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 2018

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 audited consolidated results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2018.

RESULTS HIGHLIGHTS	**2018** *RMB'000*	2017 *RMB'000*	Change %
Revenue	**9,585,859**	8,897,143	7.7%
Gross profit	**996,124**	1,085,275	–8.2%
Net profit attributable to shareholders of the Company	**398,915**	690,793	–42.3%
Earnings per share — Basic *(RMB)*	**38.89 fens**	67.30 fens	–42.2%
Dividend per share *(HK$)* — Interim (paid in Sept 2018)	**10.0 cents**	10.5 cents	–4.8%
Dividend per share *(HK$)* — Final	**10.0 cents**	12.5 cents	–20.0%
Dividend payout ratio (based on total payout during the year)	**50.0%**	30.0%	20.0%
Gross profit margin	**10.4%**	12.2%	–1.8%
Net profit margin	**4.2%**	7.8%	–3.6%
Gearing — interesting-bearing borrowings to total asset	**32.6%**	27.1%	5.5%

2018 was full of challenges for our Group. Global economy, commodity markets, foreign exchange market and the market sentiments across the oil and chemical sector (the "**Sector**") have been changing dramatically throughout 2018. During the first half of 2018, crude oil pricing broke important levels, heading to a higher range between approximately USD70 per barrel and approximately USD80 per barrel. However, the Group's expectation as well as the market sentiments of the Sector turn negative and deteriorated dramatically since Q3 of 2018 after a number of global political incidents happened, in particular, China-US trade issue and the missing journalist in the Middle East, which had significant influences over certain macro environment variables, in particular, crude oil pricing and RMB exchange rate. Revenue of the Group amounted to approximately RMB9,585.9 million in 2018, representing an increase of approximately 7.7% when comparing to the revenue of approximately RMB8,897.1 million in 2017, primarily due to the increment of the revenue from polypropylene line of business by approximately 18.3% after the completion of ramp-up of the 2nd Phase polypropylene ("**PP**") production facility, which provides a 300,000MT production capacity increment on a yearly basis, in July 2018 and the sales volume of PP increased by approximately 13.6% in 2018 when comparing to 2017. Overall gross profit margin of the Group declined by approximately 1.8% in 2018 as the methanol pricing increased by more than 11% (on a simple average basis) in 2018, which offset the positive impacts from the increase in overall average selling prices of the Group's products.

The Board has recommended a final dividend of HK10.0 cents per share, together with the distribution of interim dividend of HK10.0 cents per share, representing a dividend payout ratio of approximately 50% in total for the year ended 31 December 2018 (the "**year under review**").

Methanol pricing is the dominant factor that affects the profitability of the Group as Methanol cost counts approximately two-third towards the feedstock procurement cost of the Group on a full production capacity basis. The Group has been upholding its view since 2017 that Methanol pricing would come down to a level of approximately RMB2,400/MT on a yearly average basis, the rationales of which have been elaborated in the Group's ***2017 Annual Report***. During the year under review, Methanol pricing continued its volatility, soaring from the 2017 yearly average of approximately RMB2,850/MT (on a simple average basis) to the first price peak at approximately RMB3,700/MT in January 2018, retreating to approximately RMB2,800/MT early March 2018 and then, continuing its upward trend until reaching a level of approximately RMB3,650/MT in October 2018. In October 2018, the Group took the initiative to adjust its production capacity of Methanol-to-Olefins ("**MTO**") production facility as the Group considered Methanol pricing reached a level beyond the support of fundamental factors and such a production capacity adjustment measure has been approved to be very successful as it turns the market sentiment of methanol pricing around and Methanol pricing retreated rapidly after such a production capacity adjustment measure and slumped sharply to a level of approximately RMB2,500/MT in 1 month's time by November 2018 and then settled at approximately RMB2,400/MT in

December 2018. The Group put its MTO production facility back to full production capacity late January 2019 and, during January and February 2019, Methanol pricing maintained in a range between approximately RMB2,300/MT and approximately RMB2,500/MT, which is a level of Methanol pricing that enables the Group to run MTO production facility in a positive gross profit margin position (the whole year of 2018: Gross loss margin of approximately 8% for upstream alone vs. February 2019: Gross profit margin of approximately 6% for upstream alone).

Apart from the adverse effects in respect of the aforesaid volatility of methanol pricing, the decrease of net profit margin of the Group by approximately 3.6% was also due to an unexpected global political incident — China-US trade issue, which initially started on or around late March 2018, since which, CNY vs. USD exchange rate depreciated rapidly by approximately 7% from approximately 6.40:1 (for CNY vs. USD) to approximately 6.85:1 (for CNY vs. USD) in around 3 months' time by June 2018. A rapid movement of CNY exchange rate put all the PRC manufacturers requiring for overseas procurements of raw materials/feedstock, like our Group, through a difficult situation and our Group incurred an net foreign exchange loss of RMB119.2 million in 2018 (2017: net foreign exchange gain of approximately RMB62.4 million), representing the total financial impact of CNY depreciation on our Group amounted to approximately RMB181.6 million in 2018 when comparing to 2017.

Generally, crude oil pricing is another factor that affects the market sentiments across the Sector. During the year under review, crude oil pricing moved in a way beyond our estimation and expectation. The Group was initially optimistic about crude oil pricing when it broke important price levels and went all the way up in 15 months' time by approximately 68% from approximately USD44 per barrel in July 2017 until USD75 per barrel in September 2018. However, crude oil pricing turned negative and slumped sharply since early October 2018 after the missing journalist in the Middle East and it took less than 3 months' time for crude oil pricing to return to approximately USD45 per barrel in December 2018 and such dramatic price movement in a short period of time hurts the market sentiments of the Sector as higher cruel oil pricing would push up the average selling prices of all crude oil-derivative products and high volatility of crude oil pricing would undermine the demands of the Sector as a whole. Only a stable crude oil pricing would induce a stronger demand for crude oil-derivative products like ethylene, propylene, EO, EG and PP as downstream producers are more willing to maximize their production capacities and increase the storage level for their finished goods after production if they have a clearer picture in terms of their own profitability, which would be materially deteriorated if crude oil pricing fluctuated substantially.

