三江化工
SANJIANG CHEMICAL

中國三江精細化工有限公司
CHINA SANJIANG FINE CHEMICALS COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)
Stock Code : 2198

2013 ANNUAL REPORT

CONTENTS

CHAIRMAN'S STATEMENT

CHAIRMAN'S STATEMENT

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

GUAN Jianzhong
Chairman

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

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

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

BUSINESS REVIEW AND OUTLOOK

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

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

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

Apart from serving as a hedge tool against the market price increase of ethylene, we are also of the view that MTO production facility is the core of our Group's future growth and going upstream to build a MTO production facility is one of the most important strategic developments of our Group in recent years. There are a number of reasons behind:- 1) MTO production facility has cost advantage of feedstock when comparing with those oil refineries in the PRC in terms of ethylene and propylene production due to the different type of ultimate feedstock used (i.e. for MTO, it is natural gas vs. for oil refineries, it is crude oil) and we expect the feedstock advantage of methanol will be larger in long run due to shale gas advantage. Methanol, being the feedstock of MTO production facility, is produced from either natural gas or coal where natural-gas-based approach is considered as the most economical and widely used way to produce methanol. On the contrary, although there are a number of ways to produce ethylene (our existing feedstock), the current most widely used (i.e. just widely used, not most economical) way to produce ethylene in the PRC is crude-oil-based approach while, for propylene production, crude-oil-based approach is the only available option; 2) Propylene could only be produced from crude-oil-based approach in the old days while MTO production facility opens up the opportunity for us to produce propylene directly and diversify our business into propylene-derivative products, which changes the competition landscape of the propylene market in the PRC and at the same time, enables us to enjoy relatively lower cost of feedstock when comparing to the crude-oil-based approach; 3) MTO production facility secures our ongoing competitive position as we expect substantial additions of natural-gas-based methanol production capacities will come on stream in particular in

North America in the next 2-3 years, which will increase global supply of methanol and lower methanol price while we only expect a few additions in crude oil refinery capacities in the same period of time, which increases the price upside for ethylene; 4) Methanol when comparing to ethylene, in terms of transportation, is much easier to procure and import as ethylene is required stored as liquid at very low temperatures (i.e. around -102°C) on transportation by vessel and the capacity of those ethylene-specific vessels normally ranges from 3,000 MT to 5,000 MT while methanol is not required to be transported at low temperatures and the capacity of those methanol-specific vessels normally ranges between 10,000 MT to 20,000 MT, which led to the fact that methanol has lower transportation cost/MT when comparing to ethylene; 5) Methanol when comparing to ethylene, in terms of availability in the market, is much easier to procure as majority of ethylene producers are equipped with their integrated ethylene-derivative production facilities, which limits the regular supply of ethylene to the market, while majority of methanol producers sell their methanol to the market as they normally do not have downstream production facilities; and 6) last but not least, MTO production facility brings to us additional benefit of an amount of approximately RMB140 million per annum in total through synergy effect with EO production facility as we can have both saving for sharing nitrogen and saving for import duty and transportation cost. We can get enormous amount of nitrogen from air separation facilities during the EO production process and we have no use for certain amount of nitrogen except for supplying to MTO production facility, the benefit of which is expected to be approximately RMB50 million per annum. Nowadays, we are charged by the custom 2% import duty for every MT of ethylene imported from overseas into China and by increasing self-sufficiency through MTO production facility, together with the transportation cost saving, we can save the procurement cost in respect of importing approximately 300,000 MT of ethylene, the benefit of which is expected to be approximately RMB90 million per annum.

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

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

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

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

ACKNOWLEDGEMENT

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

GUAN Jianzhong
Chairman

People's Republic of China, 19th March 2014

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND FINANCIAL REVIEW

Change in accounting treatments for Sanjiang Honam

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

Revenue

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

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

	Full year 2013	% of revenue	Full year 2012	% of revenue	Variance +/(-)
REVENUE (RMB'000)					
Ethylene oxide	3,437,001	87%	2,159,995	89%	59.1%
Surfactants	226,088	6%	85,961	4%	163.0%
Surfactants processing services	35,750	1%	23,923	1%	49.4%
Others	241,632	6%	140,246	6%	72.3%
	3,940,471	100%	2,410,125	100%	63.5%
SALES VOLUME (MT)					
Ethylene oxide	376,103		216,728		73.5%
Surfactants	21,910		7,163		205.9%
Surfactants processing services	83,900		53,895		55.7%
AVERAGE SELLING PRICE (RMB)					
Ethylene oxide	9,138		9,966		-8.3%
Surfactants	10,319		12,001		-14.0%
Surfactants processing services	426		445		-4.3%
GROSS PROFIT MARGIN (%)					
Ethylene oxide	14.6%		23.3%		-8.7%
Surfactants	16.5%		19.1%		-2.6%
Surfactants processing services	75.2%		76.0%		-0.8%

Ethylene oxide sales

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

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

Surfactants sales

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

Income from provision of surfactant processing service

Revenue of surfactant processing services increased by approximately 49.4%, which was primarily due to the increase in the surfactant processing volume where we entered into surfactants processing service contracts with a number of customers on a yearly basis.

Others

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

Gross profit margin

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

Administrative expenses

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

Finance costs

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

LIQUIDITY AND FINANCIAL RESOURCES

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

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

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

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

Credit facilities	Onshore syndicated loan	Onshore bank loan	Onshore short term bond	Offshore syndicated loan	Various short-term loans & trade financing facilities (including onshore & offshore)
Facility Confirmed	Yes – syndicated loan agreement entered into on 18 June 2013	Not yet – the Group has got indicative offers from a number of banks but the loan agreement is yet to be signed	Yes – the approval for issuing bond from NAFMII obtained on 25 March 2013	Yes – syndicated loan agreement entered into on 16 August 2013	Yes – various facility letters have been entered into with various commercial banks for short-term loans and trade financing facilities (note)
Facility provider	BOC, CCB & ICBC	To be confirmed (the Group expects a loan agreement will be entered into in Q2 of 2014)	All the registered qualified institutional investors of NAFMII	FE (as lead manager)	ABC, ANZ, BOC, BOCOM, CCB, CITIC, DB, DBS, FE, HSB, ICBC and etc.
Total Loan/facility – amount	RMB1.6 billion	(the Group expects) RMB0.5 billion	RMB700 million	USD100 million (around RMB610 million)	Around RMB4.0 billion in total
Loan/facility balances utilized as at 31 December 2013	RMB0.42 billion	N/A	RMB300 million	USD85 million (around RMB519 million)	Around RMB2.8 billion (including letter of credit issued) (note)
(Loan/facility amount available for future use as at 31 December 2013) Specific usage – Loan only available for the capital expenditure of MTO production facility	RMB1.18 billion	–	–	–	–
(Loan/facility amount available for future use as at 31 December 2013) Specific usage – Loan only available for the capital expenditure of the 5th phase EO/EG production facilities	–	(the Group expects) RMB0.5 billion	–	–	–
(Loan/facility amount available for future use as at 31 December 2013) No specific usage – Loan available for general use / working capital purpose	–	–	RMB400 million	USD15 million (around RMB91 million)	Around RMB1.2 billion (note)

Credit facilities	Onshore syndicated loan	Onshore bank loan	Onshore short term bond	Offshore syndicated loan	Various short-term loans & trade financing facilities (including onshore & offshore)
Loan/facility – Interest rate (per annum)	PBOC flat rate for 6-year loan (all-in effective rate: ranging from 6.50% to 7.00%)	(the Group expects) Same as the relevant term of the **onshore syndicated loan**	1 year NAFMII coupon rate depending on the time of drawing down (for the RMB300 million portion, all-in effective rate: around 5.3%)	3-month LIBOR + 3.9% (all-in effective rate: around 4.30%)	Ranging from 1.082% to 5.880%, depending on the time when entering into transactions, the length of the loans/facilities and securities provided (note)
Loan/facility – duration	6 years	(the Group expects) Same as the relevant term of the **onshore syndicated loan**	1 year (available for rollover for 1 more year)	2 years	– For short-term loans, 1 year; – For trade financing facilities, ranging from 3-month Letter of Credit ("**LC**") with 2-month Trust Receipt ("**TR**") to up to 3-month LC with 1-year TR (note)
Loan/facility – repayment of principal schedule (all figures in RMB' million)	**(FOR ILLUSTRATIVE PURPSOE ONLY)** If ALL RMB1.6 billion were drawn down once in Sept 2013, then:– 1) RMB100 due on Sept 2015; 2) RMB100 due on Mar 2016; 3) RMB150 due on Sept 2016; 4) RMB150 due on Mar 2017; 5) RMB150 due on Sept 2017; 6) RMB150 due on Mar 2018; 7) RMB200 due on Sept 2018; 8) RMB200 due on Mar 2019; 9) RMB200 due on Sept 2019; 10) RMB200 due on Mar 2020.	(the Group expects) Same as the relevant term of the **onshore syndicated loan**	Bullet	**(FOR ILLUSTRATIVE PURPSOE ONLY)** If ALL RMB610 million were drawn down once in Sept 2013, then:– 1) RMB106 due on Sept 2014; 2) RMB106 due on Mar 2015; & 3) RMB398 due on Sept 2015	Bullet

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

Definitions for the above table:–

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

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

– As at 31 December 2013, the Group has aggregate facility of approximately RMB2.87 billion available for the capital expenditure requirements and general use while the expected capital expenditures to be incurred in 2014 amounts to RMB1.84 billion and the Group is expected to generate operating cashflow of approximately RMB1.2 billion in 2014.

– The loan durations of the two expected long-term financing arrangements (i.e. **Onshore syndicated loan** and **Onshore bank loan**), which are specific for the capital expenditures of MTO production facility and the 5th phase EO/EG production facilities, are 6 years with the first installments amount to around 1/16 of the loan principal payable 2 years after the drawn down date. The Board considers these financing arrangements give the Group enormous flexibility in its liquidity position.

Financial position and bank borrowings

The Group had cash and bank balances of approximately RMB254.0 million (2012: approximately RMB345.8 million), most of which were denominated in Renminbi. The Group had interest-bearing borrowings of approximately RMB3,040.3 million as at 31 December 2013 (2012: approximately RMB1,647.1 million). Please refer to note 26 to the financial statements for the details of borrowings and the respective charge of assets.

The Group's gearing, expressed as a percentage of total interest-bearing borrowings to total assets, was 43.1% as at 31 December 2013 as compared to 34.2% as at 31 December 2012. The Group has a gearing guidance of not more than 66.7% on total interest-bearing borrowings to total assets basis, which management considers is a better measure when comparing to total interest-bearing borrowings to total equity basis as the Group will have rapid expansion of various production facilities in the coming years and there is a time lag of approximately 2 years between the construction period of production facilities and the profit and revenue generated from these facilities.

Working capital

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

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

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

CAPITAL COMMITMENTS

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

CONTINGENT LIABILITIES

As at 31 December 2013, the Group had not provided any form of guarantee for any company outside the Group. The Group is not involved in any current material legal proceedings, nor is our Group aware of any pending or potential material legal proceedings involving the Group.

EMPLOYEES AND REMUNERATION POLICY

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

DIRECTORS AND SENIOR MANAGEMENT

BIOGRAPHIES OF DIRECTORS

GUAN Jianzhong (管建忠)

aged 45, has been an executive Director since 22 March 2010. Mr. Guan is also the Chairman of the Board and one of the founders of the Group. He is primarily responsible for the overall management and strategy of our Group. Mr. Guan is also a director of each of the subsidiaries of our Group and has over 27 years of experience in the chemical industry. Mr. Guan completed a training course in business administration at a management training centre of Zhejiang University (浙江大學) in 2007 and a corporate management training course at Tsinghua University (清華大學) in October 2009. Mr. Guan has been serving as the chairman of the board of directors of both Zhejiang Jiahua Group Co., Ltd.* (浙江嘉化集團股份有限公司) and Zhejiang Jiahua Energy Chemical Co., Ltd. ("**Jiahua Energy**") (Which was formerly known as Zhejiang Jiahua Industrial Park Investment and Development Co., Ltd.) since 2008. Zhejiang Jiahua Group Co., Ltd. and Jiahua Energy are principally engaged in the manufacturing and supply of agrochemicals and desalinated water and steam in Zhejiang Province, the PRC and both companies are not in competition with the Group. Mr. Guan is the spouse of Ms. Han Jianhong, an executive Director, and the brother-in-law of Mr. Han Jianping, an executive Director. Mr. Guan is a director of Sure Capital Holdings Limited, which together with Mr. Guan himself beneficially owned approximately 48.30% of the issued share capital of the Company.

HAN Jianhong (韓建紅)

aged 39, has been an executive Director since 22 March 2010. Ms. Han is also one of the founders of the Group. She is primarily responsible for the business planning, business structuring and restructuring, overseeing legal matters and investor relations of the Group. Ms. Han is also a director of various subsidiaries of the Group and has over 14 years of experience in the chemical industry. Ms. Han is the spouse of Mr. Guan Jianzhong, an executive Director, and the sister of Mr. Han Jianping, an executive Director.

NIU Yingshan (牛瑛山)

aged 40, has been an executive Director since 24 August 2010. He is primarily responsible for the management of production, safety and environmental protection of the Group. Mr. Niu graduated with a bachelor's degree in computer science and application (distance learning course) from the Beijing University of Chemical Technology (北京化工大學) in 2002 and has over 20 years of experience in the chemical manufacturing industry. Mr. Niu joined the Group in 2004.

HAN Jianping (韓建平)

aged 42, has been an executive Director since 24 August 2010. He is primarily responsible for the sales, procurement, research and development of the Group. Mr. Han is also a director of certain subsidiaries of the Group and has over 21 years of experience in the chemical industry. Mr. Han is the brother of Ms. Han Jianhong, an executive Director, and the brother-in-law of Mr. Guan Jianzhong, an executive Director. Mr. Han joined the Group in 1998.

BIOGRAPHIES OF DIRECTORS (Continued)

WANG Wanxu (王萬緒)

aged 54, has been an independent non-executive Director since 24 August 2010. He is the chairman of the remuneration committee and a member of both the audit committee and nomination committee of the Company. Mr. Wang graduated with a bachelor's degree in science from Shanxi University (山西大學) in 1982 and completed a master's degree in business administration from Xi'an Jiaotong University (西安交通大學) in 2004. Mr. Wang has extensive experience as an engineer and about 30 years of experience in the chemical industry.

SHEN Kaijun (沈凱軍)

aged 46, has been an independent non-executive Director since 24 August 2010. He is the chairman of the audit committee and a member of the nomination committee of the Company. Mr. Shen graduated with a bachelor's degree in accounting from Hangzhou Institute of Electronic Engineering (杭州電子工業學院) in 1995 and was admitted as a certified public accountant in China in December 1993. Mr. Shen was further awarded the qualifications as a licensed certified accountant to engage in securities- related businesses in July 1997 and a certified tax agent in June 2000. Mr. Shen has over 23 years of experience in accounting and corporate management.

