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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 2022**

CHAIRLADY'S STATEMENT

On behalf of the board (the “**Board**”) of directors (the “**Directors**”) of China Sanjiang Fine Chemicals Company Limited (the “**Company**”), I wish to announce the annual audited consolidated results of the Company and its subsidiaries (the “**Group**”) for the year ended 31 December 2022 (the “**year under review**”).

RESULTS HIGHLIGHTS

| | 2022 | 2021 | Change |
|---|--------------------|------------|----------|
| | RMB'000 | RMB'000 | % |
| Revenue | 8,817,875 | 9,498,708 | (7.2)% |
| Gross (loss)/profit | (59,704) | 652,585 | (109.1)% |
| Net (loss)/profit attributable to shareholders of the Company | (307,880) | 380,611 | (180.9)% |
| (Losses)/earnings per share — Basic (RMB) | (26.18) fen | 32.36 fen | (180.9)% |
| Dividend per share (HK\$) — Interim | — | 12.5 cents | (100)% |
| Dividend per share (HK\$) — Final | — | 6.0 cents | (100)% |
| Dividend payout ratio (based on total payout during the year) | — | 48.0% | (100)% |
| Gross (loss)/profit margin | (0.7)% | 6.9% | (7.6)% |
| Gearing — interesting-bearing borrowings to total asset | 57.5% | 43.8% | 13.7% |

During the year under review, the outbreak of the novel coronavirus global pandemic (the “**COVID-19 Pandemic**”) and certain global emergencies continued to pose unexpected and unprecedented challenges to the Group as well as the oil and chemical sector (the “**Sector**”) in the People’s Republic of China (“**PRC**”). These challenges impacted the demands/supplies/pricings of certain commodities/feedstocks/products, which led to:- 1) the pricing movement/increment level of average selling prices (“**ASP**”) of our major products, namely ethylene oxide (“**EO**”), ethylene glycol (“**EG**”) and polypropylene (“**PP**”), in a lesser extent when compared to the pricing movement/increment level of ASP of our feedstock, Methanol; and 2) the one-off event in relation to the provision for impairments of approximately RMB55.9 million for the OCU production facility, which is used for propylene conversion. Nevertheless, the lifting of strict prevention measures in relation to COVID-19 in December 2022 by the central government of the PRC is expected to drive up the demands of our major products and, in turn, their ASP in 2023. During the year under review, revenue of the Group decreased by approximately 7.2%, primarily resulted from the decreases in ASP of the Group’s major products, namely, EO, EG and PP by a range from approximately 3.3% to approximately 13.5% in 2022 when compared to 2021. Overall gross profit margin of the Group decreased substantially by approximately 7.6% to a gross loss margin position of approximately 0.7% and net loss attributable to shareholders was approximately RMB307.9 million and basic losses per share was approximately RMB26.18 fen, for the year ended 31 December 2022, both of which represented decreases of approximately 180.9% as compared to 2021. In view of the net loss the Group made during the year under review, the Board does not recommend the payment of a final dividend for the year ended 31 December 2022.

The decrease in overall gross profit margin of the Group by approximately 7.6% to a gross loss margin position of approximately 0.7% was primarily due to the decreases in gross profit margins of major line of businesses namely the EO line of business, EG line of business and PP line of business by approximately 15.6%, 16.7% and 7.7% respectively as a result of the combined effects of: 1) the price movements of Methanol and Ethylene, which counted for approximately 80% in total of the Group’s current feedstock procurement, increased by approximately 1.6% and –2.3% (price reduction) (on a simple average basis) respectively, which were more than the price movements of EO, EG and PP of approximately –4.5%, –11.0% and –1.3% respectively during the year under review as a result of certain global emergencies, which led to higher average market prices of upstream commodities/feedstocks; and 2) the significant disruption of COVID-19 Pandemic before the lifting of the measures in December 2022, which led to lower demands from downstream level as EO, EG and PP are tied to the demands of a variety of products/industries like cleaning and detergents, cement, textiles, packings and etc and the COVID-19 Pandemic prevention measures disrupted the trades, productions and logistics.

There were a number of one-off items/events that led to the net loss attributable to shareholders of the Company for the year ended 31 December 2022, including:- 1) the provision for impairments of approximately RMB55.9 million for the OCU production

facility; 2) foreign exchange losses resulted from the depreciation of RMB against USD (2022: net loss of RMB125.4 million; 2021: net gain of RMB35 million); and 3) the suspension of the joint venture operation with Lotte Chemical Corporation which incurred costs of approximately RMB100 million including shut-down costs and depreciation in 2022. OCU production facility is an ancillary production facility of MTO production facility and is primarily used for converting ethylene and C4 into propylene. Management of the Group provided the full provision for OCU production facility during the year under review on the basis that the Group considered the price differential ratio between ethylene & C4 and propylene would not move up to a point that justifies its operation in the foreseeable future. Another one-off item/event is the foreign exchange losses resulting from the depreciation of the RMB against the USD during the year under review. Such depreciation was triggered by certain global emergencies, which led to significant price fluctuations in commodities, shortages of food supplies in certain areas, and disruptions in logistics. As a result, the Consumer Price Index increased, prompting the U.S. Federal Reserve to raise interest rates and causing an increase in the value of the USD. The Group suspended the operation of the joint venture operation with Lotte Chemical Corporation in 2022, which incurred various costs including shut-down costs, depreciation, and other expenses. These costs were included in the net loss attributable to shareholders of the Company for the year ended 31 December 2022, as one of several one-off items/events that contributed to the loss. The decision to suspend operation of the joint venture was made after a thorough evaluation of market conditions and operational performance, and was deemed necessary to address the financial and operational challenges facing the Group.

Although the Group experienced a substantial decrease in overall gross profit margin during the year under review, the Group expected a significant improvement in the gross profit margin in 2023, driven by a more favorable market environment and expected commercial operations of the 6th phase EO/EG production facilities. With the lifting of COVID-19 prevention measures by the central government of the PRC in December 2022, the demands for our major products, including EO, EG, and PP, are expected to rise, which will in turn drive up their ASPs. As the world continues to adapt/recover from the pandemic and global emergencies, management of the Group foresees a more stable market environment for the Sector and the pricing of commodities, which will enable the Group to better adapt and thrive. Besides, the management of Group believes the one-off events that negatively impacted the Group's financial performance in 2022, such as the provision for impairments of the OCU production facility and the suspension of the joint venture operation with Lotte Chemical Corporation, are unlikely to repeat in the coming year. Furthermore, the Group is finalising the construction of the new production facilities — the 6th phase EO/EG production facilities with 1,000,000MT output on a yearly basis and its ancillary upstream level production facilities and expects the commercial operations will commence during Q2 of 2023, which will enable the Group to diversify market risks in terms of feedstock procurement to rebalance the composition from the current status of Ethylene, Propylene and Methanol on a 20%-10%-70% basis to the expected status of the ratio of the aggregate of Naphtha, Ethane

and Propane and Methanol on a 70%–30% basis by Q3 of 2023, where the input ratio among Naphtha, Ethane and Propane can further be adjusted in a large extent as well. By adjusting the input ratio among Naphtha, Ethane, Propane and Methanol, the Group can better manage price fluctuations of Methanol and EO, EG and PP, being the downstream of Naphtha, Ethane and Propane and ultimately enhancing profitability.

