三江化工
SANJIANG CHEMICAL

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

(incorporated in the Cayman Islands with limited liability)

(stock code: 2198)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

CHAIRMAN'S STATEMENT

On behalf of the board (the "**Board**") of directors (the "**Directors**") of China Sanjiang Fine Chemicals Company Limited (the "**Company**"), I am pleased to announce the annual audited consolidated results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2016.

RESULTS HIGHLIGHTS	**2016**	2015	**Change**
	RMB'000	*RMB'000*	*%*
Revenue	**6,647,019**	4,966,427	33.8%
Gross profit	**906,570**	164,449	451.3%
Net profit/(loss) attributable to owner of the parent	**552,614**	(145,502)	479.8%
Earnings/(Loss) per share — Basic *(RMB)*	**56.09 fens**	(14.79) fens	479.2%
Dividend per share *(HK$)* — Final	**11.5 cents**	—	N/A
Dividend payout ratio (based on final dividend only)	**18.4%**	—	N/A
Gross profit margin	**13.6%**	3.3%	10.3%
Net profit margin	**8.3%**	–2.9%	11.2%
Gearing — interesting-bearing borrowings to total asset	**42.9%**	50.9%	–8.0%

We managed to achieve a turnaround in 2016 with substantial improvements in terms of a number of key indicators — gross profit margin, net profit margin and gearing although the crude oil pricing stayed hovering over a relatively low level in 2016 when comparing to the average level of the last five years. The Group achieved a net profit of approximately RMB552.6 million in 2016, an increase of approximately 479.8% when comparing to the net loss of RMB145.5 million in 2015, primarily attributable to the improvement of gross profit margin by 10.3%, representing a remarkable increment of gross profit margin from 3.3% in 2015 to 13.6% in 2016. We are taking a conservative view on the future movement of crude oil pricing, any movement of which, we believe, would have material impacts on the profitability of the oil and chemical sector (the "**Sector**") and of the Group and as such, the Board has recommended a final dividend of HK11.5 cents per share, representing a dividend payout ratio of approximately 18.4% on an annual basis for the year ended 31 December 2016 (the "**year under review**").

We consider the Group's turnaround in 2016 was primarily attributable to a number of factors:

1) Test-run costs during the ramp-up of a new production facility usually drags down the production efficiency. 2016 was the Group's first full-year operation after the ramp-up of the two major production facilities — the MTO Technology-based production facility ("**MTO production facility**") and the 5th phase ethylene oxide ("**EO**")/ethylene glycol ("**EG**") production facilities in Q2 and Q3 of 2015 respectively, which means 2016 was the Group's first full financial year having all major production facilities operated in a way they are designed and built up to be and having their production efficiencies fully reflected as all the test-run costs including raw materials, times and efficiencies lost during the course of starting up and fine tuning the facilities of the aforesaid two major production facilities have been fully reflected in 2015;

2) The Group implemented very rigorous measures during the course of executing and monitoring the construction and ramp-up of the aforesaid two major production facilities over the period from the tendering process of construction to commercial operation stage and I, myself, actively involved in every aspects during the whole process, which enabled to the Group to lower the capital expenditures as much as possible and we believe that kind of cost controlling measures provided the Group the competitive advantage and laid the groundwork to prepare for a turnaround when the macro environment of the Sector improves and to outrace other competitors in very tough years like in 2015;

3) The macro environment of the Sector has been improving since the Q2 of 2016 after the stabilization of crude oil pricing and a stable crude oil pricing would improve the market sentiments across the Sector and induce a stronger demand for crude oil-derivative products like ethylene, propylene, EO and EG as downstream producers are more willing to maximize their production capacities and increase the storage level for their finished goods after production if they have a clearer picture in terms of their own profitability, which would be materially deteriorated if crude oil pricing fluctuated substantially especially in 2015; and

4) We consider our remarkable strategic moves over the years have been proved to be the foundation for the Group to achieve the turnaround in 2016. We initiated a very significant strategic move — developing a vertical-integrated production chain back to 2012. Before 2012, the Group's business was very concentrated with approximately 90% of revenue coming from one single product — EO. We fully understand that it is a common phenomenon for the Sector that profitability of markets or levels among chemical production chain are cyclical in a timeframe of usually from five to ten years and shifting vertically among the chemical production chain in terms of high-profitability market and low-profitability market. We became aware of the shift of high-profitability market to ethylene level, the upstream level of EO, in 2012 and, to respond to the increase in market price of ethylene, we went upstream to acquire the Methanol-to-Olefin based and related ancillary technologies ("**MTO Technology**") and commenced the construction of the MTO production facility in 2012 and after the commercial operation of MTO production facility in Q2 of 2015, it enables the Group to shift its ultimate feedstock, from vertical integration perspective, to methanol (i.e. the downstream of coal or nature gas) from ethylene (i.e. the downstream of cruel oil) with the advantage of a more stable pricing of feedstock and opens up the opportunity for the Group to diversify its business into propylene-derivative products. We initiated to build up a polypropylene ("**PP**") production facility in 2015 after we noticed certain changes happened with the propylene and propylene-derivative markets in 2015, where propylene pricing has been suffering from the increase in supply from Propane Dehydrogenation ("**PDH**") since 2015 while the profitability of polypropylene producers reached a relatively high-end level in the last 5 years, which means the pricing of propylene-downstream products are relatively stable being regarded as a high-profitability market and being more involvement in propylene-derivative markets would enable the Group to capture the profits in those propylene-downstream

levels. The designed annual production capacity of the PP production facility is expected to be approximately 300,000 MT, which matches fully with the propylene output from MTO production facility and all the propylene that is required for the PP production purpose is expected to be able to source internally. After the commercial operation of PP production facility in Q3 of 2016, it has enabled the Group to bring the Group's propylene-line business on an integrated basis (i.e. propylene used to produce PP and then PP sales) back to a positive gross profit margin level, improving from gross loss margin of 10.6% in propylene sales business only to gross profit margin of 3.2% in propylene-line business on an integrated basis. As at 31 December 2016, we consider the Group has become a more diversified vertical-integrated chemical group with, based on our estimation, approximately 30%, 20%, 20% and 10% of revenue (on a gross and annual basis reflecting the outputs of major production facilities) coming from the top 4 lines of businesses namely EO, ethylene and propylene and PP respectively, which, we consider, is a more risk-balanced product mix.