During the year under review, revenue of the Group increased by approximately 7.7% when comparing to 2017, primarily resulted from:- 1) increase in sales of PP line of business by approximately 18.3% after the completion of ramp-up of the 2nd Phase PP production facility in July 2018 and the sales volume of PP increased by approximately 13.6% in 2018 when comparing to 2017 and 2) increase in sales of Surfactants line of business by approximately 34.3% as the Group put more efforts to develop downstream markets in 2018. Net profit attributable to shareholders was approximately RMB398.9 million for the year ended 31 December 2018, representing a decrease of approximately 42.3% as compared with 2017, which was primarily due to the total financial impact of approximately RMB181.6 million as to CNY depreciation on our Group in 2018 when comparing to 2017 and the decrease in overall gross profit margin by approximately 1.8% due to the volatility of methanol pricing.

The Group considers there have been some positive developments as to CNY exchange rate and Methanol pricing since early 2019, including but not limited to the appreciation of CNY after the easing of tension of China-US trade issue since January 2019 and certain new Methanol supplies from Iran coming on stream since late 2018. Going forward, after completions of major capacity expansions (i.e. both MTO production facility and the 5th phase EO/EG production facilities ramped up in 2016) for more than two years' time with gearing level of the Group, on total assets basis, coming down to a level within the Group's gearing guidance, which is not more than 66.7% on total interest-bearing borrowings to total assets basis, the Group considers it is a good time to expand production capacities in both upstream level, which will only focus on Ethylene output (based on preliminarily assessment), and midstream level and the Group will update shareholders and potential investors in due course once concrete expansion plans including associated financing arrangements are substantially confirmed.

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 supports and trusts as well as our management and all staffs for their hard workings and commitments during the year.

GUAN Jianzhong
Chairman
PRC, 25 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2018

	Notes	**2018**	2017
		RMB'000	*RMB'000*
		(Audited)	(Audited)
REVENUE	4	**9,585,859**	8,897,143
Cost of sales		**(8,589,735)**	(7,811,868)
Gross profit		**996,124**	1,085,275
Other income and gains	4	**865,867**	886,509
Selling and distribution expenses		**(25,515)**	(25,801)
Administrative expenses		**(326,948)**	(259,998)
Other expenses	4	**(945,144)**	(783,053)
Impairment losses on financial assets		**(5,966)**	—
Loss on disposal of financial assets		**(870)**	—
Interest expenses	5	**(167,773)**	(159,086)
PROFIT BEFORE TAX	6	**389,775**	743,846
Income tax expense	7	**(88,583)**	(120,709)
PROFIT FOR THE YEAR		**301,192**	623,137
Attributable to:			
Owners of the parent		**398,915**	690,793
Non-controlling interests		**(97,723)**	(67,656)
		301,192	623,137
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
Basic		**38.89 fens**	67.30 fens
Diluted		**38.87 fens**	67.19 fens
PROPOSED FINAL DIVIDEND FOR THE YEAR	9	**103,911**	119,800

CONSOLIDATED STATEMENT OF FINANCE POSITION
At 31 December 2018

	Notes	2018 *RMB'000* (Audited)	2017 *RMB'000* (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**5,239,614**	5,525,528
Prepaid land lease payments		**329,958**	366,297
Intangible assets		**173,486**	197,723
Due from related parties	19	**—**	99,697
Advance payments for property, plant and equipment	14	**221,921**	17,866
Equity investments designated at fair value through other comprehensive income	11	**3,114**	—
Available-for-sale investments	11	**—**	1,000
Deferred tax assets		**11,629**	8,316
Total non-current assets		**5,979,722**	6,216,427
CURRENT ASSETS			
Inventories	12	**1,164,328**	1,007,914
Trade and notes receivables	13	**522,701**	347,926
Prepayments, deposits and other receivables	14	**256,114**	291,931
Due from related parties	19	**6,092**	221,229
Financial assets at fair value through profit or loss	10	**339,881**	—
Available-for-sale investments	10	**—**	235,962
Derivative financial instruments		**736**	19,651
Pledged deposits	15	**659,000**	50,000
Cash and cash equivalents	15	**453,556**	273,678
Total current assets		**3,402,408**	2,448,291
CURRENT LIABILITIES			
Trade and bills payables	16	**1,570,214**	1,365,415
Other payables and accruals	17	**798,867**	927,201
Derivative financial instruments		**—**	36,646
Interest-bearing bank borrowings	18	**3,059,725**	1,753,337
Due to related parties	20	**235,705**	343,066
Tax payable		**110,094**	110,363
Total current liabilities		**5,774,605**	4,536,028
NET CURRENT LIABILITIES		**(2,372,197)**	(2,087,737)
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,607,525**	4,128,690

	Notes	2018 RMB'000 (Audited)	2017 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	18	**—**	598,262
Deferred tax liabilities		**13,150**	13,771
Total non-current liabilities		**13,150**	612,033
Net assets		**3,594,375**	3,516,657
EQUITY			
Equity attributable to owners of the parent			
Issued capital	21	**102,662**	102,662
Reserves		**3,501,473**	3,326,032
		3,604,135	3,428,694
Non-controlling interests		**(9,760)**	87,963
Total equity		**3,594,375**	3,516,657

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 principal place of business of the Company in Hong Kong is Room 1702, Infinitus Plaza, 199 Des Voeux Road Central, Sheung Wan, Hong Kong. The principal place of business of the Group in China is Pinghai Road, Jiaxing port Area, Zhejiang Province, People's Republic of China (the "**PRC**").

