39,572)	(6,720)
Interest expenses	(60,592)	(1,246)
Income tax expense	(37,554)	(3,178)
Profit and total comprehensive income for the year	103,738	9,044
Dividend received	-	-

8 INCOME TAX

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 year is analysed as follows:

	2013 *RMB'000*	2012 *RMB'000*
Current – Mainland China		
Charge for the year	97,772	79,172
Deferred	(16,761)	15,467
Total tax charge for the year	81,011	94,639

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% (2012: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. No provision for income tax has been made as the Group did not generate any assessable profits in Hong Kong during the year (2012: Nil).

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

Pursuant to the approval of the tax bureau, Sanjiang Chemical Co., Ltd. ("Sanjiang Chemical") was qualified as a high-new technology company since 2010 and enjoyed a favourable CIT tax rate of 15% from year 2013 to year 2015. Therefore, Sanjiang Chemical was subject to CIT at a rate of 15% for the year ended 31 December 2013 (2012: 15%).

Pursuant to the approval of the tax bureau, Jiaxing Yongming Petrochemical Co., Ltd. ("Yongming Petrochemical") was qualified as a high-new technology company since 2013 and enjoyed a favourable CIT tax rate of 15% from year 2013 to year 2015. Therefore, Yongming Chemical was subject to CIT at a rate of 15% for the year ended 31 December 2013 (2012:12.5%).

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for Mainland China to the tax expense at the effective tax rate is as follows:

	2013 *RMB'000*	2012 *RMB'000*
Profit before tax	685,771	561,649
Tax at the statutory tax rate	171,442	140,412
Lower tax rates enacted by local authority	(52,263)	(56,101)
Additional deduction for research and development activities	(9,283)	(8,843)
Adjustments in respect of current tax of previous periods	(5,289)	(2,672)
Expenses not deductible for tax	435	3,256
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	(11,541)	18,042
Profits attributable to joint ventures	(14,098)	-
Tax losses utilised from previous years	-	(126)
Tax losses not recognised	1,608	671
Tax charge at the Group's effective rate	81,011	94,639

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares in issue during the year. The number of shares for the current year has been arrived at after eliminating the shares of the Company held under the share award scheme and shares repurchased.

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to ordinary 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 year, 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:

	2013	2012
	RMB'000	*RMB'000*
Earnings		
Profit for the year attributable to ordinary equity holders of the parent	605,131	466,776

	Number of shares	
	2013	2012
	'000	*'000*
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	986,705	1,002,077
Effect of dilution – weighted average number of ordinary shares under the share award plan	3,358	601
	990,063	1,002,678

10 DIVIDEND

	2013	2012
	RMB'000	*RMB'000*
Proposed final – HK24.0 cents (2012: HK18.0 cents) per ordinary share	188,118	144,818

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

11 AVAILABLE-FOR-SALE INVESTMENTS

	2013	2012
	RMB'000	*RMB'000*
Unlisted investments, at fair value	476,133	587,307

Unlisted investments represent investments in certain financial assets issued by a licensed financial institution and trust company in the PRC and the paper silver got from bullion options issued by financial institution. The financial assets in the investments bear expected yield rates of 2% to 7.3% (2012: 2.3% to 5.8%) per annum upon maturity.

The gross loss amounted to RMB1,981,000 in respect of the paper silver got from bullion options was recognised in other comprehensive income for the year ended 31 December 2013 and the gross gain amounted to RMB1,308,000 in respect of the financial assets was recognised in other comprehensive income for the year ended 31 December 2012.

12 INVENTORIES

	2013 *RMB'000*	2012 *RMB'000*
Raw materials	229,579	422,252
Finished goods	18,001	14,824
	247,580	437,076

The carrying amount of inventories carried at net realisable value was RMB131,340,000 (2012: RMB40,703,000) at 31 December 2013.

13 TRADE AND NOTES RECEIVABLES

	2013 *RMB'000*	2012 *RMB'000*
Trade receivables	14,973	10,401
Trade receivables due from Lotte Chemical in relation to the joint operation for Sanjiang Honam	38,342	47,672
Trade receivables - Total	53,315	58,073
Notes receivable	149,644	86,078
	202,959	144,151

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 Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

As at 31 December 2013, note receivables were neither past due nor impaired.