During the year under review, revenue of the Group increased by approximately 33.8% when comparing to 2015, primarily resulted from: 1) the ramp-up of two major production facilities — the MTO production facility and the 5th phase EO/EG production facilities and put them into commercial operation in Q2 and Q3 of 2015 respectively, which led to the increase in revenue from C4 & C5 sales by approximately RMB183 million and increase in revenue from EG sales by approximately RMB560 million respectively, due to full-year effect in 2016; 2) the ramp-up of PP production facility and put it into commercial operation in Q3 of 2016, which led to the increase in revenue from PP sales by approximately RMB555 million; and 3) increase in average selling price of EO by approximately 17.6%, which led to the increase in revenue from EO sales by approximately RMB197 million. Net profit attributable to shareholders was approximately RMB552.6 million and basic earnings per share was approximately RMB56.09 fens, for the year ended 31 December 2016, representing increases of approximately 479.8% and 479.2% respectively as compared with 2015, which was primarily attributable to the improvement of gross profit margin by 10.3%, as a result of the combined effects of: 1) the increases in average selling price of ethylene-line businesses by more than 10% in average in 2016 when comparing to 2015; and 2) being more diversified vertical-integrated in 2016 when comparing to 2015 with more ethylene output from MTO production facility (i.e. ethylene output from MTO production facility — 2016: 315K MT; 2015: 215K MT) being used to produce EO and EG and with more propylene being used to produce PP (i.e. propylene used to produce PP — 2016: 83K MT; 2015: Nil) after the commercial operation of PP production facility in Q3 of 2016. We expect the Group's gross profit margin will have an upside in 2017 as more propylene will be used to produce PP internally as a result of the full-year effect of the ramp-up of the PP production facility in Q3 of 2016.

Going forward, we will continue to pursue our established well-formulated strategies by being a more diversified vertical-integrated chemical group and we will keep assessing our product mix from time to time in terms of the balance of risk and the flexibility of adjustments in response to the market changes. We are also very cautious about the gearing level of the Group and expect the gearing level will be further improved next year.

ACKNOWLEDGEMENT

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

GUAN Jianzhong
Chairman
People's Republic of China, 22nd March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2016

	Notes	2016 RMB'000 (Audited)	2015 RMB'000 (Audited)
REVENUE	4	**6,647,019**	4,966,427
Cost of sales		**(5,740,449)**	(4,801,978)
Gross profit		**906,570**	164,449
Other income and gains	4	**667,565**	922,226
Selling and distribution expenses		**(26,502)**	(25,092)
Administrative expenses		**(317,880)**	(183,495)
Other expenses	4	**(387,695)**	(830,612)
Finance costs	5	**(261,681)**	(276,978)
Share of profits of joint ventures	7	**112,438**	64,538
PROFIT/(LOSS) BEFORE TAX	6	**692,815**	(164,964)
Income tax expense	8	**(93,964)**	(62,268)
PROFIT/(LOSS) FOR THE YEAR		**598,851**	(227,232)
Attributable to:			
Owners of the parent		**552,614**	(145,502)
Non-controlling interests		**46,237**	(81,730)
		598,851	(227,232)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic		**56.09 fens**	(14.79) fens
Diluted		**55.96 fens**	(14.73) fens
PROPOSED FINAL DIVIDEND FOR THE YEAR	10	**101,675**	—

CONSOLIDATED STATEMENT OF FINANCE POSITION
At 31 December 2016

	Notes	2016 RMB'000 (Audited)	2015 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**5,763,307**	5,789,464
Prepaid land lease payments		**301,476**	308,412
Intangible assets		**225,246**	246,719
Due from related parties	19	**609,000**	96,451
Advance payments for property, plant and equipment		**16,390**	58,784
Investments in joint ventures — Mei Fu Entities	7	—	195,106
Prepayments, deposits and other receivables	14	—	2,007
Available-for-sale investments	11	**1,000**	1,000
Deferred tax assets		—	13,183
Total non-current assets		**6,916,419**	6,711,126
CURRENT ASSETS			
Inventories	12	**724,229**	499,598
Trade and notes receivables	13	**170,367**	702,609
Prepayments, deposits and other receivables	14	**406,338**	548,051
Due from related parties	19	**235,935**	969,259
Available-for-sale investments	11	**424,371**	422,949
Derivative financial instruments		**41,941**	20,388
Pledged deposits	15	**410,273**	701,464
Cash and cash equivalents	15	**348,224**	91,743
Total current assets		**2,761,678**	3,956,061
CURRENT LIABILITIES			
Trade and bills payables	16	**1,454,312**	1,254,516
Other payables and accruals	17	**1,062,561**	1,331,048
Derivative financial instruments		**9,626**	13,280
Interest-bearing bank borrowings	18	**2,636,267**	3,471,123
Short-term bond	18	—	605,868
Due to related parties	20	**595,897**	325,880
Tax payable		**86,340**	46,773
Total current liabilities		**5,845,003**	7,048,488
NET CURRENT LIABILITIES		**(3,083,325)**	(3,092,427)
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,833,094**	3,618,699
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	18	**1,081,011**	1,351,850
Deferred tax liabilities		**22,913**	18,537
Total non-current liabilities		**1,103,924**	1,370,387
Net assets		**2,729,170**	2,248,312
EQUITY			
Equity attributable to owners of the parent			
Issued capital	21	**86,048**	86,048
Reserves		**2,376,516**	2,043,570
Proposed final dividend	10	**101,675**	—
		2,564,239	2,129,618
Non-controlling interests		**164,931**	118,694
Total equity		**2,729,170**	2,248,312

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 CORPORATE INFORMATION

The Company was incorporated with limited liability in the Cayman Islands on 30 January 2009. The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1 — 1111, Cayman Islands.

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

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

2 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), accounting principles generally accepted in Hong Kong, and the disclosure requirements of the Hong Kong Companies Ordinance.

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

Going concern assumption

As at 31 December 2016, the Group's net current liabilities amounted to approximately RMB3,083,325,000. 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 on the basis that:

(1) as at 31 December 2016, the Group's total borrowings amounted to RMB3,717,278,000, of which RMB2,636,267,000 will be due within twelve months from 31 December 2016. The Group has not experienced any significant difficulties in renewing its short-term borrowings upon their maturities and there is no indication that the banks will not renew the existing borrowings if the Group applies for the renewal. As at 31 December 2016, the Group has unutilised credit facilities from banks of RMB1,842,018,000 to meet the debt obligations and capital expenditure requirements; and

(2) one related party will provide financial support by extending the due date of a loan balance amounting to RMB435,201,000 payable by the Group to year 2018 or 2019 if the Group has financial difficulties; and

(3) the Group will proactively implement various strategic plans to streamline its operations to improve profitability and initiate plans to rationalise assets. These will include initiatives to scale back capacity, reduce headcounts, trim operating expenses and reduce capital expenditure.