During the year, the Group was principally engaged in the manufacture and supply of ethylene oxide ("**EO**"), ethylene glycol ("**EG**"), polypropylene ("**PP**"), methyl tert-butyl ether ("**MTBE**") and surfactants in the PRC. The Group was also engaged in the provision of processing services for PP, MTBE and surfactants to its customers and the production and supply of other chemical products such as C4, crude pentene and industrial gases, namely oxygen, nitrogen and argon in the PRC. EO is a key intermediary component for the production of ethylene derivative products such as ethanolamines and glycol ethers and a wide range of surfactants. EG is a type of semi-finished goods that is used to produce other bio-organic chemical products such as mono ethylene glycol which is used to produce polyester and anti-frozen chemical liquids. PP is a kind of thermoplastic resin, which can be used in knitting products, injection molding products, film products, fiber products, pipes etc. Surfactants are widely applied in different industries as scouring agents, moisturising agents, emulsifiers and solubilisers. MTBE is a gasoline additive, used as an oxygenate to raise the octane number and is almost exclusively used as a fuel component in fuel for gasoline engines.

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 certain 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 2018, the Group's net current liabilities amounted to approximately RMB2,372,197,000. 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 in the foreseeable future and the consolidated financial statements have been prepared on a basis that the Group will be able to continue as a going concern.

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.

Information about products and services

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

	2018	2017
	RMB'000	*RMB'000*
Sale of goods	**9,495,274**	8,662,752
Provision of services	**81,197**	225,962
Others	**9,388**	8,429
	9,585,859	8,897,143

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.

4 REVENUE, OTHER INCOME AND GAINS AND OTHER EXPENSES

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

	2018	2017
	RMB'000	*RMB'000*
Revenue		
Sale of goods	**9,495,274**	8,662,752
Rendering of services	**81,197**	225,962
Rental income	**9,388**	8,429
	9,585,859	8,897,143
Other income		
Sales of raw materials — Methanol	**727,136**	645,817
Interest income from related parties	**12,485**	56,346
Foreign exchange gain, net	**—**	62,356
Sales of ethylene	**31,025**	59,667
Government subsidies (a)	**11,763**	11,353
Guarantee fee	**9,434**	9,662
Sales of circular water	**5,869**	6,023
Bank interest income	**16,108**	16,224
Investment income from financial assets at fair value through profit or loss	**25,352**	—
Utility income	**6,727**	5,886
Gross rental income	**3,855**	1,775
Commission fee	**—**	891
Others	**5,397**	2,602
	855,151	878,602
Gains		
Investment income from derivative financial instruments, net	**8,351**	981
Fair value gains from derivative financial instruments	**1,812**	—
Investment income from available-for-sale investments	**—**	6,621
Gain on disposal of silver catalysts (b)	**553**	—
Gain on disposal of items of property, plant and equipment	**—**	4
Gain on disposal of intangible assets	**—**	301
	10,716	7,907
Other income and gains	**865,867**	886,509

	2018	2017
	RMB'000	*RMB'000*
Other expenses		
Cost of sales of raw materials — Methanol	**744,901**	598,705
Foreign exchange losses, net	**119,220**	—
Cost of sales of ethylene	**29,458**	56,570
Investment loss on derivative financial instruments	**—**	76,580
Fair value losses on derivative financial instruments, net	**—**	31,663
Write-down of inventories to net realisable value (c)	**50,699**	9,423
Loss on disposal of silver catalysts (b)	**—**	8,915
Others	**866**	1,197
	945,144	783,053

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) Write-down of inventories to net realisable value represents impairment provision for the silver catalysts in inventories caused by the fluctuation in silver price.

5 INTEREST EXPENSES

	2018	2017
	RMB'000	*RMB'000*
Interest on bank loans and other borrowings	**167,773**	159,086

6 PROFIT BEFORE TAX

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

	2018	2017
	RMB'000	*RMB'000*
Cost of inventories sold	**8,553,706**	7,712,568
Cost of services provided	**33,643**	96,823
Depreciation*	**512,959**	521,787
Amortisation of prepaid land lease payments	**8,014**	7,394
Amortisation of intangible assets**	**27,966**	27,503
Gain on disposal of intangible assets	**—**	301
Write-down of inventories to net realisable value***	**67,677**	9,423
Impairment of trade receivables	**5,966**	—
Auditor's remuneration	**2,351**	2,267
Minimum lease payments under operating leases	**4,059**	1,414
Employee benefit expense (including directors' remuneration):****		
Wages and salaries	**121,377**	152,796
Pension scheme contributions	**6,350**	6,154
Staff welfare expenses	**5,384**	6,589
Equity-settled share award plan expense	**1,800**	1,291
	134,911	166,830

* The depreciation of property, plant and equipment of RMB392,426,000 (2017: RMB482,878,000) for the year is included in "Cost of sales" in the consolidated statement of profit or loss.

** The amortisation of intangible assets of RMB7,537,000 (2017: RMB7,679,000) for the year is included in "Cost of sales" in the consolidated statement of profit or loss.

*** Write down of inventories to net realisable value of RMB16,978,000 (2017: nil) for the year is included in "Cost of sales" in the consolidated statement of profit or loss.

*** The employee benefit expense of RMB75,836,000 (2017: RMB88,331,000) for the year is included in "Cost of sales" in the consolidated statement of profit or loss.

7 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 operated.

The income tax expense of the Group for the year is analysed as follows:

	2018	2017
	RMB'000	*RMB'000*
Current — Mainland China	**92,517**	138,167
Deferred	**(3,934)**	(17,458)
Total tax charge for the year	**88,583**	120,709

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% (2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

The applicable income tax rate of the Group's subsidiaries operating in Mainland China is generally 25% in accordance with the PRC Corporate Income Tax Law which was approved and became effective on 1 January 2008, except for the following entities who are entitled to preferential tax rates.