The 6th phase EO/EG production facilities will also enable the Group to double its EO/EG market shares in the Eastern China area and the Group expects the overall revenue will increase by more than 50% after the commercial operations of the 6th phase EO/EG production facilities and its ancillary upstream level production facilities, which will enable the Group to leverage the increased capabilities of the new facilities to meet the growing demands for EO/EG products and to capitalize on the opportunities arising from a recovering market environment in the post-pandemic era.

The gearing ratio of the Group increased to 57.5% (2021: 43.8%) during the year ended 31 December 2022, which is the peak level in the foreseeable future as the Group has settled substantial part of the capital expenditure for the 6th phase EO/EG production facilities. The Group has a gearing guidance of not more than 66.7% on total interest-bearing borrowings to total assets basis, which the management of the Group considers is a better measure comparing to total interest-bearing borrowings to total equity basis as 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. Based on the Group's internal assessment when comparing the current market prices of all the outputs and inputs after taking into account the expected processing costs and finance costs, the Group expects the 6th phase EO/EG production facilities and the Naphtha/Ethane/Propane-to-Ethylene/Propylene production facility can generate a reasonable return on asset, which the management of the Group believes can be maintained in the long run.

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.

HAN Jianhong

Chairlady

PRC, 28th March 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2022

| | Notes | 2022 RMB'000 | 2021 RMB'000 |
|--|-------|------------------------------|---------------------|
| REVENUE | 4 | 8,817,875 | 9,498,708 |
| Cost of sales | | <u>(8,877,579)</u> | <u>(8,846,123)</u> |
| Gross profit | | (59,704) | 652,585 |
| Other income and gains | 4 | 837,646 | 678,413 |
| Selling and distribution expenses | | (2,970) | (12,410) |
| Administrative expenses | | (198,336) | (270,548) |
| Impairment losses on financial assets, net | 6 | 6,005 | 754 |
| Other expenses, net | 4 | (778,807) | (475,280) |
| Finance costs | 5 | <u>(168,317)</u> | <u>(131,332)</u> |
| (LOSS)/PROFIT BEFORE TAX | 6 | (364,483) | 442,182 |
| Income tax expense | 7 | <u>10,029</u> | <u>(66,029)</u> |
| (LOSS)/PROFIT FOR THE YEAR | | <u>(354,454)</u> | <u>376,153</u> |
| Attributable to: | | | |
| Owners of the parent | | (307,880) | 380,611 |
| Non-controlling interests | | <u>(46,574)</u> | <u>(4,458)</u> |
| | | <u>(354,454)</u> | <u>376,153</u> |
| (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | 8 | | |
| Basic and diluted | | <u>RMB(26.18) fen</u> | <u>RMB32.36 fen</u> |

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

| | 2022 <i>RMB'000</i> | 2021 <i>RMB'000</i> |
|--|-------------------------|------------------------|
| (LOSS)/PROFIT FOR THE YEAR | <u>(354,454)</u> | <u>376,153</u> |
| OTHER COMPREHENSIVE INCOME | | |
| Other comprehensive income that will not be reclassified to profit or loss in subsequent periods: | | |
| Equity investments designated at fair value through other comprehensive income | | |
| Change in fair value | <u>—</u> | <u>62</u> |
| | — | 62 |
| Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods | <u>—</u> | <u>62</u> |
| OTHER COMPREHENSIVE INCOME FOR THE YEAR | <u>—</u> | <u>62</u> |
| TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR | <u>(354,454)</u> | <u>376,215</u> |
| Attributable to: | | |
| Owners of the parent | (307,880) | 380,673 |
| Non-controlling interests | <u>(46,574)</u> | <u>(4,458)</u> |
| | <u>(354,454)</u> | <u>376,215</u> |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As 31 December 2022

| | <i>Notes</i> | 2022 RMB'000 | 2021 <i>RMB'000</i> |
|--|--------------|-------------------------------|------------------------|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | 10,398,128 | 6,718,898 |
| Investment properties | | 82,129 | 84,890 |
| Right-of-use assets | | 692,276 | 709,690 |
| Goodwill | | 108,434 | 108,434 |
| Other intangible assets | | 73,276 | 94,294 |
| Advance payments for property, plant and equipment | | 926,759 | 1,693,304 |
| Equity investments designated at fair value through other comprehensive income | <i>10-2</i> | 3,409 | 3,409 |
| Pledged deposits | | 1,017,984 | 1,336,375 |
| Deferred tax assets | | 37,083 | 11,346 |
| Total non-current assets | | 13,339,478 | 10,760,640 |
| CURRENT ASSETS | | | |
| Inventories | <i>11</i> | 1,067,372 | 1,060,297 |
| Trade and notes receivables | <i>12</i> | 606,641 | 345,690 |
| Prepayments, other receivables and other assets | <i>13</i> | 235,983 | 280,630 |
| Due from related parties | <i>18</i> | 90,545 | 281,881 |
| Derivative financial instruments | | 11,017 | 10,838 |
| Financial assets at fair value through profit or loss | <i>10-1</i> | 143,878 | 258,117 |
| Pledged deposits | | 2,539,125 | 686,446 |
| Non-pledged time deposits with original maturity of over three months | | 7,064 | — |
| Cash and cash equivalents | <i>14</i> | 217,493 | 593,708 |
| Total current assets | | 4,919,118 | 3,517,607 |