The directors the Company have reviewed the Group's cash flow forecast prepared by management which covers a period of twelve months from the end of the reporting period. They are of the opinion that, taking into account the above-mentioned measures, the Group will have sufficient working capital to finance its operations and meet its financial obligations as and when they fall due in the foreseeable future.

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2016. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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

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

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

3 OPERATING SEGMENT INFORMATION

For management purposes, the Group is not organised into business units based on their products and services and only has one reportable operating segment. Management monitors the operating results of its operating segment as a whole for the purpose of making decisions about resources allocation and performance assessment.

Entity-wide disclosures

Information about products and services

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

	2016	2015
	RMB'000	*RMB'000*
EO	**2,683,430**	2,485,813
Propylene	**1,063,022**	1,061,004
EG	**1,129,261**	568,994
C4 and C5	**547,560**	364,666
Polypropylene	**555,473**	—
Surfactants	**428,656**	230,718
Liquefied nitrogen, ethylene glycol and others	**196,848**	203,777
Processing services	**33,203**	42,756
Rental income	**9,566**	8,699
	6,647,019	4,966,427

Geographical information

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

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

4 REVENUE, OTHER INCOME AND GAINS AND OTHER EXPENSES

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

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

	2016	2015
	RMB'000	*RMB'000*
Revenue		
Sale of goods	**6,604,250**	4,914,972
Rendering of services	**33,203**	42,756
Others	**9,566**	8,699
	6,647,019	4,966,427

	2016	2015
	RMB'000	*RMB'000*
Other income		
Sales of raw materials	**163,547**	199,448
Interest income from related parties	**119,903**	106,713
Sales of low sulphur fuel oil	**98,404**	59,144
Service fee income	**69,811**	—
Sales of ethylene	**46,813**	261,148
Bank interest income	**17,577**	63,842
Guarantee fee	**10,199**	11,434
Government subsidies (a)	**17,514**	10,040
Sales of circular water	**10,070**	4,076
Sales of electricity	**7,168**	1,916
Others	**6,097**	4,345
Gross rental income	**1,765**	2,076
Commission fee	**998**	—
Donation income	**—**	1,110
	569,866	725,292
Gains		
Fair value gains on derivative financial instruments	**40,078**	—
Investment income from derivative financial instruments	**26,778**	1,323
Investment income from futures	**23,713**	29,030
Investment income from embedded derivative instruments	**4,558**	5,858
Gain on disposal of silver catalysts (b)	**2,572**	—
Gain on disposal of PPE	**—**	3,350
Gain on disposal of Mei Fu Port	**—**	157,128
Gain on disposal of intangible assets	**—**	245
	97,699	196,934
	667,565	922,226

	2016	2015
	RMB'000	*RMB'000*
Other expenses		
Cost of sales of raw materials	**140,055**	207,569
Foreign exchange losses, net	**114,483**	195,060
Cost of sales of low sulphur fuel oil	**92,768**	57,534
Cost of sales of ethylene	**41,100**	233,087
Loss on disposal of Mei Fu Petrochemical	**1,544**	—
Fair value losses on derivative financial instruments	**8,173**	12,151
Fair value losses on futures	**2,783**	3,993
(Reversal)/provision for impairment loss for inventories (c)	**(18,451)**	34,861
Write-off of property, plant and equipment	**—**	75,226
Loss on disposal of instable surfactants	**—**	8,910
Loss on disposal of silver catalysts (b)	**—**	1,810
Others	**5,240**	411
	387,695	830,612

Notes:

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

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

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

5 FINANCE COSTS

An analysis of finance costs is as follows:

	2016	2015
	RMB'000	*RMB'000*
Interest on bank loans and other loans	**235,958**	299,312
Less: Interest capitalised	**—**	(42,554)
	235,958	256,758
Interest on discounted notes receivable	**25,723**	20,220
	261,681	276,978

6 PROFIT/(LOSS) BEFORE TAX

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

	2016	2015
	RMB'000	*RMB'000*
Cost of inventories sold	**5,724,098**	4,788,661
Cost of services provided	**13,870**	11,130
Depreciation*	**586,778**	412,950
Amortisation of prepaid land lease payments	**6,936**	7,686
Amortisation of intangible assets**	**27,850**	22,459
Gain on disposal of a joint venture	**—**	(157,128)
Loss on disposal of a joint venture	**1,544**	—
Gain on disposal of property, plant and equipment	**—**	(3,350)
Gain on disposal of items of intangible assets	**—**	(245)
Reversal of inventories to net realisable value***	**(76,286)**	(16,049)
Write-off of property, plant and equipment	**—**	75,226
Auditors' remuneration	**2,221**	3,026
Impairment of trade receivables	**2,583**	—
Minimum lease payments under operating leases	**1,676**	1,580
Employee benefit expense (including directors' remuneration)****:		
Wages and salaries	**132,968**	72,626
Pension scheme contributions	**6,196**	4,885
Staff welfare expenses	**6,140**	5,533
Equity-settled share award plan expense	**878**	2,839
	146,182	85,883

Notes:

* The depreciation of property, plant and equipment for the year is included in "Cost of sales" with an amount of RMB521,646,000 (2015: RMB368,467,000) in the consolidated statement of profit or loss.

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

*** The reversal of inventories to net realisable value of RMB10,467,000 (2015: nil) for the year is included in "Cost of sales" in the consolidated statement of profit or loss.

**** The employee benefit expense for the year is included in "Cost of sales" with an amount of RMB78,781,000 (2015: RMB47,768,000) in the consolidated statement of profit or loss.

7 INVESTMENTS IN JOINT VENTURES

	2016	2015
	RMB'000	*RMB'000*
Share of net assets	**—**	123,124
Goodwill on acquisition	**—**	71,982
	—	195,106

The Group's trade and non-trade receivable and interest-bearing loans receivable and payable balances due from and to joint ventures are disclosed separately in this announcement.