Pursuant to the approval of the tax bureau, Sanjiang Chemical, Sanjiang Honam and Sanjiang New Material have been qualified as a High and New Technology Enterprise since 2010 or the date of incorporation, whichever is later, and enjoy a preferential corporate income tax rate of 15% from 2016 to 2018. Therefore, Sanjiang Chemical, Sanjiang Honam and Sanjiang New Material were subject to corporate income tax at a rate of 15% for the year ended 31 December 2018 (2017: 15%).

Pursuant to the approval of the tax bureau, Xingxing New Energy has been qualified as a High and New Technology Enterprise since 2017 and enjoys a preferential corporate income tax rate of 15% from 2017 to 2019. Therefore, Xingxing New Energy was subject to corporate income tax at a rate of 15% for the year ended 31 December 2018 (2017: 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:

	2018 ***RMB'000***	2017 *RMB'000*
Profit before tax	**389,775**	743,846
Tax at the statutory tax rate	**97,444**	185,961
Lower tax rates enacted by local authority or in other countries	**(34,060)**	(84,239)
Adjustments in respect of current tax of previous periods	**—**	(12,006)
Additional deduction for research and development activities	**(55,349)**	(46,393)
Expenses not deductible for tax	**10,254**	11,225
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	**5,373**	10,071
Income not subject to tax	**(83)**	—
Tax losses utilised from previous years	**(6,307)**	(1,847)
Temporary differences not recognised	**1,325**	(451)
Tax losses not recognised	**69,986**	58,388
Tax charge at the Group's effective rate	**88,583**	120,709

8 EARNING 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 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:

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

	2018	2017
	RMB'000	*RMB'000*
Earnings		
Profit for the year attributable to ordinary equity holders of the parent	**398,915**	690,793

	Number of shares	
	2018	2017
	'000	*'000*
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,025,661**	1,026,452
Effect of dilution — weighted average number of ordinary shares under the share award plan	**506**	1,633
	1,026,167	1,028,085

9 DIVIDEND

	2018	2017
	RMB'000	*RMB'000*
Proposed final — HK10.0 cents (2017: HK12.5 cents) per ordinary share	**103,911**	119,800

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

10 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS/AVAILABLE-FOR-SALE INVESTMENTS

	2018	2017
	RMB'000	*RMB'000*
Financial assets at fair value through profit or loss		
Unlisted investments, at fair value	**339,881**	—
Available-for-sale investments		
Unlisted investments, at fair value	**—**	235,962

The above unlisted investments at 31 December 2018 were wealth management products issued by banks in Mainland China. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

Unlisted investments at 31 December 2017 represent investments in certain financial assets and paper silver issued by licensed financial institutions in the PRC.

During the year 2017, the gain in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to RMB2,005,000. The loss of RMB899,000 in respect of matured investments was reclassified from other comprehensive income to the statement of profit or loss for the year ended 31 December 2017.

As at 31 December 2017, the Group's certain unlisted investments of RMB28,000,000 were pledged for notes payable of RMB93,000,000.

11 EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE-FOR-SALE INVESTMENTS

	2018	2017
	RMB'000	*RMB'000*
Equity investments designated at fair value through other comprehensive income		
Unlisted equity investments, at fair value		
Jiaxing Port Antong Public Pipe Gallery Co., Ltd.	**3,114**	—
Available-for-sale investments		
Unlisted equity investments, at cost	**—**	1,000

The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

During the year ended 31 December 2018, the Group received dividends in the amounts of RMB550,000 from Jiaxing Port Antong Public Pipe Gallery Co., Ltd. ("嘉興港安通公共管廊有限公司").

As at 31 December 2017, certain unlisted equity investments with a carrying amount of RMB1,000,000 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.

12 INVENTORIES

	2018	2017
	RMB'000	*RMB'000*
Raw materials	**1,018,809**	940,244
Finished goods	**145,519**	67,670
	1,164,328	1,007,914

13 TRADE AND NOTES RECEIVABLES

	2018	2017
	RMB'000	*RMB'000*
Trade receivables	**80,878**	56,045
Notes receivable	**450,372**	294,464
	531,250	350,509
Impairment	**(8,549)**	(2,583)
	522,701	347,926

The credit period is generally 15 to 60 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:

	2018	2017
	RMB'000	*RMB'000*
1 to 30 days	**58,887**	51,610
31 to 60 days	**7,936**	663
61 to 90 days	**4,037**	136
91 to 360 days	**50**	647
Over 360 days	**9,968**	2,989
	80,878	56,045

The movements in the loss allowance for impairment of trade receivables are as follows:

	2018	2017
	RMB'000	*RMB'000*
At beginning of year	**2,583**	2,583
Impairment losses, net recognised *(note 6)*	**5,966**	—
At end of year	**8,549**	2,583

Impairment under HKFRS 9 for the year ended 31 December 2018

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by customer type and rating). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2018

	Gross carrying amount	**Expected credit loss rate**	**Expected credit losses**
	RMB'000		*RMB'000*
Trade receivables aged based on the invoice date:			
Less than 1 year	70,910	2.64%	1,875
Between 1 and 2 years	6,978	52.79%	3,684
Over 2 years	2,990	100.00%	2,990
	80,878		8,549

Impairment under HKAS 39 for the year ended 31 December 2017

Included in the above provision for impairment of trade receivables, which was measured based on incurred credit losses under HKAS 39, as at 31 December 2017 was a provision for individually impaired trade receivables of RMB2,583,000 with a carrying amount before provision of RMB2,583,000.

The individually impaired trade receivables as at 31 December 2017 related to customers that were in financial difficulties or ceased trading with the Group and none of the receivables is expected to be recovered.

The ageing analysis of the trade receivables as at 31 December 2017 that were neither individually nor collectively considered to be impaired under HKAS 39 is as follows:

	2017
	RMB'000
Neither past due nor impaired	50,203
Less than 30 days past due	2,071
31 to 60 days past due	136
61 to 90 days past due	149
91 to 360 days past due	497
Over 360 days past due	2,989
	56,045

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 one year and were neither past due nor impaired.

