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

Annual Report 2016

CONTENTS

CHAIRMAN'S STATEMENT

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

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		–1.7%
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 24 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 RMB'000	2015 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.

BIOGRAPHIES OF DIRECTORS

GUAN Jianzhong (管建忠)

aged 48, 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 31 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 50.29% of the issued share capital of the Company.

HAN Jianhong (韓建紅)

aged 42, 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 16 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.

HAN Jianping (韓建平)

aged 45, has been an executive Director since 24 August 2010. He is primarily responsible for the sales 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.

RAO Huotao (饒火濤)

aged 43, was recently apportioned as an executive Director on 15 March 2017. He is primarily responsible for the project management of the Group. Mr. Rao obtained a bachelor's degree in chemical process from Wuhan Institute of Technology in 1996 and a master's degree in chemical engineering from Zhejiang University in 2008 and has over 20 years of experience in the chemical manufacturing industry. Mr. Rao joined the Group in 2010.

SHEN Kaijun (沈凱軍)

aged 49, 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 25 years of experience in accounting and corporate management.

PEI Yu (裴愚)

aged 45, has been an independent non-executive Director since 30 June 2014. She is a member of all the audit committee, the remuneration committee and the nomination committee. Ms. Pei graduated from the Beijing Normal University (北京師範大學) with a bachelor degree in arts in June 1992 and obtained a double degree in laws from China University of Political Science and Law (中國政法大學) in June 1997. Ms. Pei has more than 15 years of experience in the legal field in China.

KONG Liang (孔良)

aged 51, has been an independent non-executive Director since 25 July 2016. He is a member of the audit committee and the remuneration committee. Mr. Kong obtained a bachelor's degree in management science from the Fudan University in 1988, a master's degree in economics from the University of International Business and Economics in 1991, a master's degree in business administration from the Nyenrode Business Universiteit in 1995 and a doctrine degree in education economics and management from Peking University in 2011. Mr. Kong has more than 15 years of experience in providing higher education course in business management.

BIOGRAPHIES OF SENIOR MANAGEMENT

CHEN Xian (陳嫻)

aged 42, 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 a bachelor's degree in accounting from Renmin University of China (中國人民大學) in 2013. She joined the Group in 2009.

DING Rong Guo (丁嶸國)

aged 41, is the head of production department of the Group. Mr. Ding is primarily responsible for the production management and safety and environment protection of the Group. He joined the Group in 2004.

YIP Ngai Hang (葉毅恒)

aged 40, 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.

ENVIRONMENTAL,
SOCIAL AND GOVERNANCE REPORT

Environmental, Social and Governance Report

The Company is committed to undertake corporate social responsibility ("**CSR**") and considers CSR as a long-term worthy commitment. The Company is also committed to incorporating the concept of sustainable development into its business operations and management processes to better achieve an all-win situation and comprehensive development for the economy, society and the environment. This report covers the financial year ended 31 December 2016 and discloses the Company's CSR approach, strategy, priorities and objectives.

This report has been reviewed and approved by the board (the "**Board**") of directors (the "**Directors**") of the Company after their discussion with the relevant management of the Group regarding the effectiveness of the relevant CSR systems.

REPORT SCOPE

This report covers the core business of the Company and its subsidiaries (collectively, the "**Group**") in the PRC, namely manufacturing and supplying of ethylene oxide, ethylene glycol, ethylene, propylene and surfactants and the provision of surfactants processing service. This report covers the Company and all its subsidiaries. The Group's jointly controlled entities are not covered in this report.

ENVIRONMENTAL ASPECTS

Emission

The Group has a policy in place to pursue emission reduction vigorously and to the best knowledge of the Directors, during the year ended 31 December 2016 and up to the date of this report, the Directors are not aware of any non-compliance with relevant laws and regulations regarding emissions including air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.

The management of the Group always looks for ways to improve emission reduction. Being a vertical-integrated chemical group, the management of the Group believes any outputs from its production processes can be reused/recycled in a certain extent as inputs in other production processes. Before the ramp-up of MTO production facility in Q2 of 2015, the Group generate enormous amount of nitrogen as by-product from air-separation facilities during the EO production process. However, the Group could only then be able to sell a relative small part of such enormous amount of nitrogen as a result of lack of available users in the region. As such, although nitrogen is not regarded as toxic air for emission purpose, the Group had to emit the rest of the unsold nitrogen without being able to utilise it. After the ramp-up of MTO production facility in Q2 of 2015, the Group is able to use a substantial amount of the nitrogen as one of the inputs into the MTO production facility. With the full-year impact, further adjustments and fine-tuning in the production process of the MTO production facility, the Group considers the synergy effect between EO production facilities and MTO production facility in terms of nitrogen utilization improved in 2016 as the Group has had less emission of nitrogen during the year ended 31 December 2016, as compared to the same of the year ended 31 December 2015.

Use of Resources

The Group has a policy in place to pursue energy conservation and improvement of resource utilization rate vigorously.

Being a vertical-integrated chemical group, the management of the Group always looks for ways to improve energy conservation and resource utilization rate as the management of the Group believes improvement of energy conservation or resource utilization rate can lead to the increase in production efficiency and in turn the increase in gross profit margin. The Group has been fine-tuning the structure of certain pipelines in order to use spare heats from certain production facilities to generate low pressure steam for the chemical reactions of other facilities which will reduce the overall energy/heat losses and save operating costs. The management of the Group considers it as a long-term ongoing measure, which leads to the procurement requirement on low pressure steam on a group basis decreasing over times.

The Environment and Natural Resources

The Group has a policy in place to pursue the minimisation of the Group's impact on the environment and natural resources.

The Group puts continuing efforts in raising the environmental consciousness of its employees by imposing various measures. For instance, (i) when outdoor temperature drops to 25°C, all air-conditioners in production facilities would be turned off; and (ii) the Group has been working towards a no-paper working environment since 2015, with the transaction/agreement approval system substantially upgraded to paperless in 2016.

SOCIAL

Employment

The Group has a policy in place to cover employee compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare. To the best knowledge of the Directors, during the year ended 31 December 2016 and up to the date of this report, the Directors are not aware of any non-compliance with relevant laws and regulations regarding employee compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.

The Group values its employees and offers competitive packages to attract and retains qualified employees by providing competitive remuneration and pension, career advancement opportunity, and various benefits in kind. Salaries are reviewed and adjusted regularly based on performance appraisals and the market trend.

Key performance indicators	2016	2015
Total number of employees	**1,054**	1,070
Total number of male employees	**880**	893
Total number of female employees	**174**	177
Total number of employees	**1,054**	1,070
Total number of full-time employees	**1,054**	1,070
Total number of part-time employees	**0**	0
Total number of employees	**1,054**	1,070
Within the age group of 18-35	**772**	796
Within the age group of 36-55	**272**	242
Within the age group of >55	**10**	32
Turnover rate of employees	**10.1%**	14.7%
Turnover rate of male employees	**9.9%**	14.1%
Turnover rate of female employees	**11.5%**	17.5%
Turnover rate of employees	**10.1%**	14.7%
Within the age group of 18-35	**12.3%**	16.6%
Within the age group of 36-55	**3.3%**	8.3%
Within the age group of >55	**30.0%**	15.6%

Health and Safety

The Group has a policy in place to ensure a safe working environment and protect employees from occupational hazards. To the best knowledge of the Directors, during the year ended 31 December 2016 and up to the date of this report, the Directors are not aware of any non-compliance with relevant laws and regulations in terms of providing a safe working environment and protecting employees from occupational hazards.

Being a vertical-integrated chemical group, the management of the Group always put safe working environment and safe production in the highest priority as the management of the Group believes it is the key of ensuring the sustainability of the Group on a long-term basis. The management of the Group regularly reinforces the importance of safe working environment and safe production in managerial meetings that are usually held on a quarterly basis. In addition, the Group also regularly reviews procedures and provides training to its employees as to safe working environment and safe production in order to raise their awareness and cautiousness.

In 2016, the Group launched a long-term campaign called "**safety and healthy cup**" encouraging competitions among all operating departments in terms of safe working environment and safe production. The "**safety and healthy cup**" is a reward system that departments and staffs with outstanding performance would be rewarded, while departments and staffs with poor performance would be penalised. Besides, in order to raise the health awareness of all employees, the Group also launched an annual health check-up programme since 2013, in which the Group provides additional day-off and all medical subsidies to ensure all employees having a thorough health check-up in hospital each year.

Key performance indicators	2016	2015
Number of work-related fatalities	**0**	0
Rate of work-related fatalities (as a % of total employees)	**0**	0
Lost days due to work injury	**0**	0

Development and Training

The Group has a policy in place to ensure that comprehensive trainings are provided to employees on a regular basis. The Group fully understands the importance of provision of training to its employees and how it creates value to the Group in a long run. The Group is committed to hire different external training institutions to provide relevant and comprehensive trainings to its employees at all grades in each year.

Key performance indicators	2016	2015
Total number of employees received training	**1,054**	1,070
Total number of male employees received training	**880**	893
Total number of female employees received training	**174**	177
Total number of senior management received training	**16**	15
Total number of middle management received training	**54**	42
Total number of the rest of staffs received training	**984**	1,013
Average training hours for male employee	**12 days**	12 days
Average training hours for female employee	**12 days**	12 days
Average training hours for senior management	**20 days**	20 days
Average training hours for middle management	**20 days**	20 days
Average training hours for the rest of staffs	**12 days**	12 days

Labour Standards

The Group has a policy in place to prevent child and forced labour from hiring and working within the Group. To the best knowledge of the Directors, during the year ended 31 December 2016 and up to the date of this report, the Directors are not aware of any non-compliance with relevant laws and regulations in terms of hiring and having child and forced labour work within the Group.

The Group has rigorous recruitment procedures and guidelines which set out the basic requirements of each posts, including the education background, age, probation period, promotion path etc.. Each job applicant would be required to fill in his/her information on a recruitment questionnaire, which would then be checked and verified by the Group's human resource department to ensure the accuracy of the information provided and to ensure the Group's compliance of relevant laws and regulations in terms of hiring child and forced labour, working permission etc.. Such exercise enables the Group to hire suitable candidate in accordance with the job requirements.

Supply Chain Management

The Group has a policy in place to manage the environmental and social risks of the supply chain. The Group implements a set of strict procedures as to suppliers selection, product/service selection and timing of procurement for raw materials and all these decisions are required to be approved by the Chairman of the Board. The Group maintains a supplier Enterprise Resource Planning ("**ERP**") system which requires vetting and registration for every supplier and the finance department of the Group would only be able to process payments to suppliers that have been properly registered and approved in the supplier ERP system. The supplier ERP system sets out a list of procedures and questionnaires to be documented, requiring a certain level of due diligence works to be performed on company background, credibility, operation capacity and track record, management background etc.. The Group is currently in the process of reviewing and updating the list of procedures and questionnaires with the purpose of prioritising suppliers that are more environmental friendly in terms of corporate culture, management style and measures being carried out during their provision of products/services.

The Group also implements a set of strict procedures as to tendering for construction works for production facilities, buildings and properties in order to provide a fair and transparent platform for securing the best suppliers and the best pricing. The Chairman of the Board attends and chairs every meeting as to bid opening to ensure a fair tendering process.

Key performance indicators	2016	2015
Number of suppliers (i.e. major suppliers with annual procurement amount of more than RMB1 million) in PRC	**39**	211
Number of suppliers (i.e. major suppliers with annual procurement amount of more than RMB1 million) Overseas	**14**	22

Product Responsibility

The Group has a policy regarding product responsibility in place to cover issues like product safety, advertising, labeling etc. To the best knowledge of the Directors, during the year ended 31 December 2016 and up to the date of this report, the Directors are not aware of any non-compliance with relevant laws and regulations relating product safety, advertising, labeling and privacy matters relating to products and services provided and methods of redress.

Being a vertical-integrated chemical group, the Group's major products like ethylene, propylene, ethylene oxide and ethylene glycol and polypropylene are all crude oil derivative, standardised and intermediate products and given these product natures, the Group focuses its businesses with long-term recurring customers and it is the Group's practice to enter into long-term volume contracts with these customers. Similar to the Group's supplier ERP system, the Group implements a customer ERP system to facilitate customer selection which requires vetting and registration for every customer and the production department of the Group would only be in the position to deliver the goods to customers that have been properly registered and approved in the customer ERP system. The customer ERP system sets out a list of procedures and questionnaires requiring a certain level of due diligence to be conducted on company background, credibility, operation capacity and track record, management background etc. The Group would go through and confirm the product specification details with new customers during the course of setting up accounts in the customer ERP system as well as entering into long-term volume contracts with new customers.

Anti-corruption

The Group has a policy in place to prohibit from any wrongdoing in respect of bribery, extortion, fraud and money laundering. To the best knowledge of the Directors, during the year ended 31 December 2016 and up to the date of this report, the Directors are not aware of any non-compliance with relevant laws and regulations regarding bribery, extortion, fraud and money laundering.