| | <i>Notes</i> | 2022 RMB'000 | 2021 <i>RMB'000</i> |
|---|--------------|-------------------------------|------------------------|
| CURRENT LIABILITIES | | | |
| Trade and bills payables | <i>15</i> | 1,270,293 | 2,041,706 |
| Other payables and accruals | <i>16</i> | 1,673,128 | 861,885 |
| Derivative financial instruments | | 19,393 | 2,424 |
| Financial liabilities at fair value through profit or loss | <i>10-1</i> | 219,580 | 157,958 |
| Interest-bearing bank borrowings | <i>17</i> | 6,949,416 | 4,308,548 |
| Long-term loan within one year | <i>17</i> | 279,000 | — |
| Lease liabilities | | 3,738 | 4,240 |
| Due to related parties | <i>19</i> | 142,040 | 63,242 |
| Tax payable | | 52,233 | 99,111 |
| | | <hr/> | <hr/> |
| Total current liabilities | | 10,608,821 | 7,539,114 |
| | | <hr/> | <hr/> |
| NET CURRENT LIABILITIES | | (5,689,703) | (4,021,507) |
| | | <hr/> | <hr/> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 7,649,775 | 6,739,133 |
| | | <hr/> | <hr/> |
| NON-CURRENT LIABILITIES | | | |
| Lease liabilities | | 18,531 | 18,910 |
| Deferred tax liabilities | | 35,314 | 38,657 |
| Interest-bearing bank borrowings | <i>17</i> | 3,270,235 | 1,941,000 |
| | | <hr/> | <hr/> |
| Total non-current liabilities | | 3,324,080 | 1,998,567 |
| | | <hr/> | <hr/> |
| Net assets | | 4,325,695 | 4,740,566 |
| | | <hr/> <hr/> | <hr/> <hr/> |
| EQUITY | | | |
| Equity attributable to owners of the parent | | | |
| Issued capital | <i>20</i> | 102,662 | 102,662 |
| Reserves | | 4,195,061 | 4,563,358 |
| | | <hr/> | <hr/> |
| | | 4,297,723 | 4,666,020 |
| Non-controlling interests | | 27,972 | 74,546 |
| | | <hr/> | <hr/> |
| Total equity | | 4,325,695 | 4,740,566 |
| | | <hr/> <hr/> | <hr/> <hr/> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE AND GROUP INFORMATION

China Sanjiang Fine Chemicals Company Limited (the “**Company**”) was incorporated with limited liability in the Cayman Islands on 30 January 2009. The registered office address of the Company is Suite 3204, Unit 2A, Block 3, Building D, P.O. Box 1586, Gardenia Court, Camana Bay, Grand Cayman, KY1-1100, Cayman Islands. The principal place of business in China is located at Pinghai Road, Jiaxing Port Area, Zhejiang Province, People’s Republic of China (the “**PRC**”).

During the year, the Company and its subsidiaries (the “**Group**”) was principally engaged in the manufacture and supply of ethylene oxide (“**EO**”), ethylene glycol (“**EG**”), propylene, 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 carbon four (“**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 are used to produce other bio-organic chemical products such as mono ethylene glycol which is used to produce polyester and anti-frozen chemical liquids. Propylene is commonly used in the production of PP, acrylonitrile, propylene oxide, acetone, etc., to produce a variety of important organic chemical raw materials and to produce synthetic resin, synthetic rubber and some other fine chemicals. PP is a kind of thermoplastic resin, which can be used in knitting products, injection moulding products, film products, fibre products, pipes, etc. MTBE is a kind of 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. Surfactants are widely applied in different industries as scouring agents, moisturising agents, emulsifiers and solubilisers.

In the opinion of the directors, the holding company of the Company is Sure Capital Holdings Limited (“**Sure Capital**”) and the ultimate holding company of the Company is Yihao Development Limited (“**Yihao**”), which were both incorporated in the British Virgin Islands.

2. BASIS OF PRESENTATION AND 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. They have been prepared under the historical cost convention, except for certain equity investments designated at fair value through other comprehensive income, financial assets at fair value through profit or loss, debt instruments at fair value through other comprehensive income and derivative financial instruments which have been measured at fair value. These financial statements are presented in Renminbi (“**RMB**”) and all values are rounded to the nearest thousand except when otherwise indicated.

Going concern assumption

As at 31 December 2022, the Group’s net current liabilities amounted to approximately RMB5,689,703,000, which comprised current assets of approximately RMB4,919,118,000 and current liabilities of approximately RMB10,608,821,000. 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 fulfil the Group’s debt obligations and capital expenditure requirements.

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 the Group's operating segment as a whole for the purpose of making decisions about resource 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:

| | 2022 <i>RMB'000</i> | 2021 <i>RMB'000</i> |
|-----------------------------|-------------------------|-------------------------|
| Sale of industrial products | 8,726,024 | 9,415,116 |
| Processing services | 75,751 | 65,664 |
| Rental income | <u>16,100</u> | <u>17,928</u> |
| | <u><u>8,817,875</u></u> | <u><u>9,498,708</u></u> |

Geographical information

All external revenue of the Group during the years ended 31 December 2022 and 2021 was attributable to customers established in the PRC, the place of domicile of the Group's operating entities.

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

Information about major customers

No revenue from the Group's sales to a single customer amounted to 10% or more of the Group's revenue during the years ended 31 December 2022 and 2021.

4. REVENUE, OTHER INCOME AND GAINS AND OTHER EXPENSES

An analysis of revenue is as follows:

| | 2022 <i>RMB'000</i> | 2021 <i>RMB'000</i> |
|--|-------------------------|-------------------------|
| <i>Revenue from contracts with customers</i> | 8,801,775 | 9,480,780 |
| <i>Revenue from other sources</i> | | |
| Rental income from operating leases: | | |
| Lease payments, including fixed payments | <u>16,100</u> | <u>17,928</u> |
| | <u><u>8,817,875</u></u> | <u><u>9,498,708</u></u> |

Revenue from contracts with customers

(a) Disaggregated revenue information

| Segments | 2022 RMB'000 | 2021 RMB'000 |
|---|------------------|------------------|
| Types of goods or services | | |
| Sale of industrial products | 8,726,024 | 9,415,116 |
| Processing services | 75,751 | 65,664 |
| Total revenue from contracts with customers | <u>8,801,775</u> | <u>9,480,780</u> |
| Timing of revenue recognition | | |
| At a point in time | | |
| Sale of industrial products | 8,726,024 | 9,415,116 |
| Processing services | 75,751 | 65,664 |
| Total revenue from contracts with customers | <u>8,801,775</u> | <u>9,480,780</u> |

(b) Contract liabilities

The Group recognised the following revenue-related contract liabilities:

| | 2022 RMB'000 | 2021 RMB'000 |
|---|-----------------|-----------------|
| Advance from customers for sale of industrial products and processing services* | <u>144,696</u> | <u>224,141</u> |

* Included in "Other payables and accruals" in the consolidated statement of financial position.

(i) Significant changes in contract liabilities

Contract liabilities represent the obligations to transfer goods or services to a counterparty for which the Group has received a consideration. The changes in the contract liabilities are mainly attributable to the receipt of advances from customers and the recognition of revenue when fulfilling the performance obligations.

