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 2019

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 2019 (the "**year under review**").

RESULTS HIGHLIGHTS

	2019	2018	Change
	RMB'000	*RMB'000*	%
Revenue	**9,190,893**	9,585,859	–4.1%
Gross profit	**1,038,888**	996,124	4.3%
Net profit attributable to shareholders of the Company	**550,474**	398,915	38.0%
Earnings per share — Basic *(RMB)*	**46.57 fens**	38.89 fens	19.7%
Dividend per share *(HK$)* — Interim	**5.0 cents**	10.0 cents	–50.0%
Dividend per share *(HK$)* — Final	**20.0 cents**	10.0 cents	100.0%
Dividend payout ratio (based on total payout during the year)	**48.9%**	50.0%	–1.1%
Gross profit margin	**11.3%**	10.4%	0.9%
Net profit margin	**6.0%**	4.2%	1.8%
Gearing — interesting-bearing borrowings to total asset	**39.5%**	32.6%	6.9%

During the period of our 2019 interim results, we experienced a tough time with revenue of the Group decreased by approximately 11.6%, overall gross profit margin decreased substantially to approximately 4.9% from approximately 11.8% and net profit attributable to shareholders decreased substantially by approximately 86.8% to approximately RMB32.3 million, when comparing to the first half of 2018 as downstream manufacturers of ethylene glycol ("**EG**"), one of our core products, lowered their production capacities and the demands for EG in view of the price volatility of major commodities during the first half of 2019, which dragged down the average selling price ("**ASP**") of EG by approximately 36% (on a simple average basis) and, in turn, dragged down the ASP of ethylene oxide ("**EO**"), another one of our core products, by approximately 26% (on a simple average basis) as the both EO and EG come from the same kind of feedstocks and the pricings of EO and EG are highly correlated. In our 2019 interim results announcement, we mentioned that we were expecting a number of upsides in the second half of 2019, taking into account certain market signals as to the trends of EG pricing and Methanol pricing, where EG pricings has been showing signals of rebounding from the bottom since July 2019 and Methanol pricing came down to a level of approximately RMB2,200/MT (on a simple average basis) during the first half of 2019 from approximately RMB3,242/MT of the corresponding period of 2018, which is consistent with the view and expectation that the Group has been upholding since 2017 (and the rationales of which have been elaborated in the Group's ***2017 Annual Report***), which directly contributed to the substantial improvement of gross profit margin of our polypropylene ("**PP**"), also our core product, line of business by 13.8% to a gross profit margin position of 3.9% from a gross loss margin position of –9.9% during the first half of 2019 when comparing to the corresponding period of 2018. As our 2019 annual results demonstrated, these have been proven to be the case.

Our 2019 annual results also demonstrated the success of our well-established and usual strategies that being a diversified vertical-integrated chemical group with diversification and mitigation of business risks and market risks, on our own terms, representing the fact that instead of rely ing on the feedstocks that come from one single ultimate source, we have crude oil derivatives — Ethylene and Propylene and nature gas or coal derivative — Methanol as feedstocks on approximately 45:55 basis to avoid replying on the feedstocks that come from the same source. In addition, our major outputs — EO, EG and PP are used in different downstream industries and applications and, in turn, subject to different supply and demand factors, which enables us to diversify and mitigate the business risks and market risks in an effective manner.

Crude oil pricing affects the market sentiments across the oil and chemical sector (the "**Sector**") on a general basis and any dramatic price movement of Crude oil in a short period of time hurts the market sentiments of the Sector as high volatility of crude oil pricing would undermine the demands of the Sector as a whole and 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 investors storage level if they have a clearer picture in terms of their own profitability, which would be materially deteriorated if crude oil pricing fluctuated substantially. Crude oil pricing fluctuated substantially since Q3 of 2018 after a number of global political incidents happened and it only settled in a relatively stable manner in Q1 of 2019 and it took the downstream producers one more quarter's time (based on our estimation) to pick up the demands and production capacities, which were demonstrated by the fact that the ASP of EO, EG and PP (on a simple average basis) stayed strong and remained in a similar level in the second half of 2019 when comparing with the first half of 2019 while the pricings of major commodities like crude oil, nature gas and coal were in a gradual downward trend in 2019 when comparing to 2018.

The slump of oil pricing, from a very short-term perspective like in a period of two to three months, would adversely affect our profitability as a result of impairment for feedstocks and finished goods on hand. However, from a slightly longer term perspective, oil pricing at a relative low level would benefit us in general as oil pricing at a relative low level would decrease our feedstock costs in an extent larger than the decrease of the pricing of our finished goods as the demands from ultimate customers of our finished goods would be relatively stable.

