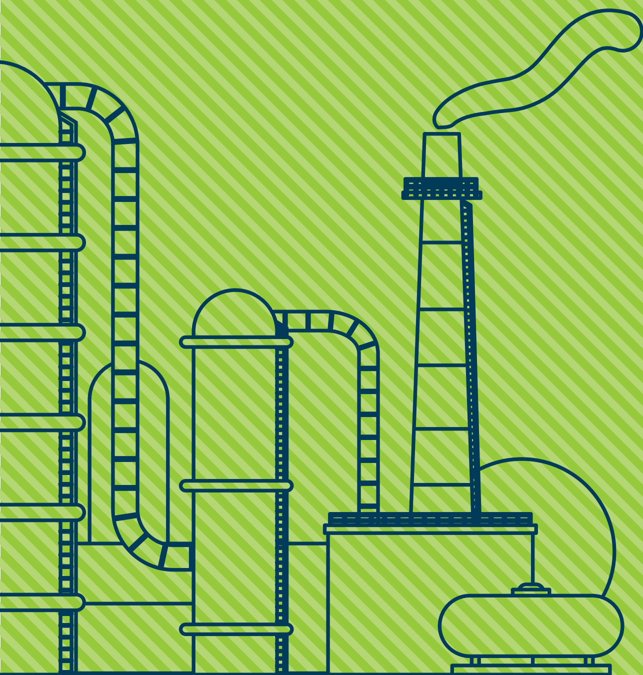
三江化工
SANJIANG CHEMICAL

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

2018 ANNUAL REPORT



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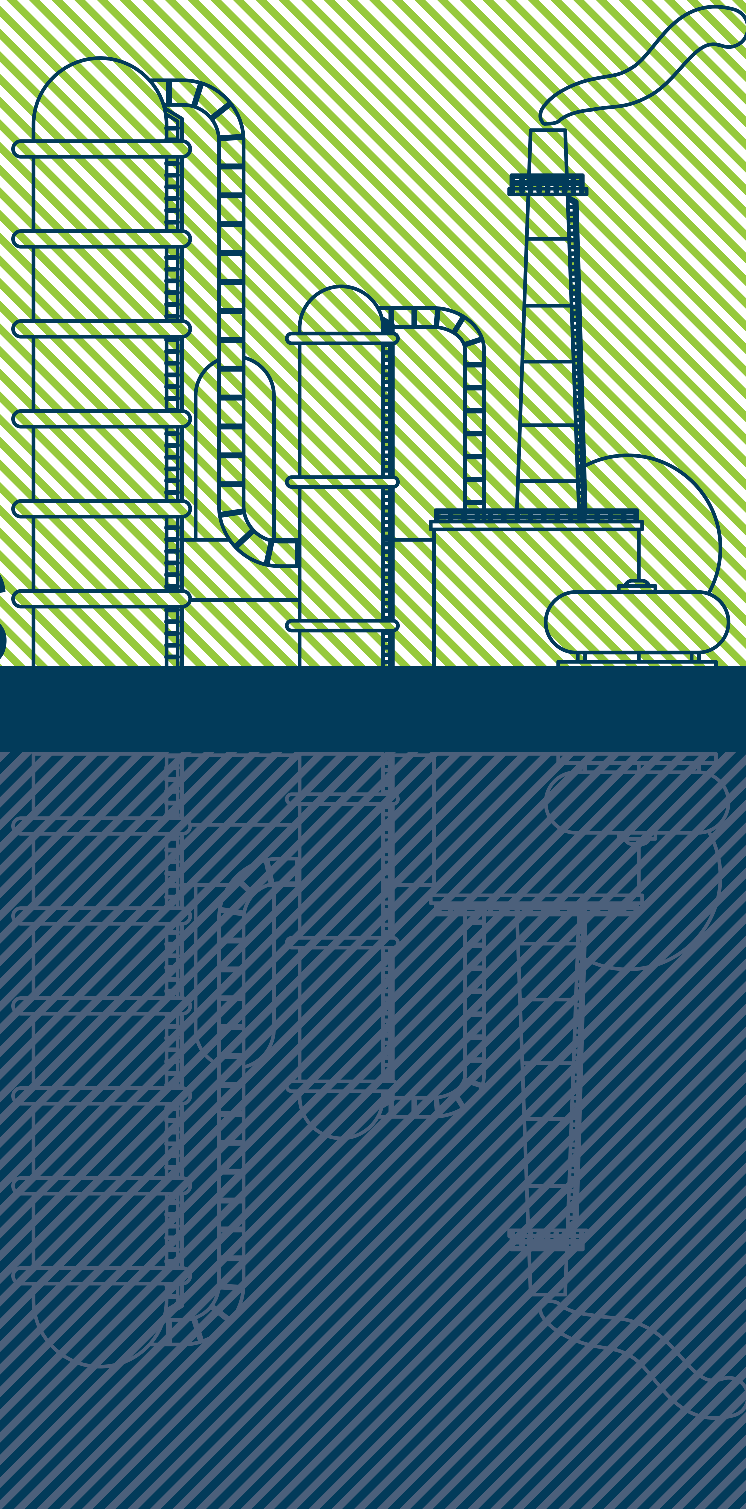