On 17 June 2016, the Group entered into an agreement (the "Agreement") to dispose of 51% of interest in Zhejiang Meifu Petrochemical Co., Ltd. ("Mei Fu Petrochemical") to Sure Capital, an entity controlled by the ultimate controlling shareholder and Jianghao Investment Co., Ltd. ("Jianghao Investment"), an entity under significant influence of the ultimate controlling shareholder, for a consideration of RMB306,000,000. A total of the disposal consideration of RMB300,381,000 was received during the year and the remaining balance of consideration of RMB5,619,000 will be received in the beginning of 2017.

	2016
	RMB'000
Share of net assets of a joint venture disposed of	**307,544**
Loss on disposal of a joint venture	**(1,544)**
Total consideration	**306,000**
Satisfied by:	
Cash	**306,000**

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a joint venture is as follows:

	2016
	RMB'000
Cash consideration	**306,000**
Less: Amount due from a related party	**(5,619)**
Net inflow of cash and cash equivalents in respect of the disposal of a joint venture	**300,381**

On 19 March 2015, the Group entered into an agreement (the "Agreement") to dispose of 51% of interest in Zhejiang Zhapu Meifu Port & Storage Co., Ltd. ("Mei Fu Port") to Zhejiang Jiahua Energy Chemical Co., Ltd. ("Jiahua Energy"), an entity controlled by the ultimate controlling shareholder, for a consideration of RMB357,000,000. A total of the disposal consideration of RMB178,500,000 and RMB59,500,000 was received in 2015 and 2016, respectively, and the remaining balance of consideration of RMB119,000,000 will be received on 31 March 2017 and 31 March 2018, respectively. Pursuant to the Agreement, the consideration is subject to a downward adjustment if the realised net profit for the three years ended/ending 31 December 2015, 2016 and 2017 shall be less than RMB65,000,000, RMB70,000,000 and RMB75,000,000 respectively, in which the consideration shall be discounted by an amount equivalent to 51% of the shortfall multiplied by a multiple of 1.5. After assessing the effect of potential undiscounted amount of a downward adjustment on consideration arrangement, in the opinion of the directors, the fair value of the contingent consideration arrangement was not significant.

On 17 April 2015, Guan Jianzhong, the ultimate controlling shareholder of the Group, has provided an irrevocable consent and undertaking to the Group that he shall irrevocably undertake any claims against the Group by Jiahua Energy for any consideration adjustment amount exceeding RMB160,650,000 suffered by the Group arising out of or in connection with the disposal.

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:

	2016	2015
	Mei Fu Petrochemical	Mei Fu Petrochemical
	RMB'000	*RMB'000*
Cash and cash equivalents	**—**	15,948
Other current assets	**—**	1,518,460
Current assets	**—**	1,534,408
Non-current assets, excluding goodwill	**—**	1,221,314
Current liabilities	**—**	(2,494,045)
Non-current liabilities	**—**	(12,573)
Net assets, excluding goodwill	**—**	249,104
Reconciliation to the Group's interest in the joint venture:		
Proportion of the Group's profit sharing	**—**	74.1%
Group's share of net assets of the joint venture, excluding goodwill	**—**	123,124
Goodwill on acquisition	**—**	71,982
Carrying amount of the investment	**—**	195,106

Results of the joint ventures:

	From 1 January 2016 to 30 September 2016	From 1 January 2015 to 30 April 2015	2015
	Mei Fu Petrochemical	Mei Fu Port	Mei Fu Petrochemical
	RMB'000	*RMB'000*	*RMB'000*
Revenue	**1,989,480**	29,976	2,678,626
Interest income	**3,926**	347	14,164
Cost of sales	**(1,646,153)**	(4,240)	(2,340,705)
Depreciation and amortisation	**(58,639)**	(3,671)	(96,560)
Interest expenses	**(89,926)**	—	(124,634)
Income tax expense	**(64,769)**	(5,941)	(27,764)
Profit and total comprehensive income for the year	**151,738**	17,609	75,214

8 INCOME TAX

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

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

	2016	2015
	RMB'000	*RMB'000*
Current — Mainland China		
Charge for the year	**76,405**	69,871
Under-provision in prior years	**—**	—
Deferred	**17,559**	(7,603)
Total tax charge for the year	**93,964**	62,268

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% (2015: 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 (2015: Nil).

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

Pursuant to the approval of the tax bureau, Sanjiang Chemical has been qualified as a High and New Technology Enterprise since 2010 and enjoys a preferential corporate income tax rate of 15% from year 2016 to year 2018. Therefore, Sanjiang Chemical was subject to corporate income tax at a rate of 15% for the year ended 31 December 2016 (2015: 15%).

Pursuant to the approval of the tax bureau, Sanjiang Honam has been qualified as a High and New Technology Enterprise since 2014 and enjoys a preferential corporate income tax rate of 15% from year 2014 to year 2016. Therefore, Sanjiang Honam was subject to corporate income tax at a rate of 15% for the year ended 31 December 2016 (2015: 15%).

Pursuant to the approval of the tax bureau, Sanjiang New Material has been qualified as a High and New Technology Enterprise since 2016 and enjoys a preferential corporate income tax rate of 15% from year 2016 to year 2018. Therefore, Sanjiang New Material was subject to corporate income tax at a rate of 15% for the year ended 31 December 2016 (2015: 25%).

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

	2016	2015
	RMB'000	*RMB'000*
Profit/(loss) before tax	**692,815**	(164,964)
Tax at the statutory tax rate	**173,204**	(41,241)
Lower tax rates enacted by local authority or in other countries	**(39,024)**	5,866
Additional deduction for research and development activities	**(14,098)**	(13,783)
Expenses not deductible for tax	**35,995**	33,998
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	**8,664**	—
Profits attributable to joint ventures	**(28,110)**	(16,135)
Income not subject to tax	**—**	(7,159)
Tax losses utilised from previous years	**(43,261)**	(2,059)
Temporary differences not recognised	**(5,909)**	14,541
Tax losses not recognised	**6,503**	88,240
Tax charge at the Group's effective rate	**93,964**	62,268

9 EARNING/(LOSS) 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:

	2016	2015
	Number of shares	
	'000	*'000*
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**985,240**	983,964
Effect of dilution — weighted average number of ordinary shares under the share award plan	**2,334**	3,512
	987,574	987,476

10 DIVIDEND

	2016	2015
	RMB'000	*RMB'000*
Proposed final — HK11.5 cents (2015: Nil) per ordinary share	**101,675**	—

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

11 AVAILABLE-FOR-SALE INVESTMENTS

	2016	2015
	RMB'000	*RMB'000*
Unlisted investments, at fair value	**424,371**	422,949
Unlisted equity investments, at cost	**1,000**	1,000
	425,371	423,949

Unlisted investments represent investments in certain financial assets and paper silver issued by licensed financial institutions in the PRC. The investments bear expected yield rates of 1.65% to 3.6% (2015: 2.0% to 5.6%) per annum upon maturity.