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

	2013 *RMB'000*	2012 *RMB'000*
1 to 30 days	48,970	54,346
31 to 60 days	991	1,016
61 to 90 days	592	428
91 to 360 days	2,665	1,921
Over 360 days	97	362
	53,315	58,073

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

	2013	2012
	RMB'000	*RMB'000*
Neither past due nor impaired	48,970	54,346
Less than 30 days past due	991	1,016
31 to 60 days past due	592	428
61 to 90 days past due	1,389	1,695
91 to 360 days past due	1,276	226
Over 360 days past due	97	362
	53,315	58,073

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.

At 31 December 2013, the Group endorsed certain bills receivable accepted by banks in the PRC (the "**Derecognised Bills**"), to certain of its suppliers in order to settle the trade and bills payables due to such suppliers with a carrying amount in aggregate of RMB183,743,000 (2012: RMB176,395,000). The Derecognised Bills have a maturity from one to six months as at 31 December 2013. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "**Continuing Involvement**"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade and bills payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

14 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2013	2012
	RMB'000	*RMB'000*
Other receivables	114,220	129,499
Entrusted loan receivable *	200,000	72,000
Prepayments	15,828	85,072
Prepaid expenses	812	1,855
Prepaid land lease payments	5,154	1,763
	336,014	290,189

* On 8 March 2013, Sanjiang Chemical entered into a trust agreement with China Merchants Bank Co., Ltd. ("**CMB**") and entrusted the fund of RMB200,000,000 in total to CMB. As agreed by Sanjiang Chemical, CMB advanced the fund of RMB200,000,000 to Jiaxing City Xiuzhou New Area Development Construction Company Limited ("**Jiaxing Xiuzhou**") pursuant to the entrusted loan agreement between CMB and Jiaxing Xiuzhou. The entrusted loan carries interest at a rate of 11.95% per annum and matures on 10 December 2014.

The entrusted loan receivable as at 31 December 2012 was advanced to Pinghu Chengda Real Estate Company and Jiaxing Changsanjiao International Shicaicheng Ltd. with the contracted amounts of RMB52,000,000 and RMB20,000,000, respectively. Both were repaid in 2013.

15 CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2013 *RMB'000*	2012 *RMB'000*
Cash and bank balances	253,981	345,781
Time deposits	742,186	1,139,102
	996,167	1,484,883
Less: Pledged time deposits:		
Pledged for notes payable	225,842	115,025
Pledged for bank loans	516,344	1,024,077
	742,186	1,139,102
Cash and cash equivalents	253,981	345,781

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to RMB166,235,000 (2012: RMB217,265,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time 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 time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

16 TRADE AND BILLS PAYABLES

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

	2013 *RMB'000*	2012 *RMB'000*
Within 3 months	964,878	661,303
3 to 6 months	215,813	108,885
6 to 12 months	633	55,634
12 to 24 months	1,366	1,011
24 to 36 months	139	649
Over 36 months	598	-
	1,183,427	827,482

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

17 OTHER PAYABLES AND ACCRUALS

	2013 *RMB'000*	2012 *RMB'000*
Other payables	164,208	134,907
Advances from customers	65,847	73,558
Taxes payable other than income tax	10,563	14,326
Payroll payable	11,646	30,756
Interest payable	10,022	18,932
Other accrued liabilities	5,332	6,928
	267,618	279,407

Other payables are non-interest-bearing and are normally settled on a term of three months.