As at 31 December 2018, notes receivable of RMB450,372,000, whose fair values approximate to their carrying values, were classified as financial assets at fair value through other comprehensive income under HKFRS 9. The fair value changes of these notes receivable at fair value through other comprehensive income were insignificant in 2018.

At 31 December 2018, the Group endorsed certain notes receivable accepted by the certain banks in the PRC (the "**Endorsed Notes**") to certain of its suppliers in order to settle the trade and other payables due to such suppliers with a carrying amount in aggregate of RMB1,425,585,000 (2017: RMB664,163,000). In addition, the Group discounted certain notes receivable accepted by certain banks in the PRC (the "**Discounted Notes**") with a carrying amount in aggregate of RMB753,658,000 (2017: RMB20,000,000). The Endorsed Notes and the Discounted Notes have a maturity from one to twelve months as at 31 December 2018. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Endorsed Notes and the Discounted Notes 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 certain Endorsed Notes and the Discounted Notes accepted by large and reputable banks with amounts of RMB1,202,399,000 (2017: RMB529,031,000) and RMB681,627,000 (2017: RMB20,000,000), respectively (the "**Derecognised Notes**"). Accordingly, it has derecognised the full carrying amounts of the Derecognised Notes and the associated trade and other payables settled by the Endorsed Notes. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Notes and the undiscounted cash flows to repurchase these Derecognised Notes is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Notes are not significant.

The Group continued to recognise the full carrying amount of the remaining Endorsed Notes and the associated trade and other payables settled with an amount of RMB223,186,000 as at 31 December 2018 (2017: RMB135,132,000). The Group recognised the proceeds received from the discount of the remaining Discounted Notes with an amount of RMB72,031,000 as short-term loans at 31 December 2018 (2017: Nil) because the Directors believe that the Group has retained the substantial risks and rewards, which include default risks relating to such remaining Endorsed Notes and Discounted Notes.

As at 31 December 2018, no notes receivable (2017: RMB2,900,000) was pledged to secure the foreign currency options and swaps transactions entered into by the Group.

14 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2018	2017
	RMB'000	*RMB'000*
Deposits and other receivables	**198,212**	100,495
Prepayments	**47,910**	181,879
Prepaid land lease payments	**7,832**	8,410
Loans to employees	**1,086**	1,123
Advanced for property, plant and equipment	**221,921**	17,866
Prepaid expenses	**1,074**	24
	478,035	309,797
Less: Prepaid expenses, non-current portion	**(221,921)**	(17,866)
Prepayments, deposits and other receivables, current portion	**256,114**	291,931

The loans to employees were given by the Group for the purpose of enabling the employees to purchase property.

None of the above assets is either past due or impaired. The financial assets included in the above balances are non-interest-bearing, unsecured and repayable on demand and relate to receivables for which there was no recent history of default.

15 CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2018 *RMB'000*	2017 *RMB'000*
Cash and bank balances	**453,556**	273,678
Pledged deposits	**659,000**	50,000
	1,112,556	323,678
Less: Pledged time deposits:		
Pledged for notes payable	**229,000**	50,000
Pledged for letter of credit	**30,000**	—
Pledged for a related party*	**400,000**	—
	659,000	50,000
Cash and cash equivalents	**453,556**	273,678

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to RMB427,662,000 (2017: RMB131,815,000). Although RMB is not freely convertible into other currencies, 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.

* The Group's time deposits amounting to RMB400,000,000 as at 31 December 2018 (2017: Nil) were pledged for bank loans to Mei Fu Petrochemical amounting to RMB398,500,000.

16 TRADE AND BILLS PAYABLES

	2018	2017
	RMB'000	*RMB'000*
Trade payables	**1,250,214**	1,245,598
Bills payable	**320,000**	119,817
	1,570,214	1,365,415

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:

	2018	2017
	RMB'000	*RMB'000*
Within 3 months	**1,449,830**	1,230,755
3 to 6 months	**117,036**	128,253
6 to 12 months	**2,125**	3,110
12 to 24 months	**618**	1,443
24 to 36 months	**154**	1,341
Over 36 months	**451**	513
	1,570,214	1,365,415

As at 31 December 2018, the bills payable of RMB320,000,000 were secured by the Group's pledged deposits with a carrying amount of RMB229,000,000.

As at 31 December 2017, the bills payable of RMB119,817,000 were secured by the Group's pledged deposits with a carrying amount of RMB50,000,000 and unlisted investments with a carrying amount of RMB28,000,000.

17 OTHER PAYABLES AND ACCRUALS

	2018	2017
	RMB'000	*RMB'000*
Other payables	**562,289**	686,830
Contract liabilities	**95,567**	—
Advances from customers	**—**	90,332
Payroll payable	**35,671**	61,834
Taxes payable other than income tax	**96,764**	84,695
Interest payable	**8,576**	3,510
	798,867	927,201

Other payables are non-interest-bearing and repayable on demand.