During the year, the gross loss in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to RMB1,982,000 (2015: RMB3,180,000).The loss of RMB9,510,000 (2015: gain of RMB925,000) in respect of matured investments was reclassified from other comprehensive income to the statement of profit or loss for the year.

As at 31 December 2016, certain unlisted equity investments with a carrying amount of RMB1,000,000 (2015: RMB1,000,000) were stated at cost because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably. The Group does not intend to dispose of them in the near future.

As at 31 December 2016, the Group's certain unlisted investments of RMB337,444,000 (2015: RMB159,301,000) were pledged for notes payable of RMB100,000,000 (2015: RMB100,000,000) and to secure bank loan facilities granted to the Group of RMB231,696,000 (2015: RMB50,000,000).

12 INVENTORIES

	2016	2015
	RMB'000	*RMB'000*
Raw materials	**646,387**	454,279
Finished goods	**77,842**	45,319
	724,229	499,598

The carrying amount of inventories carried at net realisable value was RMB222,253,000 (2015: RMB293,783,000) as at 31 December 2016.

13 TRADE AND NOTES RECEIVABLES

	2016	2015
	RMB'000	*RMB'000*
Trade receivables	**44,307**	41,236
Notes receivable	**128,643**	661,373
	172,950	702,609
Impairment	**(2,583)**	—
	170,367	702,609

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

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

	2016	2015
	RMB'000	*RMB'000*
1 to 30 days	**39,925**	36,166
31 to 60 days	**202**	1,078
61 to 90 days	**318**	1,271
91 to 360 days	**1,289**	1,760
Over 360 days	**2,573**	961
	44,307	41,236

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

	2016	2015
	RMB'000	*RMB'000*
Neither past due nor impaired	**39,925**	36,166
Less than 30 days past due	**202**	1,078
31 to 60 days past due	**318**	1,271
61 to 90 days past due	**542**	905
91 to 360 days past due	**747**	855
Over 360 days past due	**2,573**	961
	44,307	41,236

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

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

The Group's notes receivable were all aged within one year and were neither past due nor impaired.

At 31 December 2016, the Group endorsed certain notes receivable accepted by the certain banks in the PRC (the "Endorsed Notes") to certain of its suppliers in order to settle the trade and other payables due to such suppliers with a carrying amount in aggregate of RMB510,037,000 (2015: RMB1,121,604,000) (the "Endorsement"). In addition, the Group discounted certain notes receivable accepted by certain banks in the PRC (the "Discounted Notes") with a carrying amount in aggregate of RMB729,146,000 (2015: RMB702,039,000) (the "Discount"). The Endorsed Notes and the Discounted Notes have a maturity from one to twelve months as at 31 December 2016. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Endorsed Notes and the Discounted Notes have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement").

In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to certain Endorsed Notes and the Discounted Notes accepted by large and reputable banks with amount of RMB419,151,000 (2015: RMB801,300,000) and RMB665,146,000 (2015: RMB474,415,000) respectively (the "Derecognised Notes").

Accordingly, it has derecognised the full carrying amounts of the Derecognised Notes and the associated trade and other payables settled by the Endorsed Notes. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Notes and the undiscounted cash flows to repurchase these Derecognised Notes is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Notes are not significant.

The Group continued to recognise the full carrying amount of the remaining Endorsed Notes and the associated trade and other payables settled with an amount of RMB90,886,000 as at 31 December 2016 (2015: RMB320,304,000), and recognised the proceeds received from the discount of the remaining Discounted Notes with an amount of RMB64,000,000 (2015: RMB227,624,000) as short-term loans as at 31 December 2016 because the Directors believe that the Group has retained the substantial risks and rewards, which include default risks relating to such remaining Endorsed Notes and Discounted Notes.

As at 31 December 2016, no notes receivable (2015: RMB268,884,000) were pledged to secure bank loan facilities granted to the Group.

As at 31 December 2016, RMB10,950,000 of the Group's notes receivable (2015: nil) were pledged to secure the foreign currency swaps transactions entered by the Group.

14 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016	2015
	RMB'000	*RMB'000*
Deposits and other receivables	**239,601**	449,689
Prepayments	**157,692**	84,154
Prepaid land lease payments	**6,936**	6,936
Loans to employees	**1,263**	1,480
Prepaid expenses	**846**	7,799
	406,338	550,058
Less: Prepaid expenses, non-current portion	**—**	(2,007)
Prepayments, deposits and other receivables, current portion	**406,338**	548,051

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

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

15 CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2016	2015
	RMB'000	*RMB'000*
Cash and bank balances	**348,224**	91,743
Time deposits	**410,273**	701,464
	758,497	793,207
Less: Pledged time deposits:		
Pledged for notes payable	**322,064**	318,381
Pledged for letters of credit	**69,400**	63,685
Pledged for bank loans	**13,805**	319,398
Pledged for forward contract	**3,834**	—
Pledged for options	**1,170**	—
	410,273	701,464
Cash and cash equivalents	**348,224**	91,743

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to RMB220,164,000 (2015: RMB62,965,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

16 TRADE AND BILLS PAYABLES

	2016	2015
	RMB'000	*RMB'000*
Trade payables	**803,409**	812,731
Bills payable	**650,903**	441,785
	1,454,312	1,254,516

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:

	2016	2015
	RMB'000	*RMB'000*
Within 3 months	**1,301,188**	1,092,677
3 to 6 months	**17,097**	154,518
6 to 12 months	**132,218**	3,641
12 to 24 months	**2,160**	2,045
24 to 36 months	**1,638**	1,230
Over 36 months	**11**	405
	1,454,312	1,254,516

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

As at 31 December 2016, the bills payable of RMB650,903,000 (2015: RMB441,785,000) were secured by the Group's pledged deposits with a carrying amount of RMB322,064,000 (2015: RMB318,381,000) and unlisted investments with a carrying amount of RMB100,444,000 (2015: RMB101,079,000).