The Group implements a code of conduct that requires all Directors and employees of the Group adhering to a high standard of integrity, avoiding situations that would compromise with conflicts of interest, assets misappropriation and making appropriate declarations/reporting to the Directors in due course.

Community Investment

The Group has a policy in place as to community engagement where the Group has been working closely with the local government in providing various assistances to the local community. The Group has been providing funding assistance to run a regular direct bus line between Zhapu, the local region where the headquarter of the Group is located at, and Shanghai to improve the communication of people with Shanghai for more than 5 years. The Group has been keeping the dialogues with local education institutions and local labour unions as to the employment needs and the Group has been providing the accommodative measures in this aspects.

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 2016 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. Han Jianping
Mr. Rao Huotao (appointed on 15 March 2017)
Mr. Niu Yingshan (resigned on 15 March 2017)

Independent non-executive Directors:
Mr. Shen Kaijun
Ms. Pei Yu
Mr. Kong Liang (appointed on 25 July 2016)
Mr. Mui Ho Cheung, Gary (resigned on 25 May 2016)

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. Shen Kaijun, Ms. Pei Yu and Mr. Kong Liang, the independent non-executive Directors, an annual confirmation of his/her 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, 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 report, 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 report, 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.

During the year ended 31 December 2016 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 2016.

Nomination Committee

As at the date of this report, 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 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 2016 and up to the date of this annual report, two 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.

The attendance of individual members of the Board and other Board committees meetings during the year ended 31 December 2016 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)*	4/4	N/A	1/1	2/2
Ms. Han Jianhong	4/4	N/A	N/A	N/A
Mr. Han Jianping	4/4	N/A	N/A	N/A
Mr. Rao Huotao (appointed on 15 March 2017)	1/4	N/A	N/A	N/A
Mr. Niu Yingshan (resigned on 15 March 2017)	3/4	N/A	N/A	N/A
Independent Non-Executive Directors				
Mr. Shen Kaijun	4/4	2/2	N/A	2/2
Ms. Pei Yu	4/4	2/2	1/1	2/2
Mr. Kong Liang (appointed on 25 July 2016)	3/4	1/2	1/1	N/A
Mr. Mui Ho Cheung, Gary (resigned on 25 May 2016)	1/4	1/2	N/A	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 2016 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 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 2016, the professional fees paid or payable to the independent auditors, Ernst & Young, for services rendered are set out below:

	RMB'000
Annual audit service	1,980

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.

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 (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 2016.

DIRECTORS' RESPONSIBILITY ON THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2016, and confirm that the financial statements give a true and fair view of the results of 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 Independent Auditors' Report on page 40 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 2016 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 Friday, 26 May 2017 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**") presents its report and the audited consolidated financial statements of the Group for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Group are the manufacturing and supplying of ethylene oxide, ethylene glycol, ethylene, propylene and surfactants and the provision of surfactants processing service. The principal activities and other particulars of the subsidiaries are set out in note 1 to the financial statements.

RESULTS

The results of the Group for the year ended 31 December 2016 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 44 to 129 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 page 130 of this annual report.

DIVIDENDS

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 approximately RMB101.7 million and a dividend payout ratio of approximately 18.4% for the year ended 31 December 2016.

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.

RESERVES

Profit attributable to equity shareholders, (before dividends, if any) of RMB552,614,000 (2015: loss of RMB145,502,000) 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 12 to 14 to the financial statements.

BANK BORROWINGS

Particulars of the bank borrowings of the Group as at the end of the financial year are set out in note 24 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 27 to the financial statements.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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.

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 2016 and up to the date of this annual report were:

Executive Directors:
Mr. Guan Jianzhong *(Chairman)*
Ms. Han Jianhong
Mr. Han Jianping
Mr. Rao Huotao (appointed on 15 March 2017)
Mr. Niu Yingshan (resigned on 15 March 2017)

Independent non-executive Directors:
Mr. Shen Kaijun
Ms. Pei Yu
Mr. Kong Liang (appointed on 25 July 2016)
Mr. Mui Ho Cheung, Gary (resigned on 25 May 2016)

Details of the Directors' biographies are set out on pages 11 and 12 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. Ms. Han Jianhong, Mr. Shen Kaijun and Ms. Pei Yu shall retire from office by rotation at the AGM and, being eligible, offer themselves for re-election as Directors at the AGM. Pursuant to article 109 of the Articles of Association, Mr. Rao Huotao and Mr. Kong Liang shall retire from office and, being eligible, offer herself for re-election at the AGM.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors namely, Mr. Guan Jianzhong, Ms. Han Jianhong, Mr. Han Jianping and Mr. Rao Huotao 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. Shen Kaijun, Ms. Pei Yu and Mr. Kong Liang, 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 sections headed "**Connected Transactions**" and "**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 2016, 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	498,451,000(Note)	50.19%
	Beneficial owner	Long position	990,000	0.10%
Han Jianhong ("**Ms. Han**")	Interests of spouse	Long position	499,441,000(Note)	50.29%

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 2016.

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

As at 31 December 2016, 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	498,451,000 (Note 1)	50.19%

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 2016.

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:

	2016	2015
As a percentage of the Group's total sales		
The largest customer	**12.70%**	11.5%
Five largest customers in aggregate	**27.45%**	24.5%
As a percentage of Group's total purchases		
The largest supplier	**11.77%**	10.0%
Five largest suppliers in aggregate	**46.88%**	37.40%

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 2016.

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.

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) he 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 2016, no share option has been granted by the Company.

CONTRACT OF SIGNIFICANCE

Save as disclosed in the sections headed "**Connected Transactions**" and "**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 and 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 2016 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 Agreement

   Pursuant to the four renewed desalinated water and miscellaneous materials supply agreements entered into by Sanjiang Chemical Co., Ltd. ("**Sanjiang Chemical**") and Zhejiang Sanjiang New Material Co., Ltd.* (浙江三江化工新材料有限公司) ("**Sanjiang New Material**") 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 30 December 2015 and 28 January 2016 respectively, Jiahua Energy Chemical Co has agreed to supply desalinated water and miscellaneous materials such as sodium hydroxide and sodium hypochlorite to Sanjiang Chemical and Sanjiang New Material at market price for an aggregate term commencing from 1 January 2016 and expiring on 31 December 2018. Relevant details of the agreements and the transactions contemplated thereunder are set out in the announcement dated 30 December 2015 and the circular dated 16 March 2016.

   Sanjiang Chemical and Sanjiang New Material are 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 Agreement

   Pursuant to the four renewed low pressure steam supply agreements entered into by Sanjiang Chemical and Sanjiang New Material respectively with Jiahua Energy Chemical Co on 30 December 2015 and 28 January 2016 respectively, Jiahua Energy Chemical Co agreed to supply low pressure steam to Sanjiang Chemical and Sanjiang New Material at market price for an aggregate term commencing from 1 January 2016 and expiring on 31 December 2018. Relevant details of the agreements and the transactions contemplated thereunder are set out in the announcement dated 30 December 2015 and the circular dated 16 March 2016.

3. Medium Pressure Steam Supply Agreement

   Pursuant to the four renewed medium pressure steam supply agreements entered into by Sanjiang Chemical and Sanjiang New Material respectively with Jiahua Energy Chemical Co on 30 December 2015 and 28 January 2016 respectively, Jiahua Energy Chemical Co agreed to supply medium pressure steam to Sanjiang Chemical and Sanjiang New Material at market price for an aggregate term commencing from 1 January 2016 and expiring on 31 December 2018. Relevant details of the agreements and the transactions contemplated thereunder are set out in the announcement dated 30 December 2015 and the circular dated 16 March 2016.

4. Rewang Low Pressure Steam Supply Agreement

   Pursuant to the two renewed Rewang low pressure steam supply agreements entered into by Sanjiang Chemical and Sanjiang New Material together with Jiaxing Xinggang Rewang Co., Ltd.*(嘉興興港熱網有限公司) ("**Rewang**") on 30 December 2015 and 28 January 2016 respectively, Rewang agreed to supply low pressure steam to Sanjiang Chemical and Sanjiang New Material at market price for an aggregate term commencing from 1 January 2016 and expiring on 31 December 2018. Relevant details of the agreements and the transactions contemplated thereunder are set out in the announcement dated 30 December 2015 and the circular dated 16 March 2016.

5. Mei Fu Petrochemical Sulphur Supply Agreement

Pursuant to the sulphur supply agreement entered into by Zhejiang Mei Fu Petrochemical Co., Ltd ("**Mei Fu Petrochemical**") with Jiahua Energy Chemical Co on 15 December 2014, Mei Fu Petrochemical agreed to supply sulphur to Jiahua Energy Chemical Co at market price for a term commencing from 15 December 2014 and expiring on 14 December 2017. Relevant details of the agreement and the transaction contemplated thereunder are set out in the announcement dated 16 December 2014.

6. Mei Fu Petrochemical Steam Purchase Agreement

Pursuant to the steam purchase agreement entered into by Mei Fu Petrochemical with Jiahua Energy Chemical Co on 15 December 2014, Jiahua Energy Chemical Co agreed to supply steam to Mei Fu Petrochemical at market price for a term commencing from 15 December 2014 and expiring on 14 December 2017. Relevant details of the agreement and the transaction contemplated thereunder are set out in the announcement dated 16 December 2014.

7. Mei Fu Petrochemical Miscellaneous Materials Purchase Agreement

Pursuant to the Miscellaneous Materials purchase agreement entered into by Mei Fu Petrochemical with Jiahua Energy Chemical Co on 15 December 2014, Jiahua Energy Chemical Co agreed to supply miscellaneous materials such as sodium hydroxide and hydrochloric acid to Mei Fu Petrochemical at market price for a term commencing from 15 December 2014 and expiring on 14 December 2017. Relevant details of the agreement and the transaction contemplated thereunder are set out in the announcement dated 16 December 2014.

8. Xing Xing Steam Purchase Agreement

Pursuant to the steam purchase agreement entered into by Zhejiang Xing Xing New Energy Technology Co., Ltd.* (浙江興興新能源科技有限公司) ("**Xing Xing**") with Jiahua Energy Chemical Co on 27 January 2015, Jiahua Energy Chemical Co agreed to supply high pressure steam to Xing Xing at market price for a term commencing from 1 April 2015 and expiring on 31 December 2017. Relevant details of the agreement and the transaction contemplated thereunder are set out in the circular dated 4 March 2015. As Xing Xing's methanol-to-olefins technology-based production facility ("**MTO production facility**") commenced its test run early April 2015 and after certain fine-tuning of chemical reaction process, Xing Xing was able to use certain spare heats generated from the MTO production facility together desalinated water to generated steam to substitute certain steam to be supplied by Jiahua Energy Chemical Co, on 30 April 2015, Xing Xing entered into a supplemental agreement to the Xing Xing Steam Purchase Agreement with Jiahua Energy Chemical Co to add two additional terms allowing Xing Xing to purchase less amount of steam from Jiahua Energy Chemical Co and at the same time, buy desalinated water from Jiahua Energy Chemical Co for not more that reduced amount with the annual transaction cap amount remained unchanged. Save for the aforesaid amendments contained in the supplemental agreement and the corresponding and consequential changes, all other terms and conditions of the Xing Xing. Steam Purchase Agreement shall remain in full force and effect.

Xing Xing is a company established in the PRC with limited liability on 19 January 2011 and a non-wholly owned subsidiary of the Company, which is indirectly owned as to 75% by the Company, 12% by Jiahua Energy Chemical Co. and 13% by Independent Third Parties.

9. Sanjiang Chemical Port Loading and Service Agreement

Pursuant to the port loading and service agreement entered into by Sanjiang Chemical with 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**") on 10 April 2015, Mei Fu Port agreed to provide port loading, unloading and storage service to Sanjiang Chemical at market price for a term commencing from 10 April 2015 and expiring on 31 December 2017. Relevant details of the agreement and the transaction contemplated thereunder are set out in the announcements dated 27 April 2015, 11 November 2015 and 11 December 2016.

10. Xing Xing Port Loading and Service Agreement

Pursuant to the port loading and service agreement entered into by Xing Xing with Mei Fu Port on 10 April 2015, Mei Fu Port agreed to provide port loading, unloading and storage service to Xing Xing at market price for a term commencing from 10 April 2015 and expiring on 31 December 2017. Relevant details of the agreement and the transaction contemplated thereunder are set out in the announcements dated 27 April 2015, 11 November 2015 and 11 December 2016.

11. Fatty Alcohol Supply Agreement

Pursuant to the fatty alcohol supply agreement entered into by Sanjiang Chemical with Jiahua Energy Chemical Co on 12 May 2015, Jiahua Energy Chemical Co agreed to supply fatty alcohol of no more than 6,000 tonnes to Sanjiang Chemical on an ongoing basis at market price for a term commencing from 12 May 2015 and expiring on 30 April 2016. Relevant details of the agreement and the transaction contemplated thereunder are set out in the announcement dated 12 May 2015.