Our Methanol-to-Olefins ("**MTO**") production facility, which serves as the upstream level of the Group (i.e. the process of converting Methanol to Ethylene/Propylene), achieved an improvement of gross profit margin by 13% during the year under review (2019: gross profit margin for upstream alone: 5.0% vs. 2018 gross loss margin for upstream alone:−8%). Methanol pricing was trading at a range between approximately RMB1,950/MT and approximately RMB2,700/MT and in a manner that was less volatile in 2019 with 2019 yearly average of Methanol pricing coming down to RMB2,330/MT (on a simple average basis) from the 2018 yearly average of approximately RMB3,200/MT (on a simple average 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 (Please refer to the Group's ***2017 Annual Report*** for the rationales), which would be a level that enables the Group to run MTO production facility in a positive gross profit margin position as demonstrated in our 2019 annual results.

During the year under review, revenue of the Group decreased by approximately 4.1% when comparing to 2018, primarily resulted from the combined effects of:- 1) decreases in ASP in EO and EG by 24.1% and 33.2% respectively in view of the price volatility of major commodities during the first half of 2019; and 2) the decrease in output of EG by approximately 32.2% as the 5th phase EO/EG production facility suspended operation during January and February 2019 due to a regular repair and maintenance process and the price volatility of EG during the first half of 2019 also stalled demands for EG; such impacts were offset with the impact from the full-year operation of the 2nd Phase PP production facility after the completion of its ramp-up in July 2018, which led to the increase in sales of PP by approximately 46.6% and the increase in sales volume of PP by approximately 44.8% in 2019 when comparing to 2018. Overall gross profit margin of the Group increased by approximately 0.9% and net profit attributable to shareholders was approximately RMB550.5 million and basic earnings per share was approximately RMB46.57 fens, for the year ended 31 December 2019, representing increases of approximately 38.0% and 19.7% respectively as compared with 2018. The Board has recommended a final dividend of HK20.0 cents per share, together with the distribution of interim dividend of HK5.0 cents per share, representing a dividend payout ratio of approximately 48.9% in total for the year ended 31 December 2019.

We have been actively monitoring and assessing the impacts of the novel coronavirus ("**COVID-19**") that might have on our Group in terms of our business operations and the health and safety of our employees and our communities and has, in a timely manner, put in place numerous precautionary measures, in particular, implementing various flexible working arrangements and providing adequate training and protective supplies to certain employees according to the nature and duties of each job position. At present, although, the Group manages to maintain its productions as usual, it is inevitable that COVID-19 has certain impact on the business operations of the Group, in particular, the logistic arrangements and delivery of finished goods to our customers. We believe the impact of COVID-19 outbreak on the Group and the PRC's economy as a whole is temporary and we are of the view that such an impact on us is in a less extent when comparing with other industries given the business natures of our Group, which are less labour-intensive and production-process-automation. Nevertheless, to respond to the current market conditions, we have implemented a number of short-term measure focusing on saving operating costs and maintaining a higher liquidity position.

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, 30 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019

	Notes	2019 RMB'000 (Audited)	2018 RMB'000 (Audited)
REVENUE	4	**9,190,893**	9,585,859
Cost of sales		**(8,152,005)**	(8,589,735)
Gross profit		**1,038,888**	996,124
Other income and gains	4	**207,455**	865,867
Selling and distribution expenses		**(34,631)**	(25,515)
Administrative expenses		**(275,991)**	(326,948)
Other expenses	4	**(68,623)**	(945,144)
Impairment losses on financial assets		**(5,257)**	(5,966)
Loss on disposal of financial assets		**—**	(870)
Finance costs	5	**(203,248)**	(167,773)
PROFIT BEFORE TAX	6	**658,593**	389,775
Income tax expense	7	**(81,096)**	(88,583)
PROFIT FOR THE YEAR		**577,497**	301,192
Attributable to:			
Owners of the parent		**550,474**	398,915
Non-controlling interests		**27,023**	(97,723)
		577,497	301,192
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
Basic		**46.57 fens**	38.89 fens
Diluted		**46.57 fens**	38.87 fens
PROPOSED FINAL DIVIDEND FOR THE YEAR	9	**215,882**	103,911

