**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 2014

## CHAIRMAN'S STATEMENT

On behalf of the board (the "**Board**") of directors (the "**Directors**") of China Sanjiang Fine Chemicals Company Limited (the "**Company**"), I wish to announce the annual results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2014.

| RESULTS HIGHLIGHTS | **2014** | 2013 | **Change** |
|---|---|---|---|
| | ***RMB'000*** | *RMB'000* | *%* |
| **Revenue** | 3,636,800 | 3,940,471 | -7.7% |
| Gross profit | 242,122 | 638,212 | -62.1% |
| Net profit attributable to owner of the parent | 132,780 | 605,131 | -78.1% |
| Earnings per share – Basic (RMB) | 13.49 fens | 61.33 fens | -78.0% |
| Interim dividend per share (HK$) | - | - | - |
| Final dividend per share (HK$) | - | 24.0 cents | -100.0% |
| Gross profit margin | 6.7% | 16.2% | -9.5% |
| ROE – net profit for the year to total equity | 5.8 % | 24.5% | -18.7% |
| Dividend payout ratio (Approximate %) | - | 31.1% | -31.1% |
| Gearing – interesting-bearing borrowings to total asset | 54.2 % | 43.1% | 11.1% |

2014 was full of challenges for our Group. In the first half of 2014, we were hit substantially by the increase in average market price (approximately 16.8% or USD200/metric tonnes ("**MT**")) of the feedstock of ethylene oxide ("**EO**") – ethylene, primarily resulted from the cyclical nature of chemical sector and ethylene market shifted from low-profitability market to high-profitability market. In the second half of 2014, apart from the aforesaid impact from the ethylene market itself, we were further hit by the unusual price slump of commodities which we have not seen in the last five years. Crude oil price, during the second half of 2014, dropped from approximately USD100 per barrel to approximately USD50 per barrel by February 2015, which has given those oil refineries in PRC cost advantage of feedstock when comparing with our MTO Technology-based production facility ("**MTO production facility**") in terms of the production of ethylene and propylene as the price of methanol, being the feedstock of MTO production facility, did not drop as much as that of crude oil during the corresponding period.

During the year under review, revenue of the Group decreased by approximately RMB303.7 million or 7.7%, primarily resulted from the decrease in EO revenue of approximately RMB225.8 million as the average selling price ("**ASP**") of EO decreased by approximately 3.9% from RMB9,138/MT in 2013 to RMB8,786/MT in 2014. Net profit attributable to shareholders was approximately RMB132.8 million and basic earnings per share was approximately RMB13.49 fens for the year ended 31 December 2014, representing decreases of approximately 78.1% and 78.0% respectively as compared with last year, which was primarily attributable to decrease in ASP of our product, EO and increase in average market price of our feedstock, ethylene as well as provision of inventory for certain inventories as a result of price slump of crude oil during 2014 when comparing to 2013.

After taking into account the substantial capital expenditure for the 5th phase EO/ethylene glycol ("**EG**") production facilities and the MTO production facility, the Board will not recommend the payment of a dividend for the year ended 31 December 2014.

## BUSINESS REVIEW AND OUTLOOK

In 2014, there have been two major developments in the chemical market that hit our Group. One development (i.e. ethylene market shifting from low-profitability market to high-profitability market), we consider, was controllable and we have implemented appropriate measures to deal with while another one (i.e. the unusual price slump of commodities especially crude oil price in a short period of time), we consider, was uncontrollable and beyond the scope of our expectation.

As mentioned in our ***2014 Interim Report***, we consider both EO market and ethylene market are cyclical and experiencing alternating periods of high-profitability market and low-profitability market which is a common phenomenon in chemical sector that profitability of a market shifts vertically among the chemical production chain, usually every five to ten years. Ethylene market used to be a low-profitability market before 2014, which gave rise to low level of investment in capacity expansion and in turn no meaningful addition of ethylene production capacity in recent years while the downstream of ethylene market, among others, EO market used to be high-profitability markets with relatively high level of investment and capacity expansion, which would, to certain point, reverse the situation and alternate between high-profitability market and low-profitability market. This market shift was indicated by the fact that ethylene price remained relatively strong throughout 2014 evidenced by:- 1) a surge in average market price of ethylene by approximately 16.8% or USD200/MT whilst a stable crude oil price with less than 5% movement during the first half of 2014; and 2) a drop of ethylene price by 36.7% from the peak price of approximately USD1,500 per MT to the bottom price of approximately USD950 per MT in spite of a slump of crude oil price by approximately 50% during the second half of 2014. We expect the average market price of ethylene will maintain in a relatively high level for a considerable amount of time as the adjustment of the market requires certain amount of time (i.e. construction period of the production facility).