17 OTHER PAYABLES AND ACCRUALS

	2016	2015
	RMB'000	*RMB'000*
Other payables	**809,440**	1,144,481
Advances from customers	**147,600**	141,329
Payroll payable	**64,852**	16,930
Taxes payable other than income tax	**33,573**	17,688
Interest payable	**7,096**	10,532
Other accrued liabilities	**—**	88
	1,062,561	1,331,048

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

18 INTEREST-BEARING BANK BORROWINGS

	Effective interest rate *(%)*	Maturity	**2016** ***RMB'000***	2015 *RMB'000*
Current				
Finance lease payables	4.750–5.250	2017	**292,115**	—
Bank loans-secured	1.600–3.151	2017	**297,046**	—
	0.800–5.600	2016	**—**	343,893
Bank loans — unsecured	1.124–4.850	2017	**1,683,106**	—
	1.010–5.885	2016	**—**	2,199,606
Current portion of long-term loans — secured	4.900	2017	**300,000**	—
	6.550	2016	**—**	300,000
	6.400	2016	**—**	400,000
			2,572,267	3,243,499
Short-term bond	7.000	2016	**—**	605,868
Discounted notes receivable	2.960	2017	**64,000**	—
	2.900–3.840	2016	**—**	227,624
			2,636,267	4,076,991
Non-current				
Finance lease payables	4.750–5.250	2018	**29,625**	—
Bank loans — secured	4.750–5.329	2017–2019	**154,750**	154,750
	4.750–5.329	2016–2019	**896,636**	1,197,100
			1,081,011	1,351,850
			3,717,278	5,428,841
Analysed into:				
Bank loans repayable:				
Within one year			**2,344,152**	3,471,123
In the second year			**402,812**	189,644
In the third to fifth years, inclusive			**648,574**	1,162,206
			3,395,538	4,822,973
Other borrowings repayable:				
Within one year			**292,115**	605,868
In the second year			**29,625**	—
			321,740	605,868
			3,717,278	5,428,841

Notes:

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

(i) the pledge of certain of the Group's time deposits amounting to RMB13,805,000 as at 31 December 2016 (2015: RMB319,398,000);

(ii) no pledge of certain of the Group's notes receivable as at 31 December 2016 (2015: RMB268,884,000);

(iii) mortgages over the Group's property, plant and equipment, which had an aggregate carrying value at the end of the reporting period of approximately RMB358,321,000 (2015: RMB431,055,000);

(iv) mortgages over the Group's leasehold land, which had an aggregate carrying value at the end of the reporting period of approximately RMB165,018,000 (2015: RMB194,097,000); and

(v) the pledge of certain unlisted investments amounting to RMB237,000,000 as at 31 December 2016 (2015: RMB58,222,000).

Xingxing New Energy entered into a syndicated loan agreement with Industrial and Commercial Bank of China Limited, China Construction Bank Limited and Bank of China Limited in June 2013 in relation to the funding requirement for the construction of the Methanol To Olefins ("MTO") production facility with a total loan amount of RMB1,600,000,000 which was guaranteed by its shareholders, Sanjiang Chemical, holding 75% of its equity interest, and Zhejiang Jiahua Group Co., Ltd. ("Jiahua Group"), holding 12% 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 RMB1,098,386,000 as at 31 December 2016 (2015: RMB1,398,850,000) and the facility was also secured by its leasehold land with a carrying value of approximately RMB165,018,000 as at 31 December 2016 (2015: RMB168,567,000) which was included in the amounts in note (iv) above.

Sanjiang New Material entered into a syndicated loan agreement with Industrial and Commercial Bank of China Limited and China Merchants Bank in September 2014 in relation to the funding requirement for the construction of the EO/EG production facility with a total loan amount of RMB500,000,000 which was guaranteed by Sanjiang Chemical and Xingxing New Energy for amounts not exceeding RMB600,000,000 and RMB600,000,000, respectively. Sanjiang New Material had used the facility of RMB253,000,000 as at 31 December 2016 (2015: RMB303,000,000) and no property, plant and equipment and leasehold land were pledged to the facility (2015: RMB431,055,000 and RMB25,530,000 respectively), which were included in the amounts in note (iii) and note (iv) above.

Sanjiang Chemical entered into a sale and lease back agreement with International Far Eastern Leasing Co., Ltd in November 2016 with a total present value of minimum lease payments of RMB140,740,000 which was secured by certain of its plant and machinery amounted to RMB161,212,000 which were included in the amounts in note (iii) above. Xingxing New Energy entered into a sale and lease back agreement with International Far Eastern Leasing Co., Ltd in November 2016 with a total present value of minimum lease payments of RMB150,000,000 which was secured by certain of its plant and machinery amounted to RMB165,946,000 which were included in the amounts in note (iii) above. Sanjiang Honam entered into a sale and lease back agreement with Lotte Financial Leasing Co., Ltd in December 2016 with a total present value of minimum lease payments of RMB31,000,000 which was secured by certain of its plant and machinery amounted to RMB31,163,000 which were included in the amounts in note (iii) above.

19 DUE FROM RELATED PARTIES

	2016	2015
	RMB'000	*RMB'000*
Sure Capital Holdings Limited (a)	**5,619**	—
Mei Fu Petrochemical (b)	**728,549**	910,268
Hangzhou Haoming Investment Co., Limited	**122**	150
Zhejiang Jiahua Group Co., Ltd.	**92**	93
Zhejiang Jiahua Import Export Co., Ltd.	**284**	283
Zhejiang Jiahua Energy Chemical Co., Ltd. (c)	**110,269**	154,916
	844,935	1,065,710

Notes:

(a) The amount due from Sure Capital Holdings Limited was derived solely in relation to the Sales and Purchases Agreement entered into on 17 June 2016 to dispose 51% equity interest in Zhejiang Mei Fu Petrochemical Co., Ltd to Sure Capital Holdings Limited and Jiaxing Gangqu Jianghao Investment Development Company Limited. The amount due from Sure Capital Holdings Limited has been fully settled after 31 December 2016 in accordance with the terms and conditions as set out in the aforesaid Sales and Purchases Agreement.

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

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

The balances with related parties are unsecured, interest-free and repayable on demand, except the loan balances due from Mei Fu Petrochemical, which bear interest at 7% to 12% per annum and are repayable within three years.