18 INTEREST-BEARING BANK BORROWINGS

	Effective Interest rate (%)	Maturity	2013 *RMB'000*	2012 *RMB'000*
Current				
Bank loans – secured	1.110 - 4.253	2013	-	1,478,547
	1.082 - 5.600	2014	938,953	-
	7.040	2013	-	50,000
Bank loans – unsecured	2.738 - 6.600	2014	253,620	-
	3.86	2013	-	50,270
	0.253 - 5.880	2014	1,026,141	-
			2,218,714	1,578,817
Non-current				
Bank loans – secured	1.778 - 6.550	2015 - 2019	511,506	-
	7.040	2015	-	68,263
			511,506	68,263
Analysed into:				
Bank loans				
Within one year			2,218,714	1,578,817
In the second year			51,506	68,263
In the third to fifth years, inclusive			40,000	-
Beyond five years			420,000	-
			2,730,220	1,647,080

Notes:

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

(i) the pledge of certain of the Group's time deposits amounting to RMB516,344,000 as at 31 December 2013 (2012: RMB1,024,077,000);

(ii) mortgages over the Group's property, plant and equipment, which had an aggregate carrying value at the end of the reporting period of approximately RMB110,323,000 (2012: Nil); and

(iii) mortgages over the Group's leasehold land, which had an aggregate carrying value at the end of the reporting period of approximately RMB185,334,000 (2012: Nil).

In addition, certain of the Group's bank loans of RMB300,000,000 were guaranteed by a related party, Zhejiang Jiahua Energy Chemical Co., Ltd.

19 SHORT-TERM BOND

	Effective interest rate (%)	Maturity	2013 *RMB'000*	2012 *RMB'000*
Current				
Short term bond	5.3	Within 1 year	310,109	-

On 18 April 2013, Sanjiang Chemical Co., Ltd., a subsidiary of the Company, issued a short term unsecured corporate bond of RMB300,000,000 to a number of financial institutions with China Citic Banking Corp., Ltd. as the principal underwriter, with a maturity period of 1 year and a fixed nominal interest rate of 4.89% per annum. The principal and the interest will be repaid at the end of the term on 18 April 2014.

20 DUE FROM RELATED PARTIES

	2013 *RMB'000*	2012 *RMB'000*
Mei Fu Petrochemical	1,052,487	-
Mei Fu Port	22,000	-
Hangzhou Haoming Investment Co., Limited	300	300
Zhejiang Jiahua Energy Chemical Co., Ltd.	134	-
	1,074,921	300

The amounts due from related parties are unsecured, interest-free and repayable on demand except for the amounts due from Mei Fu Petrochemical and Mei Fu Port, which bear an annual interest rate at 5% to 10%, and are repayable within one year.

21 DUE TO RELATED PARTIES

	2013 *RMB'000*	2012 *RMB'000*
Grand Novel Developments Limited	29,877	-
Mei Fu Petrochemical	1,819	-
Zhejiang Jiahua Energy Chemical Co., Ltd.	1,615	5,346
Jiaxing Xinggang Rewang Co., Ltd.	1,239	1,330
Zhejiang Jiahua Group Co., Ltd.	26	70
Hangzhou Haoming Investment Co., Limited	30	30
	34,606	6,776

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

22 SHARE CAPITAL

The movements in the authorised and issued share capital of the Company are as follows:

	Notes	Number of shares	Amount *RMB'000*
Authorised ordinary shares of HK$0.1 each:			
At 31 December 2012 and 31 December 2013		5,000,000,000	432,465
Issued and fully paid ordinary shares of HK$0.1 each:			
At 1 January 2012		1,008,655,000	87,308
Repurchase and cancellation of ordinary shares	(i)	(2,015,000)	(164)
At 31 December 2012 and 1 January 2013		1,006,640,000	87,144
Repurchase and cancellation of ordinary shares	(ii)	(13,536,000)	(1,096)
At 31 December 2013		993,104,000	86,048

Notes:

(i) 2,015,000 ordinary shares were repurchased and cancelled during the year ended 31 December 2012, and the issued share capital of the Company was accordingly reduced by the par value of the repurchased and cancelled ordinary shares. The premium and related expenses paid on the repurchase of the 2,015,000 ordinary shares of HK$3,546,000 (equivalent to approximately RMB2,877,000) were charged to the share premium account. An amount equivalent to the par value of the ordinary shares cancelled was transferred to the capital redemption reserve as set out in the consolidated statement of changes in equity.