(ii) Revenue recognised in relation to contract liabilities

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

| | 2022 RMB'000 | 2021 RMB'000 |
|---|-----------------|-----------------|
| Sale of industrial products and processing services | <u>224,141</u> | <u>166,073</u> |

(c) *Performance obligations*

At 31 December 2022, the remaining performance obligations (unsatisfied or partially unsatisfied) are expected to be recognised as revenue within one year. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

| | <i>Notes</i> | 2022 RMB'000 | 2021 <i>RMB'000</i> |
|---|--------------|-------------------------------|------------------------|
| Other income | | | |
| Bank interest income | | 101,483 | 65,193 |
| Sales of ethylene | | 57,593 | 35,196 |
| Interest income from a related party | | 5,563 | 8,979 |
| Government subsidies | <i>(a)</i> | 19,104 | 14,620 |
| Investment income from financial assets at fair value through profit or loss | | 10,161 | 3,349 |
| Sales of raw materials | | 509,379 | 419,870 |
| Utility income | | 5,541 | 8,287 |
| Sales of circular water | | 3,698 | 6,083 |
| Gross rental income from operating leases: Lease payments, including fixed payments | | 2,455 | 3,630 |
| Investment income from derivative financial instruments, net | | 91,501 | 35,162 |
| Others | | 13,671 | 20,400 |
| | | 820,149 | 620,769 |
| Gains | | | |
| Fair value gains, net: | | | |
| Financial assets at fair value through profit or loss — mandatorily classified as such | | — | 1,819 |
| Fair value gains on derivative financial instruments, net | | 8,810 | 11,015 |
| Foreign exchange gains, net | | — | 34,995 |
| Gain on disposal of silver catalysts | <i>(b)</i> | 8,687 | 9,815 |
| | | 17,497 | 57,644 |
| | | 837,646 | 678,413 |

| | <i>Notes</i> | 2022 <i>RMB'000</i> | 2021 <i>RMB'000</i> |
|---|--------------|--------------------------------------|------------------------|
| Other expenses, net | | | |
| Cost of sales of ethylene | | 48,189 | 28,815 |
| Cost of sales of raw materials | | 495,004 | 427,574 |
| Foreign exchange losses, net | | 125,434 | — |
| Financial assets at fair value through profit or loss — mandatorily classified as such | | 40,642 | — |
| Write-down of inventories to net realisable value | <i>(c)</i> | 10,671 | 18,066 |
| Provision for impairment for property, plant & equipment | | 55,906 | — |
| Others | | 2,961 | 825 |
| | | <u>778,807</u> | <u>475,280</u> |

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 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 the 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:

| | 2022 <i>RMB'000</i> | 2021 <i>RMB'000</i> |
|---|------------------------|------------------------|
| Interest on bank loans borrowings | 207,050 | 127,646 |
| Interest on lease liabilities | 951 | 892 |
| | <u>208,001</u> | <u>128,538</u> |
| Less: Interest capitalised | (135,597) | (82,459) |
| | 72,404 | 46,079 |
| Interest on discounted notes receivable and discounted letter of credit | 95,913 | 85,253 |
| | <u>168,317</u> | <u>131,332</u> |

6. PROFIT BEFORE TAX

The Group's (loss)/profit before tax is arrived at after charging/(crediting):

| | 2022 <i>RMB'000</i> | 2021 <i>RMB'000</i> |
|---|------------------------|------------------------|
| Cost of inventories sold | 8,846,121 | 8,817,924 |
| Cost of services provided | 31,458 | 28,199 |
| Depreciation of property, plant and equipment* | 493,740 | 466,279 |
| Depreciation of right-of-use assets | 21,274 | 17,227 |
| Amortisation of intangible assets** | 27,570 | 27,013 |
| Write-down of inventories to net realisable value*** | 30,887 | 18,066 |
| Reversal of impairment of trade receivables, net | (6,005) | (754) |
| Impairment of items of property, plant and equipment | 55,906 | — |
| Loss on disposal of items of intangible asset | 166 | — |
| Loss on disposal of items of property, plant and equipment | 396 | — |
| Auditor's remuneration | 2,380 | 2,380 |
| Lease payments not included in the measurement of lease liabilities | 870 | 818 |
| Employee benefit expense (including directors' remuneration):**** | | |
| Wages and salaries | 141,534 | 118,716 |
| Pension scheme contributions***** | 7,896 | 5,972 |
| Staff welfare expenses | 22,279 | 11,041 |
| | <u>171,709</u> | <u>135,729</u> |

- * The depreciation of property, plant and equipment of RMB488,366,000 (2021: RMB459,915,000) for the year is included in “Cost of sales” in the consolidated statement of profit or loss.
- ** The amortisation of intangible assets of RMB8,015,000 (2021: RMB8,807,000) for the year is included in “Cost of sales” in the consolidated statement of profit or loss.
- *** The write-down of inventories to net realisable value of RMB20,216,000 (2021: Nil) for the year is included in “Cost of sales” in the consolidated statement of profit or loss.
- **** The employee benefit expense of RMB103,234,000 (2021: RMB71,990,000) for the year is included in “Cost of sales” in the consolidated statement of profit or loss.
- ***** There are no forfeited contributions that may be used by the Group as the employer to reduce the existing level of contributions.

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 operate.

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

| | 2022 | 2021 |
|-------------------------------|------------------------|----------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Current — Mainland China | | |
| Charge for the year | 16,151 | 60,593 |
| Deferred | (26,180) | 5,436 |
| | <hr/> | <hr/> |
| Total tax charge for the year | <u>(10,029)</u> | <u>66,029</u> |

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% (2021: 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 (2021: 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 enjoys a preferential corporate income tax rate of 15% from 2022 to 2025. Therefore, Sanjiang Chemical was subject to corporate income tax at a rate of 15% for the year ended 31 December 2022 (2021: 15%).

Pursuant to the approval of the tax bureau, Sanjiang Lotte has been qualified as a High and New Technology Enterprise enjoys a preferential corporate income tax rate of 15% from 2020 to 2023. Therefore, Sanjiang Lotte was subject to corporate income tax at a rate of 15% for the year ended 31 December 2022 (2021: 15%).

Pursuant to the approval of the tax bureau, Sanjiang New Material has been qualified as a High and New Technology Enterprise enjoys a preferential corporate income tax rate of 15% from 2022 to 2025. Therefore, Sanjiang New Material was subject to corporate income tax at a rate of 15% for the year ended 31 December 2022 (2021: 15%).

Pursuant to the approval of the tax bureau, Xingxing New Energy has been qualified as a High and New Technology Enterprise enjoys a preferential corporate income tax rate of 15% from 2022 to 2025. Therefore, Xingxing New Energy was subject to corporate income tax at a rate of 15% for the year ended 31 December 2022 (2021: 15%).