12. Sanjiang Chemical Methanol Agency Agreement

Pursuant to the methanol agency agreement entered into by Sanjiang Chemical with Xing Xing on 1 September 2015, Sanjiang Chemical agreed to procure methanol as an agent on behalf of Xing Xing at market service fee for a term commencing from 1 September 2015 and expiring on 31 August 2018. Relevant details of the agreement and the transaction contemplated thereunder are set out in the announcement dated 2 September 2015.

13. Xing Xing Methanol Agency Agreement

Pursuant to the methanol agency agreement entered into by Xing Xing with Mei Fu Petrochemical on 1 September 2015, Xing Xing agreed to procure methanol as an agent on behalf of Mei Fu Petrochemical at market service fee for a term commencing from 1 September 2015 and expiring on 31 August 2016. Relevant details of the agreement and the transaction contemplated thereunder are set out in the announcement dated 2 September 2015.

14. Jiahua Import Export Methanol Agency Agreement

Pursuant to the methanol agency agreement entered into by Zhejiang Jiahua Import and Export Co., Ltd.* (浙江嘉化進出口有限公司) ("**Jiahua Import Export**") with Xing Xing on 1 September 2015, Jiahua Import Export agreed to procure methanol as an agent on behalf of Xing Xing at market service fee for a term commencing from 1 September 2015 and expiring on 31 August 2016. Relevant details of the agreement and the transaction contemplated thereunder are set out in the announcement dated 2 September 2015.

Jiahua Import Export is a wholly owned subsidiary of Zhejiang Jiahua Group Co., Ltd., which is ultimately controlled by Mr. Guan and Ms. Han, the executive Directors. Jiahua Import Export 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.

15. Ethylene Supply Agreement

Pursuant to the ethylene supply agreement entered into by Sanjiang Chemical and Sanjiang New Material together with Xing Xing on 1 September 2015, Xing Xing agreed to supply ethylene to Sanjiang Chemical and/or Sanjiang New Material at market price for a term commencing from 1 October 2015 and expiring on 30 September 2018. Relevant details of the agreement and the transaction contemplated thereunder are set out in the circular dated 22 October 2015.

16. Nitrogen Supply Agreement

Pursuant to the nitrogen supply agreement entered into by Sanjiang Chemical with Xing Xing on 1 September 2015, Sanjiang Chemical agreed to supply nitrogen to Xing Xing at market price for a term commencing from 1 October 2015 and expiring on 30 September 2018. Relevant details of the agreement and the transaction contemplated thereunder are set out in the circular dated 22 October 2015.

17. C-4 Supply Agreement

Pursuant to the C-4 supply agreement entered into by Mei Fu Petrochemical with Xing Xing on 1 September 2015, Xing Xing agreed to supply C-4 to Mei Fu Petrochemical at market price for a term commencing from 1 October 2015 and expiring on 30 September 2018. Relevant details of the agreement and the transaction contemplated thereunder are set out in the circular dated 22 October 2015.

18. Mei Fu Petrochemical Loan and Guarantee Agreement

Pursuant to the loan and guarantee agreement entered into by the Company with Mei Fu Petrochemical on 17 June 2016, the Company agreed to continue to (i) provide the Loan to Mei Fu Petrochemical and (ii) guarantee certain repayment obligations of Mei Fu Petrochemical for a term of three years after the completion of the disposal of Mei Fu Petrochemical. Relevant details of the agreement and the transaction contemplated thereunder are set out in the circular dated 12 August 2016.

19. Mei Fu Petrochemical Port Loading and Service Agreement

Pursuant to the port loading and service agreement entered into by Mei Fu Petrochemical with Mei Fu Port on 10 April 2015, Mei Fu Port agreed to provide port loading, unloading and storage service to Mei Fu Petrochemical at market price for a term commencing from 10 April 2015 and expiring on 31 December 2017. Relevant details of the agreement and the transaction contemplated thereunder are set out in the announcements dated 27 April 2015 and 11 November 2015.

The actual amount of the transactions and approved annual caps for the above mentioned continuing connected transactions during the year ended 31 December 2016 are as follows:

	Nature of transaction	Actual transaction amount RMB	Annual Cap amount RMB	Annual Cap period
1.	Water and Miscellaneous Materials Supply Agreement	5,482,000	6,200,000	2016/1/1 – 2016/12/31
2.	Low Pressure Steam Supply Agreement	79,975,000	132,500,000	2016/1/1 – 2016/12/31
3.	Medium Pressure Steam Supply Agreement	39,842,000	82,190,000	2016/1/1 – 2016/12/31
4.	Rewang Low Pressure Steam Supply Agreement	2,721,000	25,900,000	2016/1/1 – 2016/12/31
5.	Mei Fu Petrochemical Sulphur Supply Agreement	1,706,000	5,500,000	2015/12/15 – 2016/12/14
6.	Mei Fu Petrochemical Steam Purchase Agreement	8,285,000	56,000,000	2015/12/15 – 2016/12/14
7.	Mei Fu Petrochemical Miscellaneous Materials Purchase Agreement	122,000	2,200,000	2015/12/15 – 2016/12/14
8.	Xing Xing Steam Purchase Agreement	150,996,000	300,000,000	2016/1/1 – 2016/12/31
9.	Sanjiang Chemical Port Loading and Service Agreement	3,948,000	5,000,000	2016/1/1 – 2016/12/31
10.	Xing Xing Port Loading and Service Agreement	65,253,000	70,000,000	2016/1/1 – 2016/12/31
11.	Fatty Alcohol Supply Agreement	59,420,000	72,000,000	2015/5/12 – 2016/4/30
12.	Sanjiang Chemical Methanol Agency Agreement	9,256,000	10,100,000	2015/9/1 – 2016/8/31
12.	Sanjiang Chemical Methanol Agency Agreement	Cap period not yet finished	8,400,000	2016/9/1 – 2017/8/31
13.	Xing Xing Methanol Agency Agreement	122,000	600,000	2015/9/1 – 2016/8/31
14.	Jiahua Import Export Methanol Agency Agreement	900,000	900,000	2015/9/1 – 2016/8/31
15.	Ethylene Supply Agreement	2,378,816,000	3,283,900,000	2015/10/1 – 2016/9/30
15.	Ethylene Supply Agreement	Cap period not yet finished	2,736,600,000	2016/10/1 – 2017/9/30
16.	Nitrogen Supply Agreement	41,665,000	74,500,000	2015/10/1 – 2016/9/30
16.	Nitrogen Supply Agreement	Cap period not yet finished	65,200,000	2016/10/1 – 2017/9/30
17.	C-4 Supply Agreement	4,886,000	119,700,000	2015/10/1 – 2016/9/30
17.	C-4 Supply Agreement	Cap period not yet finished	119,700,000	2016/10/1 – 2017/9/30
18.	Mei Fu Petrochemical Loan and Guarantee Agreement	1,453,509,000	2,165,000,000	2016/10/1 – 2017/9/30
19.	Mei Fu Petrochemical Port Loading and Service Agreement	25,960,000	28,000,000	2016/1/1 – 2016/12/31

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 were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and with reference to Practice Note 740 Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules issued by the HKICPA. The auditors of the Company have issued their qualified letter containing their findings and conclusion in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.38 of listing rules before bulk print date of annual report. The annual cap period of certain continuing connected transactions did not fall in the same period as the Company's financial year end date of 31 December ("**Transactions with Non-aligned Cap Periods**"). The qualification in the auditors' letter was in respect of the comparison of those Transactions with Non-aligned Cap Periods that continue after 31 December 2016 with their respective annual caps corresponding to annual cap periods ending after 31 December 2016.

For the purpose of drawing a conclusion on whether the Transactions with Non-aligned Cap Periods have exceeded the annual caps, the auditors of the Company could only perform procedures on those Transactions with Non-aligned Cap Periods that did not continue after 31 December 2016 with the respective annual cap periods ended before 31 December 2016. For those Transactions with Non-aligned Cap Periods that continue after 31 December 2016, the auditors were unable to conduct a meaningful comparison between such transactions and their respective annual caps corresponding to annual cap periods ending after 31 December 2016.

In respect of the Group's disclosed continuing connected transactions, the auditors of the Company confirmed that:

a. nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have not been approved by the Company's board of directors.

b. for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group.

c. nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions.

d. with respect to the aggregate amount of each of the continuing connected transactions, based on the procedures performed and the evidence obtained by them, except for the Transactions with Non-aligned Cap Periods that continue after 31 December 2016, nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have exceeded the annual cap as set by the Company.

The independent non-executive directors of the Company have reviewed the relevant continuing connected transactions and confirmed that the transaction amounts during annual cap periods ended in 2016 had not exceeded the respective annual caps.

The directors of the Company will not implement procedures to align all annual cap periods with the Company's financial year as the directors of the Company consider that the Listing Rules do not explicitly require any alignment of annual cap periods with the Company's financial year.

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

CONNECTED TRANSACTIONS

The following related party transaction entered into during the year ended 31 December 2016 constitutes 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. Mei Fu Petrochemical Consultancy Services Agreement
   Pursuant to the new consultancy services agreement entered into by Sanjiang Chemical with Mei Fu Petrochemical on 5 January 2017, Mei Fu Petrochemical would pay an one-off consultancy fee of amount RMB74,000,000 to Sanjiang Chemical for time and resources incurred by Sanjiang Chemical in 2016 in respect of assisting the new management of Mei Fu Petrochemical to take control and operate Mei Fu Petrochemical. Relevant details of the agreement and the transaction contemplated thereunder are set out in the announcement dated 5 January 2017.

Save as disclosed above, there were no other 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. Shen Kaijun, Ms. Pei Yu and Mr. Kong Liang, the independent non-executive Directors, an annual confirmation of his/her 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, 22 March 2017

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

OPINION

We have audited the consolidated financial statements of China Sanjiang Fine Chemicals Company Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 44 to 129 which comprise the consolidated statement of financial position as at 31 December 2016, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "**Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment of assets The carrying amount of the net assets of the Group was higher than the market capitalisation of the Company as at 31 December 2016, which represents an indication of impairment of long-lived assets, including property, plant and equipment, prepaid land lease payments, intangible assets, and advance payments for property, plant and equipment. For this reason, the Group performs an impairment test of the various cash-generating units ("**CGUs**"). The impairment test was significant for our audit, since the estimation process was complex and subjective and based on assumptions. The assumptions include expectations for sales, unit selling price of products, unit purchase price of raw materials, budgeted gross margin and growth rate and overall market and economic conditions. The Group's disclosures about impairment of assets are included in note 2.4 and note 3, which explain the accounting policies and management's accounting estimates. The Group's disclosures about long-lived assets are included in note 12, note 13 and note 14.	We evaluated management's assessment of impairment indications and management's definition on CGUs within the Group. We reviewed and tested management's future forecasted cash flows and key assumptions by comparing to the Group's development plan and external forecast and analysis on the industry. We also performed sensitivity analysis on the forecasts and assessed the status of significant commercial contracts under negotiation. We involved our valuation specialist to assist us in evaluating the key valuation parameters such as the calculation of the discount rate, the terminal growth rate and the valuation model used in the forecasted cash flows.
Going concern consideration As at 31 December 2016, the Group's net current liabilities amounted to approximately RMB3,083,325,000, comprising current assets and current liabilities of approximately RMB2,761,678,000 and RMB5,845,003,000, respectively. The net current liabilities position of the Group has raised doubt about the Group's ability to continue as a going concern. This area was important to our audit because of the possible impact on the ability Group to continue its activities on a going concern basis as well as the need for additional disclosures in the financial statements in respect of the adoption of the going concern assumption in preparing the financial statements. The Group's disclosures about going concern are included in note 2.1, which explains the basis of the directors' opinion that 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.	We obtained the forecasted cash flows prepared by management which covers a period of twelve months from the end of the reporting period and evaluated the methodology and assumptions used in the preparation of the forecasted cash flows. We assessed the Group's present financial position and the management's projected profit hence the future cash flows. We considered the external economic factors including the recent market prices of the Group's major products and industry sales trend. We evaluated the Group's ability to obtain adequate loan financing in the next twelve months by assessing its track records to obtain the loan facilities as well as any additional loan facilities which provide additional source of financing. We tested the Group's unutilised credit facilities from banks to meet the debt obligations, capital expenditure requirements and normal working capital needs. We verified the financial support letter from certain related party. We also evaluated the adequacy of the related disclosures in the notes to the financial statements.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is SIU FUNG TERENCE HO.