CONSOLIDATED STATEMENT OF FINANCE POSITION
At 31 December 2019

	Notes	2019 RMB'000 (Audited)	2018 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**4,916,741**	5,239,614
Prepaid land lease payments		**—**	329,958
Right-of-use assets		**442,197**	—
Intangible assets		**147,305**	173,486
Due from related parties	*18*	**275,158**	—
Advance payments for property, plant and equipment	*13*	**113,135**	221,921
Equity investments designated at fair value through other comprehensive income	*10*	**4,177**	3,114
Deferred tax assets		**13,211**	11,629
Total non-current assets		**5,911,924**	5,979,722
CURRENT ASSETS			
Inventories	*11*	**878,674**	1,164,328
Trade and notes receivables	*12*	**565,834**	522,701
Prepayments, other receivables and other assets	*13*	**203,154**	256,114
Due from related parties	*18*	**8,946**	6,092
Financial assets at fair value through profit or loss	*10*	**678,105**	339,881
Derivative financial instruments		**555**	736
Non-pledged time deposits with original maturity of over three months	*14*	**215,145**	—
Pledged deposits	*14*	**1,320,152**	659,000
Cash and cash equivalents	*14*	**591,671**	453,556
Total current assets		**4,462,236**	3,402,408
CURRENT LIABILITIES			
Trade and bills payables	*15*	**934,294**	1,570,214
Other payables and accruals	*16*	**859,033**	798,867
Derivative financial instruments		**1,338**	—
Lease liabilities		**1,668**	—
Interest-bearing bank and other borrowings	*17*	**4,095,668**	3,059,725
Due to related parties	*19*	**351,798**	235,705
Tax payable		**83,457**	110,094
Total current liabilities		**6,327,256**	5,774,605
NET CURRENT LIABILITIES		**(1,865,020)**	(2,372,197)
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,046,904**	3,607,525

	Notes	**2019**	2018
		RMB'000	*RMB'000*
		(Audited)	(Audited)
NON-CURRENT LIABILITIES			
Lease liabilities		**10,443**	—
Deferred tax liabilities		**18,059**	13,150
Total non-current liabilities		**28,502**	13,150
Net assets		**4,018,402**	3,594,375
EQUITY			
Equity attributable to owners of the parent			
Issued capital	*20*	**102,662**	102,662
Reserves		**3,898,477**	3,501,473
		4,001,139	3,604,135
Non-controlling interests		**17,263**	(9,760)
Total equity		**4,018,402**	3,594,375

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.

2.1 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 2019, the Group's net current liabilities amounted to approximately RMB1,865,020,000. 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.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Except for the amendments to HKFRS 9, HKAS19 and HKAS28, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

(a) HKFRS 16 replaces HKAS 17 Leases, HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 *Operating Leases-Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. HKFRS 16 did not have any significant impact on leases where the Group is the lessor.

The Group has adopted HKFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under HKAS 17 and related interpretations.

New definition of a lease

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee — Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for pipes and offices. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for elective exemption for leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019. The Group elected to present the lease liabilities separately in the statement of financial position. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

- Using a single discount rate to a portfolio of leases with reasonably similar characteristics

Financial impact at 1 January 2019

The impact arising from the adoption of HKFRS 16 as at 1 January 2019 was as follows:

	Increase/ (decrease) *RMB'000*
Assets	
Increase in right-of-use assets	354,489
Decrease in prepaid land lease payments	(329,958)
Decrease in prepayments, other receivables and other assets	(7,832)
Increase in total assets	16,699
Liabilities	
Increase in lease liabilities and total liabilities	16,699

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	RMB'000
Operating lease commitments as at 31 December 2018	19,954
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019	(970)
	18,984
Weighted average incremental borrowing rate as at 1 January 2019	4.12%
Discounted operating lease commitments at 1 January 2019	16,699
Lease liabilities as at 1 January 2019	16,699

(b) HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any impact on the financial position or performance of the Group.

(c) *Annual Improvements to HKFRSs 2015–2017 Cycle* sets out amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23. Details of the amendments are as follows:

- HKFRS 3 Business Combinations: Clarifies that, when an entity obtains control of a business that is a joint operation, it must apply the requirements for a business combination achieved in stages and remeasure its entire previously held interest in the joint operation at fair value. The amendments did not have any impact on the Group's financial statements.

- HKFRS 11 Joint Arrangements: Clarifies that when an entity that participates in (but does not have joint control of) a joint operation obtains joint control over that joint operation that is a business, it does not remeasure the interest it previously held in that joint operation. The amendments did not have any impact on the Group's financial statements.

- HKAS 12 Income Taxes: Clarifies that an entity recognises all income tax consequences of dividends in profit or loss, other comprehensive income or equity, depending on where the entity recognised the originating transaction or event that generated the distributable profits giving rise to the dividends. The amendments did not have any impact on the Group's financial statements.

- HKAS 23 Borrowing Costs: Clarifies that an entity treats as part of general borrowings any specific borrowing originally made to develop a qualifying asset, and that is still outstanding, when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. The amendments did not have any impact on the Group's financial statements.