(ii) 13,536,000 ordinary shares including 2,576,000 ordinary shares repurchased during the year ended 31 December 2012 were cancelled during the year ended 31 December 2013, and the issued share capital of the Company was accordingly reduced by the par value of the repurchased and cancelled ordinary shares. The premium and related expenses paid on the repurchase of the 13,536,000 ordinary shares of HK$40,615,000 (equivalent to approximately RMB32,891,000) were charged to the share premium account. An amount equivalent to the par value of the ordinary shares cancelled was transferred to the capital redemption reserve as set out in the consolidated statement of changes in equity.

Details of the cancellation in 2013 are summarised as follows:

Month of repurchase	Number of ordinary shares repurchased	Price per ordinary share Highest HK$	Lowest HK$	Aggregate consideration paid HK$'000	RMB'000
December 2012	2,576,000*	3.12	2.92	7,839	6,356
January 2013	10,960,000**	3.15	3.05	34,130	27,631
	13,536,000			41,969	33,987

* 2,576,000 ordinary shares were repurchased during the year ended 31 December 2012, and cancelled on 24 January 2013. The aggregate consideration paid on the repurchase of the 2,576,000 ordinary shares of HK$7,839,000 (equivalent to approximately RMB6,356,000) were recorded as treasury shares as at 31 December 2012.

** 10,960,000 ordinary shares were repurchased during the year ended 31 December 2013, and cancelled on 24 January 2013.

The repurchase and cancellation of ordinary shares were effected by the directors with a view to benefiting the shareholders as a whole by enhancing the Company's net assets and earnings per share.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND FINANCIAL REVIEW

Change in accounting treatments for Sanjiang Honam

On the basis that the Group closely involves in the operation of Sanjiang Honam and procures ethylene, the feedstock from suppliers and resells EO, the finished goods to customers for Sanjiang Honam, during the year under review, the Group chose to adopt a newly effective account standard namely ***Hong Kong Financial Reporting Standard 11 – Joint Arrangements***, which requires accounting for the results of Sanjiang Honam line by line with reference to the Group's shares held jointly and elimination of inter-transactions. As such, certain 2012 figures have been restated to conform to that accounting policy change.

Revenue

Revenue of our Group improved by approximately 63.5% reaching approximately RMB3,940.5 million as compared to revenue of approximately RMB2,410.1 million for last year. The increase in revenue is primarily due to the increase in production volume of EO by approximately 73.5%, primarily resulted from the impact of:- 1) the first full-year operation of the 1st phase EO production facilities of JV; and 2) the commencement of commercial operation of the 4th phase EO production facilities on 24 February 2013 which led to the increase in effective designed annual production capacity and actual production volume of EO by approximately 65.2% and 73.5% respectively.

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

	Full year 2013	*% of revenue*	*Full year 2012*	*% of revenue*	*Variance +/(-)*
REVENUE (RMB'000)					
Ethylene oxide	3,437,001	87%	2,159,995	89%	59.1%
Surfactants	226,088	6%	85,961	4%	163.0%
Surfactants processing services	35,750	1%	23,920	1%	49.5%
Others	241,632	6%	140,249	6%	72.3%
	3,940,471	100%	2,410,125	100%	63.5%
SALES VOLUME (MT)					
Ethylene oxide	376,103		216,728		73.5%
Surfactants	21,910		7,163		205.9%
Surfactants processing services	83,900		53,895		55.7%
AVERAGE SELLING PRICE (RMB)					
Ethylene oxide	9,138		9,966		-8.3%
Surfactants	10,319		12,001		-14.0%
Surfactants processing services	426		445		-4.3%
GROSS PROFIT MARGIN (%)					
Ethylene oxide	14.6%		23.3%		-8.7%
Surfactants	16.5%		19.1%		-2.6%
Surfactants processing services	75.2%		76.0%		-0.8%

Ethylene oxide sales

During the year under review, the revenue from EO sales increased by 59.1% when compared to 2012 which was primarily resulted from the combined effects of:- 1) the first full-year operation of the 1st phase EO production facilities of JV and the commencement of commercial operation of the 4th phase EO production facilities on 24 February 2013 which led to the increase in effective designed annual production capacity and actual production volume of EO by approximately 65.2% and 73.5% respectively; and 2) the decrease in ASP of EO by approximately 8.3% from RMB9,966/MT in 2012 to RMB9,138/MT in 2013 as a result of substantial capacity additions of EO market in the PRC, in particular in the first half of 2013 with the total production capacity increased by more than 25% when comparing to the end of 2012.