CHAIRMAN'S STATEMENT

On behalf of the board (the "**Board**") of directors (the "**Directors**") of China Sanjiang Fine Chemicals Company Limited (the "**Company**"), I am pleased to announce the annual audited consolidated results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2018.

2018 was full of challenges for our Group. Global economy, commodity markets, foreign exchange market and the market sentiments across the oil and chemical sector (the "**Sector**") have been changing dramatically throughout 2018. During the first half of 2018, crude oil pricing broke important levels, heading to a higher range between approximately USD70 per barrel and approximately USD80 per barrel. However, the Group's expectation as well as the market sentiments of the Sector turn negative and deteriorated dramatically since Q3 of 2018 after a number of global political incidents happened, in particular, China-US trade issue and the missing journalist in the Middle East, which had significant influences over certain macro environment variables, in particular, crude oil pricing and RMB exchange rate. Revenue of the Group amounted to approximately RMB9,585.9 million in 2018, representing an increase of approximately 7.7% when comparing to the revenue of approximately RMB8,897.1 million in 2017, primarily due to the increment of the revenue from polypropylene line of business by approximately 18.3% after the completion of ramp-up of the 2nd Phase polypropylene ("**PP**") production facility, which provides a 300,000MT production capacity increment on a yearly basis, in July 2018 and the sales volume of PP increased by approximately 13.6% in 2018 when comparing to 2017. Overall gross profit margin of the Group declined by approximately 1.8% in 2018 as the methanol pricing increased by more than 11% (on a simple average basis) in 2018, which offset the positive impacts from the increase in overall average selling prices of the Group's products.

The Board has recommended a final dividend of HK10.0 cents per share, together with the distribution of interim dividend of HK10.0 cents per share, representing a dividend payout ratio of approximately 50% in total for the year ended 31 December 2018 (the "**year under review**").

Methanol pricing is the dominant factor that affects the profitability of the Group as Methanol cost counts approximately two-third towards the feedstock procurement cost of the Group on a full production capacity basis. The Group has been upholding its view since 2017 that Methanol pricing would come down to a level of approximately RMB2,400/MT on a yearly average basis, the rationales of which have been elaborated in the Group's ***2017 Annual Report***. During the year under review, Methanol pricing continued its volatility, soaring from the 2017 yearly average of approximately RMB2,850/MT (on a simple average basis) to the first price peak at approximately RMB3,700/MT in January 2018, retreating to approximately RMB2,800/MT early March 2018 and then, continuing its upward trend until reaching a level of approximately RMB3,650/MT in October 2018. In October 2018, the Group took the initiative to adjust its production capacity of Methanol-to-Olefins ("**MTO**") production facility as the Group considered Methanol pricing reached a level beyond the support of fundamental factors and such a production capacity adjustment measure has been approved to be very successful as it turns the market sentiment of methanol pricing around and Methanol pricing retreated rapidly after such a production capacity adjustment measure and slumped sharply to a level of approximately RMB2,500/MT in 1 month's time by November 2018 and then settled at approximately RMB2,400/MT in December 2018. The Group put its MTO production facility back to full production capacity late January 2019 and, during January and February 2019, Methanol pricing maintained in a range between approximately RMB2,300/MT and approximately RMB2,500/MT, which is a level of Methanol pricing that enables the Group to run MTO production facility in a positive gross profit margin position (the whole year of 2018: Gross loss margin of approximately 8% for upstream alone vs. February 2019: Gross profit margin of approximately 6% for upstream alone).