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

| | 2022 <i>RMB'000</i> | 2021 <i>RMB'000</i> |
|---|-------------------------------|------------------------|
| (Loss)/profit before tax | <u>(364,483)</u> | <u>442,182</u> |
| Tax at the statutory tax rate | (91,121) | 110,546 |
| Lower tax rates enacted by local authority or in other regions | 45,813 | (38,585) |
| Additional deduction for research and development activities | (65,061) | (58,889) |
| Additional deduction for purchase of items of property, plant and equipment of High and New Technology Enterprise | (22,626) | — |
| Expenses not deductible for tax | 11,321 | 7,037 |
| Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries | — | 9,762 |
| Tax losses utilised from previous years | — | (1,134) |
| Temporary differences not recognised | 9,160 | (68) |
| Tax losses not recognised | <u>102,485</u> | <u>37,360</u> |
| Tax charge at the Group's effective rate | <u>(10,029)</u> | <u>66,029</u> |

8. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic (loss)/earnings per share amount is based on the (loss)/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 plan and shares repurchased.

The calculation of the diluted (loss)/earnings per share amount is based on the (loss)/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 (loss)/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 (loss)/earnings per share are based on:

| | 2022 <i>RMB'000</i> | 2021 <i>RMB'000</i> |
|--|-------------------------------|------------------------|
| (Loss)/Earnings | | |
| (Loss)/Profit for the year attributable to ordinary equity holders of the parent | <u>(307,880)</u> | <u>380,611</u> |

| | Number of shares | |
|--|----------------------------|---------------------|
| | 2022 <i>'000</i> | 2021 <i>'000</i> |
| Shares | | |
| Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation | <u>1,176,119</u> | <u>1,176,119</u> |

9. DIVIDENDS

| | 2022 <i>RMB'000</i> | 2021 <i>RMB'000</i> |
|--|-------------------------------|------------------------|
| Interim — HK Nil cents (2021: HK12.5 cents) per ordinary share | — | 123,459 |
| Proposed final — HK Nil cents (2021: HK6.0 cents) per ordinary share | <u>—</u> | <u>58,377</u> |
| | <u>—</u> | <u>181,836</u> |

10-1. FINANCIAL ASSETS/LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 2021 | |
|-------------------------------------|---------------------------------|--------------------------------------|
| | Assets <i>RMB'000</i> | Liabilities <i>RMB'000</i> |
| Unlisted investments, at fair value | <u>258,117</u> | <u>157,958</u> |

| | 2022 | |
|-------------------------------------|---------------------------------|--------------------------------------|
| | Assets <i>RMB'000</i> | Liabilities <i>RMB'000</i> |
| Unlisted investments, at fair value | <u>143,878</u> | <u>219,580</u> |

The above unlisted investments were wealth management products and silver leasing 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. The silver leasing was classified as financial liabilities designated upon initial recognition as at fair value through profit or loss.

As at 31 December 2022, the Group's certain unlisted investments of RMB50,476,000 (2021: RMB180,000,000) were pledged for bank loans (note 17).

As at 31 December 2022, the Group's certain unlisted investments of RMB30,689,000 (2021: Nil) were pledged for bills payable (note 15).

10-2. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

| | 2022 <i>RMB'000</i> | 2021 <i>RMB'000</i> |
|--|------------------------|------------------------|
| Equity investments designated at fair value through other comprehensive income | | |
| Unlisted equity investments, at fair value | | |
| Jiaxing Port Antong Public Pipe Gallery Co., Ltd. | <u>3,409</u> | <u>3,409</u> |

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 2022, the Group did not receive any dividend from Jiaxing Port Antong Public Pipe Gallery Co., Ltd. (“嘉興港安通公共管廊有限公司”) (2021: Nil).

11. INVENTORIES

| | 2022 <i>RMB'000</i> | 2021 <i>RMB'000</i> |
|----------------|------------------------|------------------------|
| Raw materials | 967,826 | 963,324 |
| Finished goods | <u>99,546</u> | <u>96,973</u> |
| | <u>1,067,372</u> | <u>1,060,297</u> |

12. TRADE AND NOTES RECEIVABLES

| | 2022 <i>RMB'000</i> | 2021 <i>RMB'000</i> |
|-------------------|------------------------|------------------------|
| Trade receivables | 75,073 | 46,113 |
| Notes receivable | <u>535,646</u> | <u>309,861</u> |
| | 610,719 | 355,974 |
| Impairment | <u>(4,078)</u> | <u>(10,284)</u> |
| | <u>606,641</u> | <u>345,690</u> |

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:

| | 2022 <i>RMB'000</i> | 2021 <i>RMB'000</i> |
|----------------|-------------------------------|------------------------|
| 1 to 30 days | 64,660 | 32,903 |
| 31 to 60 days | 4,051 | 758 |
| 61 to 90 days | 1,526 | 57 |
| 91 to 360 days | 870 | 2,105 |
| Over 360 days | 3,966 | 10,290 |
| | <u>75,073</u> | <u>46,113</u> |

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

| | 2022 <i>RMB'000</i> | 2021 <i>RMB'000</i> |
|-------------------------------------|-------------------------------|------------------------|
| At beginning of year | 10,284 | 11,038 |
| Reversal of impairment losses, net | (6,005) | (754) |
| Amount written off as uncollectible | (201) | — |
| At end of year | <u>4,078</u> | <u>10,284</u> |

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 2021

| | Gross carrying amount <i>RMB'000</i> | Expected credit loss rate | Expected credit losses <i>RMB'000</i> |
|---|---|---------------------------------|--|
| Trade receivables aged based on the invoice date: | | | |
| Less than 1 year | 35,823 | 0.40% | 142 |
| Between 1 and 2 years | 473 | 68.71% | 325 |
| Over 2 years | 9,817 | 100.00% | 9,817 |
| | <u>46,113</u> | | <u>10,284</u> |

As at 31 December 2022

| | Gross carrying amount <i>RMB'000</i> | Expected credit loss rate | Expected credit losses <i>RMB'000</i> |
|---|---|---------------------------------|--|
| Trade receivables aged based on the invoice date: | | | |
| Less than 1 year | 71,107 | 0.52% | 372 |
| Between 1 and 2 years | 867 | 70.01% | 607 |
| Over 2 years | 3,099 | 100.00% | 3,099 |
| | <u>75,073</u> | | <u>4,078</u> |

As at 31 December 2022, notes receivable of RMB535,646,000 (2021: RMB309,861,000), 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 2022 and 2021.