The overall utilisation rate (measured as actual output divided by designed capacity) was maintained at a relatively high level (2013: 120%; 2012: 114%), which was attributable to the strong demand of EO market in PRC.

Surfactants sales

The revenue of surfactants sales increased by 163.0% in 2013 when compared to 2012, primarily due to the fact that more EO were allocated for surfactant production/sales after the ramp-ups of both the 1st phase EO production facilities of JV and the 4th phase EO production facilities which led to the increase in actual production volume of EO by approximately 73.5% in 2013 when compared to 2012. The decrease in ASP of surfactants by 14.0% in 2013 when comparing to 2012 was primarily due to the decrease in ASP by 8.3% of EO, one of the major feedstocks of surfactants.

Income from provision of surfactant processing service

Revenue of surfactant processing services increased by approximately 49.5%, which was primarily due to the increase in the surfactant processing volume where we entered into surfactants processing service contracts with a number of customers on a yearly basis.

Others

Others mainly represent sales of by-products such as ethylene glycol, polymer grade ethylene, industrial gases namely oxygen, nitrogen and argon and rental income, the increase of which was inconsistent with the overall increase in revenue.

Gross profit margin

Overall gross profit margin decreased by approximately 7.6% from approximately 23.8% in 2012 to approximately 16.2% in 2013, which was primarily attributable to the decrease in ASP of EO by approximately 8.3% from RMB9,966/MT in 2012 to RMB9,138/MT in 2013 as a result of substantial capacity additions of EO market in the PRC, in particular in the first half of 2013 where, based on the management's estimation, the total production capacity of EO market in the PRC increased by more than 25% when comparing to the end of 2012.

Administrative expenses

Administrative expenses consist mainly of staff related costs, various local taxes and educational surcharge, depreciation, amortization of land use rights, operating lease rental expenses, audit fee and miscellaneous expenses. The increase in administrative expenses for the year ended 31 December 2013 was mainly due to the increase in salaries, allowance and benefits in kind (2013: approximately RMB55.8 million; 2012: approximately RMB45.9 million) and increase in bank commission charges (2013: approximately RMB23.5 million; 2012: approximately RMB8.9 million) resulted from the increase in international procurement of feedstock.

Finance costs

The Group borrows loans from banking institutions in the PRC for financing its working capital and its overseas procurement. The increase in finance costs for the year ended 31 December 2013 was mainly due to the increase in average balance of interest-bearing bank borrowings.

LIQUIDITY AND FINANCIAL RESOURCES

Latest update on the capital expenditures and financing arrangements of the upcoming production capacity expansions

As highlighted in the ***2013 Interim Report***, the capital expenditures of the MTO production facility and the 5th phase EO/EG production facilities are expected to be approximately RMB2.3 billion and RMB1.3 billion respectively, which means the aggregate capital expenditure for the Group, payable in 2013 and 2014 is expected to be RMB3.6 billion, around 2/3 of which (i.e. RMB2.4 billion) will be funded by way of bank or debt financing and the remaining (i.e. RMB1.2 billion) will be funded by way of internal resources of the Group. Out of the aforesaid aggregate capital expenditure of RMB3.6 billion, the Group expects around RMB1.4 billion, around RMB1.84 billion and around RMB0.36 billion (being 10% retention money, usually payable in one year after the completion of the whole construction) would be paid in 2013, 2014 and 2015 respectively. During the year ended 31 December 2013, the Group has paid for capital expenditure of approximately RMB1.4 billion (please note that the figures here are presented on a gross basis while the figures being presented in the ***Cash Flow Statement*** have been grouped for non-cash settlement), out of which approximately RMB0.42 billion was funded by way of long-term bank loan and the remaining RMB0.98 billion was funded by way of internal resources/short-term facilities of our Group.

During the year under review, the Group generated operating cash inflow of approximately RMB1.2 billion (2012: RMB0.8 billion) (please note that the figures here are presented on a gross basis while the figures being presented in the ***Cash Flow Statement*** have been grouped for non-cash settlement). On that basis, the Group expects the operating cash inflow for the whole year of 2014 will be at least RMB1.2 billion and as such, the Board believes it is good enough to fulfill the funding requirement of around RMB1.84 billion for the aforesaid capital expenditures in terms of the portion of the internal resource of the Group.