Apart from the adverse effects in respect of the aforesaid volatility of methanol pricing, the decrease of net profit margin of the Group by approximately 3.6% was also due to an unexpected global political incident — China-US trade issue, which initially started on or around late March 2018, since which, CNY vs. USD exchange rate depreciated rapidly by approximately 7% from approximately 6.40:1 (for CNY vs. USD) to approximately 6.85:1 (for CNY vs. USD) in around 3 months' time by June 2018. A rapid movement of CNY exchange rate put all the PRC manufacturers requiring for overseas procurements of raw materials/feedstock, like our Group, through a difficult situation and our Group incurred an net foreign exchange loss of RMB119.2 million in 2018 (2017: net foreign exchange gain of approximately RMB62.4 million), representing the total financial impact of CNY depreciation on our Group amounted to approximately RMB181.6 million in 2018 when comparing to 2017.

Generally, crude oil pricing is another factor that affects the market sentiments across the Sector. During the year under review, crude oil pricing moved in a way beyond our estimation and expectation. The Group was initially optimistic about crude oil pricing when it broke important price levels and went all the way up in 15 months' time by approximately 68% from approximately USD44 per barrel in July 2017 until USD75 per barrel in September 2018. However, crude oil pricing turned negative and slumped sharply since early October 2018 after the missing journalist in the Middle East and it took less than 3 months' time for crude oil pricing to return to approximately USD45 per barrel in December 2018 and such dramatic price movement in a short period of time hurts the market sentiments of the Sector as higher cruel oil pricing would push up the average selling prices of all crude oil-derivative products and high volatility of crude oil pricing would undermine the demands of the Sector as a whole. Only a stable crude oil pricing would induce a stronger demand for crude oil-derivative products like ethylene, propylene, EO, EG and PP as downstream producers are more willing to maximize their production capacities and increase 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.

During the year under review, revenue of the Group increased by approximately 7.7% when comparing to 2017, primarily resulted from: 1) increase in sales of PP line of business by approximately 18.3% after the completion of ramp-up of the 2nd Phase PP production facility in July 2018 and the sales volume of PP increased by approximately 13.6% in 2018 when comparing to 2017 and 2) increase in sales of Surfactants line of business by approximately 34.3% as the Group put more efforts to develop downstream markets in 2018. Net profit attributable to shareholders was approximately RMB398.9 million for the year ended 31 December 2018, representing a decrease of approximately 42.3% as compared with 2017, which was primarily due to the total financial impact of approximately RMB181.6 million as to CNY depreciation on our Group in 2018 when comparing to 2017 and the decrease in overall gross profit margin by approximately 1.8% due to the volatility of methanol pricing.