At 31 December 2022, 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 RMB985,631,000 (2021: RMB936,169,000). In addition, the Group discounted certain notes receivable (the “**Discounted Notes**”) with a carrying amount in aggregate of RMB2,246,310,000(2021: RMB1,035,050,000). The Endorsed Notes and the Discounted Notes had a maturity from one to twelve months as at 31 December 2022. 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 or the counterparties 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 RMB505,569,000 (2021: RMB655,903,000) and nil (2021: RMB5,000,000), 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 RMB480,062,000 as at 31 December 2022 (2021: RMB280,266,000). The Group recognised the proceeds received from the discount of the remaining Discounted Notes with an amount of RMB2,246,310,000 as short-term loans at 31 December 2022 (2021: RMB1,030,050,000) 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

| | 2022 <i>RMB'000</i> | 2021 <i>RMB'000</i> |
|--------------------------------|-------------------------------|------------------------|
| Deposits and other receivables | 69,673 | 135,455 |
| Prepayments | 165,092 | 143,237 |
| Loans to employees | 991 | 986 |
| Prepaid expenses | 227 | 952 |
| | 235,983 | 280,630 |

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. As at 31 December 2022, the loss allowance was assessed to be minimal.

14. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

| | 2022 <i>RMB'000</i> | 2021 <i>RMB'000</i> |
|--|------------------------|------------------------|
| Cash and bank balances | 217,493 | 593,708 |
| Time deposits and pledged deposits | <u>3,564,173</u> | <u>2,022,821</u> |
| | <u>3,781,666</u> | <u>2,616,529</u> |
| Less: Pledged time deposits: | | |
| Pledged for forward contract | 2,321 | — |
| Pledged for options | 18,990 | — |
| Pledged for a lawsuit | 1,000 | — |
| Pledged for bills payable | 646,519 | 888,993 |
| Pledged for letters of credit | 54,665 | 140,050 |
| Pledged for bank loans | 2,833,614 | 993,778 |
| Non-pledged time deposits with original maturity of over three months | <u>7,064</u> | <u>—</u> |
| | <u>3,564,173</u> | <u>2,022,821</u> |
| Cash and cash equivalents | <u>217,493</u> | <u>593,708</u> |
| Denominated in RMB | 166,869 | 550,822 |
| Denominated in United States dollars | 23,157 | 17,922 |
| Denominated in Hong Kong dollars | 27,435 | 24,933 |
| Denominated in other currencies | <u>32</u> | <u>31</u> |
| Cash and cash equivalents | <u>217,493</u> | <u>593,708</u> |

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, letters 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.

15. TRADE AND BILLS PAYABLES

| | 2022 <i>RMB'000</i> | 2021 <i>RMB'000</i> |
|----------------|------------------------|------------------------|
| Trade payables | 501,550 | 1,207,339 |
| Bills payable | 768,743 | 834,367 |
| | <u>1,270,293</u> | <u>2,041,706</u> |

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:

| | 2022 <i>RMB'000</i> | 2021 <i>RMB'000</i> |
|-----------------|------------------------|------------------------|
| Within 3 months | 863,369 | 1,659,671 |
| 3 to 6 months | 361,656 | 368,391 |
| 6 to 12 months | 31,286 | 9,654 |
| 12 to 24 months | 11,953 | 3,135 |
| 24 to 36 months | 1,228 | 424 |
| Over 36 months | 801 | 431 |
| | <u>1,270,293</u> | <u>2,041,706</u> |

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

As at 31 December 2022, the bills payable of RMB768,743,000 were secured by the Group's pledged deposits with a carrying amount of RMB646,519,000 (note 14) and the Group's certain unlisted investments with a carrying amount of RMB30,689,000. As at 31 December 2021, the bills payable of RMB834,367,000 were secured by the Group's pledged deposits with a carrying amount of RMB888,993,000 (note 14).

16. OTHER PAYABLES AND ACCRUALS

| | 2022 <i>RMB'000</i> | 2021 <i>RMB'000</i> |
|--|------------------------|------------------------|
| Deferred income | 28,000 | 28,000 |
| Other payables | 1,417,687 | 512,896 |
| Taxes payable other than income tax | 57,347 | 65,884 |
| Contract liabilities (<i>note 4</i>) | 144,696 | 224,141 |
| Payroll payable | 25,398 | 30,964 |
| Interest payable | — | — |
| | <u>1,673,128</u> | <u>861,885</u> |

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

17. INTEREST-BEARING BANK BORROWINGS

| | Effective interest rate (%) | Maturity | 2022 RMB'000 | 2021 RMB'000 |
|--|-----------------------------------|----------|-------------------------------|-------------------------------|
| Current | | | | |
| Bank loans — secured | 3.350–4.600 | 2023 | 114,342 | — |
| Bank loans — unsecured | 3.500–4.000 | 2023 | 1,290,271 | — |
| Bank loans — unsecured | 3.360–4.350 | 2022 | — | 701,510 |
| US\$6,837,000 secured bank loans | 0.507 | 2022 | — | 43,593 |
| US\$21,986,000 secured bank loans | 3.410–5.319 | 2023 | 153,127 | — |
| US\$104,753,000 unsecured bank loans | 0.724–1.932 | 2022 | — | 668,097 |
| US\$21,394,000 unsecured bank loans | 0.531–1.900 | 2022 | — | 136,398 |
| US\$71,388,000 unsecured bank loans | 1.200–5.746 | 2023 | 497,191 | — |
| EUR€22,356,000 secured bank loans | 1.260–1.951 | 2023 | 165,947 | — |
| EUR€12,893,000 unsecured bank loans | 3.046–3.200 | 2023 | 95,708 | — |
| Current portion of long term Bank loans-secured | 3.200–5.412 | 2023 | 279,000 | — |
| Discounted notes receivable | 1.100–2.670 | 2023 | 2,246,310 | — |
| Discounted letter of credit | 1.400–2.600 | 2023 | 2,386,520 | — |
| Discounted notes receivable | 1.800–3.700 | 2022 | — | 1,030,050 |
| Discounted letter of credit | 2.400–3.550 | 2022 | — | 1,728,900 |
| | | | <u>7,228,416</u> | <u>4,308,548</u> |
| Non-current | | | | |
| Bank loans — secured | 3.580 | 2023 | — | 10,000 |
| Bank loans — secured | 3.580–5.142 | 2024 | 538,000 | 104,000 |
| Bank loans — secured | 5.142 | 2025 | 520,000 | 424,000 |
| Bank loans — secured | 5.142 | 2026 | 623,000 | 623,000 |
| Bank loans — secured | 5.142–5.292 | 2027 | 780,000 | 780,000 |
| Bank loans — unsecured | 3.200–3.580 | 2024 | 124,000 | — |
| Bank loans — unsecured | 3.200–3.580 | 2025 | 225,000 | — |
| Bank loans — unsecured | 3.200–3.200 | 2026 | 126,000 | — |
| Bank loans — unsecured | 3.200–4.600 | 2027 | 334,235 | — |
| | | | <u>3,270,235</u> | <u>1,941,000</u> |
| | | | <u>10,498,651</u> | <u>6,249,548</u> |
| | | | 2022 RMB'000 | 2021 RMB'000 |
| Analysed into: | | | | |
| Bank loans repayable: | | | | |
| Within one year | | | 7,228,416 | 4,308,548 |
| In the second year | | | 662,000 | 10,000 |
| In the third to fifth years, inclusive | | | 2,608,235 | 1,151,000 |
| Beyond five years | | | — | 780,000 |
| | | | <u>10,498,651</u> | <u>6,249,548</u> |