For the purpose of providing easy reference for our shareholders and potential investors to assess the liquidity and gearing position of our Group, the Board sets forth below the details of all the credit facilities available to the Group as at **31 December 2013**, including, but not limited to, the characteristics and terms of each kind of credit facilities:-

Credit facilities	**Onshore syndicated loan**	**Onshore bank loan**	**Onshore short term bond**	**Offshore syndicated loan**	**Various short-term loans & trade financing facilities (including onshore & offshore)**
Facility Confirmed	Yes – syndicated loan agreement entered into on 18 June 2013	Not yet – the Group has got indicative offers from a number of banks but the loan agreement is yet to be signed	Yes – the approval for issuing bond from NAFMII obtained on 25 March 2013	Yes – syndicated loan agreement entered into on 16 August 2013	Yes – various facility letters have been entered into with various commercial banks for short-term loans and trade financing facilities **(note)**
Facility provider	BOC, CCB & ICBC	To be confirmed (the Group expects a loan agreement will be entered into in Q2 of 2014)	All the registered qualified institutional investors of NAFMII	FE (as lead manager)	ABC, ANZ, BOC, BOCOM, CCB, CITIC, DB, DBS, FE, HSB, ICBC and etc.

Credit facilities	Onshore syndicated loan	Onshore bank loan	Onshore short term bond	Offshore syndicated loan	Various short-term loans & trade financing facilities (including onshore & offshore)
Total Loan/facility - amount	RMB1.6 billion	(the Group expects) RMB0.5 billion	RMB700 million	USD100 million (around RMB610 million)	Around RMB4.0 billion in total
Loan/facility balances utilized as at 31 December 2013	RMB0.42 billion	N/A	RMB300 million	USD85 million (around RMB519 m)	Around RMB2.8 billion (including letter of credit issued) **(note)**
***(Loan/facility amount available for future use as at 31 December 2013) Specific usage** - Loan only available for the capital expenditure of MTO production facility*	RMB1.18 billion	-	-	-	-
***(Loan/facility amount available for future use as at 31 December 2013) Specific usage** – Loan only available for the capital expenditure of the 5th phase EO/EG production facilities*	-	(the Group expects) RMB0.5 billion	-	-	-
***(Loan/facility amount available for future use as at 31 December 2013) No specific usage** - Loan available for general use / working capital purpose*	-	-	RMB400 million	USD15 million (around RMB91 m)	Around RMB1.2 billion **(note)**
Loan/facility – Interest rate (per annum)	PBOC flat rate for 6-year loan (all-in effective rate: ranging from 6.50% to 7.00%)	(the Group expects) Same as the relevant term of the **onshore syndicated loan**	1 year NAFMII coupon rate depending on the time of drawing down (for the RMB300 million portion, all-in effective rate: around 5.3%)	3-month LIBOR + 3.9% (all-in effective rate: around 4.30%)	Ranging from 1.082% to 5.880%, depending on the time when entering into transactions, the length of the loans/facilities and securities provided **(note)**
Loan/facility - duration	6 years	(the Group expects) Same as the relevant term of the **onshore syndicated loan**	1 year (available for rollover for 1 more year)	2 years	- For short-term loans, 1 year; - For trade financing facilities, ranging from 3-month Letter of Credit ("**LC**") with 2-month Trust Receipt ("**TR**") to up to 3-month LC with 1-year TR **(note)**