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

22 March 2017

Consolidated Statement of Profit or Loss

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
REVENUE	5	**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	5	**667,565**	922,226
Selling and distribution expenses		**(26,502)**	(25,092)
Administrative expenses		**(317,880)**	(183,495)
Other expenses	5	**(387,695)**	(830,612)
Finance costs	6	**(261,681)**	(276,978)
Share of profits of joint ventures		**112,438**	64,538
PROFIT/(LOSS) BEFORE TAX	7	**692,815**	(164,964)
Income tax expense	10	**(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	11		
Basic			
—For profit/(loss) for the year		**RMB56.09 fen**	RMB(14.79) fen
Diluted			
—For profit/(loss) for the year		**RMB55.96 fen**	RMB(14.73) fen

Consolidated Statement of Comprehensive Income

Year ended 31 December 2016

	2016 RMB'000	2015 RMB'000
PROFIT/(LOSS) FOR THE YEAR	**598,851**	(227,232)
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Changes in fair value	**(1,982)**	(3,180)
Reclassification adjustments for losses/(gains) included in the consolidated statement of profit or loss	**9,510**	(925)
Income tax effect	**–**	(905)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	**7,528**	(5,010)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	**606,379**	(232,242)
Attributable to:		
Owners of the parent	**560,142**	(150,512)
Non-controlling interests	**46,237**	(81,730)
	606,379	(232,242)

Consolidated Statement of Financial Position

31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	**5,763,307**	5,789,464
Prepaid land lease payments	13	**301,476**	308,412
Intangible assets	14	**225,246**	246,719
Advance payments for property, plant and equipment		**16,390**	58,784
Investments in a joint venture	15	**–**	195,106
Available-for-sale investments	16	**1,000**	1,000
Due from related parties	35(c)	**609,000**	96,451
Deferred tax assets	26	**–**	13,183
Prepayments, deposits and other receivables	19	**–**	2,007
Total non-current assets		**6,916,419**	6,711,126
CURRENT ASSETS			
Inventories	17	**724,229**	499,598
Trade and notes receivables	18	**170,367**	702,609
Prepayments, deposits and other receivables	19	**406,338**	548,051
Due from related parties	35(c)	**235,935**	969,259
Derivative financial instruments	23	**41,941**	20,388
Available-for-sale investments	16	**424,371**	422,949
Pledged deposits	20	**410,273**	701,464
Cash and cash equivalents	20	**348,224**	91,743
Total current assets		**2,761,678**	3,956,061
CURRENT LIABILITIES			
Trade and bills payables	21	**1,454,312**	1,254,516
Other payables and accruals	22	**1,062,561**	1,331,048
Derivative financial instruments	23	**9,626**	13,280
Interest-bearing bank and other borrowings	24	**2,636,267**	4,076,991
Due to related parties	35(c)	**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

	Notes	2016 RMB'000	2015 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	24	**1,081,011**	1,351,850
Deferred tax liabilities	26	**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	27	**86,048**	86,048
Reserves	29	**2,478,191**	2,043,570
		2,564,239	2,129,618
Non-controlling interests		**164,931**	118,694
Total equity		**2,729,170**	2,248,312

Guan Jianzhong
Director

Han Jianhong
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2016

	Attributable to owners of the parent												
	Issued capital RMB'000	Shares 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	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2015	86,048	1,006,429	2,371	(33,012)	(627,092)	(4,500)	290,081	5,292	6,501	1,545,173	2,277,291	200,424	2,477,715
Loss for the year	–	–	–	–	–	–	–	–	–	(145,502)	(145,502)	(81,730)	(227,232)
Other comprehensive loss for the year:													
Changes in fair value of available-for-sale investments, net of tax	–	–	–	–	–	(5,010)	–	–	–	–	(5,010)	–	(5,010)
Total comprehensive loss for the year	–	–	–	–	–	(5,010)	–	–	–	(145,502)	(150,512)	(81,730)	(232,242)
Equity-settled share award plan amortisation	–	–	–	–	–	–	–	2,839	–	–	2,839	–	2,839
Appropriation to statutory surplus reserve	–	–	–	–	–	–	21,993	–	–	(21,993)	–	–	–
Appropriation to safety production reserve	–	–	–	–	–	–	–	–	17,923	(17,923)	–	–	–
Safety production reserve used	–	–	–	–	–	–	–	–	(15,014)	15,014	–	–	–
At 31 December 2015	86,048	1,006,429	2,371	(33,012)	(627,092)	(9,510)	312,074	8,131	9,410	1,374,769	2,129,618	118,694	2,248,312

	Attributable to owners of the parent												
	Issued capital RMB'000	**Shares 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**	**Total RMB'000**	**Non-controlling interests RMB'000**	**Total equity RMB'000**
At 1 January 2016	**86,048**	**1,006,429**	**2,371**	**(33,012)**	**(627,092)**	**(9,510)**	**312,074**	**8,131**	**9,410**	**1,374,769**	**2,129,618**	**118,694**	**2,248,312**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**552,614**	**552,614**	**46,237**	**598,851**
Other comprehensive income for the year:													
Changes in fair value of available-for-sale investments	**–**	**–**	**–**	**–**	**–**	**7,528**	**–**	**–**	**–**	**–**	**7,528**	**–**	**7,528**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**7,528**	**–**	**–**	**–**	**552,614**	**560,142**	**46,237**	**606,379**
Equity-settled share award plan amortization	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**878**	**–**	**–**	**878**	**–**	**878**
Reduction in reserve due to shares awarded become vested	**–**	**(1,523)**	**–**	**4,270**	**–**	**–**	**–**	**(2,747)**	**–**	**–**	**–**	**–**	**–**
Offset with dividends	**–**	**–**	**–**	**1,994**	**–**	**–**	**–**	**–**	**–**	**–**	**1,994**	**–**	**1,994**
Appropriation to statutory surplus reserve	**–**	**–**	**–**	**–**	**–**	**–**	**34,199**	**–**	**–**	**(34,199)**	**–**	**–**	**–**
Appropriation to safety production reserve	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**33,643**	**(33,643)**	**–**	**–**	**–**
Safety production reserve used	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(13,830)**	**13,830**	**–**	**–**	**–**
Special dividend	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(128,393)**	**(128,393)**	**–**	**(128,393)**
At 31 December 2016	**86,048**	**1,004,906**	**2,371**	**(26,748)**	**(627,092)**	**(1,982)**	**346,273**	**6,262**	**29,223**	**1,744,978**	**2,564,239**	**164,931**	**2,729,170**

* These reserve accounts comprise the consolidated reserves of RMB2,478,191,000 (2015: RMB2,043,570,000) in the consolidated statement of financial position.

	Notes	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**692,815**	(164,964)
Adjustments for:			
Finance costs	6	**261,681**	276,978
Share of profits of joint ventures		**(112,438)**	(64,538)
Bank interest income	5	**(8,415)**	(51,842)
Loss/(gain) on disposal of a joint venture	5	**1,544**	(157,128)
Investment income from available-for-sale investments	5	**(9,162)**	(12,000)
Fair value losses on derivative financial instruments	5	**2,783**	16,144
Fair value gains on derivative financial instruments	5	**(40,078)**	—
Interest income from related parties	5	**(119,903)**	(106,713)
Foreign exchange differences, net		**(5,774)**	(4,081)
Investment income from derivative financial instruments	5	**(55,049)**	(36,211)
Depreciation	12	**586,778**	412,950
Gain on disposal of intangible assets	5	**—**	(245)
Gain on disposal of items of items of property, plant and equipment	5	**—**	(3,350)
Write-off of property, plant and equipment	5	**—**	75,226
Amortisation of prepaid land lease payments	13	**6,936**	7,686
Amortisation of intangible assets	14	**27,850**	22,459
Amortisation of consignment fee		**6,823**	4,816
Reversal of inventories to net realisable value	7	**(76,286)**	(16,049)
Impairment of trade receivables	7	**2,583**	—
Equity-settled share award plan expense	28	**878**	2,839
		1,163,566	201,977
Increase in inventories		**(148,345)**	(192,955)
Decrease/(increase) in trade and notes receivables		**527,209**	(376,873)
Decrease/(increase) in prepayments, deposits and other receivables		**153,920**	(225,251)
(Increase)/decrease in amounts due from related parties		**(123,349)**	278,426
Increase in trade and bills payables		**197,196**	22,548
Increase in other payables and accruals		**78,258**	266,156
Increase in amounts due to related parties		**21,322**	116,329
Cash generated from operations		**1,869,777**	90,357
Income tax paid		**(36,838)**	(47,139)
Net cash flows from operating activities		**1,832,939**	43,218

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(861,536)**	(995,513)
Purchases of prepaid land lease payments	13	**–**	(10,223)
Purchases of intangible assets	14	**(6,377)**	(157,881)
Proceeds from disposal of items of property, plant and equipment		**–**	18,776
Loans to a related party (2015: joint venture)		**(281,440)**	(821,836)
Repayment of loans from joint ventures		**551,190**	992,918
Purchases of available-for-sale investments		**(422,625)**	(428,758)
Sales of available-for-sale investments		**437,893**	350,172
Exercise of the bullion options and forward		**3,253**	(5,726)
Purchases and sales of futures		**8,835**	(24,381)
Collection of entrusted loan receivables		**–**	200,000
Bank interest received		**13,224**	55,705
Interest received from a related party (2015: joint venture)		**145,446**	92,595
Disposal of intangible assets		**–**	347
Disposal of a joint venture	15	**359,881**	178,500
Dividend received from a joint venture		**–**	12,500
Decrease in deposits pledged for bank loans		**291,191**	513,431
Proceeds from sales of derivative financial instruments		**55,049**	36,211
Net cash flows from/(used in) investing activities		**293,984**	6,837
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**5,243,724**	6,339,862
Repayment of bank loans		**(6,671,159)**	(6,675,328)
Proceeds from issuance of short-term bonds		**–**	600,000
Repayment of short-term bonds		**(600,000)**	(500,000)
Interest paid		**(269,630)**	(313,143)
Loans from related parties		**350,000**	361,777
Repayment of loans from related parties		**(102,000)**	(174,351)
Dividends paid		**(128,393)**	–
Proceeds from sale and lease back transactions		**481,000**	–
Repayment of sale and lease back transactions		**(179,758)**	–
Net cash flows (used in)/from financing activities		**(1,876,216)**	(361,183)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**250,707**	(311,128)
Cash and cash equivalents at beginning of year		**91,743**	398,790
Effect of foreign exchange rate changes, net		**5,774**	4,081
CASH AND CASH EQUIVALENTS AT END OF YEAR	20	**348,224**	91,743

1. CORPORATE AND GROUP INFORMATION

The Company was incorporated with limited liability in the Cayman Islands on 30 January 2009. The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principal place of business in China is Pinghai Road, Jiaxing Port Area, Zhejiang Province, People's Republic of China (the "**PRC**").

During the year, the Group was principally engaged in the manufacture and supply of ethylene oxide ("**EO**"), ethylene glycol ("**EG**"), propylene, polypropylene and surfactants in the PRC. The Group was also engaged in the provision of processing services for surfactants to its customers and the production and supply of other chemical products such as C4, crude pentene and industrial gases, namely oxygen, nitrogen and argon in the PRC. EO is a key intermediary component for the production of ethylene derivative products such as EG, ethanolamines and glycol ethers and a wide range of surfactants. EG is a type of semi-finished goods that is used to produce other bio-organic chemical products such as mono ethylene glycol which is used to produce polyester and anti-frozen chemical liquids. Propylene is commonly used in the production of polypropylene, acrylonitrile, propylene oxide, acetone, etc., to produce a variety of important organic chemical raw materials and to produce synthetic resin, synthetic rubber and some other fine chemicals. Polypropylene is a kind of thermoplastic resin, which can be used in knitting products, injection molding products, film products, fiber products, pipes etc. Surfactants are widely applied in different industries as scouring agents, moisturising agents, emulsifiers and solubilisers.

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.

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name	Place and date of incorporation/ registration and place of operations	Issued ordinary share/registered share capital	Percentage of equity attributable to the Company	Principal activities
Capitol International Limited ("**Capitol International**")	Hong Kong 18 July 2003	HK$1,000,000	100% (direct)	Investment holding
Sanjiang Chemical Co., Ltd. ("**Sanjiang Chemical**") (note (i))	PRC/Mainland China 9 December 2003	US$152,783,800	100% (indirect)	Manufacture and sale of EO, surfactants, EG, polymer grade ethylene, industrial gases and provision of surfactant processing services, and lease and storage services
Jiaxing Port Chemical Industry Park Pipe Gallery Co., Ltd. ("**Guanlang**") (note (i))	PRC/Mainland China 29 September 2005	RMB13,000,000	83.85% (indirect)	Construction and management of a pipe network at Jiaxing Port Chemical Industrial Park
Sanjiang Trading Co., Ltd. ("**Sanjiang Trading**") (note (i))	PRC/Mainland China 29 October 2004	RMB5,000,000	100% (indirect)	Trading of ethylene, EO and other chemical products
Hangzhou Textile Auxiliaries Co., Ltd. ("**Hangzhou Sanjiang**") (note (i))	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 (i))	PRC/Mainland China 23 December 2011	US$100,000,000	100% (indirect)	Manufacture and sale of EO, EG and water reducing auxiliaries
Zhejiang Xingxing New Energy Technology Co., Ltd. ("**Xingxing New Energy**") (note (i))	PRC/Mainland China 19 January 2011	RMB800,000,000	75% (indirect)	Manufacture and sale of ethylene and polyethylene

Notes:

(i) These entities are limited liability enterprises established under PRC law.