We foresaw the aforesaid major development in chemical market and to respond to this development, we have been constructing the MTO production facility since October 2012 which enables the Group to go upstream – getting into ethylene market, a high-profitability market. We are now finalizing the MTO production facility and expect it will finish its construction and commence its commercial operations on a full load basis in the first half of 2015. Going upstream to build a MTO production facility is one of the most important strategic developments of our Group in recent years. Apart from getting into a high-profitability market, another major impact MTO production facility has on our Group is to change the ultimate feedstock of our Group from ethylene to methanol given the fact that we require approximately 540,000 MT of ethylene per annum for EO & EG production purpose after the ramp-up of the 5th phase EO/EG production facilities and the outputs of the MTO production facility, which are approximately 300,000 MT, 390,000 MT, 15,000 MT and 34,000 MT for ethylene, propylene, C4 and C5 per annum respectively, can serve directly 55% of our total ethylene requirement while the remaining 45% ethylene requirement is considered to be served indirectly by the propylene output of the MTO production facility as ethylene price and propylene price are highly correlated and having our own-produced propylene can offset any price fluctuation in respect of those 45% ethylene we are required to procure externally.

Another major development in chemical marker in 2014 was the unusual price slump of commodities especially crude oil price in the second half of 2014. The extent and pace of crude oil's price slump were never seen in the last five years and beyond the scope of our expectation. During the second half of 2014, crude oil price dropped by approximately 50% from approximately USD100 per barrel to approximately USD50 per barrel by February 2015 while the price of methanol (i.e. the feedstock of MTO production facility) only dropped by approximately 17% during the corresponding period. The usual approach to produce ethylene and propylene in China by those oil refineries is to use naphtha as feedstock and naphtha comes from crude oil. Previously, with crude oil price hovered at a level of approximately USD100 per barrel for more than five years before 2014, we did consider MTO production facility, which uses methanol (in turn coming from either coal or nature gas) as feedstock, had cost advantage. However, during the second half of 2014, with crude oil price dropped in a greater extent than the price drop of methanol, the aforesaid cost advantage of methanol vanished and crude-oil-based approach may now be considered relatively cost-effective when comparing with methanol-based approach. Although, from a short-term perspective, MTO production facility may not be a very competitive way to produce ethylene and propylene, we consider it is still sustainable as based on our assessment when comparing the current market prices of all the outputs (i.e. as at 2 March 2015, ethylene, propylene, C4 and C5 at approximately USD1,000/MT, RMB7,400/MT, RMB4,500/MT and RMB4,500/MT respectively) and all the inputs (i.e. as at 2 March 2015, methanol at approximately RMB2,400/MT) after taking into account the expected processing costs and finance costs, we expect the MTO production facility can still generate a ROE of around 9% on a yearly basis.

We are of the view that, cost advantage of a feedstock or in other words, cheapness or expensiveness of a feedstock are in comparative terms and if we look at a timeframe of a decade or more, coal or natural gas, being the ultimate feedstock, are being considered more cost effective in terms of outputs when comparing with crude oil in most of the time. In that sense, we believe, in a long run, the aforesaid comparative relationship between coal or natural gas and crude oil will maintain and methanol, being the downstream product of coal or natural gas, and MTO production facility will regain its position as a competitive way to produce ethylene and propylene.

During the year under review, unlike previous financial years, we did not have any new ramp-up of EO production facility or other facilities and the actual production volume of EO maintained in a similar level when comparing with last year, which is a also common phenomenon for chemical companies having static growth during the construction period of production facilities whilst having strong growth after the commercial operation of production facilities. 2014 was a year of construction for our Group and we have been devoting to construct the 5th phase EO/EG production facilities and the MTO production facility, both of which will finish their constructions and commence their commercial operations in the first half of 2015. After the ramp-up of the 5th phase EO/EG production facilities, the Group's designed annual EO and EG production capacities will increase by 240,000 MT and 130,000 MT respectively, representing a very significant growth when comparing with the Group's current total designed annual EO production capacity of 330,000 MT.

Over the past 3 years, we have put enormous resources into expanding EO production capacity and building up a vertical integrated upstream production facility. Although, these strategic moves have been considered to be correct, we fully understand that gearing of our Group has been reach a relatively high level and, as such, we have decided to hold the execution of any significant capacity expansion plan until 2016, by when we expect gearing will be improved substantially.

## 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, 18th March 2015

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

*For the year ended 31 December 2014*

| | Notes | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|---|
| REVENUE | 4 | 3,636,800 | 3,940,471 |
| Cost of sales | | (3,394,678) | (3,302,259) |
| Gross profit | | 242,122 | 638,212 |
| Other income and gains | 4 | 677,027 | 649,481 |
| Selling and distribution expenses | | (10,609) | (18,499) |
| Administrative expenses | | (123,512) | (135,146) |
| Other expenses | 4 | (440,803) | (429,701) |
| Finance costs | 5 | (125,608) | (74,967) |
| Share of (losses)/profits of JV – Me Fu Entities | 7 | (71,247) | 56,391 |
| PROFIT BEFORE TAX | 6 | 147,370 | 685,771 |
| Income tax expense | 8 | (16,564) | (81,011) |
| PROFIT FOR THE YEAR | | 130,806 | 604,760 |
| Attributable to: | | | |
| Owners of the parent | | 132,780 | 605,131 |
| Non-controlling interests | | (1,974) | (371) |
| | | 130,806 | 604,760 |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | 9 | | |
| Basic | | 13.49 fens | 61.33 fens |
| Diluted | | 13.44 fens | 61.12 fens |
| PROPOSED FINAL DIVIDEND FOR THE YEAR | 10 | - | 188,118 |