Credit facilities	Onshore syndicated loan	Onshore bank loan	Onshore short term bond	Offshore syndicated loan	Various short-term loans & trade financing facilities (including onshore & offshore)
Loan/facility – repayment of principal schedule (all figures in RMB' million)	**<u>(FOR ILLUSTRATIVE PURPSOE ONLY)</u>** If ALL RMB1.6 billion were drawn down once in Sept 2013, then:- 1) RMB100 due on Sept 2015; 2) RMB100 due on Mar 2016; 3) RMB150 due on Sept 2016; 4) RMB150 due on Mar 2017; 5) RMB150 due on Sept 2017; 6) RMB150 due on Mar 2018; 7) RMB200 due on Sept 2018; 8) RMB200 due on Mar 2019; 9) RMB200 due on Sept 2019; 10) RMB200 due on Mar 2020.	(the Group expects) Same as the relevant term of the **onshore syndicated loan**	Bullet	**<u>(FOR ILLUSTRATIVE PURPSOE ONLY)</u>** If ALL RMB610 million were drawn down once in Sept 2013, then:- 1) RMB106 due on Sept 2014; 2) RMB106 due on Mar 2015; & 3) RMB398 due on Sept 2015	Bullet

Note: *Under the existing business model, all EO customers are on cash on delivery term and required to pay in advance before delivery of goods while the feedstock suppliers are on 90-day letter of credit term with a choice for the Group to extend the settlement of the letter of credits up to 1 year through the trust receipt arrangements, which gives the Group enormous flexibility to use operating cash flow for investment purpose.*

Definitions for the above table:-

"ABC"	Agricultural Bank of China Limited
"ANZ"	Australia and New Zealand Banking Group
"BOC"	Bank of China Limited
"BOCOM"	Bank of Communications Limited
"CCB"	China Construction Bank Limited
"CITIC"	China CITIC Bank
"DB"	Deutsche Bank AG
"DBS"	Development Bank of Singapore Limited
"FE"	Far Eastern International Bank
"HSB"	Hang Seng Bank Limited
"ICBC"	Industrial and Commercial Bank of China Limited
"NAFMII"	National Association of Financial Market Institutional Investors

From the above table which sets out the details of all the credit facilities available to the Group as at 31 December 2013, the Board would like to highlight the followings in terms of the liquidity and gearing position of the Group:-

- As at 31 December 2013, the Group has aggregate facility of approximately RMB2.87 billion available for the capital expenditure requirements and general use while the expected capital expenditures to be incurred in 2014 amounts to RMB1.84 billion and the Group is expected to generate operating cashflow of approximately RMB1.2 billion in 2014.
- The loan durations of the two expected long-term financing arrangements (i.e. **Onshore syndicated loan** and **Onshore bank loan**), which are specific for the capital expenditures of MTO production facility and the 5th phase EO/EG production facilities, are 6 years with the first installments amount to around 1/16 of the loan principal payable 2 years after the drawn down date. The Board considers these financing arrangements give the Group enormous flexibility in its liquidity position.

Financial position and bank borrowings

The Group had cash and bank balances of approximately RMB254.0 million (2012: approximately RMB345.8 million), most of which were denominated in Renminbi. The Group had interest-bearing borrowings of approximately RMB3,040.3 million as at 31 December 2013 (2012: approximately RMB1,647.1 million). Please refer to notes 18 and 19 to the consolidated financial statements of this announcement for the details of borrowings and the respective charge of assets.

The Group's gearing, expressed as a percentage of total interest-bearing borrowings to total assets, was 43.1% as at 31 December 2013 as compared to 34.2% as at 31 December 2012. 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.

Working capital

The inventory turnover days decreased by approximately 27.8 days during the year under review (2013: 37.8 days; 2012: 65.6 days), primarily due to the inclusion of relatively high level of ethylene in the inventories as at 31 December 2012 as a result of the ramp-up of the 1st phase EO production facilities of JV in October 2012 and the Group maintained a relatively high level of ethylene as buffer stock for production purpose.

The trade and notes receivables turnover days maintained at a relatively low level in both 2013 and 2012 (2013: 16.1 days; 2012: 26.3 days).

The trade and notes payables turnover days maintained at a similar level in both 2013 and 2012 (2013: 111.1 days; 2012: 115.6 days).

CAPITAL COMMITMENTS

As at 31 December 2013, the Group had capital commitments amounted to approximately RMB2,410.7 million which was primarily related to the procurement of plant and machinery for the constructions of additional production capacities.