MUI Ho Cheung, Gary (梅浩彰)

aged 39, has been an independent non-executive Director since 15 May 2011. He is a member of both the audit committee and remuneration committee of the Company. Mr. Mui is the executive director and Head of IPO and Capital Markets of Quam Capital Limited ("**Quam Capital**") and also the registered staff on behalf of Quam Capital for Type 6 regulated activity under the Securities and Futures Ordinance. Mr. Mui joined Quam Capital in early 2009. Mr. Mui has over 16 years of experience in the fields of finance and investment banking. Mr. Mui holds a bachelor's degree in accounting and finance from the University of New South Wales and is a member of CPA Australia.

BIOGRAPHIES OF SENIOR MANAGEMENT

CHA Lixin (查立新)

aged 61, is the head of the production department of the Group. Mr. Cha is primarily responsible for the ethylene oxide production management of the Group. He joined the Group in 2004.

CHEN Xian (陳嫻)

aged 39, is the secretary of the Board and the chief accountant of the Group. Ms. Chen is primarily responsible for the financial management of the Group. Ms. Chen graduated with a diploma in accounting from the Hangzhou Institution of Commerce of Zhejiang Gongshang University (浙江工商大學杭州商學院) in 1996 and is currently completing a bachelor's degree in accounting from Renmin University of China (中國人民大學) through online distance learning. She joined the Group in 2009.

DE Xin (德新)

aged 51, is the head of the sales department of the Group. Mr. De is primarily responsible for the sales management of the Group. Mr. De graduated with a diploma in business management (distance learning course) from Northeast Normal University (東北師範大學) in July 1997 and completed a chief marketing officer training course in April 2009. He joined the Group in 2004.

HAN Zongqi (韓宗奇)

aged 50, is the head of the procurement department of the Group. Mr. Han is primarily responsible for the procurement management of the Group. Mr. Han graduated with a diploma in English at HuaZhong Normal University (華中師範大學) in 1984. He joined the Group in 2005.

YIP Ngai Hang (葉毅恆)

aged 37, is the financial controller and company secretary of the Group. Mr. Yip is primarily responsible for the overall planning, financial reporting and budgeting and implementing business strategies of the Group. Mr. Yip graduated with a bachelor's degree in Accounting with Honours from the University of Hertfordshire in the United Kingdom in 1999. He joined the Group in 2010.

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.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE REPORT

The board of directors (the "**Board**") believes that good corporate governance will not only improve management accountability and investor confidence, but also will lay a good foundation for the long-term development of the Group. The Board reviews the corporate governance practices of the Group from time to time in order to fulfill its commitment to excellence in corporate governance and comply with the increasingly stringent regulatory requirements.

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 (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") as its own code of corporate governance. The Board considers that the Company has complied with all the code provisions of the CG Code during the year ended 31 December 2013 and up to the date of this annual report.

BOARD OF DIRECTORS

The Board takes full responsibility of supervising and overseeing all major matters of the Company, including the formulation and approval of overall management and operation strategies, reviewing the internal control and risk management systems, reviewing financial performance, considering dividend policies and monitoring the performance of the senior management, while the management is responsible for the daily management and operations of the Group.

The Board currently comprises:

Executive Directors:
Mr. Guan Jianzhong *(Chairman)*
Ms. Han Jianhong
Mr. Niu Yingshan
Mr. Han Jianping

Independent non-executive Directors:
Mr. Wang Wanxu
Mr. Shen Kaijun
Mr. Mui Ho Cheung, Gary

The Board currently comprises four executive Directors and three independent non-executive Directors from different business and professional fields. The profiles of each Director are set out in the "**Directors and Senior Management**" section in this annual report. The Directors, including the independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective delivery of the Board functions.

Mr. Guan Jianzhong ("**Mr. Guan**"), the Chairman of the Board and an executive Director, is the spouse of Ms. Han Jianhong ("**Ms. Han**"), one of the executive Directors. Mr. Han Jianping, an executive Director, is the brother and brother-in-law of Ms. Han and Mr. Guan respectively. Save as disclosed, there is no other relationship (whether financial, business, family or other material/relevant relationship) among members of the Board.

The Company has received from each of Mr. Wang Wanxu, Mr. Shen Kaijun and Mr. Mui Ho Cheung, Gary, the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all the independent non- executive Directors meet the independence criteria set out in Rule 3.13 of the Listing Rules.

The Board has established various Board committees including the audit committee (the "**Audit Committee**"), the remuneration committee (the "**Remuneration Committee**") and the nomination Committee (the "**Nomination Committee**") with written terms of reference as suggested under the CG Code. Further details of these committees are set out below.

BOARD MEETINGS

The Company has adopted the practice of holding Board meetings regularly for at least four times in a period of 12 months at approximately quarterly intervals to discuss, among other matters, the financial performance and the business operation and strategic development of the Group. Ad-hoc meetings will also be held if necessary. Notice of Board meeting will be sent to all Directors at least 14 days prior to a regular Board meeting. Reasonable notice will be given to the Directors for ad-hoc Board meetings. Directors may participate either in person or through electronic means of communication.

Agenda and Board papers with complete and reliable information are sent to all the Directors in a timely manner before the meetings. All the Directors are provided with sufficient resources to discharge their duties and there are agreed procedures for the Directors to seek independent professional advice at the Company's expenses in appropriate circumstances. All Directors will have the opportunity to include matters in the agenda for Board meetings. The company secretary of the Company is responsible for keeping the minutes of Board meetings and meetings of Board committees. All minutes are open for inspection by any Director at reasonable time on reasonable notice.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of the executive Directors has entered into a service contract with the Company for a period of three years and each of the independent non-executive Directors has been appointed for a period of two years.

In accordance with the Company's Articles of Association, at each annual general meeting of the Company, one-third of the Directors shall retire from office by rotation and every Director shall be subject to retirement at least once every three years. Director(s) newly appointed by the Board shall hold office until the next following general meeting of the Company and shall then be eligible for re-election at the meeting.

Newly appointed Director(s) will be given an induction on the information of the Group and a manual on the duties and responsibilities as a director of a listed company under the Listing Rules and applicable laws.

BOARD COMMITTEES

Audit Committee

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

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

Remuneration Committee

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

During the year ended 31 December 2013 and up to the date of this annual report, one meeting was held by the Remuneration Committee to review the remuneration packages of the Directors and senior management for the year ended 31 December 2013.

Nomination Committee

As at the date of this report, the Nomination Committee consists of three members, namely Messrs. Guan Jianzhong, Wang Wanxu and Shen Kaijun, of whom Messrs. Wang Wanxu and Shen Kaijun are independent non-executive Directors and Mr. Guan is the Chairman of the Board and an executive Director. The chairman of the Nomination Committee is Mr. Guan Jianzhong.

The primary responsibilities of the Nomination Committee include, among others, considering and recommending to the Board suitably qualified persons to become the member of the Board and reviewing the structure, size and composition of the Board on a regular basis and as required.

During the year ended 31 December 2013 and up to the date of this annual report, one meeting was held by the Nomination Committee to discharge duties, including assessing the independency of independent non-executive directors under the Listing Rules and review the Board diversity policy and terms of reference.

BOARD COMMITTEES (Continued)

The attendance of individual members of the Board and other Board committees meetings during the year ended 31 December 2013 and up to the date of this annual report is set out below:

	Meetings attended/held			
	Board	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors				
Mr. Guan Jianzhong *(Chairman)*	9/9	N/A	1/1	1/1
Ms. Han Jianhong	4/9	N/A	N/A	N/A
Mr. Niu Yingshan	4/9	N/A	N/A	N/A
Mr. Han Jianping	4/9	N/A	N/A	N/A
Independent Non-Executive Directors				
Mr. Wang Wanxu	4/9	2/2	1/1	1/1
Mr. Shen Kaijun	4/9	2/2	N/A	1/1
Mr. Mui Ho Cheung, Gary	8/9	2/2	1/1	N/A

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("**Model Code**") as set out in Appendix 10 to the Listing Rules as its model code for securities transactions by Directors and senior management. Having made specific enquiries, all the Directors confirmed that they have complied with the Model Code during the year ended 31 December 2013 and up to the date of this annual report.

FINANCIAL REPORTING AND INTERNAL CONTROL

Financial reporting

The Board, supported by the financial controller and the finance department of the Group, is responsible for the preparation of the financial statements of the Company and the Group. The Board has prepared the financial statements in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. Appropriate accounting policies have also been used and applied consistently. The Board aims to present a clear and balanced assessment of the Group's performance in the annual and interim reports to the shareholders, and make appropriate disclosure and announcement in a timely manner.

The Directors consider that the Group has adequate resources to continue the business for the foreseeable future and are not aware of any material uncertainties which may cast significant doubt upon the Group's ability to continue as going concern.

Independent auditors

During the year ended 31 December 2013, the professional fees paid or payable to the independent auditors, Ernst & Young, for services rendered are set out below:

	RMB'000
Statutory audit – 2013 annual results	1,750
Other audit service – Acting as a reporting accountant for a transaction	500
Non-audit services – Tax compliance services	195

The independence of the external auditors is monitored by the Audit Committee which is also responsible for making recommendations to the Board on the appointment of the external auditor as well as approving their terms of engagement and remuneration.

FINANCIAL REPORTING AND INTERNAL CONTROL (Continued)

Internal controls

The Board is responsible for the internal control of the Group and for reviewing its effectiveness. Procedures have been designed to safeguard the assets of the Company and ensure maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, ensure compliance of applicable laws, rules and regulations.

For the year under review, the Board has reviewed the effectiveness of the Group's internal control system. The Board considers that the internal control system is effective and adequate for the Group as a whole. The Board further considers that, save as disclosed in the "**Continuing Connected Transactions**" subsection contained in the "**Report of the Directors**" section in this annual report, (i) there was no issue relating to the material controls, including financial, operational and compliance controls and risk management functions, of the Group; and (ii) that there were adequate staff with appropriate qualifications and experience, resources and budget of its accounting and financial reporting function, and adequate training programmes have been provided for during the year ended 31 December 2013.

DIRECTORS' RESPONSIBILITY ON THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2013, and confirm that the financial statements give a true and fair view of the results of the Company and the Group and are prepared in accordance with the applicable statutory requirements and accounting standards.

The statement made by the external auditors regarding their reporting responsibilities on the financial statements of the Group is set out in the Auditors' Report on page 31 of this annual report.

NON-COMPETITION UNDERTAKINGS

The Company has received declaration from Mr. Guan and Sure Capital Holdings Limited (the "**Covenantors**"), the controlling shareholder of the Company, of their compliance with the terms of the non-competition undertaking ("**Undertaking**"). The Covenantors declared that they have fully complied with the Undertaking during the year ended 31 December 2013 and up to the date of this annual report.

The independent non-executive Directors have also reviewed the compliance of the Undertaking by the Covenantors and formed the opinion that the Covenantors have not breached any terms of the Undertaking during the year under review.

COMMUNICATION WITH SHAREHOLDERS

The Company endeavours to maintain an on-going dialogue with its shareholders and in particular, through annual general meetings or other general meetings to communicate with the shareholders and encourage their participation. The Chairman of the Board will make himself available at the forthcoming annual general meeting to be held on Wednesday, 7 May 2014 to answer any questions from shareholders.

The Group's website www.chinasanjiang.com contains an "Investor Relations" section which offers timely access to the Company's press releases, financial reports and announcements.

The Company will continue to maintain an open and effective investor communication policy and to update investors with relevant information of the Group in a timely manner.

REPORT OF THE DIRECTORS

The board (the "**Board**") of directors (the "**Directors**") has pleasure in presenting their report and the audited consolidated financial statements of the Group for the year ended 31 December 2013.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Group are the manufacturing and supplying of ethylene oxide and surfactants and the provision of surfactants processing service. The principal activities and other particulars of the subsidiaries are set out in note 16 to the financial statements.

RESULTS

The results of the Group for the year ended 31 December 2013 and the state of the Company's and the Group's affairs as at that date are set out in the consolidated financial statements on pages 33 to 111 of this annual report.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the latest five financial years is set out on pages 112 and 113 of this annual report.

DIVIDENDS

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

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

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 28 April 2014 to Wednesday, 7 May 2014, both days inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at AGM. In order to qualify for the right to attend and vote at the forthcoming AGM, all transfers documents accompanied by the relevant share certificates must be lodged with the Company's Share Registrars, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 25 April 2014. In addition, the register of members of the Company will be closed from Tuesday, 13 May 2014 to Wednesday, 14 May 2014, both days inclusive, for the purpose of ascertaining shareholders' entitlement to the proposed final dividend. In order to qualify for the proposed final dividend, all transfers documents accompanied by the relevant share certificates must be lodged with the Company's Share Registrars, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4.30 p.m. on Monday, 12 May 2014.

RESERVES

Profits attributable to equity shareholders, before dividends, of RMB605,131,000 (2012: RMB466,776,000) have been transferred to reserves. Other movements in reserves are set out in the Consolidated Statement of Changes in Equity.

NON-CURRENT ASSETS

Movements in non-current assets (including property, plant and equipment, prepaid land lease payments and intangible assets) during the financial year are set out in notes 13 to 15 to the financial statements.

BANK BORROWINGS

Particulars of the bank borrowings of the Company and of the Group as at 31 December 2013 are set out in note 26 to the financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 28 to the financial statements.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year under review, the Company repurchased a total of 10,960,000 of its ordinary shares of HK$0.10 each on the Stock Exchange of Hong Kong Limited at prices ranging from HK$3.05 to HK$3.15 per share, for a total consideration of HK$34,130,000.

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

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

DIRECTORS

The Directors during the year ended 31 December 2013 and up to the date of this annual report were:

Executive Directors
Mr. Guan Jianzhong *(Chairman)*
Ms. Han Jianhong
Mr. Niu Yingshan
Mr. Han Jianping

Independent Non-Executive Directors
Mr. Wang Wanxu
Mr. Shen Kaijun
Mr. Mui Ho Cheung, Gary

Details of the Directors' biographies are set out on pages 14 and 15 of this annual report.

Pursuant to article 105 of the Articles of Association, one-third of the Directors shall retire from office by rotation at each annual general meeting of the Company. Mr. Han Jianping, Mr. Wang Wanxu and Mr. Shen Kaijun shall retire from office by rotation at the AGM and, being eligible, offer themselves for re-election as Directors at the AGM.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors namely, Mr. Guan Jianzhong, Ms. Han Jianhong, Mr. Niu Yingshan and Mr. Han Jianping, has entered into a service contract with the Company for a term of three years and is subject to termination by either party giving not less than three months' written notice.

Each of the independent non-executive Directors, namely Mr. Wang Wanxu, Mr. Shen Kaijun and Mr. Mui Ho Cheung, Gary, has been appointed for a term of two years and is subject to termination by either party giving not less than three months' written notice.