20 DUE TO RELATED PARTIES

	2016	2015
	RMB'000	*RMB'000*
Grand Novel Developments Limited	**9,929**	9,299
Mei Fu Petrochemical	**30,080**	55,291
Mei Fu Port	**8,269**	5,077
Zhejiang Jiahua Energy Chemical Co., Ltd.	**67,253**	69,788
Zhejiang Jiahua Group Co., Ltd.	**435,201**	185,493
Jiaxing Xinggang Rewang Co., Ltd.	**392**	932
Zhejiang Jiahua Import Export Co., Ltd.	**42,320**	—
Zhejiang Hao Xing Energy Saving Technology Co., Ltd* (浙江浩星節能科技有限公司)	**1,763**	—
Jiaxing Port Industrial Equipment Installation Co., Ltd* (嘉興港區港安工業設備安裝有限公司)	**690**	—
	595,897	325,880

The balances with related parties are unsecured, interest-free and repayable on demand, except the loan balance due to Jiahua Group, of which RMB160,000,000 bears interest at 4.35% and is repayable within one year, RMB270,000,000 bears interest at 8% per annum and is repayable within three years.

21 SHARE CAPITAL

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

	Number of shares	Amount
		RMB'000
Issued and fully paid ordinary shares of HK$0.1 each:		
At 31 December 2015, 1 January 2016 and 31 December 2016	993,104,000	86,048

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND FINANCIAL REVIEW

Revenue

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

	Full year 2016	**% of revenue**	Full year 2015	% of revenue	**Variance +/(–)**
REVENUE (RMB'000)					
Ethylene oxide	**2,683,430**	**40%**	2,485,813	50%	7.9%
Propylene	**1,063,022**	**16%**	1,061,004	21%	0.2%
Ethylene glycol	**1,129,261**	**17%**	568,994	11%	98.5%
C4	**356,612**	**5%**	239,898	5%	48.7%
C5	**190,948**	**3%**	124,768	3%	53.0%
Polypropylene	**555,473**	**8%**	—	0%	N/A
Surfactants	**428,656**	**6%**	230,718	5%	85.8%
Surfactants processing services	**33,203**	**1%**	42,756	1%	–22.3%
Others	**206,414**	**4%**	212,476	4%	–2.9%
	6,647,019	**100%**	4,966,427	100%	33.8%
SALES VOLUME (MT)					
Ethylene oxide	**366,042**		398,697		–8.2%
Propylene	**214,821**		214,367		0.2%
Ethylene glycol	**246,672**		122,243		101.8%
C4	**101,184**		57,525		75.9%
C5	**45,016**		28,692		56.9%
Polypropylene	**83,236**		—		N/A
Surfactants	**52,295**		31,913		63.9%
Surfactants processing services	**102,443**		98,462		4.0%
AVERAGE SELLING PRICE (RMB)					
Ethylene oxide	**7,331**		6,235		17.6%
Propylene	**4,948**		4,949		0.0%
Ethylene glycol	**4,578**		4,655		–1.6%
C4	**3,524**		4,170		–15.5%
C5	**4,242**		4,349		–2.5%
Polypropylene	**6,673**		N/A		N/A
Surfactants	**8,197**		7,230		13.4%
Surfactants processing services	**324**		434		–25.4%
GROSS PROFIT MARGIN (%)					
Ethylene oxide	**26.7%**		12.3%		14.4%
Propylene	**–10.6%**		–25.7%		15.1%
Ethylene glycol	**15.4%**		7.4%		8.0%
C4	**–0.1%**		–0.4%		0.3%
C5	**–0.5%**		–0.5%		0.0%
Polypropylene	**3.2%**		N/A		N/A
Surfactants	**10.1%**		11.8%		–1.7%
Surfactants processing services	**58.2%**		74.0%		–15.8%

Ethylene oxide sales

During the year under review, the revenue from EO sales increased by approximately 7.9% when compared to 2015, which was primarily resulted from the combined effect of the increase in average selling price of EO by approximately 17.6% and the decrease in EO sales volume by approximately 8.2% as more EO were allocated for the production our downstream products — Surfactants.

Propylene sales

During the year under review, the revenue from propylene sales maintained in a similar level of last year, which was primarily resulted from the combined effect of the increase in propylene output from MTO production facility due to full-year effect of last year's ramp-up and more propylene being used to produce PP (i.e. propylene used to produce PP — 2016: 83K MT; 2015: Nil) after the ramp-up of PP production facility in Q3 of 2016.

Ethylene glycol sales

During the year under review, the revenue from EG sales increased by approximately 98.5% when compared to 2015, which was primarily resulted from the full-year effect of last year's ramp-up of the 5th phase EO/EG production facilities and the Group tuned the 5th phase EO/EG production facilities to maximise the output for EG.

C4 & C5 sales

During the year under review, the revenue from C4 sales and C5 sales increased by approximately 50% in average when compared to 2015, which was primarily resulted from the full-year effect of last year's ramp-up of the MTO production facility.

Polypropylene sales

During the year under review, the Group completed the ramp-up of the PP production facility and put it into commercial operation in Q3 of 2016, which led to the increase in revenue from PP sales by approximately RMB555 million.

Gross profit margin

Overall gross profit margin improved by approximately 10.3%, primarily resulted from the combined effects of:

1) the increase in average selling price of EO by 17.6% when comparing to 2015 as market sentiments improved since Q2 of 2016;

2) the increase in gross profits in ethylene production level as ethylene output from MTO production facility increased (i.e. ethylene output from MTO production facility — 2016: 315K MT; 2015: 215K MT) due to full-year effect of last year's ramp-up and more ethylene being used to produce EO and EG;

3) a new product line — PP come on stream in Q3 of 2016 which provided a GP margin of approximately 13% and brought the Group's propylene-line business on an integrated basis (i.e. propylene used to produce PP and then PP sales) back to a positive gross profit margin level, improving from gross loss margin of 10.6% in propylene sales business only to gross profit margin of 3.2% in propylene-line business on an integrated basis; and

4) production efficiencies of MTO production facility and the 5th phase EO/EG production facility improved in 2016 as test-run costs during the ramp-up of a new production facility usually drags down the production efficiency and all the test-run costs including raw materials, times and efficiencies lost during the course of starting up and fine tuning the facilities of the aforesaid two major production facilities have been fully reflected in 2015.

The Group expected the overall gross profit margin will have an upside in 2017 as more propylene will be used to produce PP internally as a result of the full-year effect of the ramp-up of the PP production facility in Q3 of 2016.

Administrative expenses

Administrative expenses consist mainly of staff related costs, various local taxes and educational surcharge, depreciation, amortization of land use rights, operating lease rental expenses, audit fee and miscellaneous expenses.