Notes:

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

- (i) mortgages over the Group's leasehold lands, which had an aggregate carrying value at the end of the reporting period of approximately RMB395,689,000 (2021: RMB233,079,000) as at 31 December 2022;
- (ii) mortgages over the Group's property, plant and equipment, which had an aggregate carrying value at the end of the reporting period of approximately RMB3,496,255,000 (2021: RMB2,884,971,000) as at 31 December 2022;
- (iii) the Group's financial assets at fair value through profit or loss which had an aggregate carrying value amounting to RMB50,476,000 (2021: RMB180,000,000) as at 31 December 2022 (note 10-1);
- (iv) the Group's pledged deposit, which had an aggregate carrying value amounting to RMB2,888,279,000 (2021: RMB1,133,828,000) as at 31 December 2022 (note 14);
- (v) guarantees from Lotte Chemical Corporation with mortgages over the Group's property, plant and equipment, which had an aggregate carrying value amounting to RMB90,900,500 (2021: RMB103,835,500) as at 31 December 2022;
- (vi) guarantees from Hangzhou Haoming Investment Co., Ltd. ("**Hangzhou Haoming**"), a related company and a company established in the PRC with limited liability, for an amount not exceeding RMB650,000,000 (2021: RMB650,000,000); and
- (vii) mortgages over 100% of the equity interest of Hangzhou Haoming.

Sanjiang Chemical Company Limited, one of the Group's wholly-owned subsidiaries, entered into a syndicated loan agreement with Bank of Communications Corporation Limited, China CITIC Bank Corporation Limited, Agricultural Bank of China Limited and China Minsheng Banking Corporation Limited in 2020 in relation to the funding requirement for the construction of an additional EO/EG production facility with a total loan amount of RMB3,160,000,000, out of which RMB2,649,000,000.00 (2021: RMB1,841,000,000) has been used as at 31 December 2022.

18. DUE FROM RELATED PARTIES

| | 2022 | 2021 |
|--|-----------------------|----------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Mei Fu Petrochemical (<i>Note (a)</i>) | 87,282 | 278,800 |
| Grand Novel | 2,534 | 2,320 |
| Haoxing Energy Conservation | 352 | 440 |
| Jiahua Import Export | 376 | 320 |
| Sure Capital | 1 | 1 |
| | 90,545 | 281,881 |

Note:

- (a) The amount due from Zhejiang Mei Fu Petrochemical Co., Ltd was mainly derived in relation to the deposit paid pursuant to the Sale and Purchase Agreement dated 23 September 2022 and the settlement through bill payable in related to the 2nd Supplemental LG agreement entered into on 12 September 2019 between the Company and Zhejiang Mei Fu Petrochemical Co., Ltd.

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

19. DUE TO RELATED PARTIES

| | 2022 <i>RMB'000</i> | 2021 <i>RMB'000</i> |
|--------------------------|------------------------|------------------------|
| Jiahua Energy | 123,154 | 53,131 |
| Mei Fu Port | 12,603 | 5,268 |
| Hangzhou Bay Petro | 1,206 | 2,501 |
| Jiahua Group | 711 | 711 |
| Gangan Intelligent | 2,790 | 622 |
| Jiaxing Rewang | 378 | 378 |
| Jiafu New Materials | 285 | 285 |
| Jianghao Eco-agriculture | 850 | 283 |
| Zhapu Construction | 63 | 63 |
| | <u>142,040</u> | <u>63,242</u> |

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

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 <i>RMB'000</i> |
|---|----------------------|--------------------------|
| Issued and fully paid ordinary shares of HK\$0.1 each: | | |
| At 1 January 2021, 31 December 2021, 1 January 2022 and 31 December 2022 | <u>1,190,000,000</u> | <u>102,662</u> |

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 year under review and the year ended 31 December 2022 for comparison purposes are set forth below:

| | Full year 2022 | % of revenue | Full year 2021 | % of revenue | Variance +/(-) |
|---------------------------------------|-------------------|-----------------|-------------------|-----------------|-------------------|
| REVENUE (RMB'000) | | | | | |
| Ethylene oxide | 2,423,417 | 27% | 2,561,142 | 27% | -5.4% |
| Ethylene glycol | 724,196 | 8% | 1,016,527 | 11% | -28.8% |
| Polypropylene | 2,991,788 | 34% | 3,831,421 | 41% | -21.9% |
| Surfactants & water reducing agent | 1,196,215 | 14% | 800,628 | 8% | 49.4% |
| MTBE/C4 | 737,688 | 8% | 493,942 | 5% | 49.3% |
| Pentene | 349,935 | 4% | 226,036 | 2% | 54.8% |
| Polypropylene processing service | 14,970 | 0% | 20,443 | 0% | -26.8% |
| Surfactants processing service | 60,781 | 1% | 45,308 | 0% | 34.2% |
| Others | 318,885 | 4% | 503,261 | 5% | -36.6% |
| | 8,817,875 | 100% | 9,498,708 | 100% | -7.2% |
| SALES VOLUME (MT) | | | | | |
| Ethylene oxide | 372,996 | | 376,464 | | -0.9% |
| Ethylene glycol | 169,730 | | 211,946 | | -19.9% |
| Polypropylene | 412,769 | | 521,991 | | -20.9% |
| Surfactants & water reducing agent | 159,176 | | 98,527 | | 61.6% |
| MTBE/C4 | 113,909 | | 96,945 | | 17.5% |
| Pentene | 58,430 | | 49,118 | | 19.0% |
| Polypropylene processing service | 30,165 | | 37,081 | | -18.7% |