18 INTEREST-BEARING BANK BORROWINGS

	Effective interest rate (%)	Maturity	**2018** *RMB'000*	2017 *RMB'000*
Current				
US$6,859,000 secured bank loans	3.738–3.788	2019	**47,078**	—
US$17,488,000 secured bank loans	2.256–3.500	2018	—	114,275
Bank loans — secured	2.265	2018	—	26,535
Finance lease payables	4.750–5.250	2018	—	29,625
Bank loans — unsecured	4.568–5.090	2019	**935,098**	—
	4.350–4.620	2018	—	554,531
US$25,232,000 unsecured bank loans	3.942–4.580	2019	**173,169**	—
US$99,675,000 unsecured bank loans	3.632–4.645	2019	**684,087**	—
US$88,055,000 unsecured bank loans	1.930	2018	—	575,371
Current portion of long-term	4.750–4.900	2019/2018	**598,262**	438,298
US$2,250,000 secured bank loans	5.329	2018	—	14,702
			2,437,694	1,753,337
Discounted notes receivable	3.300–4.050	2019/2018	**72,031**	—
Discounted letter of credit	2.225–4.601	2019/2018	**550,000**	—
			3,059,725	1,753,337
Non-current				
Finance lease payables	4.750–5.250	2018	—	—
Bank loans-secured	4.750–4.900	2020	—	—
Bank loans-secured	4.750–4.900	2019	—	598,262
			—	598,262
			3,059,725	2,351,599
Analysed into:				
Bank loans repayable:				
Within one year			**3,059,725**	1,723,712
In the second year			—	598,262
In the third to fifth years, inclusive			—	—
			3,059,725	2,321,974
Other borrowings repayable:				
Within one year			—	29,625
In the second year			—	—
			—	29,625
			3,059,725	2,351,599

Notes:

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

(i) mortgages over the Group's leasehold land, which had an aggregate carrying value at the end of the reporting period of approximately RMB157,920,000 (2017: RMB161,469,000);

(ii) mortgages over the Group's property, plant and equipment, which had an aggregate carrying value amounting to RMB151,458,000 as at 31 December 2017.

Xingxing New Energy entered into a syndicated loan agreement with Industrial and Commercial Bank of China Limited, China Construction Bank Limited and Bank of China Limited in June 2013 in relation to the funding requirement for the construction of the Methanol To Olefins ("**MTO**") production facility with a total loan amount of RMB1,600,000,000 which was guaranteed by its shareholders, Sanjiang Chemical, holding 77.5% of its equity interest, and Zhejiang Jiahua Group Co., Ltd. ("**Jiahua Group**"), holding 9.5% of its equity interest, for amounts not exceeding RMB1,200,000,000 and RMB400,000,000, respectively. Xingxing New Energy had used the facility of RMB398,262,000 as at 31 December 2018 (2017: RMB798,262,000) and the facility was also secured by its leasehold land with a carrying value of approximately RMB157,920,000 as at 31 December 2018 (2017: RMB161,469,000) which was included in the amounts in note (i) above.

Sanjiang New Material entered into a syndicated loan agreement with Industrial and Commercial Bank of China Limited and China Merchants Bank in September 2014 in relation to the funding requirement for the construction of the EO/EG production facility with a total loan amount of RMB500,000,000 which was guaranteed by Sanjiang Chemical and Xingxing New Energy for amounts not exceeding RMB600,000,000 and RMB600,000,000, respectively. Sanjiang New Material had used the facility of RMB200,000,000 as at 31 December 2018 (2017: RMB253,000,000).

Sanjiang Chemical entered into a sale and lease back agreement with International Far Eastern Leasing Co., Ltd. in November 2016 with a total present value of minimum lease payments of RMB29,625,000 as at 31 December 2017 which was secured by certain of its plant and machinery of RMB151,458,000 which were included in the amount in note (ii) above. The agreement expired in March 2018.

19 DUE FROM RELATED PARTIES

	2018 *RMB'000*	2017 *RMB'000*
Sure Capital Holdings Limited	**1**	—
Zhejiang Mei Fu Petrochemical Co., Ltd. (a)	**182**	261,479
Hangzhou Haoming Investment Co., Limited	**—**	122
Zhejiang Jiahua Import Export Co., Ltd.	**376**	720
Jiaxing Port Industrial Equipment Installation Co., Ltd. (嘉興港區港安工業設備安裝有限公司)	**2,196**	—
Zhejiang Jiahua New Materials Co., Ltd. (浙江嘉化新材料有限公司)	**103**	—
Zhejiang Jiahua Group Co., Ltd.	**2,038**	2
Zhejiang Jiahua Energy Chemical Co., Ltd. (b)	**1,196**	58,603
	6,092	320,926

Notes:

(a) The amount due from Zhejiang Mei Fu Petrochemical Co., Ltd. was mainly derived in relation to the Loan and Guarantee agreement entered into on 17 June 2016 being executed together with the Sales and Purchases Agreement entered into on 17 June 2016 to dispose 51% equity interest in Zhejiang Mei Fu Petrochemical Co., Ltd. to Sure Capital Holdings Limited and Jiaxing Gangqu Jianghao Investment Development Company Limited.

(b) The amount due from Zhejiang Jiahua Energy Chemical Co., Ltd. was derived solely in relation to the Sales and Purchases Agreements entered into on 19 March 2015 to dispose 51% equity interest in Zhejiang Zhapu Mei Fu Port & Storage Co. Ltd. to Zhejiang Jiahua Energy Chemical Co., Ltd.

The balances with related parties are unsecured, interest-free and repayable on demand.

20 DUE TO RELATED PARTIES

	2018	2017
	RMB'000	*RMB'000*
Zhejiang Jiahua Energy Chemical Co., Ltd.	**130,772**	82,993
Grand Novel Developments Limited	**37,524**	26,686
Zhejiang Zhapu Mei Fu Port & Storage Co. Ltd.	**30,832**	23,199
Zhejiang Mei Fu Petrochemical Co., Ltd.	**21,127**	494
Jiaxing Port Industrial Equipment Installation Co., Ltd. (嘉興港區港安工業設備安裝有限公司)	**8,611**	5,940
Zhejiang Hao Xing Energy Saving Technology Co., Ltd. (浙江浩星節能科技有限公司)	**3,284**	924
Jiaxing Xinggang Rewang Co., Ltd.	**2,820**	2,262
Zhejiang Jiahua Group Co., Ltd. (a)	**711**	200,566
Jiaxing Jianghao Eco-agriculture Co., Ltd. (嘉興市江浩生態農業有限公司)	**24**	2
	235,705	343,066

Notes:

(a) The balances with related parties are unsecured, interest-free and repayable on demand, except the loan balance due to Jiahua Group, of which RMB180,000,000 bears interest at 8% and is repayable within one year.