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. They 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, which comprised current assets of approximately RMB2,761,678,000 and current liabilities of approximately RMB5,845,003,000. The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflows from operations and sufficient financing to meet its financial obligations as and when they fall due. In preparing the financial statements, the directors of the Company have considered the Group's sources of liquidity and believe that adequate funding is available to fulfil the Group's debt obligations and capital expenditure requirements 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;

(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 of 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.

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 2016. A subsidiary is an 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 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 above. 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.

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
HKFRS 14	*Regulatory Deferral Accounts*
Amendments to HKAS 1	*Disclosure Initiative*
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*
Annual Improvements 2012–2014 Cycle	Amendments to a number of HKFRSs

The adoption of the above new and revised standards has had no significant financial effect on these financial statements.

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.

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[2]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[2]
HKFRS 9	*Financial Instruments*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[2]
HKFRS 16	*Leases*[3]
Amendments to HKAS 7	*Disclosure Initiative*[1]
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]

1 Effective for annual periods beginning on or after 1 January 2017
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for annual periods beginning on or after 1 January 2019
4 No mandatory effective date yet determined but available for adoption

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

The HKICPA issued amendments to HKFRS 2 in August 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet the employee's tax obligation associated with the share-based payment; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The Group expects to adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 January 2018. The Group is currently assessing the impact of the standard.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for application now.

HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group expects to adopt HKFRS 15 on 1 January 2018 and is currently assessing the impact of HKFRS 15 upon adoption.

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

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases — Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees — leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. The Group expects to adopt HKFRS 16 on 1 January 2019 and is currently assessing the impact of HKFRS 16 upon adoption.

Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments will result in additional disclosure to be provided in the financial statements. The Group expects to adopt the amendments from 1 January 2017.

Amendments to HKAS 12 were issued with the purpose of addressing the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value, although they also have a broader application for other situations. The amendments clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group expects to adopt the amendments from 1 January 2017.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 assets 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.

When an investment in a joint venture is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 of 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 is measured at fair value with changes in fair value recognised in profit or loss. 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement

The Group measures its derivative financial instruments and available-for-sale 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:

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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, 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);

(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); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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%–7%
Office equipment	18%–20%
Motor vehicles	18%–20%

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 and plant and machinery under construction, which are stated at cost less any impairment losses, and are 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

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.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

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 net of any incentives received from the lessor 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

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.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

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 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.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

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.

The determination of what is "**significant**" or "**prolonged**" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Available-for-sale financial investments (continued)

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.

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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

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.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as foreign currency options and swaps, futures, bullion options contracts, forward contracts for silver and deferred bullion sale facilities to hedge the commodity price risk and foreign currency risk. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss.

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.

- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

Treasury shares

Own equity instruments that are reacquired and held by the Company or the Group (treasury shares) are recognised directly in equity at cost. 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.

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 consolidated 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 28 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. 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.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other employee benefits

Pension schemes

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 their 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.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

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.

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional 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 the Group's 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.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements:

Joint arrangement — Group as joint operator

The Group determines the joint arrangement of Sanjiang Honam Chemical Co., Ltd. ("**Sanjiang Honam**") as a joint operation, based on the evaluation of its rights and obligations arising from the arrangement, according to which the Group has the rights to the assets, and obligations for the liabilities.

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.

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated cost to be incurred to completion and disposal. These estimates are based on the current market condition and the historical experience of selling products of a similar nature. It could change significantly as a result of changes in downstream industries. Any write-down of inventories to net realisable value or reversal of write-down of inventories will impact on the carrying values of the inventories and the expenses of that period. Management reassesses these estimates at the end of each reporting period. The carrying amount of inventories as at 31 December 2016 was RMB222,253,000 (2015: RMB239,783,000).

3. SIGNIFICANT ACCOUNTING ESTIMATES (continued)

Estimation uncertainty (continued)

Deferred tax assets

Deferred tax assets are recognised for unused tax losses and other temporary difference 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 2016 was RMB277,329,000 (2015: RMB411,206,000). The amount of unrecognised temporary differences at 31 December 2016 was RMB28,185,000 (2015: RMB59,674,000). Further details are contained in note 26 to the financial statements.

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 2016 was RMB424,371,000 (2015: RMB422,949,000). Further details are included in note 16 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 2016, no impairment loss has been recognised for available-for-sale financial assets (2015: 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 the 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.

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
EG	**1,129,261**	568,994
Propylene	**1,063,022**	1,061,004
Polypropylene	**555,473**	—
C4 and crude pentene	**547,560**	364,666
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.

Information about a major customer

Revenue of approximately RMB845,629,000 (2015: RMB568,994,000) was derived from sales of EG to a single customer.

5. REVENUE, OTHER INCOME AND GAINS AND OTHER EXPENSES

Revenue represents the net invoiced value of goods sold and government surcharges and after allowances for returns and trade discounts; the value of services rendered; and gross rental income received and receivable during the year.

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

	Notes	2016 RMB'000	2015 RMB'000
Revenue			
Sale of goods		**6,604,250**	4,914,972
Rendering of services		**33,203**	42,756
Rental income		**9,566**	8,699
		6,647,019	4,966,427
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
Management service fee		**69,811**	—
Sales of ethylene		**46,813**	261,148
Government subsidies	(a)	**17,514**	10,040
Guarantee fee		**10,199**	11,434
Sales of circular water		**10,070**	4,076
Bank interest income		**8,415**	51,842
Utility income		**7,168**	1,916
Reparation income		**2,500**	—
Gross rental income		**1,765**	2,076
Commission fee		**998**	—
Agency fee		**60**	214
Donation income		**—**	1,110
Others		**3,537**	4,131
		560,704	713,292

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

	Notes	2016 RMB'000	2015 RMB'000
Gains			
Gain on disposal of a joint venture		—	157,128
Investment income from derivative financial instruments		55,049	36,211
Fair value gains on derivative financial instruments		40,078	—
Investment income from available-for-sale investments		9,162	12,000
Gain on disposal of silver catalysts	(b)	2,572	—
Gain on disposal of items of property, plant and equipment		—	3,350
Gain on disposal of intangible assets		—	245
		106,861	208,934
Other income and gains		667,565	922,226
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 a joint venture (note 15)		1,544	—
Investment loss from available-for-sale investments		8,173	—
Fair value losses on derivative financial instruments		2,783	16,144
(Reversal of)/write-down of inventories to net realisable value	(c)	(18,451)	34,861
Write-off of items of property, plant and equipment		—	75,226
Loss on disposal of 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 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) (Reversal of)/write-down of inventories to net realisable value represents the (reversal of)/write-down of inventories to net realisable value for the silver catalysts in inventories caused by the fluctuation in silver price.

6. FINANCE COSTS

An analysis of finance costs is as follows:

	2016 RMB'000	2015 RMB'000
Interest on bank loans and other borrowings	**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

The capitalisation rate used to determine the amount of borrowing cost eligible for capitalization in year 2015 was 6.06%.

7. PROFIT/(LOSS) BEFORE TAX

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

	Notes	2016 RMB'000	2015 RMB'000
Cost of inventories sold		**5,724,098**	4,788,661
Cost of services provided		**13,870**	11,130
Depreciation*	12	**586,778**	412,950
Amortisation of prepaid land lease payments	13	**6,936**	7,686
Amortisation of intangible assets**	14	**27,850**	22,459
Loss/(gain) on disposal of a joint venture	15	**1,544**	(157,128)
Gain on disposal of property, plant and equipment		**—**	(3,350)
Gain on disposal of intangible assets		**—**	(245)
Write-off of items of property, plant and equipment		**—**	75,226
Reversal of inventories to net realisable value***		**(76,286)**	(16,049)
Impairment of trade receivables		**2,583**	—
Auditor's remuneration		**2,221**	3,026
Minimum lease payments under operating leases		**1,676**	1,580
Employee benefit expense (including directors' remuneration (note 8)):****			
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

7. PROFIT/(LOSS) BEFORE TAX (continued)

* The depreciation of property, plant and equipment of RMB521,646,000 (2015: RMB368,467,000) for the year is included in "**Cost of sales**" 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 of RMB78,781,000 (2015: RMB47,768,000) 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 Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"), section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2016 **RMB'000**	2015 RMB'000
Fees	**318**	387
Other emoluments:		
Salaries, allowances and benefits in kind	**3,832**	1,959
Management fee paid to a related company*	**1,029**	1,046
Equity-settled share award plan expense	**106**	517
Pension scheme contributions	**61**	63
	5,028	3,585
	5,346	3,972

* The Company entered into a management agreement with Guan Jianzhong and Grand Novel Developments Limited ("**Grand Novel**"), a company incorporated in the British Virgin Islands and is controlled by a director of the Company, Guan Jianzhong. 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 HK$100,000.

During the year ended 31 December 2013, 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 28 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:

	2016 RMB'000	2015 RMB'000
Shen Kaijun	103	97
Pei Yu	103	97
Kong Liang[(2)]	43	—
Mui Ho Cheung, Gary[(1)]	69	193
	318	387

Notes:

(1) Mui Ho Cheung, Gary resigned as an independent non-executive director on 25 May 2016.

(2) Kong Liang was appointed as an independent non-executive director on 25 July 2016.

There were no other emoluments payable to the independent non-executive directors during the year (2015: Nil).

8. DIRECTORS' REMUNERATION (continued)

(b) Executive directors

	Salaries, allowances and benefits in kind RMB'000	Management fee paid to a related company RMB'000	Equity-settled share award plan expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2016					
Guan Jianzhong	**500**	**1,029**	**—**	**—**	**1,529**
Han Jianhong	**1,316**	**—**	**—**	**21**	**1,337**
Niu Yingshan	**1,056**	**—**	**53**	**21**	**1,130**
Han Jianping	**960**	**—**	**53**	**19**	**1,032**
	3,832	**1,029**	**106**	**61**	**5,028**
2015					
Guan Jianzhong	—	1,046	—	—	1,046
Han Jianhong	866	—	—	22	888
Niu Yingshan	653	—	202	22	877
Han Jianping	440	—	315	19	774
	1,959	1,046	517	63	3,585

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 three directors (2015: four), details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2015: one) non-director highest paid employees for the year are as follows:

	2016 **RMB'000**	2015 RMB'000
Salaries, allowances and benefits in kind	**5,675**	818
Equity-settled share award plan expense	**66**	101
Pension scheme contributions	**36**	14
	5,777	933

The number of non-director highest paid employees whose remuneration fell within the following bands is as follows:

	2016	2015
HK$1,000,001 to HK$1,500,000	**—**	1
HK$3,000,001 to HK$3,500,000	**2**	—
	2	1

During the year ended 31 December 2013, shares were awarded to two non-director highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 28 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:

	2016 RMB'000	2015 RMB'000
Current — Mainland China		
Charge for the year	**76,405**	69,871
Deferred (note 26)	**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 applicable income tax rate of the Group's subsidiaries operating in Mainland China is generally 25% in accordance with the PRC Corporate Income Tax Law which was approved and became effective on 1 January 2008, except for the following entities who are entitled to preferential tax rates.

Pursuant to the approval of the tax bureau, Sanjiang Chemical has been qualified as a High and New Technology Enterprise since 2010 and enjoys a preferential corporate income tax rate of 15% from 2016 to 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 2014 to 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 2016 to 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%).