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:

	2019	2018
	RMB'000	*RMB'000*
Sale of industrial products	**9,092,548**	9,495,274
Provision of services	**88,835**	81,197
Others	**9,510**	9,388
	9,190,893	9,585,859

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

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:

	2019	2018
	RMB'000	*RMB'000*
Revenue from contracts with customers	**9,181,383**	9,576,471
Revenue from other sources		
Rental income from operating leases:		
Lease payments, including fixed payments	**9,510**	N/A
	9,510	9,388
	9,190,893	9,585,859
Other income		
Sales of raw materials — Methanol	**9,133**	727,136
Interest income from related parties	**51,093**	12,485
Interest income from a third party	**5,000**	—
Sales of ethylene	**27,067**	31,025
Government subsidies (a)	**25,672**	11,763
Guarantee fee	**3,931**	9,434
Sales of circular water	**6,061**	5,869
Bank interest income	**34,654**	16,108
Investment income from financial assets at fair value through profit or loss	**7,772**	25,352
Utility income	**7,961**	6,727
Gross rental income from operating leases:		3,855
Lease payments, including fixed payments	**3,708**	N/A
Others	**9,361**	5,397
	191,413	855,151
Gains		
Fair value gains, net:		
Financial assets at fair value through profit or loss —mandatorily classified as such	**2,209**	—
Derivative financial instruments —transactions not qualifying as hedges	**—**	1,812
Investment income from derivative financial instruments, net	**7,183**	8,351
Gain on disposal of silver catalysts (b)	**6,650**	553
	16,042	10,716
Other income and gains	**207,455**	865,867
Other expenses		
Cost of sales of raw materials — Methanol	**8,923**	744,901
Foreign exchange losses, net	**52,464**	119,220
Cost of sales of ethylene	**25,077**	29,458
(Reversal of)/write-down of inventories to net realisable value (c)	**(18,658)**	50,699
Others	**817**	866
	68,623	945,144

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 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) (Reversal of)/write-down of inventories to net realisable value represents the (reversal of)/write-down of inventories to net realisable value for the silver catalysts in inventories caused by the fluctuation in silver price.

5 FINANCE COSTS

An analysis of finance costs is as follows:

	2019	2018
	RMB'000	*RMB'000*
Interest on bank loans and other borrowings	**143,582**	119,741
Interest on lease liabilities	**218**	—
	143,800	119,741
Interest on discounted notes receivable	**59,448**	48,032
	203,248	167,773

6 PROFIT BEFORE TAX

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

	2019	2018
	RMB'000	*RMB'000*
Cost of inventories sold	**8,117,837**	8,553,706
Cost of services provided	**34,168**	33,643
Depreciation of property, plant and equipment*	**558,902**	512,959
Depreciation of right-of-use assets (2018: amortisation of prepaid land lease payments)	**10,198**	8,014
Amortisation of intangible assets**	**29,003**	27,966
(Reversal of)/write down of inventories to net realisable value***	**(17,664)**	67,677
Impairment of trade receivables	**3,122**	5,966
Impairment of financial assets included in prepayments, other receivables and other assets	**2,135**	—
Auditor's remuneration	**2,660**	2,351
Minimum lease payments under operating leases	**—**	4,059
Lease payments not included in the measurement of lease liabilities	**962**	—
Employee benefit expense (including directors' remuneration):****		
Wages and salaries	**148,466**	121,377
Pension scheme contributions	**5,218**	6,350
Staff welfare expenses	**10,867**	5,384
Equity-settled share award plan expense	**—**	1,800
	164,551	134,911

* The depreciation of property, plant and equipment of RMB498,642,000 (2018: RMB392,426,000) for the year is included in "Cost of sales" in the consolidated statement of profit or loss.

** The amortisation of intangible assets of RMB6,682,000 (2018: RMB7,537,000) 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 RMB994,000 (2018: RMB16,978,000) for the year 2019 was included in "Cost of sales" in the consolidated statement of profit or loss of 2019.

**** The employee benefit expense of RMB94,208,000 (2018: RMB75,836,000) 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:

	2019	2018
	RMB'000	*RMB'000*
Current — Mainland China	**77,769**	92,517
Deferred	**3,327**	(3,934)
Total tax charge for the year	**81,096**	88,583

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% (2018: 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 (2018: nil).

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 has been qualified as a High and New Technology Enterprise since 2010 and enjoys a preferential corporate income tax rate of 15% from 2019 to 2022. Therefore, Sanjiang Chemical was subject to corporate income tax at a rate of 15% for the year ended 31 December 2019 (2018: 15%).

Pursuant to the approval of the tax bureau, Sanjiang Lotte has been qualified as a High and New Technology Enterprise since 2014 and enjoys a preferential corporate income tax rate of 15% from 2017 to 2019. Therefore, Sanjiang Lotte was subject to corporate income tax at a rate of 15% for the year ended 31 December 2019 (2018: 15%).