## CONSOLIDATED STATEMENT OF FINANCE POSITION

*At 31 December 2014*

| | Notes | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | 4,854,195 | 2,585,704 |
| Prepaid land lease payments | | 306,080 | 313,893 |
| Intangible assets | | 111,399 | 114,058 |
| Advance payments for property, plant and equipment | | 357,560 | 329,099 |
| Investments in joint ventures – Mei Fu Entities | 7 | 306,756 | 378,003 |
| Prepayments, deposits and other receivables | 14 | 6,823 | - |
| Available-for-sale investments | 11 | 1,000 | - |
| Deferred tax assets | | 21,830 | 19,455 |
| Total non-current assets | | 5,965,643 | 3,740,212 |
| CURRENT ASSETS | | | |
| Inventories | 12 | 290,594 | 247,580 |
| Trade and notes receivables | 13 | 325,736 | 202,959 |
| Prepayments, deposits and other receivables | 14 | 528,196 | 336,014 |
| Due from related parties | 20 | 1,352,463 | 1,074,921 |
| Available-for-sale investments | 11 | 336,468 | 476,133 |
| Pledged deposits | 15 | 1,214,895 | 742,186 |
| Cash and cash equivalents | 15 | 398,790 | 253,981 |
| Total current assets | | 4,447,142 | 3,333,774 |
| CURRENT LIABILITIES | | | |
| Trade and bills payables | 16 | 1,304,198 | 1,183,427 |
| Other payables, and accruals | 17 | 884,042 | 267,618 |
| Derivative financial instruments | | 6,855 | 4,907 |
| Interest-bearing bank borrowings | 18 | 3,261,339 | 2,218,714 |
| Short-term bond | 19 | 502,042 | 310,109 |
| Due to related parties | 21 | 21,571 | 34,606 |
| Tax payable | | 39,247 | 49,116 |
| Total current liabilities | | 6,019,294 | 4,068,497 |
| NET CURRENT LIABILITIES | | (1,572,152) | (734,723) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 4,393,491 | 3,005,489 |
| NON-CURRENT LIABILITIES | | | |
| Interest-bearing bank borrowings | 18 | 1,897,100 | 511,506 |
| Deferred tax liabilities | | 18,676 | 26,614 |
| Total non-current liabilities | | 1,915,776 | 538,120 |
| **Net assets** | | 2,477,715 | 2,467,369 |
| EQUITY | | | |
| **Equity attributable to owners of the parent** | | | |
| Issued capital | 22 | 86,048 | 86,048 |
| Reserves | | 2,191,243 | 2,070,805 |
| Proposed final dividend | 10 | - | 188,118 |
| | | 2,277,291 | 2,344,971 |
| Non-controlling interests | | 200,424 | 122,398 |
| **Total equity** | | 2,477,715 | 2,467,369 |

# 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 2014, the Group's net current liabilities amounted to approximately RMB1,572,152,000. 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 2014. 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:

| | 2014<br>*RMB'000* | 2013<br>*RMB'000* |
|---|---|---|
| EO | 3,211,163 | 3,437,001 |
| Surfactants | 177,145 | 226,088 |
| Liquefied nitrogen, EG and others | 199,285 | 233,053 |
| Processing services | 39,909 | 35,750 |
| Rental income | 9,298 | 8,579 |
| | 3,636,800 | 3,940,471 |

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 RMB261,033,000 (2013: RMB286,298,000) 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:

| | 2014<br>*RMB'000* | 2013<br>*RMB'000* |
|---|---|---|
| Revenue | | |
| Sale of goods | 3,587,593 | 3,896,142 |
| Rendering of services | 39,909 | 35,750 |
| Others | 9,298 | 8,579 |
| | 3,636,800 | 3,940,471 |
| Other income | | |
| Bank interest income | 87,803 | 78,916 |
| Interest income from joint ventures – Mei Fu Entities | 100,657 | 60,428 |
| Government subsidies (a) | 32,254 | 26,762 |
| Sales of circular water | 13,485 | 25,816 |
| Sales of low sulphur fuel oil | 312,697 | 185,710 |
| Sales of propylene | 35,836 | 72,694 |
| Sales of silver catalyst | 21,922 | 33,184 |
| Sales of ethylene | 17,495 | 27,681 |
| Gross rental income | 1,985 | 2,610 |
| Commission fee | 138 | 1,479 |
| Guarantee fee | 15,519 | - |
| Sales of raw materials | 16,291 | 378 |
| Others | 6,713 | 7,655 |
| | 662,795 | 523,313 |
| Gains | | |
| Foreign exchange gains, net | - | 96,829 |
| Fair value gains on derivative financial instruments | 2,761 | 13,086 |
| Investment income from available-for-sale investments | 7,965 | 16,253 |
| Gain on disposal of property, plant and equipment | 478 | - |
| Gain on disposal of silver catalysts (b) | 3,028 | - |
| | 14,232 | 126,168 |
| | 677,027 | 649,481 |
| Other expenses | | |
| Cost of sales of low sulphur fuel oil to Mei Fu Petrochemical | 307,022 | 183,350 |
| Impairment loss for inventories (c) | 24,621 | 99,928 |
| Cost of sales of propylene | 35,564 | 71,962 |
| Cost of sales of silver catalyst | 17,928 | 31,974 |
| Cost of sales of ethylene | 15,876 | 25,155 |
| Fair value losses on derivative financial instruments | 5,325 | 9,929 |
| Loss on disposal of silver catalysts (b) | - | 3,732 |
| Commission fee | 153 | 107 |
| Cost of sales of raw materials | 16,205 | 46 |
| Foreign exchange losses, net | 15,263 | - |
| Others | 2,846 | 3,518 |
| | 440,803 | 429,701 |

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:

| | 2014<br>*RMB'000* | 2013<br>*RMB'000* |
|---|---|---|
| Interest on bank loans wholly repayable within five years | 194,464 | 85,196 |
| Less: Interest capitalised | (68,856) | (10,229) |
| | 125,608 | 74,967 |

## 6 PROFIT BEFORE TAX

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

| | 2014<br>*RMB'000* | 2013<br>*RMB'000* |
|---|---|---|
| Cost of inventories sold | 3,383,060 | 3,293,428 |
| Cost of services provided | 8,750 | 5,959 |
| Depreciation* | 161,041 | 157,832 |
| Amortisation of prepaid land lease payments | 6,731 | 3,176 |
| Amortisation of intangible assets** | 8,803 | 7,963 |
| Gain on disposal of items of property, plant and equipment | 478 | - |
| (Reversal)/Write-down of inventories to net realisable value | (2,535) | 98,478 |
| Auditors' remuneration | 2,200 | 2,445 |
| Minimum lease payments under operating leases | 1,379 | 1,255 |
| Employee benefit expense (including directors' remuneration) ***: | | |
| Wages and salaries | 65,545 | 78,700 |
| Pension scheme contributions | 3,705 | 2,589 |
| Staff welfare expenses | 4,184 | 3,423 |
| Equity-settled share award plan expense | 2,913 | 1,378 |
| | 76,347 | 86,090 |

* The depreciation of property, plant and equipment for the year is included in "Cost of sales" with an amount of RMB156,244,000 (2013: RMB153,830,000) 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.

*** The employee benefit expense for the year is included in "Cost of sales" with an amount of RMB23,157,000 (2013: RMB24,554,000) in the consolidated statement of profit or loss.

## 7 INVESTMENTS IN JOINT VENTURES

| | 2014 | 2013 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Share of net assets | 174,379 | 245,626 |
| Goodwill on acquisition | 132,377 | 132,377 |
| | 306,756 | 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% | *note* | 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.

*Note:* Profit sharing for Mei Fu Petrochemical changed from 50% for the period from 1 January 2014 to 31 May 2014 to 74.1% for period from 1 June 2014 to 31 May 2017. On 1 July 2014, the Group signed a consignment agreement with the shareholders of Mei Fu Petrochemical, Guansheng Petroleum Co., Ltd (Singapore) ("Guansheng Petroleum") and Hangzhou Weiyu Industrial investment Co., Ltd ("Hangzhou Weiyu") to entrust all their management rights of Mei Fu Petrochemical to the Group during a consignment period from 1 June 2014 to 31 May 2017. During the consignment period, all the earnings derived from the operation of Mei Fu Petrochemical were belonged to the Group. In return, the Group would pay a fixed consignment fee of RMB19.5 million and RMB10.5 million to Guansheng Petroleum and Hangzhou Weiyu, respectively. On the same day, a cooperation contract entered into between the Group and Hangzhou Weiyu. As stipulated in the cooperation contract, the Group and Hangzhou Weiyu shared 74.1% and 25.9% of the rights and obligations as stipulated in the consignment agreement during the aforesaid consignment period.

Based on the above arrangement, the Group enjoys 74.1% interests in Mei Fu Petrochemical in a consignment period from 1 June 2014 to 31 May 2017. In this connection, Hangzhou Weiyu would bear the consignment fee of RMB5 million (25.9% of the consignment fee of RMB19.5 million) to Guansheng Petroleum. At the same time, Hangzhou Weiyu would not require the Group to pay the consignment fee of RMB10.5 million which was agreed in the consignment agreement.