No Director proposed for re-election at the AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The Directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Board with reference to Directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in the section headed "**Continuing Connected Transactions**" in this report and note 35 (Related Party Transactions) to the financial statements, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouses or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2013, the interests and short positions of the Directors and/or chief executives of the Company in any shares of the Company (the "**Shares**"), underlying Shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have under such provisions of the SFO), or which are required, pursuant to Section 352 of Part XV of the SFO, to be entered in the register kept by the Company, or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors (the "**Model Code**") are as follows:

Interest in shares of the Company

Name of Directors	Capacity/ Nature of interest	Long/ Short position	Number of Shares	Approximate % of issued share capital
Guan Jianzhong ("**Mr. Guan**")	Interests in controlled corporation	Long position	478,678,000(Note)	48.20%
	Beneficial owner	Long position	990,000(Note)	0.10%
Han Jianhong ("**Ms. Han**")	Interests of spouse	Long position	479,668,000(Note)	48.30%

Note: These Shares were held by Sure Capital Holdings Limited ("**Sure Capital**"), the entire issued ordinary shares of which were owned as to approximately 84.71% by Mr. Guan and approximately 15.29% by Ms. Han, the spouse of Mr. Guan. By virtue of the SFO, Mr. Guan was deemed to be interested in the Shares held by Sure Capital and Ms. Han was deemed to be interested in the Shares in which Mr. Guan was interested for the purposes of Divisions 2 and 3 of Part XV of the SFO.

Interest in shares of associated corporation of the Company

Name of Directors	Name of associated corporation	Capacity/ Nature of interest	Long/ Short position	Number of shares	Approximate % of issued share capital
Mr. Guan	Sure Capital	Beneficial owner	Long position	8,473	84.71%
Ms. Han	Sure Capital	Beneficial owner	Long position	1,529	15.29%

Save as disclosed above, none of the Directors or chief executive of the Company was interested or had any short position in any Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as at 31 December 2013.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2013, so far as is known to the Directors, the following persons (other than the Directors or chief executive of the Company), who have interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company in accordance with the provision of Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein, are as follows:

Name	Capacity/ Nature of interest	Long/ Short position	Number of Shares	Approximate % of issued share capital
Sure Capital	Beneficial owner	Long position	478,678,000(Note 1)	48.20%

Note:

1. The entire issued ordinary shares of Sure Capital were owned as to approximately 84.71% by Mr. Guan and approximately 15.29% by Ms. Han, the spouse of Mr. Guan. By virtue of the SFO, Mr. Guan was deemed to be interested in the Shares held by Sure Capital and Ms. Han was deemed to be interested in the Shares in which Mr. Guan was interested for the purposes of Divisions 2 and 3 of Part XV of the SFO.

Save as disclosed above, no other interest or short position in the shares and underlying shares of the Company were recorded in the register required to be kept under section 336 of the SFO as at 31 December 2013.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of sales and purchases attributable to the Group's major customers and suppliers respectively during the year are as follows:

	2013	2012
As a percentage of the Group's total sales		
The largest customer	7.3%	9.4%
Five largest customers in aggregate	30.4%	31.0%
As a percentage of Group's total purchases		
The largest supplier	30.2%	40.6%
Five largest suppliers in aggregate	84.1%	91.0%

None of the Directors or any of their associates or any shareholders of the Company (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interest in the Group's major customers and suppliers during the year ended 31 December 2013.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "**Share Option Scheme**"), which was adopted on 24 August 2010 (the "**Adoption Date**"), for the purpose of providing incentives or rewards to selected eligible participants for their contribution to the Group. Unless otherwise cancelled or amended, the Share Option Scheme will remain in force for 10 years from the Adoption Date.

Eligible participants of the Share Option Scheme include the following:

(i) any employee (whether full time or part time) of the Group or any entity (the "**Invested Entity**") in which any member of the Group holds any shareholding (including any executive director but excluding any non-executive director of the Group or any Invested Entity);

(ii) any non-executive directors (including independent non-executive directors) of the Group or any Invested Entity;

(iii) any supplier of goods or services to any member of the Group or any Invested Entity;

(iv) any customer of the Group or any Invested Entity;

(v) any person or entity that provides research, development or other technological support to the Group or any Invested Entity;

(vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity;

(vii) any adviser (professional or otherwise) or consultant to any area of business or business development of the Group or any Invested Entity; and

(viii) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliances or other business arrangement to the development and growth of the Group.

SHARE OPTION SCHEME (Continued)

As at the date of this annual report, the total number of Shares available for issue under the Share Option Scheme is 99,310,400, representing approximately 10.00% of the issued share capital of the Company as at the date of this annual report. The maximum number of Shares issuable upon exercise of the options which may be granted under the Share Option Scheme and any other share option scheme of the Group (including both exercised and outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being. Any further grant of share options in excess of this limit is subject to Shareholders' approval in a general meeting.

Share options granted to a Director, chief executive or substantial shareholder of the Company, or to any of their respective associates (as defined under the Listing Rules), are subject to approval in advance by the independent non-executive Directors (excluding independent non-executive Director who is the grantee of the options). In addition, where any grant of share options to a substantial shareholder or an independent non-executive Director, or to any of their respective associates, would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in excess of 0.1% of the Shares in issue and with an aggregate value (based on the closing price of the Shares at the date of the grant) in excess of HK$5 million, in a 12-month period up to and including the date of grant, such grant of share options are subject to Shareholders' approval in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK$1 by the grantee. The exercise period for the share options granted is determined by the Board, which period may commence from the date of acceptance of the offer for the grant of share options but shall end in any event not later than 10 years from the date of the grant of the option subject to the provisions for early termination under the Share Option Scheme.

The subscription price for Shares under the Share Option Scheme shall be a price determined by the Board, but shall not be less than the highest of:

(i) the closing price of Shares as stated in the daily quotations sheet of the Stock Exchange on the date of the offer of the grant, which must be a business day;

(ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of the offer of grant; and

(iii) the nominal value of the Shares.

Since the Adoption Date and up to 31 December 2013, no share option has been granted by the Company.

CONTRACT OF SIGNIFICANCE

Save as disclosed in the section headed "**Continuing Connected Transactions**" in this annual report and note 35 (Related Party Transactions) to the financial statements, no contracts of significance in relation to the Company's business to which the Company, or its subsidiaries was a party and in which a Director has a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

No contract of significance had been entered into between the Company or any of its subsidiaries and the controlling shareholder (as defined in the Listing Rules) of the Company or any of its subsidiaries.

No contract of significance for the provision of services to the Company or any of its subsidiaries by the controlling shareholder of the Company or any of its subsidiaries was entered into.

MANAGEMENT CONTRACTS

No contracts of significance concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

CONTINUING CONNECTED TRANSACTIONS

The following related party transactions entered into during the year ended 31 December 2013 constitutes continuing connected transactions for the Company under the Listing Rules and are required to be disclosed in this annual report in accordance with Chapter 14A of the Listing Rules:

1. Water and Miscellaneous Materials Supply Agreements

Pursuant to the desalinated water and miscellaneous materials supply agreements entered into by Sanjiang Chemical Co., Ltd. ("**Sanjiang Chemical**") and Jiaxing Yongming Petrochemical Co., Ltd. ("**Yongming Petrochemical**") respectively with Zhejiang Jiahua Energy Chemical Co., Ltd.* (浙江嘉化能源化工股份有限公司) ("**Jiahua Energy Chemical Co**") on 6 December 2012, Jiahua Energy Chemical Co has agreed to supply desalinated water to Sanjiang Chemical and Yongming Petrochemical at market price and miscellaneous materials such as sodium hydroxide and sodium hypochlorite at market price.

Sanjiang Chemical and Yongming Petrochemical are a wholly-owned subsidiaries of the Company. Jiahua Energy Chemical Co is a non-wholly owned subsidiary of Zhejiang Jiahua Group Co., Ltd., which is ultimately controlled by Mr. Guan and Ms. Han, the executive Directors. Jiahua Energy Chemical Co is an associate of Mr. Guan and Ms. Han and is thus a connected person of our Company under Rule 14A.11(4) of the Listing Rules.

2. Low Pressure Steam Supply Agreements

Pursuant to the low pressure steam supply agreements entered into by Sanjiang Chemical and Yongming Petrochemical with Jiahua Energy Chemical Co on 6 December 2012, Jiahua Energy Chemical Co agreed to supply low pressure steam to Sanjiang Chemical and Yongming Petrochemical at market price.

3. Medium Pressure Steam Supply Agreements

Pursuant to the medium pressure steam supply agreements entered into by Sanjiang Chemical and Yongming Petrochemical with Jiahua Energy Chemical Co on 6 December 2012, Jiahua Energy Chemical Co agreed to supply medium pressure steam to Sanjiang Chemical and Yongming Petrochemical at market price.

4. Rewang Low Pressure Steam Supply Agreement

Pursuant to the low pressure steam supply agreement entered into by Sanjiang Chemical with Jiaxing Xinggang Rewang Co., Ltd.* (嘉興興港熱網有限公司) ("**Rewang**") on 6 December 2012, Rewang agreed to supply low pressure steam to Sanjiang Chemical at market price.

Each of the above-mentioned agreements is for a term commencing on 1 January 2013 and expiring on 31 December 2015. Relevant details of the agreements and the transactions contemplated thereunder are set out in the circular dated 28 December 2012.

5. Fatty Alcohol Supply Agreements

Pursuant to the fatty alcohol supply agreements entered into between Sanjiang Chemical and Jiahua Energy Chemical Co on 20 December 2013 and 25 December 2013 respectively, Jiahua Energy Chemical Co agreed to supply an aggregate of 1,430 metric tonnes of fatty alcohol to Sanjiang Chemical at market price. Relevant details of the agreements and the transactions contemplated thereunder are set out in the announcement dated 27 December 2013.

6. Management Agreement

Pursuant to the management agreement entered into between the Company, Grand Novel Developments Limited ("**Grand Novel**") and Mr. Guan on 3 April 2013, Grand Novel agreed to act as a manager of the Company for a term commencing from 3 April and expiring on 31 December 2015. Relevant details of the agreement and the transaction contemplated thereunder are set out in the announcement dated 9 April 2013.

CONTINUING CONNECTED TRANSACTIONS (Continued)

The actual amount of the transactions and approved annual caps for the above mentioned continuing connected transactions during the years ended 31 December 2013 are as follows:

Nature of transaction	Actual transaction amount RMB	Annual Cap amount RMB
Water and Miscellaneous Materials Supply Agreements	1,022,000	3,800,000
Low Pressure Steam Supply Agreements	80,493,000	182,000,000
Medium Pressure Steam Supply Agreements	22,486,000	68,000,000
Rewang Low Pressure Steam Supply Agreement	10,394,000	18,000,000
Fatty Alcohol Supply Agreements	13,662,000	16,025,000
Management agreement	30,318,000	54,960,000

The Board, including the independent non-executive Directors, have reviewed the continuing connected transactions and confirmed that the transactions were entered into:

(a) in the ordinary and usual course of business of the Company;

(b) on normal commercial terms no less favourable to the Company than terms available to or from independent third parties; and

(c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditors of the Company also confirmed that the continuing connected transactions:

1. had been approved by the Board;

2. (where applicable) were in accordance with the pricing policies of the Group;

3. had been entered into in accordance with the terms of the agreements relating to these transactions; and

4. the aggregate consideration paid in respect of the continuing connected transactions during the year ended 31 December 2013 had not exceeded the cap as disclosed in the agreements or as required under the Listing Rules.

Save as disclosed above, there were no other connected transactions or continuing connected transactions which are required to be disclosed in this annual report in accordance with the requirements of Chapter 14A of the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float under the Listing Rules.

RETIREMENT AND PENSION SCHEMES

The Group participates certain defined contribution retirement schemes which cover the all the Group's eligible employees in the PRC, and a Mandatory Provident Fund scheme for the employees in Hong Kong.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of Mr. Wang Wanxu, Mr. Shen Kaijun and Mr. Mui Ho Cheung, Gary, the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all the independent non-executive Directors meet the independence criteria set out in Rule 3.13 of the Listing Rules.

AUDITORS

Ernst & Young will retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Ernst & Young as auditors of the Company will be proposed at the AGM.

By order of the Board

GUAN Jianzhong
Chairman

People's Republic of China, 19 March 2014

INDEPENDENT AUDITORS' REPORT

EY 安永

Independent auditors' report
To the shareholders of China Sanjiang Fine Chemicals Company Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Sanjiang Fine Chemicals Company Limited (the "**Company**") and its subsidiaries (together, the "**Group**") set out on pages 33 to 111, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
22/F CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

19 March 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000 (Restated)
REVENUE	5	**3,940,471**	2,410,125
Cost of sales		**(3,302,259)**	(1,835,614)
Gross profit		**638,212**	574,511
Other income and gains	5	**649,481**	250,201
Selling and distribution expenses		**(18,499)**	(1,845)
Administrative expenses		**(135,146)**	(94,955)
Other expenses	5	**(429,701)**	(99,068)
Finance costs	6	**(74,967)**	(67,195)
Share of profits of joint ventures	17	**56,391**	–
PROFIT BEFORE TAX	7	**685,771**	561,649
Income tax expense	10	**(81,011)**	(94,639)
PROFIT FOR THE YEAR		**604,760**	467,010
Attributable to:			
Owners of the parent	11	**605,131**	466,776
Non-controlling interests		**(371)**	234
		604,760	467,010
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic		**61.33 fens**	46.58 fens
Diluted		**61.12 fens**	46.55 fens

Details of the dividend proposed for the year are disclosed in note 31 to the financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000 (Restated)
PROFIT FOR THE YEAR		**604,760**	467,010
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Available-for-sale investments:			
Changes in fair value		**(1,981)**	1,308
Reclassification adjustments for gains included in the consolidated statement of profit or loss		**(1,144)**	(3,475)
Income tax effect	27	**327**	(164)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**(2,798)**	(2,331)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**601,962**	464,679
Attributable to:			
Owners of the parent	11	**602,333**	464,445
Non-controlling interests		**(371)**	234
		601,962	464,679

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2013

	Notes	31 December 2013 RMB'000	31 December 2012 RMB'000 (Restated)	1 January 2012 RMB'000 (Restated)
NON-CURRENT ASSETS				
Property, plant and equipment	13	**2,585,704**	1,697,228	1,175,188
Prepaid land lease payments	14	**313,893**	79,389	52,185
Intangible assets	15	**114,058**	36,464	26,976
Advance payments for property, plant and equipment		**329,099**	49,975	138,992
Investments in joint ventures	17	**378,003**	–	–
Deferred tax assets	27	**19,455**	3,160	476
Total non-current assets		**3,740,212**	1,866,216	1,393,817
CURRENT ASSETS				
Inventories	19	**247,580**	437,076	222,335
Trade and notes receivables	20	**202,959**	144,151	203,335
Prepayments, deposits and other receivables	21	**336,014**	290,189	44,948
Due from related parties	35	**1,074,921**	300	44,132
Available-for-sale investments	18	**476,133**	587,307	478,263
Derivative financial instruments	25	**–**	607	–
Pledged deposits	22	**742,186**	1,139,102	1,001,640
Cash and cash equivalents	22	**253,981**	345,781	300,049
Total current assets		**3,333,774**	2,944,513	2,294,702
CURRENT LIABILITIES				
Trade and bills payables	23	**1,183,427**	827,482	335,514
Other payables and accruals	24	**267,618**	279,407	127,194
Derivative financial instruments	25	**4,907**	4,576	–
Interest-bearing bank and other borrowings	26	**2,528,823**	1,578,817	1,435,829
Due to related parties	35	**34,606**	6,776	1,954
Due to directors		**–**	–	4,052
Tax payable		**49,116**	67,070	25,305
Total current liabilities		**4,068,497**	2,764,128	1,929,848
NET CURRENT (LIABILITIES)/ASSETS		**(734,723)**	180,385	364,854
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,005,489**	2,046,601	1,758,671