Pursuant to the approval of the tax bureau, Sanjiang New Material has been qualified as a High and New Technology Enterprise since 2016 and enjoys a preferential corporate income tax rate of 15% from 2019 to 2022. Therefore, Sanjiang New Material was subject to corporate income tax at a rate of 15% for the year ended 31 December 2019 (2018: 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 2019 (2018: 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:

	2019	2018
	RMB'000	*RMB'000*
Profit before tax	**658,593**	389,775
Tax at the statutory tax rate	**164,649**	97,444
Lower tax rates enacted by local authority or in other countries	**(49,747)**	(34,060)
Additional deduction for research and development activities	**(65,488)**	(55,349)
Expenses not deductible for tax	**20,150**	10,254
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	**13,739**	5,373
Income not subject to tax	**(36)**	(83)
Tax losses utilised from previous years	**(2,249)**	(6,307)
Temporary differences not recognised	**(908)**	1,325
Tax losses not recognised	**986**	69,986
Tax charge at the Group's effective rate	**81,096**	88,583

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:

	2019	2018
	RMB'000	*RMB'000*
Earnings		
Profit for the year attributable to ordinary equity holders of the parent	**550,474**	398,915

	Number of shares	
	2019	2018
	'000	*'000*
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,181,931**	1,025,661
Effect of dilution — weighted average number of ordinary shares under the share award plan	**—**	506
	1,181,931	1,026,167

9 DIVIDEND

	2019	2018
	RMB'000	*RMB'000*
Proposed final — HK20.0 cents (2018: HK10.0 cents) per ordinary share	**215,882**	103,911

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

10.1 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 *RMB'000*	2018 *RMB'000*
Financial assets at fair value through profit or loss		
Unlisted investments, at fair value	**678,105**	339,881

The above unlisted investments 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.

As at 31 December 2019, the Group's certain unlisted investments of RMB451,227,000 (2018: nil) were pledged for bank loans.

10.2 EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019 *RMB'000*	2018 *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.	**4,177**	3,114

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 2019, the Group received dividends in the amounts of RMB237,000 (2018: RMB550,000) from Jiaxing Port Antong Public Pipe Gallery Co., Ltd. ("嘉興港安通公共管廊有限公司").

11 INVENTORIES

	2019 *RMB'000*	2018 *RMB'000*
Raw materials	**757,334**	1,018,809
Finished goods	**121,340**	145,519
	878,674	1,164,328

12 TRADE AND NOTES RECEIVABLES

	2019	2018
	RMB'000	*RMB'000*
Trade receivables	**55,653**	80,878
Notes receivable	**521,852**	450,372
	577,505	531,250
Impairment	**(11,671)**	(8,549)
	565,834	522,701

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

	2019	2018
	RMB'000	*RMB'000*
1 to 30 days	**35,089**	58,887
31 to 60 days	**8,519**	7,936
61 to 90 days	**2,228**	4,037
91 to 360 days	**—**	50
Over 360 days	**9,817**	9,968
	55,653	80,878

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

	2019	2018
	RMB'000	*RMB'000*
At beginning of year	**8,549**	2,583
Impairment losses, net recognised	**3,122**	5,966
At end of year	**11,671**	8,549

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 2019

	Gross carrying amount *RMB'000*	**Expected credit loss rate**	**Expected credit losses** *RMB'000*
Trade receivables aged based on the invoice date:			
Less than 1 year	**45,835**	**4.04%**	**1,853**
Between 1 and 2 years	**—**	**92.21%**	**—**
Over 2 years	**9,818**	**100.00%**	**9,818**
	55,653		**11,671**

As at 31 December 2018

	Gross carrying amount *RMB'000*	Expected credit loss rate	Expected credit losses *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

As at 31 December 2019, notes receivable of RMB521,852,000, 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 2019.

At 31 December 2019, the Group endorsed certain notes receivable accepted by 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 RMB621,343,000 (2018: RMB1,425,585,000). 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 RMB1,891,958,000 (2018: RMB753,658,000). The Endorsed Notes and the Discounted Notes had a maturity from one to twelve months as at 31 December 2019. 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 RMB173,054,000 (2018: RMB1,202,399,000) and RMB138,368,000 (2018: RMB681,627,000), 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 RMB448,289,000 as at 31 December 2019 (2018: RMB223,186,000). The Group recognised the proceeds received from the discount of the remaining Discounted Notes with an amount of RMB1,753,590,000 as short-term loans at 31 December 2019 (2018: RMB72,031,000) because the Directors believed that the Group has retained the substantial risks and rewards, which include default risks relating to such remaining Endorsed Notes and Discounted Notes.

13 PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

		2019 ***RMB'000***	2018 *RMB'000*
A loan to a third party	(a)	**100,000**	—
Deposits and other receivables		**79,222**	198,212
Prepayments		**24,802**	47,910
Prepaid land lease payments		**—**	7,832
Loans to employees	(b)	**986**	1,086
Prepaid expenses		**279**	1,074
		205,289	256,114
Impairment allowance		**(2,135)**	—
		203,154	256,114

Note:

(a) A loan to a third party represents the loan to Guangde Jinheng Building Materials Market Company Limited ("**Guangde Jinheng**"), and bears interest at a fixed rate of 12% per annum and matures at 26 December 2019. The loan is secured by certain buildings belongs to Guangde Jinheng and the collateral is held by Han Jianping, an executive director, on behalf of the Group. As at 31 December 2019, the principal of the loan has been past due. The Group believe that the credit risk of the loan has not increased significantly as the fair value of the collateral determined by an independent qualified appraiser, is higher than the principal of the loan.