10. INCOME TAX (continued)

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 RMB'000	2015 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 (note 26)	**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

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

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

	2016 RMB'000	2015 RMB'000
Earnings/(loss)		
Profit/(loss) for the year attributable to ordinary equity holders of the parent	**552,614**	(145,502)

	Number of shares 2016 '000	2015 '000
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings/(loss) 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

12. PROPERTY, PLANT AND EQUIPMENT

	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 2016						
At 1 January 2016:						
Cost	**990,555**	**5,691,419**	**16,030**	**13,170**	**166,609**	**6,877,783**
Accumulated depreciation	**(132,723)**	**(941,031)**	**(7,382)**	**(7,183)**	**—**	**(1,088,319)**
Net carrying amount	**857,832**	**4,750,388**	**8,648**	**5,987**	**166,609**	**5,789,464**
At 1 January 2016, net of accumulated depreciation	**857,832**	**4,750,388**	**8,648**	**5,987**	**166,609**	**5,789,464**
Additions	**869**	**116,129**	**1,635**	**—**	**441,988**	**560,621**
Depreciation provided during the year	**(53,332)**	**(528,896)**	**(3,220)**	**(1,330)**	**—**	**(586,778)**
Transfers	**137,656**	**237,503**	**10,560**	**—**	**(385,719)**	**—**
At 31 December 2016, net of accumulated depreciation	**943,025**	**4,575,124**	**17,623**	**4,657**	**222,878**	**5,763,307**
At 31 December 2016:						
Cost	**1,129,080**	**5,855,823**	**28,225**	**13,170**	**222,878**	**7,249,176**
Accumulated depreciation	**(186,055)**	**(1,280,699)**	**(10,602)**	**(8,513)**	**—**	**(1,485,869)**
Net carrying amount	**943,025**	**4,575,124**	**17,623**	**4,657**	**222,878**	**5,763,307**

12. PROPERTY, PLANT AND EQUIPMENT (continued)

	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 2015						
At 1 January 2015:						
Cost	370,013	1,812,548	13,532	9,013	3,342,699	5,547,805
Accumulated depreciation	(94,430)	(586,169)	(5,890)	(7,121)	—	(693,610)
Net carrying amount	275,583	1,226,379	7,642	1,892	3,342,699	4,854,195
At 1 January 2015, net of accumulated depreciation	275,583	1,226,379	7,642	1,892	3,342,699	4,854,195
Additions	257	259,674	2,740	4,099	1,172,101	1,438,871
Disposals	—	—	(296)	(66)	(90,290)	(90,652)
Depreciation provided during the year	(38,293)	(372,037)	(1,965)	(655)	—	(412,950)
Transfers	620,285	3,636,372	527	717	(4,257,901)	—
At 31 December 2015, net of accumulated depreciation	857,832	4,750,388	8,648	5,987	166,609	5,789,464
At 31 December 2015:						
Cost	990,555	5,691,419	16,030	13,170	166,609	6,877,783
Accumulated depreciation	(132,723)	(941,031)	(7,382)	(7,183)	—	(1,088,319)
Net carrying amount	857,832	4,750,388	8,648	5,987	166,609	5,789,464

As at 31 December 2016, the Group's property, plant and equipment of RMB358,321,000 (2015: nil) were pledged to secure finance lease payables (note 24(ii)).

As at 31 December 2015, the Group's property, plant and equipment RMB431,055,000 were pledged to secure bank loan facilities granted to the Group (note 24(ii)).

13. PREPAID LAND LEASE PAYMENTS

	2016 RMB'000	2015 RMB'000
Carrying amount at beginning of year	**315,348**	312,811
Additions	**—**	10,223
Recognised during the year	**(6,936)**	(7,686)
Carrying amount at end of year	**308,412**	315,348
Current portion included in prepayments, deposits and other receivables (note 19)	**(6,936)**	(6,936)
Non-current portion	**301,476**	308,412

As at 31 December 2016, the Group's leasehold land of RMB165,018,000 (2015: RMB194,097,000) was pledged to secure bank loan facilities granted to the Group (note 24(iii)).

14. INTANGIBLE ASSETS

	Software RMB'000	Technology use rights RMB'000	Others RMB'000	Total RMB'000
31 December 2016				
Cost at 1 January 2016, net of accumulated amortisation	**426**	**217,442**	**28,851**	**246,719**
Additions	**121**	**3,789**	**2,467**	**6,377**
Amortisation provided during the year	**(53)**	**(26,123)**	**(1,674)**	**(27,850)**
At 31 December 2016	**494**	**195,108**	**29,644**	**225,246**
At 31 December 2016:				
Cost	**751**	**279,706**	**34,888**	**315,345**
Accumulated amortisation	**(257)**	**(84,598)**	**(5,244)**	**(90,099)**
Net carrying amount	**494**	**195,108**	**29,644**	**225,246**
31 December 2015				
Cost at 1 January 2015, net of accumulated amortisation	358	102,300	8,741	111,399
Additions	92	135,424	22,365	157,881
Disposal	—	—	(102)	(102)
Amortisation provided during the year	(24)	(20,282)	(2,153)	(22,459)
At 31 December 2015	426	217,442	28,851	246,719
At 31 December 2015:				
Cost	630	275,917	32,421	308,968
Accumulated amortisation	(204)	(58,475)	(3,570)	(62,249)
Net carrying amount	426	217,442	28,851	246,719

15. INVESTMENTS IN A JOINT VENTURE

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

On 17 June 2016, the Group entered into an agreement to dispose of 51% of interest in Zhejiang Mei Fu Petrochemical Co., Ltd. ("**Mei Fu Petrochemical**") to Sure Capital, the holding and the ultimate holding company of the Company and Jianghao Investment Co., Ltd. ("**Jianghao Investment**"), an entity under significant influence of the ultimate controlling shareholder, for an aggregate consideration of RMB306,000,000.

	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	**300,381**
Amount due from a related party	**5,619**
	306,000

On 19 March 2015, the Group entered into an agreement (the "**Agreement**") to dispose of 51% of interest in Zhejiang Zhapu Mei Fu 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 were received in 2015 and 2016, respectively, and the remaining balance of consideration of RMB119,000,000 will be received on in two equal portions of RMB59,500,000 each on or before 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 the potential undiscounted amount of a downward adjustment on the consideration arrangement, in the opinion of the directors, the fair value of the contingent consideration arrangement was not significant.

15. INVESTMENTS IN A JOINT VENTURE (continued)

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 fair value adjustments and reconciled to the carrying amount in the financial statements:

	2016 Mei Fu Petrochemical RMB'000	2015 Mei Fu Petrochemical 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

15. INVESTMENTS IN A JOINT VENTURE (continued)

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 period/year	**151,738**	17,609	75,214

16. AVAILABLE-FOR-SALE INVESTMENTS

	2016 RMB'000	2015 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 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.

16. AVAILABLE-FOR-SALE INVESTMENTS (continued)

As at 31 December 2016, the Group's certain unlisted investments of RMB100,444,000 (2015: RMB101,079,000) were pledged for notes payable of RMB100,000,000 (2015: RMB100,000,000) (note 21).

As at 31 December 2016, the Group's certain unlisted investments of RMB237,000,000 (2015: RMB58,222,000) were pledged to secure bank loan facilities granted to the Group of RMB231,696,000 (2015: RMB50,000,000) (note 24(iv)).

17. INVENTORIES

	2016 **RMB'000**	2015 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.

18. TRADE AND NOTES RECEIVABLES

	2016 **RMB'000**	2015 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.

18. TRADE AND NOTES RECEIVABLES (continued)

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 RMB'000	2015 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 RMB'000	2015 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.

18. TRADE AND NOTES RECEIVABLES (continued)

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 amounts 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 (note 24(v)).

As at 31 December 2016, an amount of RMB10,950,000 of the Group's notes receivable (2015: nil) was pledged to secure the foreign currency options and swaps transactions entered into by the Group (note 23).

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016 RMB'000	2015 RMB'000
Deposits and other receivables	**239,601**	449,689
Prepayments	**157,692**	84,154
Prepaid land lease payments (note 13)	**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 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.

20. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2016 RMB'000	2015 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 (note 21)	**322,064**	318,381
Pledged for letters of credit	**69,400**	63,685
Pledged for bank loans (note 24(i))	**13,805**	319,398
Pledged for foreign currency options and swaps (note 23)	**5,004**	—
	410,273	701,464
Cash and cash equivalents	**348,224**	91,743

20. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS (continued)

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.

21. TRADE AND BILLS PAYABLES

	2016 RMB'000	2015 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 RMB'000	2015 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) (note 20) and unlisted investments with a carrying amount of RMB100,444,000 (2015: RMB101,079,000) (note 16).

22. OTHER PAYABLES AND ACCRUALS

	2016 RMB'000	2015 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.

23. DERIVATIVE FINANCIAL INSTRUMENTS

	2016	
	Assets RMB'000	**Liabilities RMB'000**
Futures	**8,770**	**—**
Bullion options contracts	**—**	**1,889**
Forward contracts for silver	**1,075**	**—**
Foreign currency options and swaps	**32,096**	**7,737**
	41,941	**9,626**

23. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

	2015	
	Assets	Liabilities
	RMB'000	RMB'000
Futures	20,388	—
Bullion options contracts	—	413
Forward contracts for silver	—	4,056
Foreign currency options and swaps	—	8,811
	20,388	13,280

The Group has entered into various foreign currency options and swaps to manage its exchange rate exposures. These foreign currency options and swaps are not designated for hedge purposes and are measured at fair value through profit or loss. Changes in the fair value of non-hedging currency derivatives amounting to RMB39,796,000 were charged to the statement of profit or loss during the year (2015: RMB8,811,000).

As at 31 December 2016, the foreign currency options and swaps of RMB963,000 (2015: nil) were secured by the Group's notes receivable with a carrying amount of RMB10,950,000 (2015: nil) (note 18) and RMB2,371,000 (2015: nil) were secured by the Group's pledged deposits with a carrying amount of RMB5,004,000 (2015: nil) (note 20).

24. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)	Maturity	2016 RMB'000	2015 RMB'000
Current				
Finance lease payables (note 25)	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 (note 25)	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

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

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) (note 20);

(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 RMB358,321,000 (2015: RMB431,055,000) (note 12);

(iii) 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) (note 13);

(iv) the pledge of certain unlisted investments amounting to RMB237,000,000 as at 31 December 2016 (2015: RMB58,222,000) (note 16); and

(v) the pledge of certain of the Group's notes receivable amounting to RMB268,884,000 as at 31 December 2015 (note 18).

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 (iii) 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). As at 31 December 2015, certain of the Group's property, plant and equipment and leasehold land amounting to RMB431,055,000 and RMB25,530,000, respectively were pledged to the facility, which were included in note (ii) and note (iii) 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 amounting to RMB161,212,000 which were included in the amounts in note (ii) 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 amounting to RMB165,946,000 which were included in the amounts in note (ii) 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 amounting to RMB31,163,000 which were included in the amounts in note (ii) above.

25. FINANCE LEASE PAYABLES

The Group sells and leases back certain of its plant and machinery. These leases are classified as finance leases and have remaining lease terms ranging from one to two years.

At 31 December 2016, the total future minimum lease payments under finance leases and their present values were as follows:

	Minimum lease payments 2016 RMB'000	Present value of minimum lease payments 2016 RMB'000
Amounts payable:		
Within one year	**299,081**	**292,115**
In the second year	**30,396**	**29,625**
Total minimum finance lease payments	**329,477**	**321,740**
Future finance charges	**(7,737)**	
Total net finance lease payables	**321,740**	
Portion classified as current liabilities (note 24)	**(292,115)**	
Non-current portion (note 24)	**29,625**	

As the risks and rewards of the asset remain with the Group, the transaction could be accounted for based on its substance which is a borrowing arrangement, with the asset held as security. Hence, the Group continues to recognise the leased asset at its previous carrying amount as if no sale had taken place, and recognises proceeds received as a liability.

26. DEFERRED TAX

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

Deferred tax liabilities

	Fair value change on derivative financial instruments RMB'000	Available-for-sale investment revaluation RMB'000	Withholding tax on distributable profits RMB'000	Total RMB'000
At 31 December 2014 and 1 January 2015	—	139	18,537	18,676
Deferred tax credited to the statement of other comprehensive income	—	(139)	—	(139)
At 31 December 2015 and 1 January 2016	**—**	**—**	**18,537**	**18,537**
Deferred tax charged to the statement of profit or loss during the year (note 10)	**7,034**	**—**	**1,164**	**8,198**
Gross deferred tax liabilities at 31 December 2016	**7,034**	**—**	**19,701**	**26,735**

26. DEFERRED TAX (continued)

Deferred tax assets

	Fair value change on derivative financial instruments RMB'000	Available-for-sale investment revaluation RMB'000	Impairment of assets RMB'000	Government grants RMB'000	Tax losses RMB'000	Interest income on discounted long-term receivable RMB'000	Capitalised trial production gain RMB'000	Total RMB'000
At 1 January 2015	—	1,044	17,197	344	3,245	—	—	21,830
Deferred tax credited to the statement of other comprehensive income during the year	—	(1,044)	—	—	—	—	—	(1,044)
Deferred tax credited/(charged) to the statement of profit or loss during the year (note 10)	1,322	—	(8,015)	(23)	(3,245)	2,358	—	(7,603)
At 31 December 2015 and 1 January 2016	**1,322**	**—**	**9,182**	**321**	**—**	**2,358**	**—**	**13,183**
Deferred tax credited/(charged) to the statement of profit or loss during the year (note 10)	**(1,316)**	**—**	**(7,555)**	**(23)**	**—**	**(1,373)**	**906**	**(9,361)**
Gross deferred tax assets at 31 December 2016	**6**	**—**	**1,627**	**298**	**—**	**985**	**906**	**3,822**

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2016 RMB'000	2015 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	**—**	13,183
Net deferred tax liabilities recognised in the consolidated statement of financial position	**22,913**	18,537

Pursuant to the PRC Corporate Income Tax 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.

26. DEFERRED TAX (continued)

Deferred tax assets (continued)

Pursuant to the approval of the tax bureau in 2013, a 5% withholding tax is levied on dividends declared from the profits of 2010 and 2011 of Sanjiang Chemical according to the 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 since 2012 in view of the fact that Capitol International engages in substantive operation activities in Hong Kong and is the beneficial owner of the dividends.