	Notes	**31 December 2013 RMB'000**	31 December 2012 RMB'000 (Restated)	1 January 2012 RMB'000 (Restated)
NON-CURRENT LIABILITIES				
Interest-bearing bank and other borrowings	26	**511,506**	68,263	24,073
Deferred tax liabilities	27	**26,614**	27,571	47,053
Total non-current liabilities		**538,120**	95,834	71,126
Net assets		**2,467,369**	1,950,767	1,687,545
EQUITY				
Equity attributable to owners of the parent				
Issued capital	28	**86,048**	87,144	87,308
Treasury shares	28	**–**	(6,356)	–
Reserves	30(a)	**2,070,805**	1,697,392	1,494,997
Proposed final dividend	31	**188,118**	144,818	77,705
		2,344,971	1,922,998	1,660,010
Non-controlling interests		**122,398**	27,769	27,535
Total equity		**2,467,369**	1,950,767	1,687,545

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2013

	Attributable to owners of the parent														
	Issued capital RMB'000	Treasury shares RMB'000	Share premium* RMB'000	Capital redemption reserve* RMB'000	Share repurchased for share award plan* RMB'000	Merger reserve* RMB'000	Available-for-sale investment revaluation reserve* RMB'000	Statutory surplus reserve* RMB'000	Share award plan reserve* RMB'000	Safety production reserve* RMB'000	Retained profits* RMB'000	Proposed final dividend RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2012	87,308	-	1,042,197	1,111	(4,808)	(518,592)	3,475	136,487	350	-	834,777	77,705	1,660,010	27,535	1,687,545
Profit for the year	-	-	-	-	-	-	-	-	-	-	466,776	-	466,776	234	467,010
Other comprehensive income for the year:															
Change in fair value of available-for-sale investments, net of tax	-	-	-	-	-	-	(2,331)	-	-	-	-	-	(2,331)	-	(2,331)
Total comprehensive income for the year	-	-	-	-	-	-	(2,331)	-	-	-	466,776	-	464,445	234	464,679
Shares awarded under the share award plan (note 29)	-	-	-	-	(6,506)	-	-	-	-	-	-	-	(6,506)	-	(6,506)
Equity-settled share award plan	-	-	-	-	-	-	-	-	651	-	-	-	651	-	651
Repurchase and cancellation of ordinary shares	(164)	(6,356)	(2,877)	164	-	-	-	-	-	-	(164)	-	(9,397)	-	(9,397)
Business combination under common control	-	-	-	-	-	(108,500)	-	-	-	-	-	-	(108,500)	-	(108,500)
Final 2011 dividend declared	-	-	-	-	-	-	-	-	-	-	-	(77,705)	(77,705)	-	(77,705)
Appropriation to statutory surplus reserve	-	-	-	-	-	-	-	66,854	-	-	(66,854)	-	-	-	-
Appropriation to safety production reserve	-	-	-	-	-	-	-	-	-	13,835	(13,835)	-	-	-	-
Safety production reserve used	-	-	-	-	-	-	-	-	-	(13,373)	13,373	-	-	-	-
Proposed final 2012 dividend	-	-	-	-	-	-	-	-	-	-	(144,818)	144,818	-	-	-
At 31 December 2012	87,144	(6,356)	1,039,320	1,275	(11,314)	(627,092)	1,144	203,341	1,001	462	1,089,255	144,818	1,922,998	27,769	1,950,767

	Attributable to owners of the parent														
	Issued capital RMB'000	Treasury shares RMB'000	Share premium* RMB'000	Capital redemption reserve* RMB'000	Share repurchased for share award plan* RMB'000	Merger reserve* RMB'000	Available-for-sale investment revaluation reserve* RMB'000	Statutory surplus reserve* RMB'000	Share award plan reserve* RMB'000	Safety production reserve* RMB'000	Retained profits* RMB'000	Proposed final dividend RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2013	87,144	(6,356)	1,039,320	1,275	(11,314)	(627,092)	1,144	203,341	1,001	462	1,089,255	144,818	1,922,998	27,769	1,950,767
Profit for the year	-	-	-	-	-	-	-	-	-	-	605,131	-	605,131	(371)	604,760
Other comprehensive income for the year:															
Change in fair value of available-for-sale investments, net of tax	-	-	-	-	-	-	(2,798)	-	-	-	-	-	(2,798)	-	(2,798)
Total comprehensive income for the year	-	-	-	-	-	-	(2,798)	-	-	-	605,131	-	602,333	(371)	601,962
Shares awarded under the share award plan (note 29)	-	-	-	-	(9,289)	-	-	-	-	-	-	-	(9,289)	-	(9,289)
Equity-settled share award plan	-	-	-	-	-	-	-	-	1,378	-	-	-	1,378	-	1,378
Repurchase and cancellation of ordinary shares	(1,096)	6,356	(32,891)	1,096	-	-	-	-	-	-	(1,096)	-	(27,631)	-	(27,631)
Final 2012 dividend declared	-	-	-	-	-	-	-	-	-	-	-	(144,818)	(144,818)	-	(144,818)
Appropriation to statutory surplus reserve	-	-	-	-	-	-	-	61,991	-	-	(61,991)	-	-	-	-
Appropriation to safety production reserve	-	-	-	-	-	-	-	-	-	17,841	(17,841)	-	-	-	-
Safety production reserve used	-	-	-	-	-	-	-	-	-	(16,784)	16,784	-	-	-	-
Capital increase of non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	95,000	95,000
Proposed final 2013 dividend	-	-	-	-	-	-	-	-	-	-	(188,118)	188,118	-	-	-
At 31 December 2013	86,048	-	1,006,429	2,371	(20,603)	(627,092)	(1,654)	265,332	2,379	1,519	1,442,124	188,118	2,344,971	122,398	2,467,369

* These reserve accounts comprise the consolidated reserves of RMB2,070,805,000 (2012: RMB1,697,392,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**685,771**	561,649
Adjustments for:			
Finance costs	6	**74,967**	67,195
Share of profits of joint ventures		**(56,391)**	–
Bank interest income	5	**(78,916)**	(106,846)
Investment income from available-for-sale investments	5	**(16,253)**	(23,194)
Fair value losses on derivative financial instruments	5	**9,929**	–
Interest income from joint ventures	5	**(60,428)**	–
Foreign exchange differences, net		**1,557**	83
Fair value gains on derivative financial instruments	5	**(13,086)**	(1,469)
Depreciation	7	**157,832**	104,201
Loss on disposal of items of property, plant and equipment	7	**–**	1,300
Amortisation of prepaid land lease payments	7	**3,176**	1,536
Amortisation of intangible assets	7	**7,963**	5,363
Write-down of inventories to net realisable value	7	**98,478**	15,448
Impairment of other receivables		**–**	(181)
Equity-settled share award plan expense	7	**1,378**	651
		815,977	625,736
Decrease/(increase) in inventories		**91,018**	(230,189)
(Increase)/decrease in trade and notes receivables		**(58,808)**	59,184
Decrease/(increase) in prepayments, deposits and other receivables		**168,843**	(172,494)
(Increase)/decrease in amounts due from related parties		**(71,890)**	43,832
Increase in trade and bills payables		**102,176**	491,968
(Decrease)/increase in other payables and accruals		**(150,490)**	79,965
Decrease in amounts due to directors		**–**	(4,052)
Increase in amounts due to related parties		**27,830**	4,822
Cash generated from operations		**924,656**	898,772
Income tax paid		**(115,726)**	(74,688)
Net cash flows from operating activities		**808,930**	824,084

	Notes	2013 RMB'000	2012 RMB'000 (Restated)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(933,136)**	(465,884)
Purchases of prepaid land lease payments		**(241,071)**	(29,306)
Purchases of intangible assets		**(85,557)**	(14,850)
Proceeds from disposal of items of property, plant and equipment		**174**	1,302
Investments in joint ventures		**(321,612)**	–
Advances of loans to joint ventures		**(1,965,072)**	–
Repayment of loans from joint ventures		**965,069**	–
Purchases of available-for-sale investments		**(478,114)**	(586,000)
Sales of available-for-sale investments		**586,000**	474,272
Exercise of the bullion options		**1,662**	5,438
Addition to entrusted loan receivables		**(200,000)**	(72,000)
Bank interest received		**68,245**	106,846
Interest received from joint ventures		**57,700**	–
Fair value loesses on derivative financial instruments		**(9,929)**	–
Fair value gains on derivative financial instruments		**11,755**	–
Investment income from available-for-sale investments		**16,253**	23,194
Net cash flows used in investing activities		**(2,527,633)**	(556,988)
CASH FLOWS FROM FINANCING ACTIVITIES			
Acquisition of a business combination under common control		**–**	(108,500)
Contribution from non-controlling shareholders		**95,000**	–
New bank loans		**6,576,736**	3,401,362
Repayment of bank loans		**(5,493,596)**	(3,214,184)
Proceeds from issuance of a short-term bond		**300,000**	–
Decrease/(increase) in deposits pledged for bank loans		**396,916**	(137,462)
Interest paid		**(64,858)**	(68,889)
Treasury shares buyback		**–**	(6,356)
Dividends paid		**(144,818)**	(77,705)
Repurchase and cancellation of ordinary shares		**(27,631)**	(3,041)
Purchases of shares held for the share award plan		**(9,289)**	(6,506)
Net cash flows from/(used in) financing activities		**1,628,460**	(221,281)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(90,243)**	45,815
Cash and cash equivalents at beginning of year		**345,781**	300,049
Effect of foreign exchange rate changes, net		**(1,557)**	(83)
CASH AND CASH EQUIVALENTS AT END OF YEAR	22	**253,981**	345,781

STATEMENT OF FINANCIAL POSITION

31 December 2013

	Notes	31 December 2013 RMB'000	31 December 2012 RMB'000
NON-CURRENT ASSETS			
Investments in subsidiaries	16	**426,588**	426,588
Total non-current assets		**426,588**	426,588
CURRENT ASSETS			
Prepayments, deposits and other receivables	21	**2,290**	33,797
Due from a subsidiary	35	**825,678**	966,743
Cash and cash equivalents	22	**3,674**	414
Total current assets		**831,642**	1,000,954
CURRENT LIABILITIES			
Interest-bearing bank borrowings	26	**109,363**	50,270
Other payables and accruals	24	**257**	24,437
Due to a related party	35	**29,877**	–
Total current liabilities		**139,497**	74,707
NET CURRENT ASSETS		**692,145**	926,247
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,118,733**	1,352,835
Net assets		**1,118,733**	1,352,835
EQUITY			
Issued capital	28	**86,048**	87,144
Treasury shares	28	**–**	(6,356)
Reserves	30(b)	**844,567**	1,127,229
Proposed final dividend	31	**188,118**	144,818
Total equity		**1,118,733**	1,352,835

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.

During the year, the Group was principally engaged in the manufacturing and supplying of ethylene oxide ("**EO**") and surfactants. The Group was also engaged in the provision of processing service for surfactants to its customers and the production and supply of other chemical products such as ethylene glycol, polymer grade ethylene and industrial gases, namely oxygen, nitrogen and argon in the People's Republic of China (the "**PRC**"). Ethylene oxide is a key intermediary component for the production of ethylene derivative products such as ethylene glycol, ethanolamines and glycol ethers and a wide range of surfactants. Surfactants are widely applied in different industries as scouring agent, moisturising agent, emulsifier and solubiliser.

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

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

Going concern assumption

As at 31 December 2013, the Group's net current liabilities amounted to approximately RMB734,723,000, which comprised current assets of approximately RMB3,333,774,000 and current liabilities of approximately RMB4,068,497,000. The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflows from operations and sufficient financing to meet its financial obligations as and when they fall due. In preparing the financial statements, the directors of the Company have considered the Group's sources of liquidity and believe that adequate funding is available to fulfill the Group's debt obligations and capital expenditure requirements.

Accordingly, the consolidated financial statements have been prepared on a basis that the Group will be able to continue as a going concern.

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation

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

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

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

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

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.

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*
HKFRS 10	*Consolidated Financial Statements*
HKFRS 11	*Joint Arrangements*
HKFRS 12	*Disclosure of Interests in Other Entities*
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – *Transition Guidance*
HKFRS 13	*Fair Value Measurement*
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*
HKAS 19 (2011)	*Employee Benefits*
HKAS 27 (2011)	*Separate Financial Statements*
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*
HKAS 36 Amendments	Amendments to HKAS 36 *Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets (early adopted)*
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*
Annual Improvements 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012

Other than as further explained below regarding the impact of HKFRS 11 *Joint Arrangements*, the adoptions of the new and revised HKFRSs has had no significant financial effect on these financial statements.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation. The classification of joint arrangements under HKFRS 11 depends on the parties' rights and obligations arising from the arrangements. A joint operation is a joint arrangement whereby the joint operators have rights to the assets and obligations for the liabilities of the arrangement and is accounted for on a line-by-line basis to the extent of the joint operators' rights and obligations in the joint operation. A joint venture is a joint arrangement whereby the joint venturers have rights to the net assets of the arrangement and is required to be accounted for using the equity method in accordance with HKAS 28 (2011).