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

Where applicable, an impairment analysis is performed at each reporting date by considering the probability of default of comparable companies with published credit ratings. As at 31 December 2019, the probability of default applied to be 0.03% to 0.15% (2018: 0.03%) and the loss given default was estimated to be 50% (2018: 50%). In the situation where no comparable companies with credit ratings can be identified, expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. The loss rate applied where there were no comparable companies as at 31 December 2019 was 1.86% (2018: 1.87%).

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 and past due amounts, except the loan to the third party mentioned in note (a). As at 31 December 2019, the loss allowance was assessed to be RMB2,135,000 and as at 31 December 2018, the loss allowance was assessed to be minimal.

14 CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2019	2018
	RMB'000	*RMB'000*
Cash and bank balances	**591,671**	453,556
Time deposits and pledged deposits	**1,535,297**	659,000
	2,126,968	1,112,556
Less: Pledged time deposits:		
Pledged for notes payable	**10,000**	229,000
Pledged for letter of credit	**120,002**	30,000
Pledged for bank loans	**1,190,150**	—
Pledged for a related party*	**—**	400,000
Non-pledged time deposits with original maturity of over three months when acquired	**215,145**	—
	1,535,297	659,000
Cash and cash equivalents	**591,671**	453,556
Denominated in RMB	**536,962**	427,662
Denominated in United States dollars	**46,411**	23,782
Denominated in other currencies	**8,298**	2,112
Cash and cash equivalents	**591,671**	453,556

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. Pledged short term time deposits are made for periods with a maturity of the underlying notes payable, letter of credit and bank loans secured by these deposits, and non-pledged short term time deposits are made for varying periods of between one day and twelve months depending on the immediate cash requirements of the Group. Time deposits 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.

* The Group's time deposits amounting to RMB400,000,000 as at 31 December 2018 were pledged for bank loans to Zhejiang Meifu Petrochemical Co., Ltd. ("**Mei Fu Petrochemical**") amounting to RMB398,500,000.

15 TRADE AND BILLS PAYABLES

	2019	2018
	RMB'000	*RMB'000*
Trade payables	**924,294**	1,250,214
Bills payable	**10,000**	320,000
	934,294	1,570,214

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

	2019	2018
	RMB'000	*RMB'000*
Within 3 months	**900,188**	1,449,830
3 to 6 months	**28,419**	117,036
6 to 12 months	**3,741**	2,125
12 to 24 months	**1,009**	618
24 to 36 months	**465**	154
Over 36 months	**472**	451
	934,294	1,570,214

Trade payables are non-interest-bearing and have an average credit term of three months. Bills payable all age within one year.

As at 31 December 2019, the bills payable of RMB10,000,000 were secured by the Group's pledged deposits with a carrying amount of RMB10,000,000.

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.

16 OTHER PAYABLES AND ACCRUALS

	2019	2018
	RMB'000	*RMB'000*
Deferred income	**10,000**	—
Other payables	**552,125**	562,289
Taxes payable other than income tax	**85,976**	96,764
Contract liabilities	**166,557**	95,567
Payroll payable	**39,587**	35,671
Interest payable	**4,788**	8,576
	859,033	798,867

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

17 INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate *(%)*	**Maturity**	**2019** ***RMB'000***	2018 *RMB'000*
Current				
US$39,208,000 secured bank loans	3.059–3.710	2020	**273,521**	—
US$6,859,000 secured bank loans	3.738–3.788	2019	**—**	47,078
Bank loans — secured	3.120–4.350	2020	**205,000**	—
Bank loans — unsecured	4.300–4.600	2020	**636,000**	—
	4.568–5.090	2019	**—**	935,098
US$23,373,000 unsecured bank loans	2.264–3.800	2020	**163,057**	—
US$52,249,000 unsecured bank loans	2.735–3.600	2020	**364,500**	—
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
Current portion of long-term	4.750–4.900	2019	**—**	598,262
			1,642,078	2,437,694
Discounted notes receivable	2.440–4.000	2020	**1,753,590**	—
Discounted notes receivable	3.300–4.050	2019	**—**	72,031
Discounted letter of credit	2.760–3.700	2020	**700,000**	—
Discounted letter of credit	2.225–4.601	2019	**—**	550,000
			4,095,668	3,059,725
Analysed into:				
Bank loans repayable: Within one year			**4,095,668**	3,059,725

Notes:

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

(i) guarantees from Lotte Chemical Corporation with mortgages over the Group's property, plant and equipment, which had an aggregate carrying value amounting to RMB278,398,000 (2018:RMB328,205,000) as at 31 December 2019.

(ii) the Group's pledged deposit, which had an aggregate carrying value amounting to RMB1,190,150,000 (2018: nil) as at 31 December 2019.