Based on the above arrangement, the Group enjoys 74.1% interests in Mei Fu Petrochemical in a consignment period from 1 June 2014 to 31 May 2017.

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:

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | Mei Fu Port RMB'000 | Mei Fu Petrochemical RMB'000 | Mei Fu Port RMB'000 | Mei Fu Petrochemical RMB'000 |
| Cash and cash equivalents | 646 | 1,620 | 16,506 | 111,770 |
| Other current assets | 43,638 | 2,024,202 | 6,156 | 1,387,282 |
| Current assets | 44,284 | 2,025,822 | 22,662 | 1,499,052 |
| Non-current assets, excluding goodwill | 188,184 | 1,959,800 | 201,607 | 1,314,797 |
| Current liabilities | (11,489) | (3,743,877) | (35,378) | (2,489,392) |
| Non-current liabilities | (7,002) | (67,855) | (7,176) | (14,921) |
| Net assets, excluding goodwill | 213,977 | 173,890 | 181,715 | 309,536 |
| Reconciliation to the Group's interest in the joint venture: | | | | |
| Proportion of the Group's profit sharing | 50% | 50%/74.1% | 50% | 50% |
| Group's share of net assets of the joint venture, excluding goodwill | 106,989 | 67,390 | 90,858 | 154,768 |
| Goodwill on acquisition | 60,395 | 71,982 | 60,395 | 71,982 |
| Carrying amount of the investment | 167,384 | 139,372 | 151,253 | 226,750 |

Results of the joint ventures:

| | 2014 | | From 16 July 2013 (the acquisition date) to 31 December 2013 | |
|---|---|---|---|---|
| | Mei Fu Port RMB'000 | Mei Fu* Petrochemical RMB'000 | Mei Fu Port RMB'000 | Mei Fu Petrochemical RMB'000 |
| Revenue | 62,149 | 3,195,651 | 24,548 | 2,496,810 |
| Interest income | 351 | 12,411 | 62 | 4,512 |
| Cost of sales | (9,748) | (3,165,322) | (5,198) | (2,311,088) |
| Depreciation and Amortization | (9,640) | (80,234) | (6,720) | (39,572) |
| Interest expenses | (1,925) | (140,200) | (1,246) | (60,592) |
| Income tax expense | (11,414) | 30,727 | (3,178) | (37,554) |
| Profit and total comprehensive income for the year | 32,262 | (135,646) | 9,044 | 103,738 |
| 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:

| | 2014 | 2013 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Current – Mainland China | | |
| Charge for the year | 34,082 | 97,772 |
| Deferred | (17,518) | (16,761) |
| Total tax charge for the year | 16,564 | 81,011 |

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

Pursuant to the relevant tax law of the Hong Kong Special Administrative Region, Hong Kong profits tax has been provided at the rate of 16.5% (2013: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. No provision for income tax has been made as the Group did not generate any assessable profits in Hong Kong during the year (2013: Nil).

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

Pursuant to the approval of the tax bureau, Sanjiang Chemical Co., Ltd. ("Sanjiang Chemical") was qualified as a high-new technology company since 2010 and enjoyed a favourable CIT tax rate of 15% from year 2013 to year 2015. Therefore, Sanjiang Chemical was subject to CIT at a rate of 15% for the year ended 31 December 2014 (2013: 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 2014 (2013: 15%).

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:

| | 2014<br>*RMB'000* | 2013<br>*RMB'000* |
|---|---|---|
| Profit before tax | 147,370 | 685,771 |
| Tax at the statutory tax rate | 36,841 | 171,442 |
| Lower tax rates enacted by local authority | (18,562) | (52,263) |
| Additional deduction for research and development activities | (11,917) | (9,283) |
| Adjustments in respect of current tax of previous periods | 2,876 | (5,289) |
| Expenses not deductible for tax | 157 | 435 |
| Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries | (15,860) | (11,541) |
| Profits attributable to joint ventures | 17,812 | (14,098) |
| Tax losses not recognised | 5,217 | 1,608 |
| Tax charge at the Group's effective rate | 16,564 | 81,011 |

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:

| | 2014 | 2013 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| **Earnings** | | |
| Profit for the year attributable to ordinary equity holders of the parent | 132,780 | 605,131 |

| | Number of shares | |
|---|---|---|
| | 2014 | 2013 |
| | *'000* | *'000* |
| **Shares** | | |
| Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation | 983,964 | 986,705 |
| Effect of dilution – weighted average number of ordinary shares under the share award plan | 4,266 | 3,358 |
| | 988,230 | 990,063 |

10 DIVIDEND

| | 2014 | 2013 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Proposed final – Nil (2013: HK24.0 cents) per ordinary share | - | 188,118 |

11 AVAILABLE-FOR-SALE INVESTMENTS

| | 2014 | 2013 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Unlisted investments, at fair value | 336,468 | 476,133 |
| Unlisted equity investments, at cost | 1,000 | - |
| | 337,468 | 476,133 |

Unlisted investments represent investments in certain financial assets and paper silver issued by licensed financial institutions in the PRC. The investments bear expected yield rates of 2.0% to 5.8% (2013: 2.0% to 7.3%) per annum upon maturity.