21 SHARE CAPITAL

The issued capital of the Company are as follows:

	Number of shares	Amount
		RMB'000
Issued and fully paid ordinary shares of HK$0.1 each:		
At 1 January 2017	993,104,000	86,048
Issue of placing shares (a)	196,896,000	16,614
At 31 December 2017 and 31 December 2018	1,190,000,000	102,662

Notes:

(a) On September 9, 2017, the Company held the board meeting in relation to the placing for an aggregate of 196,896,000 ordinary shares of the Company at the placing price of HK$2.28 per share (the "**Placing Shares**").

On October 17, 2017, the Placing Shares with par value of HK$0.1 each were issued at a placing price of HK$2.28 per share to certain investors for aggregate placing proceeds totalling HK$448,923,000 (equivalent to approximately RMB378,801,000), of which HK$19,690,000 (equivalent to approximately RMB16,614,000) were credited to share capital and HK$429,233,000 (equivalent to approximately RMB362,187,000) were credited to share premium. Transaction costs in relation to the placing of RMB11,680,000 were debited to share premium.

These shares represented approximately 16.55% of the enlarged issued share capital of the Company as at the date of placing.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND FINANCIAL REVIEW

Revenue

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

	Full year 2018	**% of revenue**	Full year 2017	% of revenue	**Variance +/(-)**
REVENUE *(RMB'000)*					
Ethylene oxide	**2,821,678**	**29%**	2,851,373	32%	−1.0%
Ethylene glycol	**2,385,058**	**25%**	2,186,596	25%	9.1%
Polypropylene	**2,550,777**	**27%**	2,155,791	24%	18.3%
Surfactants	**791,279**	**8%**	589,359	7%	34.3%
MTBE/C4	**410,961**	**4%**	455,076	5%	−9.7%
C5	**276,167**	**3%**	288,240	3%	−4.2%
Others	**349,939**	**4%**	370,708	4%	−5.6%
	9,585,859	**100%**	8,897,143	100%	7.7%
SALES VOLUME *(MT)*					
Ethylene oxide	**318,756**		350,618		−9.1%
Ethylene glycol	**379,700**		356,373		6.5%
Polypropylene	**360,907**		317,809		13.6%
Surfactants	**180,966**		162,755		11.2%
MTBE/C4	**79,283**		99,879		−20.6%
C5	**59,366**		63,596		−6.7%
AVERAGE SELLING PRICE *(RMB)*					
Ethylene oxide	**8,852**		8,132		8.8%
Ethylene glycol	**6,281**		6,136		2.4%
Polypropylene	**7,068**		6,783		4.2%
Surfactants	**4,373**		3,621		20.8%
MTBE/C4	**5,183**		4,556		13.8%
C5	**4,652**		4,532		2.6%
GROSS PROFIT MARGIN *(%)*					
Ethylene oxide	**16.9%**		22.3%		−5.4%
Ethylene glycol	**17.5%**		22.0%		−4.5%
Polypropylene	**−4.8%**		−9.4%		4.6%
Surfactants	**15.9%**		20.3%		−4.4%
MTBE/C4	**8.4%**		6.1%		2.3%
C5	**−1.8%**		−0.4%		−1.4%

Ethylene oxide sales

During the year under review, the revenue from EO line of business maintained in a similar level in 2018 when compared to 2017, which was primarily resulted from the combined effect of the increase in average selling price of EO by approximately 8.8% and the decrease in EO sales volume by approximately 9.1% as the Group tuned the 5th phase EO/EG production facilities, which is a swing production facility in terms of EO and EG outputs, to maximise the output for EG.

Ethylene glycol sales

During the year under review, the revenue from EG line of business increased by approximately 9.1% when compared to 2017 as the Group maximized the EG output capacity of the 5th phase EO/EG production facilities and, in turn, the sales volume of EG increased by approximately 6.5% when compared to 2017.

Polypropylene sales

During the year under review, the revenue from polypropylene line of business increased by approximately 18.3% when compared to 2017, which was primarily resulted from the completion of ramp-up of the 2nd Phase polypropylene ("**PP**") production facility, which provides a 300,000MT production capacity increment on a yearly basis, in July 2018 and the sales volume of PP increased by approximately 13.6% in 2018 when comparing to 2017.

Gross profit margin

Overall gross profit margin decreased by approximately 1.8%, primarily resulted from the increase in Methanol pricing by more than 11% (on a simple average basis) from approximately RMB2,850/MT in 2017 to approximately RMB3,180/MT in 2018 while the direct downstream outputs of Methanol, being Ethylene and Propylene from our perspective, only increased by approximately 5.3% and 17.2% (on a simple average basis) respectively during the corresponding period.

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 RMB453.6 million (2017: approximately RMB RMB273.7 million), most of which were denominated in Renminbi. The Group had interest-bearing borrowings of approximately RMB3,059.7 million as at 31 December 2018 (2017: approximately RMB2,351.6 million). Please refer to notes 18 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 approximately 32.6% as at 31 December 2018 as compared to approximately 27.1% as at 31 December 2017. 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 (2018: 46.2 days; 2017: 40.5 days).

The trade and notes receivables turnover days maintained at a relatively low level in both 2018 and 2017 (2018: 16.6 days; 2017: 10.6 days).

The trade and notes payables turnover days maintained at a similar level in both 2018 and 2017 (2018: 62.4 days; 2017: 65.9 days).

CAPITAL COMMITMENTS

As at 31 December 2018, the Group had capital commitments amounted to approximately RMB250.0 million (2017: RMB16.9 million) which was primarily related to the procurement of plant and machinery for the constructions of additional production capacities.