(iii) the Group's financial assets at fair value through profit or loss, which had an aggregate carrying value amounting to RMB451,227,000 (2018: nil) as at 31 December 2019.

(iv) 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 as at 31 December 2018.

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 RMB398,262,000 of the facility as at 31 December 2018 and the facility was also secured by its leasehold land with a carrying value of approximately RMB157,920,000 as at 31 December 2018 which was included in the amount in note (iv) above. The loan agreement and facility have been expired as at 31 December 2019.

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 RMB200,000,000 of the facility as at 31 December 2018.The loan agreement and facility have been expired as at 31 December 2019.

18 DUE FROM RELATED PARTIES

	2019	2018
	RMB'000	*RMB'000*
Sure Capital Holdings Limited (a)	**1**	1
Zhejiang Mei Fu Petrochemical Co., Ltd (b)	**280,716**	182
Zhejiang Jiahua Import Export Co., Ltd.	**376**	376
Gangqu Gangan Industrial Equipment Installing Co., Ltd.	**—**	2,196
Jiaxing Hangzhouwan Petrochemical Logistics Co., Ltd.	**100**	—
Zhejiang Jiahua New Materials Co., Ltd	**108**	103
Zhejiang Jiahua Group Co., Ltd.	**1,018**	2,038
Zhejiang Jiahua Energy Chemical Co., Ltd.	**1,785**	1,196
	284,104	6,092

Notes:

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

(b) The amount due from Zhejiang Mei Fu Petrochemical Co., Ltd was mainly derived in relation to the 2nd Supplemental LG agreement entered into on 12 September 2019 between the Company and Zhejiang Mei Fu Petrochemical Co., Ltd. as to the provision of Renewed loan to Zhejiang Mei Fu Petrochemical Co., Ltd.

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

19 DUE TO RELATED PARTIES

	2019	2018
	RMB'000	*RMB'000*
Zhejiang Jiahua Energy Chemical Co., Ltd.	**219,189**	130,772
Grand Novel Developments Limited	**67,915**	37,524
Zhejiang Zhapu Mei Fu Port & Storage Co. Ltd.	**44,847**	30,832
Gangqu Gangan Industrial Equipment Installing Co., Ltd.	**11,553**	8,611
Zhejiang Haoxing Energy Conservation Technology Co. Ltd.	**5,198**	3,284
Jiaxing Xinggang Rewang Co., Ltd.	**1,372**	2,820
Zhejiang Jiahua Group Co., Ltd.	**711**	711
Qixia Baohua Property Co., Ltd.	**500**	—
Zhejiang Mei Fu Petrochemical Co., Ltd	**421**	21,127
Jiaxing Zhapu Construction Investment Co., Ltd	**63**	—
Jiaxing Jianghao Eco-agriculture Co., Ltd.	**29**	24
	351,798	235,705

20 SHARE CAPITAL

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 30 January 2009 with authorised share capital of HK$500,000,000 divided into 5,000,000,000 shares of HK$0.1 each.

The issued capital of the Company is as follows:

	Number of shares	**Amount**
		RMB'000
Issued and fully paid ordinary shares of HK$0.1 each:		
At 31 December 2018 and 1 January 2019	1,190,000,000	102,662
Issue of placing shares	—	—
At 31 December 2019	1,190,000,000	102,662

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 2019	**% of revenue**	Full year 2018	% of revenue	**Variance +/(-)**
REVENUE *(RMB'000)*					
Ethylene oxide	**2,441,936**	**26%**	2,821,678	29%	−13.5%
Ethylene glycol	**1,080,070**	**12%**	2,385,058	25%	−54.7%
Polypropylene	**3,670,890**	**40%**	2,504,017	26%	46.6%
Surfactants	**859,073**	**9%**	756,842	8%	13.5%
MTBE/C4	**470,839**	**5%**	410,961	4%	14.6%
C5	**340,328**	**4%**	276,167	3%	23.2%
Polypropylene Processing Service	**54,455**	**1%**	46,760	1%	16.5%
Surfactants Processing Service	**34,380**	**0%**	34,437	0%	−0.2%
Others	**238,922**	**3%**	349,939	4%	−31.7%
	9,190,893	**100%**	9,585,859	100%	−4.1%
SALES VOLUME *(MT)*					
Ethylene oxide	**363,479**		318,756		14.0%
Ethylene glycol	**257,393**		379,700		−32.2%
Polypropylene	**512,985**		354,291		44.8%
Surfactants	**108,816**		173,090		−37.1%
MTBE/C4	**99,154**		79,283		25.1%
C5	**89,631**		59,366		51.0%
Polypropylene Processing Service	**100,152**		86,290		16.1%
Surfactants Processing Service	**118,929**		105,582		12.6%
AVERAGE SELLING PRICE *(RMB)*					
Ethylene oxide	**6,718**		8,852		−24.1%
Ethylene glycol	**4,196**		6,281		−33.2%
Polypropylene	**7,156**		7,068		1.2%
Surfactants	**7,895**		4,373		80.5%
MTBE/C4	**4,749**		5,183		−8.4%
C5	**3,797**		4,652		−18.4%
Polypropylene Processing Service	**544**		542		0.4%
Surfactants Processing Service	**291**		326		−10.7%
GROSS PROFIT MARGIN *(%)*					
Ethylene oxide	**14.5%**		16.9%		−2.4%
Ethylene glycol	**2.9%**		17.5%		−14.6%
Polypropylene	**10.5%**		−5.9%		16.4%
Surfactants	**19.3%**		13.5%		5.8%
MTBE/C4	**2.5%**		8.4%		−5.9%
C5	**−2.4%**		−1.8%		−0.6%
Polypropylene Processing Service	**66.8%**		50.8%		16.0%
Surfactants Processing Service	**65.1%**		69.1%		-4.0%