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

The directors of the Company reviewed and assessed the classification of the Group's investment in a joint arrangement in accordance with the requirements of HKFRS 11, and concluded that the Group's investment in Sanjiang Honam Chemical Ltd. ("**Sanjiang Honam**"), which was previously classified as a jointly-controlled entity under HKAS 31 and was accounted for using the equity method, should be classified as a joint operation under HKFRS 11 and be accounted for on a line-by-line basis to the extent of the joint operator's right and obligations in the joint operation. The change in accounting for investment in a joint operation has been applied retrospectively. The opening balances as at 1 January 2012 and comparative information for the year ended 31 December 2012 have been restated in the consolidated financial statements. The quantitative impact on the financial statements is summarised below:

Impact on the consolidated statement of profit or loss:

	Year ended 31 December 2012 RMB'000
Decrease in revenue	(52,277)
Decrease in cost of sales	101,073
Increase in gross profit	48,796
Decrease in other income and gains	(53,000)
Decrease in share of profit of a jointly-controlled entity	(10,383)
Decrease in other expenses	25,242
Increase in administrative expenses	(3,106)
Increase in finance costs	(2,834)
Increase in profit before tax	4,715
Increase in income tax expense	(4,715)
Net impact on profit for the year and earnings per share	–
Net impact on other comprehensive income	–

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Impact on the consolidated statement of financial position:

	As at 31 December 2012 RMB'000	As at 1 January 2012 RMB'000
Increase in property, plant and equipment	**244,640**	39,752
Decrease in investment in a jointly-controlled entity	**(147,251)**	(92,105)
Increase in advanced prepayments for property, plant and equipment	**–**	67,356
Increase in intangible assets	**9,968**	6
Increase in total non-current assets	**107,357**	15,009
Increase in inventories	**40,633**	–
Increase in trade and notes receivables	**52,066**	200
Increase in prepayments, deposits and other receivables	**30,618**	901
Decrease in due from related parties	**(93,970)**	–
Increase in cash and cash equivalents	**112,196**	9,358
Increase in total current assets	**141,543**	10,459
Increase in trade and bills payables	**(126,045)**	(84)
Increase in other payables and accruals	**(14,609)**	(1,311)
Increase in interest-bearing bank and other borrowings	**(50,000)**	–
Decrease in due to related parties	**14,732**	–
Increase in tax payables	**(4,715)**	–
Increase in total current liabilities	**(180,637)**	(1,395)
(Decrease)/increase in net current assets	**(39,094)**	9,064
Increase in long term borrowings	**(68,263)**	(24,073)
Impact on net assets and equity	**–**	–

Impact on the consolidated statement of cash flows:

	Year ended 31 December 2012 RMB'000
Increase in net cash flows from operating activities	118,321
Increase in net cash flows used in investing activities	(106,839)
Decrease in net cash flows used in financing activities	91,356
Net increase in cash and cash equivalents	102,838

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 9	*Financial Instruments*[3]
HKFRS 9, HKFRS 7 and HKAS 39 Amendments	*Hedge Accounting and amendments to HKFRS 9, HKFRS 7 and HKAS 39*[3]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities*[1]
HKFRS 14	*Regulatory Deferred Accounts*[4]
HKAS 19 Amendments	Amendments to HKAS 19 *Employee Benefits – Defined Benefit Plans: Employee Contributions*[2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[1]
HKAS 39 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*[1]
HK(IFRIC)-Int 21	*Levies*[1]
Annual Improvements 2010-2012 Cycle	Amendments to a number of HKFRSs issued in January 2014[2]
Annual Improvements 2011-2013 Cycle	Amendments to a number of HKFRSs issued in January 2014[2]

1 Effective for annual periods beginning on or after 1 January 2014
2 Effective for annual periods beginning on or after 1 July 2014
3 No mandatory effective date yet determined but is available for adoption
4 Effective for annual periods beginning on or after 1 January 2016

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "**Additions**") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated as at fair value through profit or loss using the fair value option ("**FVO**"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("**OCI**"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

In December 2013, the HKICPA added to HKFRS 9 the requirements related to hedge accounting and made some related changes to HKAS 39 and HKFRS 7 which include the corresponding disclosures about risk management activity for applying hedge accounting. The amendments to HKFRS 9 relax the requirements for assessing hedge effectiveness which result in more risk management strategies being eligible for hedge accounting. The amendments also allow greater flexibility on the hedged items and relax the rules on using purchased options and non-derivative financial instruments as hedging instruments. In addition, the amendments to HKFRS 9 allow an entity to apply only the improved accounting for own credit risk-related fair value gains and losses arising on FVO liabilities as introduced in 2010 without applying the other HKFRS 9 requirements at the same time.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on impairment of financial assets continues to apply. The previous mandatory effective date of HKFRS 9 was removed by the HKICPA in December 2013 and a mandatory effective date will be determined after the entire replacement of HKAS 39 is completed. However, the standard is available for application now. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

Amendments to HKFRS 10 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with HKFRS 9 rather than consolidate them. Consequential amendments were made to HKFRS 12 and HKAS 27 (2011). The amendments to HKFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as the Company is not an investment entity as defined in HKFRS 10.

The HKAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to setoff" for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in HKAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

Investments in joint ventures

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and other comprehensive income of joint ventures is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its joint ventures are eliminated to the extent of the Group's investments in the joint ventures, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of joint ventures is included as part of the Group's investments in joint ventures.

If an investment in a joint venture becomes an investment in an associate or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

The results of joint ventures are included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's investments in joint ventures are treated as non-current assets and are stated at cost less any impairment losses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group recognises in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

The assets, liabilities, revenues and expenses relating to the Group's interest in a joint operation are accounted for in accordance with the HKFRSs applicable to the particular assets, liabilities, revenues and expenses.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of HKAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its derivative financial instruments, available-for-sale investments and equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, financial assets, investment properties, goodwill and non-current assets/a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises (only if there are revalued assets in the financial statements), unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	5%
Plant and machinery	6%
Office equipment	18%
Motor vehicles	18%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation methods are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings, plant and machinery under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Software
Purchased software is stated at cost less any impairment losses and amortised on the straight-line basis over its estimated useful life of 5 years.

Technology use rights
Purchased technology use rights are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 years.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other expenses for receivables.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial assets are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for “Revenue recognition” below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the statement of profit or loss.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "**Significant**" is evaluated against the original cost of the investment and "**prolonged**" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity investments classified as available for sale are not reversed through the statement of profit or loss. Increases in the fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through the statement of profit or loss if the subsequent increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss and loans and borrowings, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, other payables and accruals, amounts due to directors and related parties, derivative financial instruments and interest-bearing bank borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liabilities simultaneously.

Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in the statement of profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration is recognised in equity. Voting rights related to treasury shares are nullified for the Group.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the country in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry-forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the rendering of processing services when such services are rendered and when it is probable that the economic benefits associated with the transaction will flow to the entity;

(c) rental income, on a time proportion basis over the lease terms;

(d) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(e) dividend income, when the shareholders' right to receive payment has been established.

Share-based payments

The Company operates a share award plan for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("**equity-settled transactions**").

The cost of equity-settled transactions with employees is measured by reference to the fair value of the shares at the date at which they are granted. The fair value is measured at the market value of the shares, adjusted for the exclusion of expected dividends to be received in the vesting period, further details of which are given in note 29 to the financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled in employee benefit expense. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments (continued)

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding non-vested ordinary shares is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "**MPF Scheme**") under the Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute 14% of its payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as a part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate ranging between 2% and 3% has been applied to the expenditure on the individual assets.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

3. SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of these financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. All non-financial assets of the Group are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. The amount of unrecognised tax losses at 31 December 2013 was RMB45,577,000 (2012: RMB5,627,000). Further details are contained in note 27 to the financial statements.

3. SIGNIFICANT ACCOUNTING ESTIMATES (continued)

Estimation uncertainty (continued)

Income tax

The Group is subject to income taxes in various regions. As a result of the fact that certain matters relating to the income taxes have not been confirmed by the local tax bureau, objective estimates and judgements based on currently enacted tax laws, regulations and other related policies are required in determining the provision for income tax. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact on the income tax and tax provisions in the period in which the differences are realised. Further details are disclosed in note 10 to these financial statements.

Fair value of available-for-sale investments

The available-for-sale investments have been valued based on the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics. This valuation requires the Group to make estimates about expected future cash flows, credit risk, volatility and discount rates, and hence they are subject to uncertainty. The fair value of the available-for-sale investments at 31 December 2013 was RMB476,133,000 (2012: RMB587,307,000). Further details are included in note 18 to the financial statements.

Impairment of available-for-sale financial assets

The Group classifies certain assets as available for sale and recognises movements of their fair values in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the statement of profit or loss. At 31 December 2013, no impairment loss has been recognised for available-for-sale financial assets (2012: Nil).

Impairment of trade and other receivables

Impairment of trade and other receivables is made based on ongoing assessment of the recoverability of trade and other receivables. The identification of impairment requires management's judgements and estimates. Where the actual outcome is different from the original estimate, such differences will impact on the carrying values of the trade and other receivables and impairment loss in the period in which such estimate has been changed.

Useful lives and residual values of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset and the legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way.

Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed at each financial year end date based on changes in circumstances.

4. 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 resources allocation and performance assessment.

Entity-wide disclosures

Information about products and services

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

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

Geographical information

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

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

Information about a major customer

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

5. REVENUE, OTHER INCOME AND GAINS AND OTHER EXPENSES

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, net of value-added tax and government surcharges and after allowances for returns and trade discounts; and the value of services rendered.

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

	2013 RMB'000	2012 RMB'000 (Restated)
Revenue		
Sale of goods	**3,896,142**	2,379,141
Rendering of services	**35,750**	23,923
Others	**8,579**	7,061
	3,940,471	2,410,125
Other income		
Bank interest income	**78,916**	106,846
Interest income from joint ventures	**60,428**	–
Government subsidies (a)	**26,762**	18,140
Sales of circular water to Sanjiang Honam	**25,816**	6,706
Sales of low sulphur fuel oil to Mei Fu Petrochemical	**185,710**	–
Sales of propylene to Mei Fu Petrochemical	**72,694**	–
Sales of silver catalyst to Sanjiang Honam	**33,184**	–
Sales of ethylene to Sanjiang Honam	**27,681**	59,046
Gross rental income	**2,610**	4,262
Commission fee	**1,479**	569
Project management service income from Sanjiang Honam	**–**	10,593
Sales of raw materials	**378**	6,942
Others	**7,655**	3,562
	523,313	216,666
Gains		
Foreign exchange gains, net	**96,829**	598
Fair value gains on derivative financial instruments	**13,086**	1,469
Investment income from available-for-sale investments	**16,253**	23,194
Gain on disposal of silver catalysts (b)	**–**	8,274
	126,168	33,535
	649,481	250,201

5. REVENUE, OTHER INCOME AND GAINS AND OTHER EXPENSES (continued)

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

	2013 RMB'000	2012 RMB'000 (Restated)
Other expenses		
Cost of sales of low sulphur fuel oil to Mei Fu Petrochemical	**183,350**	–
Impairment loss for inventories (c)	**99,928**	15,627
Cost of sales of propylene to Mei Fu Petrochemical	**71,962**	–
Cost of sales of silver catalyst to Sanjiang Honam	**31,974**	–
Cost of sales of ethylene to Sanjiang Honam	**25,155**	54,473
Fair value losses on derivative financial instruments	**9,929**	–
Loss on disposal of silver catalysts (b)	**3,732**	–
Lease expense	**215**	2,971
Commission fee	**107**	–
Cost of sales of raw materials	**46**	–
Project management expenses for Sanjiang Honam	**–**	21,186
Others	**3,303**	4,811
	429,701	99,068

Notes:

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

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

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

6. FINANCE COSTS

An analysis of finance costs is as follows:

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

7. PROFIT BEFORE TAX

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

	Notes	2013 RMB'000	2012 RMB'000 (Restated)
Cost of inventories sold		**3,293,428**	1,827,875
Cost of services provided		**5,959**	5,516
Depreciation*	13	**157,832**	104,201
Amortisation of prepaid land lease payments	14	**3,176**	1,536
Amortisation of intangible assets**	15	**7,963**	5,363
Loss on disposal of items of property, plant and equipment		**–**	1,300
Write-down of inventories to net realisable value		**98,478**	15,448
Auditors' remuneration		**2,445**	1,465
Minimum lease payments under operating leases		**2,455**	2,570
Employee benefit expense (including directors' remuneration (note 8)):			
Wages and salaries		**78,700**	59,851
Pension scheme contributions		**2,589**	1,740
Staff welfare expenses		**3,423**	3,467
Equity-settled share award plan expense		**1,378**	651
		86,090	65,709

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

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

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2013 RMB'000	2012 RMB'000
Fees	**384**	391
Other emoluments:		
Salaries, allowances and benefits in kind	**1,970**	2,882
Equity-settled share award plan expense	**332**	125
Pension scheme contributions	**58**	47
Management fee paid to a related company*	**30,318**	–
	32,678	3,054
	33,062	3,445

* On 3 April 2013, the Company entered into a management agreement with Mr. Guan Jianzhong ("**Mr. Guan**") and Grand Novel Developments Limited ("**Grand Novel**"), which is a company incorporated in the British Virgin Islands and is controlled by a director of the Company, Mr. Guan. Pursuant to the management agreement, Grand Novel agreed to act as a manager of the Company and in return, the Company agreed to pay Grand Novel a monthly fee of HKD100,000 and a management bonus in such sum as the board of directors (the "**Board**") may in its absolute discretion determine, provided that the aggregate amount of management bonuses payable for each financial year shall not exceed 5 per cent of the audited net profit of the Company (after taxation and minority interests and payment of such bonuses but excluding extraordinary and exceptional items) in respect of each financial year.

During the year, certain directors were awarded shares, in respect of their services to the Group, under the share award plan of the Company, further details of which are set out in note 29 to the financial statements. The fair value of these shares, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of award, and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

8. DIRECTORS' REMUNERATION (continued)

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2013 RMB'000	2012 RMB'000
Wang Wanxu	**96**	98
Shen Kaijun	**96**	98
Mui Ho Cheung, Gary	**192**	195
	384	391

There were no other emoluments payable to the independent non-executive directors during the year (2012: Nil).

(b) Executive directors

	Salaries, allowances and benefits in kind RMB'000	Equity-settled share award plan expense RMB'000	Pension scheme contributions RMB'000	Management fee paid to a related company** RMB'000	Total remuneration RMB'000
2013					
Mr. Guan	**–**	**–**	**–**	**30,318**	**30,318**
Han Jianhong	**897**	**–**	**22**	**–**	**919**
Niu Yingshan	**638**	**109**	**22**	**–**	**769**
Han Jianping	**435**	**223**	**14**	**–**	**672**
	1,970	**332**	**58**	**30,318**	**32,678**
2012					
Mr. Guan	976	–	–	–	976
Han Jianhong	858	–	22	–	880
Niu Yingshan	613	65	22	–	700
Han Jianping	435	60	3	–	498
	2,882	125	47	–	3,054

** The Company pays the management fee to Grand Novel. Section 161(2)(a) of Cap. 32 of the Hong Kong Companies Ordinance requires disclosures in the directors' remuneration section in respect of any amount received by Grand Novel in the capacity as a manager of the Company.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

The Group did not appoint a chief executive, and the duty of a chief executive was performed by the chairman.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees included four directors (2012: four), details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining one (2012: one) non-director, highest paid employee for the year are as follows:

	2013 RMB'000	2012 RMB'000
Salaries, allowances and benefits in kind	**850**	861
Equity-settled share award plan expense	**55**	32
Pension scheme contributions	**12**	11
	917	904

The remuneration of the non-director, highest paid employee fell within the range of nil to RMB1,000,000.

During the year and in prior years, shares were awarded to a non-director, highest paid employee in respect of his services to the Group, further details of which are included in the disclosures in note 29 to the financial statements. The fair value of such share awards, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of award and the amount included in the financial statements for the current year is included in the above non-director, highest paid employee's remuneration disclosures.

10. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

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

	2013 RMB'000	2012 RMB'000 (Restated)
Current – Mainland China Charge for the year	**97,772**	79,172
Deferred (note 27)	**(16,761)**	15,467
Total tax charge for the year	**81,011**	94,639

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

Pursuant to the relevant tax law of the Hong Kong Special Administrative Region, Hong Kong profits tax has been provided at the rate of 16.5% (2012: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. No provision for income tax has been made as the Group did not generate any assessable profits in Hong Kong during the year (2012: Nil).