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 RMB1,517,571,000 as at 31 December 2016 (2015: RMB1,113,300,000).

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 tax losses of RMB277,329,000 (2015: RMB411,206,000) and temporary differences arising in Mainland China of RMB28,185,000 (2015: RMB59,674,000) as it is uncertain that taxable profits will be available against which the tax losses and the temporary differences can be utilised.

The Group has tax losses arising in Mainland China of RMB272,021,000 (2015: RMB411,206,000) that will expire in one to five years for offsetting against future taxable profits.

27. ISSUED CAPITAL

The issued capital of the Company are as follows:

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

28. SHARE AWARD PLAN

The Company adopted a share award plan on 31 March 2011 (the "**Share Award Plan**"). The purposes of the Share Award Plan are to recognise and reward the contribution of certain eligible employees for the growth and development of the Group, 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 vested 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.

28. SHARE AWARD PLAN (continued)

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.

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 during the vesting period. On 1 April 2016, 1,698,000 shares were vested.

Pursuant to share award notices issued on 1 December 2012 to those selected employees, an aggregate of 2,940,000 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 during the vesting period.

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 during the vesting period.

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

	Number of shares purchased for the Share Award Plan	Number of awarded shares
At 1 January 2015	5,409,000	7,850,000
Purchased and withheld	—	—
At 31 December 2015	5,409,000	7,850,000
Exercisable as at 31 December 2015	—	—
At 1 January 2016	**5,409,000**	**7,850,000**
Vested	**—**	**(1,698,000)**
At 31 December 2016	**5,409,000**	**6,152,000**
Exercisable as at 31 December 2016	**—**	**—**

During the year, Share Award Plan expense of RMB878,000 was charged to the consolidated statement of profit or loss (2015: RMB2,839,000), of which an amount of RMB106,000 was included in the directors' remuneration (2015: RMB517,000).

29. RESERVES

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 48 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.

30. DIVIDENDS

	2016 RMB'000	2015 RMB'000
Special — HK15 cents (2015: Nil) per ordinary share	**128,393**	—
Proposed final — HK11.5 cents (2015: Nil) per ordinary share	**101,675**	—
	230,068	—

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

31. CONTINGENT LIABILITIES

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

	2016 RMB'000	2015 RMB'000
Guarantees given to banks in connection with facilities granted to:		
A related party/joint venture	**649,358**	1,022,500
A joint operation	**265,898**	167,773
	915,256	1,190,273

As at 31 December 2016, the banking facilities granted to a related party 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.

32. PLEDGE OF ASSETS

Details of the Group's bill payables, interest-bearing bank and other borrowings and derivative financial instruments, which are secured by the assets of the Group, are included in note 21, note 23 and note 24 to these financial statements, respectively.

33. OPERATING LEASE ARRANGEMENTS

As lessor

The Group leases pipes under operating lease arrangements as at 31 December 2016. Leases for pipes are negotiated for terms ranging from six to ten years. The Group had total future minimum lease receivables under non-cancellable operating leases falling due as follows:

	2016 **RMB'000**	2015 RMB'000
Within one year	**7,281**	8,954
In the second to third years, inclusive	**13,523**	12,746
In the fourth to fifth years, inclusive	**12,445**	11,866
After five years	**18,824**	23,223
	52,073	56,789

As lessee

The Group leases certain of its office properties under operating lease arrangements as at 31 December 2016. Leases for properties are negotiated for terms ranging from one to three years. The Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2016 **RMB'000**	2015 RMB'000
Within one year	**1,188**	1,215
In the second to third years, inclusive	**2,178**	—
	3,366	1,215

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:

	2016 RMB'000	2015 RMB'000
Contracted, but not provided for:		
Plant and machinery	**7,240**	63,128

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	Director
Jiahua Group	An entity controlled by the ultimate controlling shareholder
Jiahua Energy	An entity controlled by the ultimate controlling shareholder
Mei Fu Petrochemical*	An entity controlled by the ultimate controlling shareholder
Mei Fu Port	An entity controlled by the ultimate controlling shareholder
Grand Novel	An entity controlled by the ultimate controlling shareholder
Hangzhou Haoming Investment Co., Limited ("**Hangzhou Haoming**")	An entity controlled by the ultimate controlling shareholder
Jiaxing Xinggang Rewang Co., Ltd. ("**Jiaxing Rewang**")	An entity under significant influence of the ultimate controlling shareholder
Zhejiang Jiahua Import Export Co., Ltd. ("**Jiahua Import Export**")	An entity controlled by the ultimate controlling shareholder
Haoxing Energy Conservation Technology Co., Ltd. ("**Haoxing Energy Conservation**")	An entity controlled by the ultimate controlling shareholder
Gangqu Gangan Industrial Equipment Installing Co. Ltd. ("**Gangqu Gangan**")	An entity controlled by the ultimate controlling shareholder
Jiaxing Jianghao Eco-agriculture Co., Ltd. ("**Jianghao Eco-agriculture**")	An entity controlled by the ultimate controlling shareholder
Jianghao Investment	An entity under significant influence of the ultimate controlling shareholder
Sure Capital	Holding company and the ultimate holding company of the Company

* Mei Fu Petrochemical, a joint venture, was disposed of on 30 September 2016 and since then it was treated as an entity controlled by the ultimate controlling shareholder instead of a joint venture.

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:

	Notes	2016 RMB'000	2015 RMB'000
Sales of goods to:			
Mei Fu Petrochemical	(i)	**132,430**	97,878
Jiahua Energy	(i)	**4,399**	4,095
Mei Fu Port	(i)	**—**	55
		136,829	102,028
Purchases of goods from:			
Jiahua Energy	(i)	**329,753**	309,206
Jiaxing Rewang	(i)	**2,721**	6,096
Gangqu Gangan	(i)	**1,368**	—
Jianghao Eco-agriculture	(i)	**601**	—
Mei Fu Petrochemical	(i)	**594**	4,930
Jiahua Group	(i)	**—**	18
		335,037	320,250
Loading and service provided by:			
Mei Fu Port	(ii)	**69,201**	29,229

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	2016 RMB'000	2015 RMB'000
Rental income from:			
Mei Fu Petrochemical	(ii)	**2,058**	2,063
Jiaxing Rewang	(ii)	**868**	879
Jiahua Energy	(ii)	**1,035**	255
		3,961	3,197
Agency fee to:			
Jiahua Import Export	(ii)	**142**	900
Agency fees from:			
Mei Fu Petrochemical	(ii)	**60**	122
Jiahua Group	(ii)	**—**	92
		60	214
Rental expense to:			
Hangzhou Haoming	(ii)	**600**	750
Royalty fee to:			
Jiahua Group	(ii)	**1,014**	507
Loans to:			
Mei Fu Petrochemical	(iii)	**286,490**	828,158
Loans from:			
Grand Novel	(iv)	**—**	61,777
Jiahua Group	(v)	**350,000**	300,000
		350,000	361,777
Interest income from:			
Mei Fu Petrochemical	(iii)	**105,754**	106,713
Interest expense to:			
Jiahua Group	(v)	**23,222**	8,690
Guarantee fee from:			
Mei Fu Petrochemical	(vi)	**10,000**	10,000
Consultancy service income from:			
Mei Fu Petrochemical	(vii)	**69,811**	—

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)

	Note	2016 RMB'000	2015 RMB'000
Management fees to:			
Grand Novel (note 8)		**1,029**	1,046
Payments by a related party on behalf of the Group:			
Jiahua Import Export	(viii)	**42,320**	—
Dividend income from:			
Mei Fu Port		**—**	12,500

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 and suppliers.

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

(iii) The Group made loans to Mei Fu Petrochemical amounting to RMB286,490,000 (2015: RMB828,158,000) as working capital. An aggregate amount of RMB551,000,000 (2015: RMB993,000,000) had been repaid during the year. These loans were unsecured, bore interest at 7% to 12% per annum and were repayable within three years.

(iv) The loans from Grand Novel were used as the temporary working capital. The loans were unsecured, interest-free and were repaid during the year.

(v) The Group obtained loans from Jiahua Group amounting to RMB350,000,000 (2015: RMB300,000,000) as the working capital for the newly operation of Xingxing New Energy during the year, and an amount of RMB101,000,000 (2015: RMB110,000,000) had been repaid during the year. The loans were unsecured of which RMB200,000,000 bore interest at 4.35% per annum and was repayable within one year, RMB150,000,000 bore interest at 8% per annum and was repayable on demand within three years. The interest expense amounting to RMB23,222,000 (2015: RMB8,690,000) was incurred during the year.

(vi) The Group has guaranteed bank loans made to Mei Fu Petrochemical up to RMB89,989,397 (2015: RMB499,819,000) as at the end of the reporting period and charged Mei Fu Petrochemical a guarantee fee of RMB10,000,000 (2015: RMB10,000,000).

(vii) The consultancy service income was determined after arm's length negotiations between the relevant parties, taking into account the time, expertise and resources that the Group provided in the provision of the consultancy services during the transition year.

(viii) The payment were made on behalf of the Group based on the actual cost incurred.

35. RELATED PARTY TRANSACTIONS (continued)

(b) Other transactions with related parties

(i) 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 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 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 RMB798,386,000 as at 31 December 2016 (2015: RMB1,098,850,000) as further detailed in note 24 to the financial statements.

(ii) During the year, the Group entered into an agreement to dispose of 51% of interest in Mei Fu Petrochemical to Jianghao Investment and Sure Capital at an aggregate consideration of RMB306,000,000. Further details of the transaction are included in note 15 to the financial statements.

(c) Outstanding balances with related parties:

	2016 **RMB'000**	2015 RMB'000
Due from related parties:		
Mei Fu Petrochemical	**728,549**	910,268
Jiahua Energy	**110,269**	154,916
Hangzhou Haoming	**122**	150
Jiahua Import Export	**284**	283
Sure Capital	**5,619**	—
Jiahua Group	**92**	93
	844,935	1,065,710
Due to related parties:		
Grand Novel	**9,929**	9,299
Mei Fu Petrochemical	**30,080**	55,291
Mei Fu Port	**8,269**	5,077
Jiahua Energy	**67,253**	65,833
Jiaxing Rewang	**392**	932
Jiahua Group	**435,201**	185,493
Jiahua Import Export	**42,320**	—
Haoxing Energy Conservation	**1,763**	3,955
Gangqu Gangan	**672**	—
Jianghao Eco-agriculture	**18**	—
	595,897	325,880

35. RELATED PARTY TRANSACTIONS (continued)

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

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 and 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 on demand within three years.

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

	2016	2015
	RMB'000	RMB'000
Short term employee benefits	**11,615**	4,882
Equity-settled share award plan expense	**629**	1,022
Pension scheme contributions	**141**	141
Total compensation paid to key management personnel	**12,385**	6,045

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

The related party transactions in respect of sales of goods to Jiahua Energy, purchases of goods from Jiahua Energy, Jiaxing Rewang, Gangqu Gangan and Jianghao Eco-agriculture, rental income from Mei Fu Petrochemical, Jiaxing Rewang and Jiahua Energy, an agency fee to Jiahua Import Export, agency fees from Mei Fu Petrochemical, a rental expense to Hangzhou Haoming, a royalty fee to Jiahua Group, loans to Mei Fu Petrochemical, loans from Jiahua Group, interest income from Mei Fu Petrochemical, an interest expense to Jiahua Group, a management fee from Mei Fu Petrochemical, a management fee to Grand Novel, consideration of disposal of a joint venture from Jianghao Investment and Sure Capital and consulting service income from Mei Fu Petrochemical above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

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:

Financial assets

	2016			
	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	—	170,367	—	170,367
Financial assets included in prepayments, deposits and other receivables	—	240,864	—	240,864
Due from related parties	—	844,935	—	844,935
Available-for-sale investments	—	—	425,371	425,371
Derivative financial instruments	41,941	—	—	41,941
Pledged deposits	—	410,273	—	410,273
Cash and cash equivalents	—	348,224	—	348,224
	41,941	2,014,663	425,371	2,481,975

	2015			
	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	—	702,609	—	702,609
Financial assets included in prepayments, deposits and other receivables	—	451,169	—	451,169
Due from related parties	—	1,065,710	—	1,065,710
Available-for-sale investments	—	—	423,949	423,949
Derivative financial instruments	20,388	—	—	20,388
Pledged deposits	—	701,464	—	701,464
Cash and cash equivalents	—	91,743	—	91,743
	20,388	3,012,695	423,949	3,457,032

36. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial liabilities

	2016		
	Financial liabilities at fair value through profit or loss		
	Held for trading	Financial liabilities at amortised cost	Total
	RMB'000	RMB'000	RMB'000
Trade and bills payables	—	**1,454,312**	**1,454,312**
Financial liabilities included in other payables and accruals	—	**816,536**	**816,536**
Derivative financial instruments	**9,626**	—	**9,626**
Interest-bearing bank and other borrowings	—	**3,717,278**	**3,717,278**
Due to related parties	—	**595,897**	**595,897**
	9,626	**6,584,023**	**6,593,649**

	2015		
	Financial liabilities at fair value through profit or loss		
	Held for trading	Financial liabilities at amortised cost	Total
	RMB'000	RMB'000	RMB'000
Trade and bills payables	—	1,254,516	1,254,516
Financial liabilities included in other payables and accruals	—	1,155,101	1,155,101
Derivative financial instruments	13,280	—	13,280
Interest-bearing bank and other borrowings	—	5,428,841	5,428,841
Due to related parties	—	325,880	325,880
	13,280	8,164,338	8,177,618

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

	Carrying amounts		Fair values	
	2016	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Due from related parties	**609,000**	96,451	**609,000**	96,451
Available-for-sale investments	**424,371**	422,949	**424,371**	422,949
Derivative financial instruments	**41,941**	20,388	**41,941**	20,388
	1,075,312	539,788	**1,075,312**	539,788
Financial liabilities				
Derivative financial instruments	**9,626**	13,280	**9,626**	13,280

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 floating interest rate or the short term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the financial controller and the audit committee. At each reporting date, the finance department 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 2016 was assessed to be insignificant.