CONTINGENT LIABILITIES

At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	2018	2017
	RMB'000	*RMB'000*
Guarantees given to banks in connection with facilities granted to:		
A related party/joint venture	**1,022,702**	787,200

As at 31 December 2018, the banking facility granted to a related party subject to guarantees given to banks by the Group was utilised to the extent of approximately RMB915,660,000 (2017: RMB295,227,000).

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2018, the Group employed a total of 1,076 full-time employees (2017: 1,049 employees). For the year ended 31 December 2017, the employee benefit expense was approximately RMB134.9 million (2017: approximately RMB166.8 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 HK10.0 cents per share in respect of the year, together with the distribution of interim dividend of HK10.0 cents per share, representing a dividend payout ratio of approximately 50% for the year ended 31 December 2018.

Subject to the approval of the shareholders at the forthcoming annual general meeting, the final dividend will be distributed on or about Thursday, 6 June 2019 to the shareholders whose names appear on the register of members of the Company as at Tuesday, 28 May 2019.

OTHER INFORMATION

UPDATE ON USAGE OF FUNDING IN RELATION OF THE PLACING IN 2017

The information in relation to the placing of new shares under the general mandate, which was completed on 17 October 2017, was disclosed as follows:

Intended use of net proceeds as disclosed in the announcement of the Company dated 17 October 2017:	Actual use of the net proceeds up to 31 December 2017, 30 June 2018 and 31 December 2018 respectively	Unutilized amount of net proceeds as at 31 December 2017, 30 June 2018 and 31 December 2018 respectively, intended use of such unutilized net proceeds and expected timeline
Approximately HK$435 million (equivalent to approximately RMB367.7 million), intended to be applied in the following manner:	— During the period from 17 October 2017 to 31 December 2017:- approximately RMB194.9 million — During the period from 1 January 2018 to 30 June 2018:- approximately RMB81.4 million — During the period from 1 July 2018 to 31 December 2018:- approximately RMB91.4 million	— As at 31 December 2017:- approximately RMB172.8 million — As at 30 June 2018:- approximately RMB91.4 million — As at 31 December 2018:- Nil — Intended use of such unutilized net proceeds:- No change in the intended use of net proceeds — Expected timeline:- Before or around 30 June 2019
(i) approximately RMB100 million for fine-tuning the production of the 5th Phase EO/EG production facilities;	— During the period from 17 October 2017 to 31 December 2017:- approximately RMB53.6 million — During the period from 1 January 2018 to 30 June 2018:- Nil — During the period from 1 July 2018 to 31 December 2018:- approximately RMB46.4 million	— As at 31 December 2017:- approximately RMB46.4 million — As at 30 June 2018:- approximately RMB46.4 million — As at 31 December 2018:- Nil — Intended use of such unutilized net proceeds:- No change in the intended use of net proceeds — Expected timeline:- Before or around 30 June 2019

Intended use of net proceeds as disclosed in the announcement of the Company dated 17 October 2017:	Actual use of the net proceeds up to 31 December 2017, 30 June 2018 and 31 December 2018 respectively	Unutilized amount of net proceeds as at 31 December 2017, 30 June 2018 and 31 December 2018 respectively, intended use of such unutilized net proceeds and expected timeline
(ii) approximately RMB160 million for the construction of another polypropylene production facility;	— During the period from 17 October 2017 to 31 December 2017:- approximately RMB33.6 million — During the period from 1 January 2018 to 30 June 2018:- approximately RMB81.4 million — During the period from 1 July 2018 to 31 December 2018:- approximately RMB45 million	— As at 31 December 2017:- approximately RMB126.4 million — As at 30 June 2018:- approximately RMB45 million — As at 31 December 2018:- Nil — Intended use of such unutilized net proceeds:- No change in the intended use of net proceeds — Expected timeline:- Before or around 30 June 2019
(iii) remaining balance as general working capital of the Group	— During the period from 17 October 2017 to 31 December 2017:- all remaining balance has been used as general working capital of the Group	— As at 31 December 2017:- Nil — As at 30 June 2018:- Nil — As at 31 December 2018:- Nil

The proceeds from the placing of new shares were used and expected to be used according to the intentions previously disclosed in the announcement dated 17 October 2017.

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 on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**") 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 2018 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 2018 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, Kong Liang and Ms. Pei Yu, all of whom are independent non-executive Directors. The chairman of the Audit Committee is Mr. Shen Kaijun. The primary responsibilities of the Audit Committee include, among others, reviewing and supervising the financial reporting process and internal control system of the Group, nominating and monitoring external auditors and providing advice and comments to the Board.

During the year ended 31 December 2018 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 2018 and the annual results of the Group for the year ended 31 December 2018, 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. Kong Liang, Guan Jianzhong and Ms. Pei Yu of whom Mr. Kong Liang and Ms. Pei Yu are independent non-executive Directors and Mr. Guan Jianzhong is the Chairman of the Board and an executive Director. The chairman of the Remuneration Committee is Ms. Pei Yu. The primary responsibilities of the Remuneration Committee include, among others, evaluating the performance and making recommendation on the remuneration package of the Directors and senior management, and evaluating and making recommendation on the share award plan of the Company.

NOMINATION COMMITTEE

As at the date of this announcement, the Nomination Committee 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 the Nomination Committee 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, composition of the Board and board diversity 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 2018.

ANNUAL GENERAL MEETING

The forthcoming 2018 annual general meeting ("**AGM**") of the Company will be held at Hong Kong on Monday, 20 May 2019. 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 Tuesday, 14 May 2019 to Monday, 20 May 2019, both days inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at the 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 Registrar, 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, 10 May 2019. In addition, the register of members of the Company will be closed from Monday, 27 May 2019 to Tuesday, 28 May 2019, 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 Registrar, 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, 24 May 2019.

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

The Company's Annual Report for the year ended 31 December 2018 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

PRC, 25 March 2019

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

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.*