Ethylene oxide sales

During the year under review, the revenue from EO line of business decreased by approximately 13.5% in 2019 when comparing to 2018, primarily due to the combined effects of the decrease in ASP of EO by approximately 24.1% in view of the price volatility of major commodities during the first half of 2019 and increase in sale volume of EO by approximately 14.0% 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 EO.

Ethylene glycol sales

During the year under review, the revenue from EG line of business decreased by approximately 54.7% when compared to 2018 as the Group decreased the EG output capacity of the 5th phase EO/EG production facilities and, in turn, the sales volume of EG decreased by approximately 32.2% when compared to 2018.

Polypropylene sales

During the year under review, the revenue from polypropylene line of business increased by approximately 46.6% when compared to 2018, which was primarily resulted from the full-year effect as to the completion of the ramp-up of the 2nd Phase polypropylene 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 44.8% in 2019 when comparing to 2018.

Gross profit margin

Overall gross profit margin increased by approximately 0.9%, primarily resulted from the decrease in Methanol pricing by more than 26% (on a simple average basis) from approximately RMB3,180/MT in 2018 to approximately RMB2,330/MT in 2019.

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 RMB591.7 million (2018: approximately RMB453.6 million), most of which were denominated in Renminbi. The Group had interest-bearing borrowings of approximately RMB4,095.7 million as at 31 December 2019 (2018: approximately RMB3,059.7 million). Please refer to note 17 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 39.5% as at 31 December 2019 as compared to approximately 32.6% as at 31 December 2018. 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 (2019: 45.7 days; 2018: 46.2 days).

The trade and notes receivables turnover days maintained at a relatively low level in both 2019 and 2018 (2019: 21.6 days; 2018: 16.6 days).

The trade and notes payables turnover days maintained at a similar level in both 2019 and 2018 (2019: 56.1 days; 2018: 62.4 days).

CAPITAL COMMITMENTS

As at 31 December 2019, the Group had capital commitments amounted to approximately RMB702.5 million (2018: RMB250.0 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:

	2019	2018
	RMB'000	*RMB'000*
Guarantees given to banks in connection with facilities granted to:		
A related party/joint venture	—	1,022,702

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.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2019, the Group employed a total of 1,012 full-time employees (2018: 1,086 employees). 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 HK20.0 cents per share in respect of the year, together with the distribution of interim dividend of HK5.0 cents per share, representing a dividend payout ratio of approximately 48.9% for the year ended 31 December 2019.

Subject to the approval of the shareholders at the forthcoming annual general meeting, the final dividend will be distributed on or about Thursday, 11 June 2019 to the shareholders whose names appear on the register of members of the Company as at Tuesday, 2 June 2020.

OTHER INFORMATION

CORPORATE GOVERNANCE

The Company has adopted the code provisions in the Code of Corporate Governance Practices (renamed as the Corporate Governance Code effective from 1 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 2019 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 2019 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 2019 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 2019 and the annual results of the Group for the year ended 31 December 2019, 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 2019.

ANNUAL GENERAL MEETING

The forthcoming 2019 annual general meeting ("**AGM**") of the Company will be held at Hong Kong on Monday, 25 May 2020. 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, 19 May 2020 to Monday, 25 May 2020, 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 Branch Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Monday, 18 May 2020. In addition, the register of members of the Company will be closed from Monday, 1 June 2020 to Tuesday, 2 June 2020, 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 Branch Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 29 May 2019.

SCOPE OF WORK FOR ANNUAL RESULTS ANNOUNCEMENT BY AUDITORS

The financial information set out in this announcement does not constitute the Group's audited accounts for the year ended 31 December 2019, but represents an extract from the consolidated financial statements for the year ended 31 December 2019 which have been audited by the auditor of the Company, Ernst & Young in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. The financial information has been reviewed by the audit committee of the Company and approved by the Board.

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 2019 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, 30 March 2020

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.*