The fair value of long-term amount due from related parties has been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

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

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with A credit ratings. Derivative financial instruments, including foreign currency options and swaps, futures, bullion options contracts, forward contracts for silver and deferred bullion sale facilities are measured using valuation techniques, including the Black-Scholes option pricing model, net present value of the cash flows model and the model of purchase prices as at the issue date and the excepted yield. 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 foreign currency options and swaps, futures, bullion options contracts, forward contracts for silver and deferred bullion sale facilities are the same as their fair values.

Fair value hierarchy

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

Assets measured at fair value:

As at 31 December 2016

	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	**8,770**	**33,171**	**—**	**41,941**
Available-for-sale investments	**—**	**424,371**	**—**	**424,371**
	8,770	**457,542**	**—**	**466,312**

As at 31 December 2015

	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	20,388	—	—	20,388
Available-for-sale investments	—	422,949	—	422,949
	20,388	422,949	—	443,337

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

Fair value hierarchy (continued)

Liabilities measured at fair value:

As at 31 December 2016

	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	**—**	**9,626**	**—**	**9,626**

As at 31 December 2015

	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	—	13,280	—	13,280

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 (2015: Nil).

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 foreign currency options and swaps, futures, bullion options contracts, forward contracts for silver and deferred bullion sale facilities. The purpose is to manage the commodity price risk and foreign currency risk 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.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 24 above.

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

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit/(loss) before tax RMB'000
2016		
RMB	**5**	**(338)**
RMB	**(5)**	**338**
United States dollar	**5**	**(9)**
United States dollar	**(5)**	**9**
Hong Kong dollar	**5**	**(10)**
Hong Kong dollar	**(5)**	**10**
2015		
RMB	5	(609)
RMB	(5)	609
United States dollar	5	(102)
United States dollar	(5)	102
Euro	5	(41)
Euro	(5)	41

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 54% (2015: 68%) of the Group's purchases for the year ended 31 December 2016 are denominated in currencies other than the functional currencies of the operating units making the purchase, whilst almost 100% (2015: 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, Hong Kong dollar and Euro exchange rates, with all other variables held constant, of the Group's profit/(loss) before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ (decrease) in foreign currency rate %	Increase/ (decrease) in profit/(loss) before tax RMB'000
2016		
If RMB weakens against the United States dollar	**5**	**(53,432)**
If RMB strengthens against the United States dollar	**(5)**	**53,432**
If RMB weakens against the Hong Kong dollar	**5**	**(2,254)**
If RMB strengthens against the Hong Kong dollar	**(5)**	**2,254**
If RMB weakens against Euro	**5**	**2**
If RMB strengthens against Euro	**(5)**	**(2)**
2015		
If RMB weakens against the United States dollar	5	(65,311)
If RMB strengthens against the United States dollar	(5)	65,311
If RMB weakens against the Hong Kong dollar	5	178
If RMB strengthens against the Hong Kong dollar	(5)	(178)
If RMB weakens against Euro	5	(11,050)
If RMB strengthens against Euro	(5)	11,050

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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, other receivables and certain derivative instruments, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. The Group is also exposed to credit risk through the granting of financial guarantees, further details of which are disclosed in note 31 to the financial statements.

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 18 and 19, respectively, to the financial statements.

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:

			2016		
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Trade and bills payables	**198,075**	**721,323**	**534,914**	**—**	**1,454,312**
Other payables	**587,235**	**55,195**	**174,106**	**—**	**816,536**
Finance lease payables	**—**	**180,049**	**119,032**	**30,396**	**329,477**
Derivative financial instruments	**—**	**9,626**	**—**	**—**	**9,626**
Interest-bearing bank borrowings	**—**	**1,239,560**	**887,565**	**1,438,084**	**3,565,209**
Due to related parties	**595,897**	**—**	**—**	**—**	**595,897**
Guarantees given to banks in connection with facilities granted to:					
a related party	**89,989**	**—**	**—**	**—**	**89,989**
a joint operation	**120,573**	**—**	**—**	**—**	**120,573**
	1,591,769	**2,205,753**	**1,715,617**	**1,468,480**	**6,981,619**

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

	2015				
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Trade and bills payables	249,880	484,217	520,419	—	1,254,516
Other payables	760,712	391,988	2,401	—	1,155,101
Derivative financial instruments	—	13,280	—	—	13,280
Interest-bearing bank and other borrowings	—	1,647,715	2,350,198	1,857,128	5,855,041
Due to related parties	325,880	—	—	—	325,880
Guarantees given to banks in connection with facilities granted to:					
a joint venture	499,819	—	—	—	499,819
a joint operation	128,461	—	—	—	128,461
	1,964,752	2,537,200	2,873,018	1,857,128	9,232,098

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 2015 and 2016.

	2016 **RMB'000**	2015 RMB'000
Trade and bills payables	**1,454,312**	1,254,516
Other payables and accruals	**1,062,561**	1,331,048
Interest-bearing bank and other borrowings	**3,717,278**	5,428,841
Due to related parties	**595,897**	325,880
Less: Cash and cash equivalents	**(348,224)**	(91,743)
Pledged deposits	**(410,273)**	(701,464)
Net debt	**6,071,551**	7,547,078
Equity attributable to owners of the parent	**2,564,239**	2,129,618
Capital and net debt	**8,635,790**	9,676,696
Gearing ratio	**70%**	78%

39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**426,588**	426,588
CURRENT ASSETS		
Prepayments, deposits and other receivables	**2,818**	2,172
Due from a subsidiary	**458,130**	552,606
Cash and cash equivalents	**584**	526
Total current assets	**461,532**	555,304
CURRENT LIABILITIES		
Other payables and accruals	**30,435**	116
Due to a subsidiary	**42,842**	39,012
Due to a related party	**7,155**	6,701
Total current liabilities	**80,432**	45,829
NET CURRENT ASSETS	**381,100**	509,475
TOTAL ASSETS LESS CURRENT LIABILITIES	**807,688**	936,063
Net assets	**807,688**	936,063
EQUITY		
Issued capital	**86,048**	86,048
Reserves (note)	**721,640**	850,015
Total equity	**807,688**	936,063

39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the Company's reserves is as follows:

	Share premium RMB'000	Capital redemption reserve RMB'000	Shares repurchased for share award plan RMB'000	Share award plan reserve RMB'000	Retained profits RMB'000	Total RMB'000
Balance at 1 January 2015	818,311	2,371	(33,012)	5,292	30,239	823,201
Total comprehensive income for the year	—	—	—	—	23,975	23,975
Equity-settled share award plan expense	—	—	—	2,839	—	2,839
At 31 December 2015 and 1 January 2016	**818,311**	**2,371**	**(33,012)**	**8,131**	**54,214**	**850,015**
Total comprehensive loss for the year	**—**	**—**	**—**	**—**	**(2,854)**	**(2,854)**
Equity-settled share award plan expense	**(1,523)**	**—**	**6,264**	**(1,869)**	**—**	**2,872**
Special dividend	**—**	**—**	**—**	**—**	**(128,393)**	**(128,393)**
At 31 December 2016	**816,788**	**2,371**	**(26,748)**	**6,262**	**(77,033)**	**721,640**

40. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 22 March 2017.

Five Year Financial Summary

	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000
REVENUE	**6,647,019**	4,966,427	3,636,800	3,940,471	2,410,125
Gross profit	**906,570**	164,449	242,122	638,212	574,511
Finance costs	**261,681**	276,978	125,608	74,967	67,195
PROFIT/(LOSS) BEFORE TAX	**692,815**	(164,964)	147,370	685,771	561,649
Income tax expense	**93,964**	62,268	16,564	81,011	94,639
Net profit/(loss) for the year	**598,851**	(227,232)	130,806	604,760	467,010
Profits/(Losses) attributable to ordinary equity holders of the parent	**552,614**	(145,502)	132,780	605,131	466,776
NON-CURRENT ASSETS	**6,916,419**	6,711,126	5,965,643	3,740,212	1,866,216
CURRENT ASSETS	**2,761,678**	3,956,061	4,447,142	3,333,774	2,944,513
Interest-bearing borrowings	**3,717,278**	5,428,841	5,660,481	3,040,329	1,647,080
CURRENT LIABILITIES	**5,845,003**	7,048,488	6,019,294	4,068,497	2,764,128
NET CURRENT (LIABILITIES)/ASSETS	**(3,083,325)**	(3,092,427)	(1,572,152)	(734,723)	180,385
NON-CURRENT LIABILITIES	**1,103,924**	1,370,387	1,915,776	538,120	95,834
Net assets/Total equity	**2,729,170**	2,248,312	2,477,715	2,467,369	1,950,767
Cash inflow from operating activities	**1,832,939**	43,218	156,137	808,930	824,084
Cash inflow/(outflow) from investing activities	**293,984**	6,837	(1,842,812)	(2,527,633)	(556,988)
Cash (outflow)/inflow from financing activities	**(1,876,216)**	(361,183)	1,832,691	1,628,460	(221,281)

	RMB fens	RMB fens	RMB fens	RMB fens	RMB fens
Earnings/(loss) per share — Basic	**56.09**	(14.79)	13.49	61.33	46.58
Earnings/(loss) per share — Diluted	**55.96**	(14.73)	13.44	61.12	46.55

	In %	In %	In %	In %	In %
Gross profit margin	**13.6**	3.3	6.7	16.2	23.8
Gearing — total interest-bearing borrowings to total asset	**42.9**	50.9	54.2	43.1	34.2

	2016 In days	2015 In days	2014 In days	2013 In days	2012 In days
Inventory turnover days — Average opening and closing inventories divided by cost of sales x 365 days	**38.9**	30.0	28.9	37.8	65.6
Trade and notes receivables turnover days — Average opening and closing trade and note receivables divided by revenue x 365 days	**24.0**	37.8	26.5	16.1	26.3
Trade and bills payables turnover days — Average opening and closing trade payables divided by cost of sales x 365 days	**86.1**	97.2	135.1	111.1	115.6

Corporate Information

DIRECTORS

Executive Directors

GUAN Jianzhong *(Chairman)*
HAN Jianhong
HAN Jianping
RAO Huotao

Independent non-executive Directors

SHEN Kaijun
PEI Yu
KONG Liang

SHARE LISTING

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

AUDITORS

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

LEGAL ADVISERS AS TO HONG KONG LAW

Chiu & Partners
40th Floor, Jardine House
1 Connaught Place, Hong Kong

PRINCIPAL PLACE OF BUSINESS IN THE PRC AND HEADQUARTERS

Pinghai Road, Jiaxing Port Area, Zhejiang Province, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1702, Infinitus Plaza
199 Des Voeux Road Central,
Sheung Wan, Hong Kong

REGISTERED OFFICE

Cricket Square, Hutchins Drive P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 609
Grand Cayman KY1-1107
Cayman Islands

COMPANY SECRETARY

Yip Ngai Hang, Henry FCPA FCCA

PRINCIPAL BANKER IN HONG KONG

Deutsche Bank AG
Hong Kong Branch
Level 52, International Commerce Centre
1 Austin Road West, Kowloon, Hong Kong

PRINCIPAL BANKERS IN THE PRC

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

Bank of China
Pinghu City Branch
40 Chengnan Road West, Pinghu City
Zhejiang Province, PRC

China CITIC Bank
Jiaxing Branch
639 Zhongshan Road East, Jiaxing City
Zhejiang Province, PRC

Industrial and Commercial Bank of China
Pinghu City Branch
338 Yashan Road Central, Pinghu City
Zhejiang Province, PRC

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Investor Services Limited
Level 22, Hopewell Centre,
183 Queen's Road East, Hong Kong

CORPORATE WEBSITE

www.chinasanjiang.com