During the year, the gross gain amounting to RMB925,000 (2013: Nil) in respect of the investments in financial assets and the gross loss amounting to RMB6,330,000 (2013: RMB1,981,000) in respect of the paper silver were recognised in other comprehensive income. The loss amounting toRMB1,654,000 (2013: gain of RMB1,144,000) in respect of matured investments wasreclassified from other comprehensive income to the statement of profit or loss during the year.

As at 31 December 2014, certain unlisted equity investments with a carrying amount of RMB1,000,000 (2013: Nil) were stated at cost because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably. The Group does not intend to dispose of them in the near future.

## 12 INVENTORIES

| | 2014 | 2013 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Raw materials | 259,577 | 229,579 |
| Finished goods | 31,017 | 18,001 |
| | 290,594 | 247,580 |

The carrying amount of inventories carried at net realisable value was RMB236,177,000 (2013: RMB131,340,000) as at 31 December 2014.

## 13 TRADE AND NOTES RECEIVABLES

| | 2014 | 2013 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Trade receivables | 34,138 | 14,973 |
| Trade receivables due from Lotte Chemical in relation to the joint operation for Sanjiang Honam | 21,599 | 38,342 |
| Trade receivables - Total | 55,737 | 53,315 |
| Notes receivable | 269,999 | 149,644 |
| | 325,736 | 202,959 |

The credit period is generally 15 to 30 days, extending up to three months for certain customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

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:

| | 2014 | 2013 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| 1 to 30 days | 51,139 | 48,970 |
| 31 to 60 days | 539 | 991 |
| 61 to 90 days | 429 | 592 |
| 91 to 360 days | 3,119 | 2,665 |
| Over 360 days | 511 | 97 |
| | 55,737 | 53,315 |

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

| | 2014 | 2013 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Neither past due nor impaired | 51,139 | 48,970 |
| Less than 30 days past due | 539 | 991 |
| 31 to 60 days past due | 429 | 592 |
| 61 to 90 days past due | 1,472 | 1,389 |
| 91 to 360 days past due | 1,647 | 1,276 |
| Over 360 days past due | 511 | 97 |
| | 55,737 | 53,315 |

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

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

The Group’s notes receivable were all aged within six months and were neither past due nor impaired.

At 31 December 2014, 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 RMB385,228,000 (2013: RMB183,743,000). 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.

As at 31 December 2014, the Group’s notes receivable of RMB201,109,000 (2013: RMB152,844,000) were pledged to secure bank loan facilities granted to the Group.

## 14 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | 2014<br>*RMB’000* | 2013<br>*RMB’000* |
|---|---|---|
| Other receivables | 268,218 | 114,220 |
| Entrusted loan receivable | 200,000 | 200,000 |
| Prepayments | 46,634 | 15,828 |
| Prepaid expenses | 13,436 | 812 |
| Prepaid land lease payments | 6,731 | 5,154 |
| | 535,019 | 336,014 |
| Less: Prepaid expenses, non-current portion | (6,823) | - |
| Prepayments, deposits and other receivables, current portion | 528,196 | 336,014 |

## 15 CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

| | 2014<br>*RMB’000* | 2013<br>*RMB’000* |
|---|---|---|
| Cash and bank balances | 398,790 | 253,981 |
| Time deposits | 1,214,895 | 742,186 |
| | 1,613,685 | 996,167 |
| Less: Pledged time deposits: | | |
| Pledged for notes payable | 434,077 | 225,842 |
| Pledged for letters of credit | 37,095 | 14,900 |
| Pledged for bank loans | 743,723 | 501,444 |
| | 1,214,895 | 742,186 |
| Cash and cash equivalents | 398,790 | 253,981 |

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to RMB261,432,000 (2013: RMB166,235,000). 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 three and six 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:

| | 2014 | 2013 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Within 3 months | 1,070,214 | 964,878 |
| 3 to 6 months | 168,455 | 215,813 |
| 6 to 12 months | 63,433 | 633 |
| 12 to 24 months | 1,370 | 1,366 |
| 24 to 36 months | 117 | 139 |
| Over 36 months | 609 | 598 |
| | 1,304,198 | 1,183,427 |

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

As at 31 December 2014, the bills payable of RMB514,015,000(2013: RMB398,508,000) were secured by the Group's pledged deposits with a carrying amount of RMB434,077,000 (2013: RMB225,842,000).