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

10. INCOME TAX (continued)

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

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

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

	2013 RMB'000	2012 RMB'000 (Restated)
Profit before tax	**685,771**	561,649
Tax at the statutory tax rate	**171,442**	140,412
Lower tax rates enacted by local authority	**(52,263)**	(56,101)
Additional deduction for research and development activities	**(9,283)**	(8,843)
Adjustments in respect of current tax of previous periods	**(5,289)**	(2,672)
Expenses not deductible for tax	**435**	3,256
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries (note 27)	**(11,541)**	18,042
Profits attributable to joint ventures	**(14,098)**	–
Tax losses utilised from previous years	**–**	(126)
Tax losses not recognised	**1,608**	671
Tax charge at the Group's effective rate	**81,011**	94,639

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2013 includes a loss of RMB53,742,000 (2012: profit of RMB341,017,000) which has been dealt with in the financial statements of the Company (note 30(b)).

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

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

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares under the share award plan.

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

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

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

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2013						
At 1 January 2013:						
Cost	276,706	1,379,220	7,826	7,673	417,205	2,088,630
Accumulated depreciation	(60,189)	(322,213)	(3,095)	(5,905)	–	(391,402)
Net carrying amount	216,517	1,057,007	4,731	1,768	417,205	1,697,228
At 1 January 2013:						
Net of accumulated depreciation	216,517	1,057,007	4,731	1,768	417,205	1697,228
Additions	742	46,689	414	–	998,637	1,046,482
Disposal	–	(160)	–	(14)	–	(174)
Depreciation provided during the year	(16,553)	(139,291)	(1,281)	(707)	–	(157,832)
Transfers	88,726	355,179	1,109	1,380	(446,394)	–
At 31 December 2013:						
Net of accumulated depreciation	289,432	1,319,424	4,973	2,427	969,448	2,585,704
At 31 December 2013:						
Cost	366,174	1,780,928	9,349	9,039	969,448	3,134,938
Accumulated depreciation	(76,742)	(461,504)	(4,376)	(6,612)	–	(549,234)
Net carrying amount	289,432	1,319,424	4,973	2,427	969,448	2,585,704

13. PROPERTY, PLANT AND EQUIPMENT (continued)

Group

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2012 (Restated)						
At 1 January 2012:						
Cost	267,780	1,109,103	5,683	7,673	72,150	1,462,389
Accumulated depreciation	(49,943)	(230,002)	(2,334)	(4,922)	–	(287,201)
Net carrying amount	217,837	879,101	3,349	2,751	72,150	1,175,188
At 1 January 2012:						
Net of accumulated depreciation	217,837	879,101	3,349	2,751	72,150	1,175,188
Additions	165	45,516	2,116	–	581,046	628,843
Disposal	–	(2,602)	–	–	–	(2,602)
Depreciation provided during the year	(10,246)	(92,211)	(761)	(983)	–	(104,201)
Transfers	8,761	227,203	27	–	(235,991)	–
At 31 December 2012:						
Net of accumulated depreciation	216,517	1,057,007	4,731	1,768	417,205	1,697,228
At 31 December 2012:						
Cost	276,706	1,379,220	7,826	7,673	417,205	2,088,630
Accumulated depreciation	(60,189)	(322,213)	(3,095)	(5,905)	–	(391,402)
Net carrying amount	216,517	1,057,007	4,731	1,768	417,205	1,697,228

As at 31 December 2013, the Group's property, plant and equipment of RMB110,323,000 (2012: Nil) were pledged to secure bank loan facilities granted to the Group.

14. PREPAID LAND LEASE PAYMENTS

Group

	2013 RMB'000	2012 RMB'000
Carrying amount at beginning of year	**81,152**	53,382
Additions	**241,071**	29,306
Recognised during the year	**(3,176)**	(1,536)
Carrying amount at end of year	**319,047**	81,152
Current portion included in prepayments, deposits and other receivables (note 21)	**(5,154)**	(1,763)
Non-current portion	**313,893**	79,389

The Group's leasehold land is held under a long term lease and is situated in Mainland China.

As at 31 December 2013, the Group's leasehold land of RMB185,334,000 (2012: Nil) was pledged to secure bank loan facilities granted to the Group.

15. INTANGIBLE ASSETS

Group

	Software RMB'000	Technology use rights RMB'000	Others RMB'000	Total RMB'000
31 December 2013				
Cost at 1 January 2013, net of accumulated amortisation	300	34,223	1,941	36,464
Additions	69	77,903	7,585	85,557
Amortisation provided during the year	(15)	(7,799)	(149)	(7,963)
At 31 December 2013	354	104,327	9,377	114,058
At 31 December 2013:				
Cost	514	134,481	10,051	145,046
Accumulated amortisation	(160)	(30,154)	(674)	(30,988)
Net carrying amount	354	104,327	9,377	114,058

15. INTANGIBLE ASSETS (continued)

Group

	Software RMB'000	Technology use rights RMB'000	Others RMB'000	Total RMB'000
31 December 2012 (Restated)				
Cost at 1 January 2012, net of accumulated amortisation	63	25,202	1,710	26,975
Additions	248	14,254	350	14,852
Amortisation provided during the year	(11)	(5,233)	(119)	(5,363)
At 31 December 2012	300	34,223	1,941	36,464
At 31 December 2012:				
Cost	445	56,578	2,466	59,489
Accumulated amortisation	(145)	(22,355)	(525)	(23,025)
Net carrying amount	300	34,223	1,941	36,464

16. INVESTMENTS IN SUBSIDIARIES

Company

	2013 RMB'000	2012 RMB'000
Unlisted investments, at cost	**426,588**	426,588

The amounts due from subsidiaries included in the Company's current assets are disclosed in note 35(b) to the financial statements.

16. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the subsidiaries are as follows:

Name	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary share/ registered paid-up capital	Percentage of equity interest attributable to the Group	Principal activities
Capitol International Limited ("**Capitol International**")	Hong Kong 18 July 2003	HK$1,000,000	100% (direct)	Investment holding
Sanjiang Chemical (note (i))	PRC/Mainland China 9 December 2003	US$94,450,000	100% (indirect)	Manufacture and sale of EO, surfactants, ethylene glycol, polymer grade ethylene, industrial gases and provision of surfactant processing services, and lease and storage services
Yongming Petrochemical (note (iii))	PRC/Mainland China 9 December 2003	US$133,000,000	100% (indirect)	Manufacture and sale of EO, surfactants, ethylene glycol, polymer grade ethylene, industrial gases and provision of surfactant processing services
Jiaxing Port Chemical Industry Park Pipe Gallery Co., Ltd. ("**Guanlang**") (note (ii))	PRC/Mainland China 29 September 2005	RMB13,000,000	83.85% (indirect)	Construction and management of a pipenetwork at Jiaxing Port Chemical Industrial Park
Sanjiang Trading Co., Ltd. ("**Sanjiang Trading**") (note (ii))	PRC/Mainland China 29 October 2004	RMB5,000,000	100% (indirect)	Trading of ethylene, EO and other chemical products
Hangzhou Textile Auxilaries Co., Ltd. ("**Hangzhou Sanjiang**") (note (ii))	PRC/Mainland China 1 April 2010	RMB5,000,000	100% (indirect)	Manufacture and sale of alcohol ethoxylate, nonylphenols and textile auxiliaries
Zhejiang Sanjiang Chemical New Material Co., Ltd. ("**Sanjiang New Material**") (note (ii))	PRC/Mainland China 23 December 2011	US$100,000,000	100% (indirect)	Manufacture and sale of water reducing auxiliaries
Xingxing New Energy (note (ii))	PRC/Mainland China 19 January 2011	RMB480,000,000	75% (indirect)	Manufacture and sale of polyethylene

Notes:

(i) The entity is a wholly-foreign-owned enterprise established under PRC law.
(ii) These entities are limited liability companies established under PRC law.
(iii) The entity is a Sino-foreign joint venture enterprise established under PRC law, and is wholly owned by the Group.

17. INVESTMENTS IN JOINT VENTURES

Group

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

The Group's trade receivable and payable balances due from and to the joint ventures are disclosed in note 35(b) to the financial statements.

The Group's loans to the joint ventures bear interest and will repayable within one year. The interest income and balance of the loans to the joint ventures are disclosed in note 35(a) to the financial statements.

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

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

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

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

17. INVESTMENTS IN JOINT VENTURES (continued)

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

	Mei Fu Petrochemical 2013 RMB'000	Mei Fu Port 2013 RMB'000
Cash and cash equivalents	**111,770**	16,506
Other current assets	**1,387,282**	6,156
Current assets	**1,499,052**	22,662
Non-current assets	**1,314,797**	201,607
Current liabilities	**(2,489,392)**	(35,378)
Non-current liabilities	**(14,921)**	(7,176)
Net assets (excluding goodwill)	**309,536**	181,715
Reconciliation to the Group's interest in the joint venture:		
Proportion of the Group's profit sharing	**50%**	50%
Group's share of net assets of the joint venture, excluding goodwill	**154,768**	90,858
Goodwill on acquisition	**71,982**	60,395
Carrying amount of the investment	**226,750**	151,253

Results of the joint ventures:

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

18. AVAILABLE-FOR-SALE INVESTMENTS

Group

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

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

The gross loss amounted to RMB1,981,000 in respect of the paper silver got from bullion options was recognised in other comprehensive income for the year ended 31 December 2013 and the gross gain amounted to RMB1,308,000 in respect of the financial assets was recognised in other comprehensive income for the year ended 31 December 2012. The gain amounted to RMB1,144,000 (2012: RMB3,475,000) was reclassified from other comprehensive income to the statement of profit or loss for the year.

19. INVENTORIES

Group

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

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

20. TRADE AND NOTES RECEIVABLES

Group

	2013 RMB'000	2012 RMB'000 (Restated)
Trade receivables	**53,315**	58,073
Notes receivable	**149,644**	86,078
	202,959	144,151

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

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

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

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

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

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

20. TRADE AND NOTES RECEIVABLES (continued)

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

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

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

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Group

	2013 RMB'000	2012 RMB'000 (Restated)
Other receivables	**114,220**	129,499
Entrusted loan receivable*	**200,000**	72,000
Prepayments	**15,828**	85,072
Prepaid expenses	**812**	1,855
Prepaid land lease payments (note 14)	**5,154**	1,763
	336,014	290,189
Less: Impairment	**–**	–
	336,014	290,189

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

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

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

Company

	2013 RMB'000	2012 RMB'000
Other receivables	**2,290**	33,487
Prepayments	**–**	310
	2,290	33,797

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

The movement in the provision for impairment of prepayments, deposits and other receivables is as follows:

Group

	2013 RMB'000	2012 RMB'000 (Restated)
At beginning of year	**–**	181
Impairment loss reversed	**–**	(181)
At end of year	**–**	–

22. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

Group

	2013 RMB'000	2012 RMB'000 (Restated)
Cash and bank balances	**253,981**	345,781
Time deposits	**742,186**	1,139,102
	996,167	1,484,883
Less: Pledged time deposits:		
Pledged for notes payable	**225,842**	115,025
Pledged for bank loans (note 26)	**516,344**	1,024,077
	742,186	1,139,102
Cash and cash equivalents	**253,981**	345,781

22. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS (Continued)

Company

	2013 RMB'000	2012 RMB'000
Cash and bank balances	**3,674**	414

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

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between two and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

23. TRADE AND BILLS PAYABLES

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

Group

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

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

24. OTHER PAYABLES AND ACCRUALS

Group

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

Company

	2013 RMB'000	2012 RMB'000
Other payables	**148**	–
Interest payable	**109**	113
Payroll payable	**–**	24,324
	257	24,437

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

25. DERIVATIVE FINANCIAL INSTRUMENTS

Group

	2013		2012	
	Assets RMB'000	Liabilities RMB'000	Assets RMB'000	Liabilities RMB'000
Forward currency contracts	**–**	**–**	607	–
Bullion options	**–**	**4,907**	–	1,740
Deferred bullion sale facilities	**–**	**–**	–	2,836
	–	**4,907**	607	4,576

26. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

	Effective Interest rate (%)	Maturity	2013 RMB'000	2012 RMB'000 (Restated)
Current				
Bank loans – secured	1.110 - 4.253	2013	**–**	1,478,547
	1.082 - 5.600	2014	**938,953**	–
	7.040	2013	**–**	50,000
Bank loans – unsecured	2.738 - 6.600	2014	**253,620**	–
	3.86	2013	**–**	50,270
	0.253 - 5.880	2014	**1,026,141**	–
			2,218,714	1,578,817
Short term bond*	5.3	2014	**310,109**	–
			2,528,823	1,578,817
Non-current				
Bank loans – secured	1.778 - 6.550	2015 - 2019	**511,506**	–
	7.040	2015	**–**	68,263
			511,506	68,263

Company

	Effective Interest rate (%)	Maturity	2013 RMB'000	2012 RMB'000
Current				
Bank loans – unsecured	3.86	Within 1 year	**–**	50,270
	2.8764 - 3.860	Within 1 year	**109,363**	–

26. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

Group

	2013 RMB'000	2012 RMB'000 (Restated)
Analysed into:		
Bank loans		
Within one year	**2,218,714**	1,578,817
In the second year	**51,506**	68,263
In the third to fifth years, inclusive	**40,000**	–
Beyond five years	**420,000**	–
	2,730,220	1,647,080

Company

	2013 RMB'000	2012 RMB'000 (Restated)
Analysed into:		
Bank loans		
Within one year	**109,363**	50,270

Notes:

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

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

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

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

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 MTO production facility with total loan amount of RMB1,600,000,000 which was guaranteed by its shareholders namely Sanjiang Chemical, holding 75% of its equity interest, and Zhejiang Jiahua Group Co., Ltd. ("Jiahua Group"), holding 25% of its equity interest, for amounts not exceeding RMB1,200,000,000 and RMB400,000,000, respectively. Xingxing New Energy had used the facility of RMB460,000,000 as at 31 December 2013 and the facility was also secured over its leasehold land with carrying value of approximately RMB175,666,000 which was included in the amounts in note (iii) above.