CONTINGENT LIABILITIES

As at 31 December 2013, 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 31 December 2013, the Group employed a total of 749 full-time employees. For the year ended 31 December 2013, the employee benefit expense was approximately RMB86.1 million. The Group's employee benefits included housing subsidies, shift subsidies, bonuses, allowances, medical check-up, staff quarters, social insurance contributions and housing fund contributions. The remuneration committee of the Company reviews such packages annually, or when the occasion requires. The executive Directors, who are also employees of the Company, receive remuneration in the form of fees, salaries, bonuses and other allowances.

DIVIDEND

The Board recommends the payment of a final dividend of HK24.0 cents per share in respect of the year, representing a dividend payout of RMB188.1 million and dividend payout ratio of 31.1% for the year ended 31 December 2013.

Subject to the approval of the shareholders at the forthcoming 2014 annual general meeting ("**AGM**") of the Company, the final dividend will be distributed on or about Wednesday, 21 May 2014 to the shareholders whose names appear on the register of members of the Company as at Wednesday, 14 May 2014.

OTHER INFORMATION

CORPORATE GOVERNANCE

The Company has adopted the code provisions in the Code of Corporate Governance Practices (to be renamed as the Corporate Governance Code effective from 1st April 2012) ("**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 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 year ended 31 December 2013 and up to the date of this annual results 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 model 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 during the year ended 31 December 2013 and up to the date of this annual results announcement.

AUDIT COMMITTEE

As at the date of this announcement, the Audit Committee consists of three members, namely Messrs. Shen Kaijun, Wang Wanxu and Mui Ho Cheung, Gary, all of whom are independent non-executive Directors. The chairman of the Audit Committee is Mr. Shen Kaijun. The primary responsibilities of the Audit Committee include, among others, reviewing and supervising the financial reporting process and internal control system of the Group, nominating and monitoring external auditors and providing advice and comments to the Board.

During the year ended 31 December 2013 and up to the date of this annual results announcement, the Audit Committee reviewed the interim results of the Group for the six months ended 30 June 2013 and the annual results of the Group for the year ended 31 December 2013, including the accounting principles and practices adopted by the Group, and the Group's internal control functions.

REMUNERATION COMMITTEE

As at the date of this announcement, the Remuneration Committee consists of three members, namely Messrs. Wang Wanxu, Mui Ho Cheung, Gary and Guan Jianzhong, of whom Messrs. Wang Wanxu and Mui Ho Cheung, Gary are independent non-executive Directors and Mr. Guan is the Chairman of the Board and an executive Director. The chairman of the Remuneration Committee is Mr. Wang Wanxu. The primary responsibilities of the Remuneration Committee include, among others, evaluating the performance and making recommendation on the remuneration package of the Directors and senior management, and evaluating and making recommendation on the share award plan of the Company.

NOMINATION COMMITTEE

As at the date of this announcement, the Nomination Committee consists of three members, namely Messrs. Guan Jianzhong, Wang Wanxu and Shen Kaijun, of whom Messrs. Wang Wanxu and Shen Kaijun are independent non-executive Directors and Mr. Guan 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 year under review, the Company repurchased a total of 10,960,000 of its ordinary shares of HK$0.10 each on the Stock Exchange of Hong Kong Limited at prices ranging from HK$3.05 to HK$3.15 per share, for a total consideration of HK$34,130,000.

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2013.

ANNUAL GENERAL MEETING

The forthcoming AGM will be held in Hong Kong on Wednesday, 7 May 2014. Notice of the AGM will be published and despatched to the shareholders of the Company in the manner as required by the Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 28 April 2014 to Wednesday, 7 May 2014, both days inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at AGM. In order to qualify for the right to attend and vote at the forthcoming AGM, all transfers documents accompanied by the relevant share certificates must be lodged with the Company's Share Registrars, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 25 April 2014. In addition, the register of members of the Company will be closed from Tuesday, 13 May 2014 to Wednesday, 14 May 2014, both days inclusive, for the purpose of ascertaining shareholders' entitlement to the proposed final dividend. In order to qualify for the proposed final dividend, all transfers documents accompanied by the relevant share certificates must be lodged with the Company's Share Registrars, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Monday, 12 May 2014.

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

The Company's Annual Report for the year ended 31 December 2013 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, 19th March 2014

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

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.*