## 17 OTHER PAYABLES AND ACCRUALS

| | 2014 | 2013 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Other payables | 779,315 | 164,208 |
| Advances from customers | 70,630 | 65,847 |
| Taxes payable other than income tax | 10,660 | 10,563 |
| Payroll payable | 9,147 | 11,646 |
| Interest payable | 10,261 | 10,022 |
| Other accrued liabilities | 4,029 | 5,332 |
| | 884,042 | 267,618 |

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 | 2014 *RMB'000* | 2013 *RMB'000* |
|---|---|---|---|---|
| **Current** | | | | |
| Bank loans – secured | 1.857 - 3.764 | 2015 | 814,461 | - |
| | 1.082 - 5.600 | 2014 | - | 938,953 |
| | 1.778 - 1.783 | 2015 | 51,693 | - |
| Bank loans – unsecured | 2.738 - 6.600 | 2014 | - | 253,620 |
| | 1.032 - 6.732 | 2015 | 2,095,185 | - |
| | 6.400 | 2015 | 100,000 | - |
| | 6.550 | 2015 | 200,000 | - |
| | 0.253 - 5.880 | 2014 | - | 1,026,141 |
| | | | 3,261,339 | 2,218,714 |
| **Non-current** | | | | |
| Bank loans – secured | 1.778 - 1.783 | 2015 | - | 51,506 |
| | 6.550 | 2015 - 2019 | - | 460,000 |
| | 5.125 - 6.550 | 2016 - 2019 | 1,497,100 | - |
| Bank loans – unsecured | 6.400 | 2016 | 400,000 | - |
| | | | 1,897,100 | 511,506 |
| **Analysed into:** | | | | |
| Within one year | | | 3,261,339 | 2,218,714 |
| In the second year | | | 700,000 | 251,506 |
| In the third to fifth years, inclusive | | | 1,197,100 | 40,000 |
| Beyond five years | | | - | 220,000 |
| | | | 5,158,439 | 2,730,220 |

Notes:

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

(i) the pledge of certain of the Group's time deposits amounting to RMB743,723,000 as at 31 December 2014 (2013: RMB501,444,000);

(ii) the pledge of certain of the Group's notes receivable amounting to RMB201,109,000as at 31 December 2014 (2013: RMB152,844,000);

(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 RMB559,772,000 (2013: RMB110,323,000); and

(iv) mortgages over the Group's leasehold land, which had an aggregate carrying value at the end of the reporting period of approximately RMB207,632,000 (2013: RMB185,334,000).

## 19 SHORT-TERM BOND

| | Effective interest rate (%) | Maturity | 2014 *RMB'000* | 2013 *RMB'000* |
|---|---|---|---|---|
| **Current** | | | | |
| Short term bond | 5.300 | 2014 | - | 310,109 |
| | 8.010 | 2015 | 502,042 | - |

On 25 November 2014, Sanjiang Chemical, a subsidiary of the Company, issued a short term unsecured corporate bond of RMB500,000,000 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 7.5% per annum. The principal and the interest will be repaid at the end of the term on 24 November 2015.

## 20 DUE FROM RELATED PARTIES

| | 2014 | 2013 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Mei Fu Petrochemical | 1,351,142 | 1,052,487 |
| Mei Fu Port | - | 22,000 |
| Hangzhou Haoming Investment Co., Limited | 300 | 300 |
| Jiaxing Xinggang Rewang Co., Ltd. | 46 | - |
| Zhejiang Jiahua Group Co., Ltd. | 811 | - |
| Zhejiang Jiahua Energy Chemical Co., Ltd. | 164 | 134 |
| | 1,352,463 | 1,074,921 |

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

| | 2014 | 2013 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Grand Novel Developments Limited | 6,310 | 29,877 |
| Mei Fu Petrochemical | 392 | 1,819 |
| Zhejiang Jiahua Energy Chemical Co., Ltd. | 13,490 | 1,615 |
| Jiaxing Xinggang Rewang Co., Ltd. | 1,340 | 1,239 |
| Zhejiang Jiahua Group Co., Ltd. | 9 | 26 |
| Hangzhou Haoming Investment Co., Limited | 30 | 30 |
| | 21,571 | 34,606 |

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

## 22 SHARE CAPITAL

| | 2014 | 2013 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Authorised: | | |
| 5,000,000,000 ordinary shares of HK$0.1 each | 432,465 | 432,465 |
| Issued and fully paid: | | |
| 993,104,000 (2013: 993,104,000) ordinary shares | 86,048 | 86,048 |

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS AND FINANCIAL REVIEW

### *Revenue*

Revenue of our Group decreased by approximately RMB303.7 million or 7.7%, primarily resulted from the decrease in EO revenue of approximately RMB225.8 million as the average selling price ("**ASP**") of EO decreased by approximately 3.9% from RMB9,138/MT in 2013 to RMB8,786/MT in 2014.