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

27. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

Group

	Fair value on derivative financial instruments RMB'000	Available-for-sale investment revaluation RMB'000	Withholding tax on distributable profits RMB'000	Total RMB'000
At 1 January 2012	–	516	46,537	47,053
Deferred tax charged to the statement of profit or loss during the year (note 10)	109	–	18,042	18,151
Deferred tax charged to other comprehensive income during the year	–	164	–	164
Deferred tax realised during the year	–	(516)	(37,281)	(37,797)
At 31 December 2012 and 1 January 2013 (Restated)	**109**	**164**	**27,298**	**27,571**
Deferred tax charged/(credited) to the statement of profit or loss during the year (note 10)	**(109)**	**–**	**8,337**	**8,228**
Deferred tax reversed during the year	**–**	**–**	**(9,021)**	**(9,021)**
Deferred tax realised during the year	**–**	**(164)**	**–**	**(164)**
At 31 December 2013	**–**	**–**	**26,614**	**26,614**

27. DEFERRED TAX (continued)

The movements in deferred tax liabilities and assets during the year are as follows: (continued)

Deferred tax assets

Group

	Accrued expense RMB'000	Available-for-sale investment revaluation RMB'000	Impairment of assets RMB'000	Total RMB'000
At 1 January 2012	–	–	476	476
Deferred tax credited to the statement of profit or loss during the year (note 10)	451	–	2,233	2,684
At 31 December 2012 and 1 January 2013 (Restated)	**451**	**–**	**2,709**	**3,160**
Deferred tax charged to other comprehensive income during the year	**–**	**327**	**–**	**327**
Deferred tax credited to the statement of profit or loss during the year (note 10)	**(451)**	**–**	**16,419**	**15,968**
At 31 December 2013	**–**	**327**	**19,128**	**19,455**

Pursuant to the PRC CIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprise established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty/arrangement between Mainland China and the jurisdiction of the foreign investors and the foreign investors are the beneficial owners of the dividends. The Group is therefore liable to withholding taxes on dividends distributed by those foreign invested subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. The applicable rate of 10% was used by the Group prior to 2013.

Pursuant to the approval of the tax bureau in 2013, 5% withholding tax is levied on dividends declared from the profit of 2010 and 2011 of Sanjiang Chemical and Jiaxing Yongming according to related tax arrangement between Mainland China and Hong Kong. In the opinion of the directors, the lower withholding tax rate of 5% should be applied for the dividends declared from 2012 and 2013 in view of the fact that Capitol International engages in substantive operation activities in Hong Kong and is the beneficial owner of the dividends. Therefore, the over accrued deferred tax liabilities amounted to RMB9,021,000 and withholding tax payables of RMB10,857,000 since 2010 have been reversed in 2013 with the lower withholding tax rate of 5%.

27. DEFERRED TAX (continued)

Deferred tax liabilities are recognised based on 30% of the accumulated distributable earnings of the subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries established in Mainland China will distribute the remaining 70% of such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised was approximately RMB1,146,838,000 as at 31 December 2013 (2012: RMB757,793,000).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

Deferred tax assets have not been recognised in respect of the following items:

	2013 RMB'000	2012 RMB'000 (Restated)
Accumulated tax losses of Hangzhou Sanjiang	**6,502**	5,157
Accumulated tax losses of Xingxing New Energy	**2,288**	638
Accumulated tax losses of Sanjiang New Material	**2,320**	–
Accumulated tax losses of Capitol International	**1,692**	–
	12,802	5,795

The Group has accumulated tax losses arising in Hong Kong of RMB1,692,000 (2012: Nil) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

The Group has accumulated tax losses arising in Mainland China of RMB11,110,000 (2012: RMB5,795,000) that will expire in one to five years for offsetting against future taxable profits of Hangzhou Sanjiang, Xingxing New Energy and Sanjiang New Material.

Deferred tax assets have not been recognised in respect of these losses as it is considered not probable that taxable profits will be available against which the tax losses can be utilised.

28. SHARE CAPITAL AND TREASURY SHARES

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

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

Notes:

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

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

Details of the cancellation in 2013 are summarised as follows:

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

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

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

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

29. SHARE AWARD PLAN

The Company adopted a share award plan on 31 March 2011 (the "**Share Award Plan**"). The purpose of the Share Award Plan is to recognise and reward the contribution of certain eligible employees for the growth and development of the Group and to give incentives thereto in order to retain them for the continual growth and development of the Group, and to attract suitable personnel for further development of the Group. The eligible employees include any employee (whether full time or part time, including any executive director) of the Company, any subsidiary or any invested entity.

The Share Award Plan will be valid and effective for a term of 50 years commencing on the date on which the Share Award Plan was adopted.

Under the rules of the Share Award Plan (the "**Plan Rules**"), the Share Award Plan will be subject to the administration of the Board or the Plan Administrator, who is authorised by the Board to render supports in all aspects to the Board in connection with the implementation of the Share Award Plan, whose decisions on all matters arising in relation to the Share Award Plan or its interpretation or effect shall be final, conclusive and binding on all persons who may be affected thereby.

The Group has appointed a trustee (the "**Trustee**") for the purposes of administering the Share Award Plan. The Trustee will be notified by the directors in writing upon making an award to an eligible employee under the Share Award Plan. Upon the receipt of such notice, the Trustee will set aside the appropriate number of awarded shares out of a pool of shares comprising the following:

(A) such shares as may be (i) transferred to the Trustee from any person (other than the Group) by way of gift, or (ii) purchased by the Trustee on the Stock Exchange by utilising the funds received by the Trustee from any person (other than the Group) by way of gift;

(B) such shares as may be purchased by the Trustee on the Stock Exchange by utilising the funds allocated by the Board out of the Company's resources;

(C) such shares as may be subscribed for at par value by the Trustee by utilising the funds allocated by the Board out of the Company's resources; and

(D) such shares which remain unvested and revert to the Trustee.

The legal and beneficial ownership of the relevant awarded shares shall vest in the relevant selected employee within 10 business days after the latest of: (a) the earliest vesting date as specified in the award notice to which such award relates; and (b) where applicable, the date on which the conditions or performance targets (if any) to be attained by such selected employee as specified in the related award notice have been attained and notified to the Trustee by the Board in writing.

Under the Plan Rules, the employees of the Group shall not have any right to receive any shares awarded to them under the Share Award Plan and all other interest attributable thereto unless and until the Trustee has transferred the legal and beneficial ownership of such awarded shares to them and the legal and beneficial ownership of those awarded shares vested in them. When the participant ceased to be the Group's employee, the unvested shares would be retained by the Trustee.

The fair value of services received in return for shares granted is measured by reference to the fair value of shares granted. The fair value of the shares granted is measured at the grant date at the market value of the shares, adjusted for the exclusion of expected dividends to be received in the vesting period.

29. SHARE AWARD PLAN (continued)

Pursuant to share award notices issued on 7 June 2011 to those selected employees, an aggregate of 1,912,000 shares (the "**2011 Awarded Shares**") of the Company of HK$0.01 each were granted at nil consideration and the earliest vesting date of the 2011 Awarded Shares is 1 April 2016. There is no other performance target required except the eligible participant remains as an employee of the Group.

Pursuant to share award notices issued on 1 December 2012 to those selected employees, an aggregate of 3,519,000 shares (the "**2012 Awarded Shares**") of the Company of HK$0.1 each were granted at nil consideration and the earliest vesting date of the 2012 Awarded Shares is 1 December 2017. There is no other performance target required except the eligible participant remains as an employee of the Group.

Pursuant to share award notices issued on 1 December 2013 to those selected employees, an aggregate of 2,998,000 shares (the "**2013 Awarded Shares**") of the Company of HK$0.1 each were granted at nil consideration and the earliest vesting date of the 2013 Awarded Shares is 1 December 2018. There is no other performance target required except the eligible participant remains as an employee of the Group.

The following awarded shares were outstanding under the Share Award Plan during the year:

	Number of shares held for the Share Award Scheme	Number of awarded shares
At 1 January 2012	–	1,912,000
Purchased and withheld	3,519,000	–
Granted on 1 December 2012	(2,940,000)	2,940,000
At 31 December 2012	579,000	4,852,000
Exercisable as at 31 December 2012		–
At 1 January 2013	579,000	4,852,000
Purchased and withheld	3,137,000	–
Granted on 1 December 2013	(2,998,000)	2,998,000
At 31 December 2013	718,000	7,850,000
Exercisable as at 31 December 2013		–

During the year, a net Share Award Plan expense of RMB1,378,000 was charged to the statement of profit or loss (2012: RMB651,000), of which RMB332,000 was included in the directors' remuneration (2012: RMB125,000).

30. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 37 of the financial statements.

Pursuant to the PRC Company Law and the respective entities' articles of association, the Group's subsidiaries established in the PRC shall appropriate 10% of their annual statutory net profit (determined in accordance with the PRC accounting principles and regulations and after offsetting any prior years' losses) to the statutory reserve until such reserve fund reaches 50% of the share capital of these entities. The statutory reserve can be utilised to offset prior years' losses or to increase capital. However, except for offsetting prior years' losses, such reserve must be maintained at a minimum of 25% of the share capital after usage.

(b) Company

	Share premium RMB'000	Capital redemption reserve RMB'000	Shares repurchased for share award plan RMB'000	Share award plan reserve RMB'000	(Accumulated losses)/ Retained profits RMB'000	Total RMB'000
Balance at 1 January 2012	1,042,197	1,111	(4,808)	350	(99,088)	939,762
Total comprehensive income for the year	–	–	–	–	341,017	341,017
Shares awarded under the share award plan	–	–	(6,506)	–	–	(6,506)
Equity-settled share award plan expense	–	–	–	651	–	651
Repurchase and cancellation of ordinary shares	(2,877)	164	–	–	(164)	(2,877)
Proposed final 2012 dividend	–	–	–	–	(144,818)	(144,818)
At 31 December 2012	1,039,320	1,275	(11,314)	1,001	96,947	1,127,229
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(53,742)**	**(53,742)**
Shares awarded under the share award plan	**–**	**–**	**(9,289)**	**–**	**–**	**(9,289)**
Equity-settled share award plan expense	**–**	**–**	**–**	**1,378**	**–**	**1,378**
Repurchase and cancellation of ordinary shares	**(32,891)**	**1,096**	**–**	**–**	**(1,096)**	**(32,891)**
Proposed final 2013 dividend	**(188,118)**	**–**	**–**	**–**	**–**	**(188,118)**
At 31 December 2013	**818,311**	**2,371**	**(20,603)**	**2,379**	**42,109**	**844,567**

31. DIVIDEND

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

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

32. PLEDGE OF ASSETS

Details of the Group's bank borrowings, which are secured by the assets of the Group, are included in note 13, note 14 and note 22 to these financial statements.

33. OPERATING LEASES

As lessee

At 31 December 2013, the Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from six to ten years and the rental expenses will be adjusted every three years. The Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2013 RMB'000	2012 RMB'000 (Restated)
Operating lease commitments:		
Within one year	**2,588**	2,239
In the second to third years, inclusive	**3,588**	2,400
In the fourth to fifth years, inclusive	**2,073**	1,600
After five years	**700**	1,200
	8,949	7,439

34. COMMITMENTS

In addition to the operating lease commitments detailed in note 33 above, the Group had the following capital commitments at the end of the reporting period:

	2013 RMB'000	2012 RMB'000 (Restated)
Contracted, but not provided for:		
Plant and machinery	**2,410,735**	486,693

The Company had no significant commitment at the end of the reporting period.

35. RELATED PARTY TRANSACTIONS

Details of the Company's principal related parties are as follows:

Name	Relationship with the Company
Guan Jianzhong	Ultimate controlling shareholder
Han Jianhong	Ultimate controlling shareholder
Hangzhou Haoming Investment Co., Limited ("**Hangzhou Haoming**")	Fellow subsidiary of the ultimate controlling shareholder
Jiaxing Xinggang Rewang Co., Ltd. ("**Jiaxing Rewang**")	Associate of the ultimate controlling shareholder
Jiahua Group	Fellow subsidiary of the ultimate controlling shareholder
Zhejiang Jiahua Energy Chemical Co., Ltd. ("**Jiahua Energy**")	Fellow subsidiary of the ultimate controlling shareholder
Jiaxing Jianghao Zhiye Co., Ltd. ("**Jianghao Zhiye**")	Fellow subsidiary of the ultimate controlling shareholder
Jiaxing Port Jianghao Investment ("**Jianghao Investment**")	Fellow subsidiary of the ultimate controlling shareholder
Mei Fu Petrochemical	Joint venture
Mei Fu Port	Joint venture
Grand Novel	Fellow subsidiary of the ultimate controlling shareholder

35. RELATED PARTY TRANSACTIONS (continued)

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

Group

	Notes	2013 RMB'000	2012 RMB'000 (Restated)
Sales of goods to:			
Mei Fu Petrochemical	(i)	**259,392**	–
Jiahua Group	(i)	**977**	42
Jiahua Energy	(i)	**230**	–
		260,599	42
Purchases of goods from:			
Mei Fu Petrochemical	(i)	**2,153**	–
Jiahua Energy	(i)	**117,663**	83,251
Jiaxing Rewang	(i)	**10,394**	8,031
		130,210	91,282
Rental income from:			
Jiaxing Rewang	(ii)	**879**	768
Jiahua Energy	(ii)	**238**	20
		1,117	788
Rental expense to:			
Hangzhou Haoming	(ii)	**1,200**	1,200
Loans to:			
Mei Fu Petrochemical	(iii)	**1,787,072**	–
Mei Fu Port	(iii)	**178,000**	–
		1,965,072	–
Interest income from:			
Mei Fu Petrochemical	(iii)	**58,610**	–
Mei Fu Port	(iii)	**1,818**	–
Jianghao Investment		**–**	1,863
Jianghao Zhiye		**–**	872
		60,428	2,735
Management services expense to:			
Grand Novel (note 8)	(iv)	**30,318**	–

35. RELATED PARTY TRANSACTIONS (continued)

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year: (continued)

Notes:

(i) The sales and purchases of goods to and from the related parties were made according to the published prices and conditions offered by the related parties to their major customers.

(ii) The transactions were conducted at prevailing market rates mutually agreed between the relevant parties.

(iii) The Group made loans to Mei Fu Petrochemical and Mei Fu Port amounting to RMB1,787,072,000 and RMB178,000,000, respectively as working capital in 2013. Amounted to RMB809,069,000 and RMB156,000,000 respectively had been repaid during the year. They were unsecured, bore interest at 5% to 10% per annum and were repayable within one year.

(iv) Details of the transaction is included in note 8 to the financial statements

(v) 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 MTO production facility with total loan amount of RMB1,600,000,000 which was guaranteed by its shareholders namely Sanjiang Chemical, holding 75% of its equity interest, and Zhejiang Jiahua Group Co., Ltd. ("Jiahua Group"), holding 25% of its equity interest, for amounts not exceeding RMB1,200,000,000 and RMB400,000,000, respectively. Xingxing New Energy had used the facility of RMB460,000,000 as at 31 December 2013 and the facility was also secured over its leasehold land with carrying value of approximately RMB175,666,000 which was included in the amounts in note (iii) above.

(b) Outstanding balances with related parties:

Group

	2013 RMB'000	2012 RMB'000 (Restated)
Due from related parties:		
Mei Fu Petrochemical	**1,052,487**	–
Mei Fu Port	**22,000**	–
Hangzhou Haoming	**300**	300
Jiahua Energy	**134**	–
	1,074,921	300
Due to related parties:		
Grand Novel	**29,877**	–
Mei Fu Petrochemical	**1,819**	–
Jiahua Energy	**1,615**	5,346
Jiaxing Rewang	**1,239**	1,330
Jiahua Group	**26**	70
Hangzhou Haoming	**30**	30
	34,606	6,776

35. RELATED PARTY TRANSACTIONS (continued)

(b) Outstanding balances with related parties: (continued)

Company

	2013 RMB'000	2012 RMB'000
Due from a subsidiary:		
Capitol International	**825,678**	966,743
Due to a related party:		
Grand Novel	**29,877**	–

The balances with related parties are unsecured, interest-free and repayable on demand except the loan balances due from Mei Fu Petrochemical and Mei Fu Port, which bear an interest at 5% to 10% per annum and are repayable within one year.