| | Full year 2022 | % of revenue | Full year 2021 | % of revenue | Variance +/(−) |
|------------------------------------|---------------------------|-------------------------|---------------------------|-------------------------|---------------------------|
| Surfactants processing service | 203,231 | | 151,473 | | 34.2% |
| AVERAGE SELLING PRICE (RMB) | | | | | |
| Ethylene oxide | 6,497 | | 6,803 | | −4.5% |
| Ethylene glycol | 4,267 | | 4,796 | | −11.0% |
| Polypropylene | 7,248 | | 7,340 | | −1.3% |
| Surfactants & water reducing agent | 7,515 | | 8,126 | | −7.5% |
| MTBE/C4 | 6,476 | | 5,110 | | 26.7% |
| Pentene | 5,989 | | 4,602 | | 30.1% |
| Polypropylene processing service | 496 | | 551 | | −10.0% |
| Surfactants processing service | 299 | | 299 | | —% |
| GROSS PROFIT MARGIN (%) | | | | | |
| Ethylene oxide | −6.9% | | 8.7% | | −15.6% |
| Ethylene glycol | −20.8% | | −4.1% | | −16.7% |
| Polypropylene | −3.1% | | 4.6% | | −7.7% |
| Surfactants & water reducing agent | 12.1% | | 14.0% | | −1.9% |
| MTBE/C4 | 8.7% | | 3.1% | | 5.6% |
| Pentene | −4.0% | | 0.4% | | −4.4% |
| Polypropylene processing service | 56.2% | | 66.5% | | −10.3% |
| Surfactants processing service | 65.8% | | 65.1% | | 0.7% |

Ethylene oxide sales

During the year under review, the revenue from EO line of business decreased by approximately 5.4% in 2022 when compared to 2021, primarily due to the combined effects of the decrease in ASP of EO by approximately 4.5% in view of the price volatility of major commodities and decrease in sale volume of EO by approximately 0.9%.

Ethylene glycol sales

During the year under review, the revenue from EG line of business decreased by approximately 28.8% when compared to 2021 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 19.9% when compared to 2021.

Polypropylene sales

During the year under review, the revenue from PP line of business decreased by approximately 21.9% when compared to 2021, primarily due to the combined effects of the decrease in ASP of PP by approximately 1.3% in view of the price volatility of major commodities and decrease in sale volume of PP by approximately 20.9%.

Gross profit margin

Overall gross profit margin decreased by approximately 7.6%, primarily due to the decreases in gross profit margins of major line of businesses namely the EO line of business, EG line of business and PP line of business by approximately 15.6%, 16.7% and 7.7% respectively as a result of the combined effects of: 1) the price movements of Methanol and Ethylene increased by approximately 1.6% and -2.3% (price reduction) (on a simple average basis) respectively, which were more than the price movements of EO, EG and PP of approximately -4.5%, -11.0% and -1.3% respectively as a result of certain global emergencies, which led to higher average market prices of upstream commodities/feedstocks; and 2) the significant disruption of COVID-19 Pandemic, which led to lower demands from downstream level as EO, EG and PP are tied to the demands of a variety of products/industries like cleaning and detergents, cement, textiles, packings and etc and the COVID-19 Pandemic prevention measures disrupted the trades, productions and logistics.

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 RMB224.6 million (2021: approximately RMB593.7 million), most of which were denominated in Renminbi. The Group had interest-bearing borrowings of approximately RMB10,498.7 million as at 31 December 2022 (2021: approximately RMB6,249.5 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 ratio, expressed as a percentage of total interest-bearing borrowings to total assets, was approximately 57.5% as at 31 December 2022 as compared to approximately 43.8% as at 31 December 2021. The Group has a gearing guidance of not more than 66.7% on total interest-bearing borrowings to total assets basis, which the management of the Group considers is a better measure 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 (2022: 43.7 days; 2021: 41.5 days).

The trade and notes receivables turnover days maintained at a relatively low level in both 2022 and 2021 (2022: 19.7 days; 2021: 11.5 days).

The trade and notes payables turnover days maintained at a similar level in both 2022 and 2021 (2022: 68.1 days; 2021: 61.9 days).

CAPITAL COMMITMENTS

As at 31 December 2022, the Group had capital commitments amounted to approximately RMB2,448.7 million (2021: RMB2,632.3 million) which was primarily related to the procurement of plant and machineries for the constructions of additional production capacities.

CONTINGENT LIABILITIES

As at 31 December 2022 and 31 December 2021, the Group did not have any significant contingent liabilities.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2022, the Group employed a total of 1,160 full-time employees (2021: 1,110 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 does not recommend the payment of a final dividend for the year ended 31 December 2022.

OTHER INFORMATION

CORPORATE GOVERNANCE

The Company has adopted the code provisions in the Corporate Governance Code (“**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 2022 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 2022 and up to the date of this annual results announcement.

AUDIT COMMITTEE

As at the date of this announcement, the audit committee of the Company (“**Audit Committee**”) consists of three members, namely Mr. Shen Kaijun, Mr. 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 2022 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 2022 and the annual results of the Group for the year ended 31 December 2022, 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 of the Company (“**Remuneration Committee**”) consists of three members, namely Mr. Kong Liang, Ms. Han Jianhong and Ms. Pei Yu of whom Mr. Kong Liang and Ms. Pei Yu are independent non-executive Directors and Ms. Han Jianhong is the Chairlady of the Board and an executive Director. The chairlady of the Remuneration Committee is Ms. Pei Yu. The primary responsibilities of the Remuneration Committee include, among others, evaluating the performance and making recommendation on the remuneration package of the Directors and senior management, and evaluating and making recommendation on the share award plan of the Company.

NOMINATION COMMITTEE

As at the date of this announcement, the nomination committee of the Company (“**Nomination Committee**”) consists of three members, namely Ms. Han Jianhong, Mr. Shen Kaijun and Ms. Pei Yu, of whom Mr. Shen Kaijun and Ms. Pei Yu are independent non-executive Directors and Ms. Han Jianhong is the Chairlady 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 2022.

ANNUAL GENERAL MEETING

The forthcoming 2023 annual general meeting (“**AGM**”) of the Company will be held at Hong Kong on Monday, 15 May 2023. Notice of the AGM will be published and despatched to the shareholders of the Company in the manner as required by the Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 10 May 2023 to Monday, 15 May 2023, 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 and transfer office in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on Tuesday, 9 May 2023.

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 2022, but represents an extract from the consolidated financial statements for the year ended 31 December 2022 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 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 2022 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.chinasanjiangfinechemicals.com) in due course.

By order of the Board
China Sanjiang Fine Chemicals Company Limited
HAN Jianhong
Chairlady and executive Director

PRC, 28th March 2023

As at the date of this announcement, the Board comprises four executive Directors: Ms. HAN Jianhong, Mr. RAO Huotao, Ms. CHEN Xian and Ms. GUAN Siyi 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.*