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 2014* | *% of revenue* | *Full year 2013* | *% of revenue* | *Variance +/(-)* |
|---|---|---|---|---|---|
| ***REVENUE (RMB'000)*** | | | | | |
| Ethylene oxide | 3,211,163 | 88% | 3,437,001 | 87% | -6.6% |
| Surfactants | 177,145 | 5% | 226,088 | 6% | -21.6% |
| Surfactants processing services | 39,909 | 1% | 35,750 | 1% | 11.6% |
| Others | 208,583 | 6% | 241,632 | 6% | -13.7% |
| | 3,636,800 | 100% | 3,940,471 | 100% | -7.7% |
| ***SALES VOLUME (MT)*** | | | | | |
| Ethylene oxide | 365,481 | | 376,103 | | -2.8% |
| Surfactants | 18,269 | | 21,910 | | -16.6% |
| Surfactants processing services | 93,873 | | 83,900 | | 11.9% |
| ***AVERAGE SELLING PRICE (RMB)*** | | | | | |
| Ethylene oxide | 8,786 | | 9,138 | | -3.9% |
| Surfactants | 9,696 | | 10,319 | | -6.0% |
| Surfactants processing services | 425 | | 426 | | -0.2% |
| ***GROSS PROFIT MARGIN (%)*** | | | | | |
| Ethylene oxide | 4.6% | | 14.6% | | -10.0% |
| Surfactants | 13.7% | | 16.5% | | -2.8% |
| Surfactants processing services | 78.1% | | 75.2% | | 2.9% |

### *Ethylene oxide sales*

During the year under review, the revenue from EO sales decreased by approximately 6.6% when compared to 2013, which was primarily resulted from the decrease in ASP of EO by approximately 3.9% from RMB9,138/MT in 2013 to RMB8,786/MT in 2014.

*Surfactants sales and Surfactants processing services*

During the year under review, the overall surfactants production capacity (including production capacities for both surfactants sales and surfactants processing services) improved by 6.0% from 105,810MT for 2013 to 112,142MT for 2014. The decrease in overall revenue of surfactants sales and surfactants processing services was primarily due to change in sales mix while overall gross profit increased as overall utilisation rate increased.

### *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 9.5%, primarily due to the increase in average market price of ethylene by approximately 11.5% or USD150/MT and decease in ASP of EO by approximately 3.9% in 2014.

### *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.

## LIQUIDITY AND FINANCIAL RESOURCES

### *Financial position and bank borrowings*

The Group had cash and bank balances of approximately RMB424.3 million (2013: approximately RMB254.0 million), most of which were denominated in Renminbi. The Group had interest-bearing borrowings of approximately RMB5,660.5 million as at 31 December 2014 (2013: approximately RMB3,040.3 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 54.2% as at 31 December 2014 as compared to 43.1% as at 31 December 2013. 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 maintained in a similar level during the year under review (2014: 28.9 days; 2013: 37.8 days).

The trade and notes receivables turnover days maintained at a relatively low level in both 2014 and 2013 (2014: 26.5 days; 2013: 16.1 days).

The trade and notes payables turnover days maintained at a similar level in both 2014 and 2013 (2014: 135.1 days; 2013: 111.1 days).

## CAPITAL COMMITMENTS

As at 31 December 2014, the Group had capital commitments amounted to approximately RMB1,307.5 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 2014, the Group had not provided any form of guarantee for any company outside the Group. The Group is not involved in any current material legal proceedings, nor is our Group aware of any pending or potential material legal proceedings involving the Group.

## EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2014, the Group employed a total of 997 full-time employees. For the year ended 31 December 2014, the employee benefit expense was approximately RMB76.3 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 will not recommend the payment of a dividend for the year ended 31 December 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 2014 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 2014 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, Mui Ho Cheung, Gary and Ms. Pei Yu, all of whom are independent non-executive Directors. The chairman of the Audit Committee is Mr. Shen Kaijun. The primary responsibilities of the Audit Committee include, among others, reviewing and supervising the financial reporting process and internal control system of the Group, nominating and monitoring external auditors and providing advice and comments to the Board.

During the year ended 31 December 2014 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 2014 and the annual results of the Group for the year ended 31 December 2014, 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. Mui Ho Cheung, Gary, Guan Jianzhong and Ms. Pei Yu of whom Mr. Mui Ho Cheung, Gary and Ms. Pei Yu are independent non-executive Directors and Mr. Guan Jianzhong is the Chairman of the Board and an executive Director. The chairman of the Remuneration Committee is Mr. Mui Ho Cheung, Gary. The primary responsibilities of the Remuneration Committee include, among others, evaluating the performance and making recommendation on the remuneration package of the Directors and senior management, and evaluating and making recommendation on the share award plan of the Company.

## NOMINATION COMMITTEE

As at the date of this announcement, 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 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, 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 2014.

## ANNUAL GENERAL MEETING

The forthcoming 2015 annual general meeting ("**AGM**") of the Company will be held at Hong Kong on Friday, 29 May 2015. 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 Wednesday, 20 May 2015 to Friday, 29 May 2015, 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 Tuesday, 19 May 2015.

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 2014 will be dispatched to the shareholders of the Company and published on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (www.chinasanjiang.com) in due course.

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

People's Republic of China, 18th March 2015

*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, Mr. MUI Ho Cheung, Gary and Ms. PEI Yu.*

*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.*