(c) Compensation of key management personnel of the Group:

	2013 RMB'000	2012 RMB'000 (Restated)
Short term employee benefits	**34,338**	31,780
Equity-settled share award plan expense	**585**	272
Pension scheme contributions	**147**	144
Total compensation paid to key management personnel	**35,070**	32,196

Further details of directors' remuneration are included in note 8 to these financial statements.

36. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Group

Financial assets

	2013		
	Loans and receivables RMB'000	**Available-for-sale financial assets RMB'000**	**Total RMB'000**
Trade and notes receivables	**202,959**	**–**	**202,959**
Financial assets included in prepayments, deposits and other receivables	**314,220**	**–**	**314,220**
Due from related parties	**1,074,921**	**–**	**1,074,921**
Available-for-sale investments	**–**	**476,133**	**476,133**
Pledged deposits	**742,186**	**–**	**742,186**
Cash and cash equivalents	**253,981**	**–**	**253,981**
	2,588,267	**476,133**	**3,064,400**

	2012 (Restated)			
	Financial assets at fair value through profit or loss			
	Held for trading RMB'000	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Trade and notes receivables	–	144,151	–	144,151
Financial assets included in prepayments, deposits and other receivables	–	201,499	–	201,499
Due from related parties	–	300	–	300
Available-for-sale investments	–	–	587,307	587,307
Derivative financial instruments	607	–	–	607
Pledged deposits	–	1,139,102	–	1,139,102
Cash and cash equivalents	–	345,781	–	345,781
	607	1,830,833	587,307	2,418,747

36. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

Group (continued)

Financial liabilities

	2013		
	Financial liabilities at fair value through profit or loss Held for trading RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and bills payables	–	1,183,427	1,183,427
Financial liabilities included in other payables and accruals	–	179,562	179,562
Derivative financial instruments	4,907	–	4,907
Interest-bearing bank and other borrowings	–	3,040,329	3,040,329
Due to related parties	–	34,606	34,606
	4,907	4,437,924	4,442,831

	2012		
	Financial liabilities at fair value through profit or loss Held for trading RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and bills payables	–	827,482	827,482
Financial liabilities included in other payables and accruals	–	160,767	160,767
Derivative financial instruments	4,576	–	4,576
Interest-bearing bank and other borrowings	–	1,647,080	1,647,080
Due to related parties	–	6,776	6,776
	4,576	2,642,105	2,646,681

36. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

Company

Financial assets

	2013 Loans and receivables RMB'000	2012 Loans and receivables RMB'000
Financial assets included in prepayments, deposits and other receivables	**2,290**	33,797
Due from a subsidiary	**825,678**	966,743
Cash and cash equivalents	**3,674**	414
	831,642	1,000,954

Financial liabilities

	2013 Financial liabilities at amortised cost RMB'000	2012 Financial liabilities at amortised cost RMB'000
Interest-bearing bank and other borrowings	**109,363**	50,270
Financial liabilities included in other payables and accruals	**257**	113
Due to a related party	**29,877**	–
	139,497	50,383

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's and the Company's financial instruments, other than those with carrying amounts that reasonably approximate to their fair values, are as follows:

Group

	Carrying amounts		Fair values	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Available-for-sale investments	**476,133**	587,307	**476,133**	587,307
Derivative financial instruments	**–**	607	**–**	607
	476,133	587,914	**476,133**	587,914
Financial liabilities				
Derivative financial instruments	**4,907**	4,576	**4,907**	4,576

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade and notes receivables, financial assets included in prepayments, deposits and other receivables, trade and bills payables, financial liabilities included in other payables and accruals, amounts due from/to related parties approximate to their carrying amounts largely due to the short term maturities of these instruments. The fair values of interest-bearing bank and other borrowings approximate to their carrying amounts largely due to the float interest rate of these instruments or the short term maturities of these instruments.

The Group's corporate finance team headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The corporate finance team reports directly to the financial controller and the audit committee. At each reporting date, the corporate finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the financial controller. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the available-for-sale investments have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for available-for-sale investments as at 31 December 2013 was assessed to be insignificant.

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with A credit ratings. Derivative financial instruments, including forward currency contracts, bullion option arrangements and deferred bullion sale facilities, are measured using valuation techniques, including Black-Scholes option pricing model and Binomial Tree model. The models incorporate various market observable inputs including the risk free interest rate, implied volatility of the exchange rate, spot prices and implied volatility of silver's prices etc. The carrying amounts of forward currency contracts, bullion option arrangements and deferred bullion sale facilities are the same as their fair values.

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

Group

As at 31 December 2013

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Available-for-sale investments	–	476,133	–	476,133

As at 31 December 2012 (Restated)

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Derivative financial instruments	–	607	–	607
Available-for-sale investments	–	587,307	–	587,307
	–	587,914	–	587,914

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

Liabilities measured at fair value:

Group

As at 31 December 2013

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Derivative financial instruments	**–**	**4,907**	**–**	**4,907**

As at 31 December 2012

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Derivative financial instruments	–	4,576	–	4,576

The Company did not have any financial assets measured at fair value as at 31 December 2012 and 2013.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2012: Nil).

Assets and liabilities for which fair values are disclosed:
The Group and the Company did not have any financial assets and liabilities disclosed at fair value as at 31 December 2012 and 2013.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise interest-bearing bank and other borrowings and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and notes receivables and trade and bills payables, which arise directly from its operations.

The Group also enters into derivative transactions, including principally forward currency contracts, bullion option contracts and deferred bullion purchase facilities. The purpose is to manage the currency and commodity price risks arising from the Group's operations and its sources of finance.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank and other borrowings. Some of these interest-bearing bank and other borrowings were obtained at floating interest rates, which have exposed the Group to fair value interest rate risk. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The interest rates and terms of repayment of borrowings are disclosed in note 26 above.

The following table demonstrates the sensitivity to a reasonably possible change in the RMB interest rate, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	Group		Company	
	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
2013				
RMB	**5**	**(599)**	**5**	**–**
RMB	**(5)**	**599**	**(5)**	**–**
United States dollar	**5**	**(633)**	**5**	**–**
United States dollar	**(5)**	**633**	**(5)**	**–**
Hong Kong dollar	**5**	**(16)**	**(5)**	**(16)**
Hong Kong dollar	**(5)**	**16**	**(5)**	**16**
2012				
RMB	5	(20)	5	–
RMB	(5)	20	(5)	–
United States dollar	5	(48)	5	–
United States dollar	(5)	48	(5)	–

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. Approximately 87% (2012: 78%) of the Group's purchases for the year ended 31 December 2013 are denominated in currencies other than the functional currencies of the operating units making the purchase, whilst almost 100% of sales for the year are denominated in the respective operating units' functional currencies. At present, the Group does not intend to seek to hedge its exposure to foreign exchange fluctuations. However, management constantly monitors the economic situation and the Group's foreign exchange risk profile and will consider appropriate hedging measures in the future should the need arise.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the United States dollar and Hong Kong dollar exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

Group

	Increase/ (decrease) in foreign currency rate %	Increase/ (decrease) in profit before tax RMB'000
2013		
If RMB weakens against the United States dollar	**5**	**(120,484)**
If RMB strengthens against the United States dollar	**(5)**	**120,484**
If RMB weakens against the Hong Kong dollar	**5**	**(5,259)**
If RMB strengthens against the Hong Kong dollar	**(5)**	**5,259**
2012		
If RMB weakens against the United States dollar	5	(94,441)
If RMB strengthens against the United States dollar	(5)	94,441

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. The Group does not offer credit terms without the specific approval of the President and the Chairman.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, pledged deposits, amounts due from related parties and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and notes receivables and prepayments, deposits and other receivables are disclosed in notes 20 and 21, respectively, to the financial statements.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank and other borrowings to meet its working capital requirements.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Group

	2013				
	On demand RMB'000	Less than 3 months RMB'000	3 months to less than 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Trade and bills payables	9,156	1,174,271	–	–	1,183,427
Other payables	–	33,993	140,554	5,015	179,562
Derivative financial instruments	–	2,855	2,052	–	4,907
Interest-bearing bank and other borrowings	–	926,103	1,659,695	672,760	3,258,558
Due to related parties	34,606	–	–	–	34,606
	43,762	2,137,222	1,802,301	677,775	4,661,060

	2012 (Restated)				
	On demand RMB'000	Less than 3 months RMB'000	3 months to less than 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Trade and bills payables	297,109	447,467	82,906	–	827,482
Other payables	–	82,368	71,349	7,050	160,767
Derivative financial instruments	–	90	4,486	–	4,576
Interest-bearing bank and other borrowings	–	833,511	765,993	77,491	1,676,995
Due to related parties	6,776	–	–	–	6,776
	303,885	1,363,436	924,734	84,541	2,676,596

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

The maturity profile of the Company's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Company

	2013					
	On demand RMB'000	Less than 3 months RMB'000	3 months to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Other payables	–	109	148	–	–	257
Interest-bearing bank and other borrowings	–	37,322	72,982	–	–	110,304
	–	37,431	73,130	–	–	110,561

	2012					
	On demand RMB'000	Less than 3 months RMB'000	3 months to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Other payables	–	113	–	–	–	113
Interest-bearing bank and other borrowings	–	485	51,078	–	–	51,563
	–	598	51,078	–	–	51,676

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2013 and 31 December 2012.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

The Group monitors capital using a gearing ratio, which is net debt divided by capital plus net debt. Net debt includes interest-bearing bank and other borrowings, amounts due to directors and related parties, trade and bills payables, other payables and accruals, less cash and cash equivalents and pledged deposits. Capital represents equity attributable to owners of the parent. The gearing ratios as at the end of the reporting periods were as follows:

	2013 **RMB'000**	2012 RMB'000 (Restated)
Trade and bills payables	**1,183,427**	827,482
Other payables and accruals	**267,618**	279,407
Interest-bearing bank and other borrowings	**3,040,329**	1,647,080
Due to related parties	**34,606**	6,776
Less: Cash and cash equivalents	**(253,981)**	(345,781)
Pledged deposits	**(742,186)**	(1,139,102)
Net debt	**3,529,813**	1,275,862
Equity attributable to owners of the parent	**2,344,971**	1,922,998
Capital and net debt	**5,874,784**	3,198,860
Gearing ratio	**60%**	40%

39. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform to the current year's presentation. Such reclassifications had no effect on the Group's net profit as previously reported.

40. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 19 March 2014.

FIVE YEAR FINANCIAL SUMMARY

	2013 RMB'000	2012 RMB'000 (Restaed)	2011 RMB'000	2010 RMB'000	2009 RMB'000
REVENUE	**3,940,471**	2,410,125	2,078,188	1,582,526	1,285,533
Gross profit	**638,212**	574,511	433,344	360,164	356,321
Finance costs	**74,967**	67,195	32,438	19,087	32,915
PROFIT BEFORE TAX	**685,771**	561,649	463,888	318,574	303,835
Income tax expense	**81,011**	94,639	58,369	52,263	43,673
Net profit for the year	**604,760**	467,010	405,519	266,311	260,162
Profits attributable to ordinary equity holders of the parent	**605,131**	466,776	405,020	266,126	242,075
NON-CURRENT ASSETS	**3,740,212**	1,866,216	1,378,808	1,270,284	1,020,083
CURRENT ASSETS	**3,333,774**	2,944,513	2,284,243	1,266,758	616,895
Interest-bearing borrowings	**3,040,329**	1,647,080	1,435,829	793,760	719,486
CURRENT LIABILITIES	**4,068,497**	2,764,128	1,928,453	1,120,960	1,280,458
NET CURRENT (LIABILITIES)/ASSETS	**(734,723)**	180,385	355,790	145,798	(663,563)
NON-CURRENT LIABILITIES	**538,120**	95,834	71,126	81,271	122,322
Net assets/Total equity	**2,467,369**	1,950,767	1,687,545	1,334,811	234,198
Cash inflow from operating activities	**808,930**	824,084	265,974	370,274	294,705
Cash (outflow) from investing activities	**(2,527,633)**	(556,988)	(613,292)	(322,366)	(18,875)
Cash inflow/(outflow) from financing activities	**1,628,460**	(221,281)	36,889	444,200	(232,932)
	RMB fens	RMB fens	RMB fens	RMB fens	RMB fens
Earnings per share – Basic	**61.33**	46.58	39.77	34.82	37.43
Earnings per share – Diluted	**61.12**	46.55	39.76	34.82	37.43
Net assets per share	**250.1**	194.6	167.1	130.37	36.21
	In %	In %	In %	In %	In %
Gross profit margin	**16.2**	23.8	20.9	22.8	27.7
Profit before tax margin	**17.4**	23.3	22.3	20.1	23.6
Net profit margin	**15.3**	19.4	19.5	16.8	20.2
Effective tax rate	**11.8**	16.9	12.6	16.4	14.4
ROE – net profit for the year to total equity	**24.5**	23.9	24.0	20.0	111.1
Gearing – total interest-bearing bank borrowings to total asset	**43.1**	34.2	39.2	31.3	43.9

	2013 In days	2012 In days (Restated)	2011 In days	2010 In days	2009 In days
Inventory turnover days – Average opening and closing inventories divided by cost of sales x 365 days	**37.8**	65.6	36.2	25.6	28.4
Trade and notes receivables turnover days – Average opening and closing trade and note receivables divided by revenue x 365 days	**16.1**	26.3	21.0	8.6	12.0
Trade and bills payables turnover days – Average opening and closing trade payables divided by cost of sales x 365 days	**111.1**	115.6	59.7	68.2	106.2

CORPORATE INFORMATION

DIRECTORS EXECUTIVE

Directors

GUAN Jianzhong *(Chairman)*
HAN Jianhong
NIU Yingshan
HAN Jianping

Independent non-executive Directors

WANG Wanxu
SHEN Kaijun
MUI Ho Cheung, Gary

SHARE LISTING

Main Board of The Stock Exchange of Hong Kong Limited
Stock code: 2198

AUDITORS

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LEGAL ADVISERS AS TO HONG KONG LAW

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COMPANY SECRETARY

Yip Ngai Hang, FCPA FCCA

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Industrial and Commercial Bank of China (Asia) Limited
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Australia and New Zealand Banking Group
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42 Tianfei Road, Zhapu District
Pinghu City, Zhejiang Province, PRC

Bank of Communications
Pinghu City Branch
325 Xinhua Road, Pinghu City
Zhejiang Province, PRC

Bank of China
Pinghu City Branch
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Zhejiang Province, PRC

China CITIC Bank
Jiaxing Branch
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