LIQUIDITY AND FINANCIAL RESOURCES

Financial position and bank borrowings

The Group had cash and bank balances of approximately RMB348.2 million (2015: approximately RMB91.7 million), most of which were denominated in Renminbi. The Group had interest-bearing borrowings of approximately RMB3,717.3 million as at 31 December 2016 (2015: approximately RMB5,428.8 million). Please refer to notes 18 to the consolidated financial statements of this announcement for the details of borrowings and the respective charge of assets.

The Group's gearing, expressed as a percentage of total interest-bearing borrowings to total assets, was 42.9% as at 31 December 2016 as compared to 50.9% as at 31 December 2015. The Group has a gearing guidance of not more than 66.7% on total interest-bearing borrowings to total assets basis, which management considers is a better measure when comparing to total interest-bearing borrowings to total equity basis as the Group will have rapid expansion of various production facilities in the coming years and there is a time lag of approximately 2 years between the construction period of production facilities and the profit and revenue generated from these facilities.

Working capital

The inventory turnover days maintained in a similar level during the year under review (2016: 38.9 days; 2015: 30.0 days).

The trade and notes receivables turnover days maintained at a relatively low level in both 2016 and 2015 (2016: 24.0 days; 2015: 37.8 days).

The trade and notes payables turnover days maintained at a similar level in both 2016 and 2015 (2016: 86.1 days; 2015: 97.2 days).

CAPITAL COMMITMENTS

As at 31 December 2016, the Group had capital commitments amounted to approximately RMB7.2 million which was primarily related to the procurement of plant and machinery for the constructions of additional production capacities.

CONTINGENT LIABILITIES

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

	2016	2015
	RMB'000	*RMB'000*
Guarantees given to banks in connection with facilities granted to:		
— Mei Fu Petrochemical	**649,358**	1,022,500
— Joint operation (Sanjiang Honam)	**265,898**	167,773
	915,256	1,190,273

As at 31 December 2016, the banking facilities granted to Mei Fu Petrochemical (in accordance with the Loan and Guarantee agreement entered into on 17 June 2016) and a joint operation subject to guarantees given to banks by the Group were utilised to the extent of approximately RMB89,989,000 (2015: RMB499,819,000) and RMB120,573,000 (2015: RMB128,461,000), respectively.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2016, the Group employed a total of 1,054 full-time employees. For the year ended 31 December 2016, the employee benefit expense was approximately RMB146.2 million. The Group's employee benefits included housing subsidies, shift subsidies, bonuses, allowances, medical check-up, staff quarters, social insurance contributions and housing fund contributions. The remuneration committee of the Company reviews such packages annually, or when the occasion requires. The executive Directors, who are also employees of the Company, receive remuneration in the form of fees, salaries, bonuses and other allowances.

DIVIDEND

The Board recommends the payment of a final dividend of HK11.5 cents per share in respect of the year, representing a dividend payout of RMB101.7 million and dividend payout ratio (based on final dividend only) of 18.4% for the year ended 31 December 2016.

Subject to the approval of the shareholders at the forthcoming annual general meeting, the final dividend will be distributed on or about Thursday, 15 June 2017 to the shareholders whose names appear on the register of members of the Company as at Monday, 5 June 2017.

OTHER INFORMATION

CORPORATE GOVERNANCE

The Company has adopted the code provisions in the Code of Corporate Governance Practices (to be renamed as the Corporate Governance Code effective from 1st April 2012) ("**CG Code**"), including any revisions and amendments from time to time, as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on the Stock Exchange as its own code of corporate governance. The Board considers that the Company has complied with all the code provisions of the CG Code during the year ended 31 December 2016 and up to the date of this annual results announcement.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("**Model Code**") as set out in Appendix 10 to the Listing Rules as its model code for securities transactions by Directors and senior management. Having made specific enquiries, all the Directors confirmed that they have complied with the Model Code during the year ended 31 December 2016 and up to the date of this annual results announcement.

AUDIT COMMITTEE

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

During the year ended 31 December 2016 and up to the date of this annual results announcement, the Audit Committee reviewed the interim results of the Group for the six months ended 30 June 2016 and the annual results of the Group for the year ended 31 December 2016, including the accounting principles and practices adopted by the Group, and the Group's internal control functions.

REMUNERATION COMMITTEE

As at the date of this announcement, the Remuneration Committee consists of three members, namely Messrs. Kong Liang, Guan Jianzhong and Ms. Pei Yu of whom Mr. Kong Liang and Ms. Pei Yu are independent non-executive Directors and Mr. Guan Jianzhong is the Chairman of the Board and an executive Director. The chairman of the Remuneration Committee is Ms. Pei Yu. The primary responsibilities of the Remuneration Committee include, among others, evaluating the performance and making recommendation on the remuneration package of the Directors and senior management, and evaluating and making recommendation on the share award plan of the Company.

NOMINATION COMMITTEE

As at the date of this announcement, the Nomination Committee consists of three members, namely Messrs. Guan Jianzhong and Shen Kaijun and Ms. Pei Yu, of whom Mr. Shen Kaijun and Ms. Pei Yu are independent non-executive Directors and Mr. Guan Jianzhong is the Chairman of the Board and an executive Director. The primary responsibilities of the Nomination Committee include, among others, considering and recommending to the Board suitably qualified persons to become the member of the Board and reviewing the structure, size and composition of the Board on a regular basis and as required.

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES

During the year under review, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2016.

ANNUAL GENERAL MEETING

The forthcoming 2017 annual general meeting ("**AGM**") of the Company will be held at Hong Kong on Friday, 26 May 2017. Notice of the AGM will be published and despatched to the shareholders of the Company in the manner as required by the Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 22 May 2017 to Friday, 26 May 2017, 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 Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 19 May 2017. In addition, the register of members of the Company will be closed from Friday, 2 June 2017 to Monday, 5 June 2017, both days inclusive, for the purpose of ascertaining shareholders' entitlement to the proposed final dividend. In order to qualify for the proposed final dividend, all transfers documents accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Thursday, 1 June 2017.

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

The Company's Annual Report for the year ended 31 December 2016 will be dispatched to the shareholders of the Company and published on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (www.chinasanjiang.com) in due course.

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

People's Republic of China, 22nd March 2017

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

In this announcement, if there is any inconsistency between the Chinese names of the entities or enterprises established in the PRC and their English translations, the Chinese names shall prevail. The English translation of names or any descriptions in Chinese which are marked with "" is for identification purpose only.*