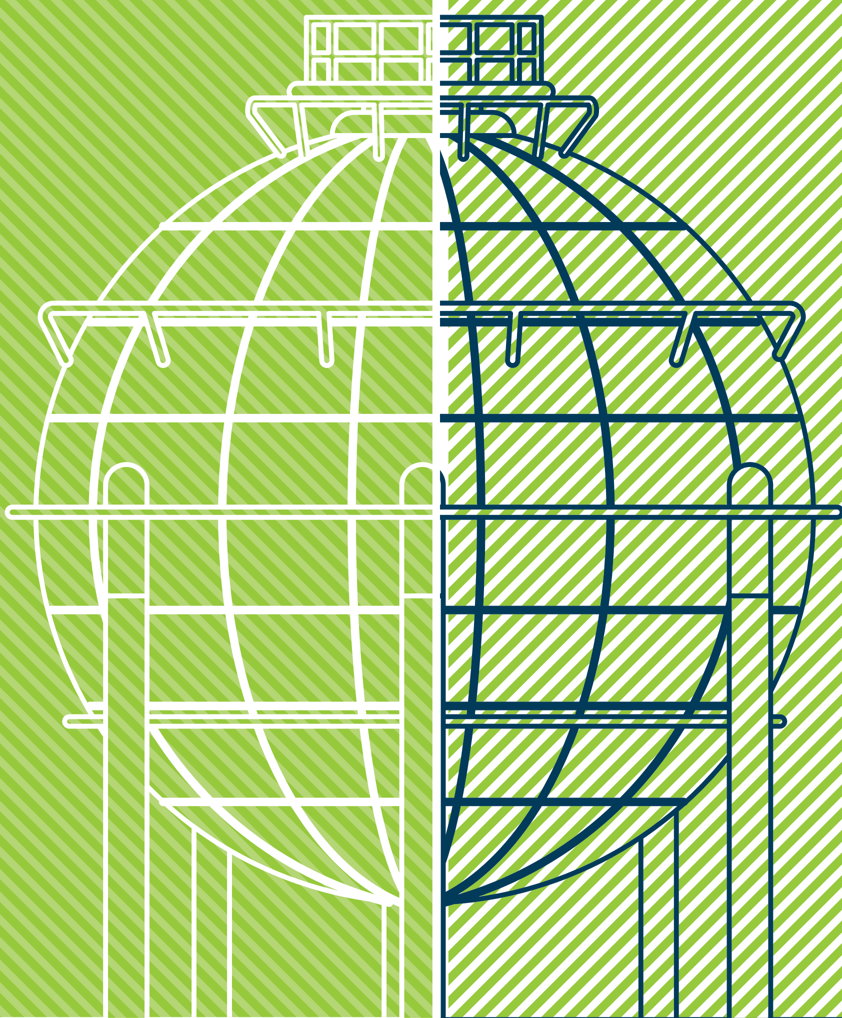
The Group considers there have been some positive developments as to CNY exchange rate and Methanol pricing since early 2019, including but not limited to the appreciation of CNY after the easing of tension of China-US trade issue since January 2019 and certain new Methanol supplies from Iran coming on stream since late 2018. Going forward, after completions of major capacity expansions (i.e. both MTO production facility and the 5th phase EO/EG production facilities ramped up in 2016) for more than two years' time with gearing level of the Group, on total assets basis, coming down to a level within the Group's gearing guidance, which is not more than 66.7% on total interest-bearing borrowings to total assets basis, the Group considers it is a good time to expand production capacities in both upstream level, which will only focus on Ethylene output (based on preliminarily assessment), and midstream level and the Group will update shareholders and potential investors in due course once concrete expansion plans including associated financing arrangements are substantially confirmed.

ACKNOWLEDGEMENT

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

GUAN Jianzhong
Chairman
PRC, 25 March 2019

MANAGEMENT
DISCUSSION AND ANALYSIS



BUSINESS AND FINANCIAL REVIEW

Revenue

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

	Full year 2018	**% of revenue**	Full year 2017	% of revenue	**Variance +/(−)**
REVENUE (RMB'000)					
Ethylene oxide	**2,821,678**	**29%**	2,851,373	32%	−1.0%
Ethylene glycol	**2,385,058**	**25%**	2,186,596	25%	9.1%
Polypropylene	**2,550,777**	**27%**	2,155,791	24%	18.3%
Surfactants	**791,279**	**8%**	589,359	7%	34.3%
MTBE/C4	**410,961**	**4%**	455,076	5%	−9.7%
C5	**276,167**	**3%**	288,240	3%	−4.2%
Others	**349,939**	**4%**	370,708	4%	−5.6%
	9,585,859	**100%**	8,897,143	100%	7.7%
SALES VOLUME (MT)					
Ethylene oxide	**318,756**		350,618		−9.1%
Ethylene glycol	**379,700**		356,373		6.5%
Polypropylene	**360,907**		317,809		13.6%
Surfactants	**180,966**		162,755		11.2%
MTBE/C4	**79,283**		99,879		−20.6%
C5	**59,366**		63,596		−6.7%
AVERAGE SELLING PRICE (RMB)					
Ethylene oxide	**8,852**		8,132		8.8%
Ethylene glycol	**6,281**		6,136		2.4%
Polypropylene	**7,068**		6,783		4.2%
Surfactants	**4,373**		3,621		20.8%
MTBE/C4	**5,183**		4,556		13.8%
C5	**4,652**		4,532		2.6%
GROSS PROFIT MARGIN (%)					
Ethylene oxide	**16.9%**		22.3%		−5.4%
Ethylene glycol	**17.5%**		22.0%		−4.5%
Polypropylene	**−4.8%**		−9.4%		4.6%
Surfactants	**15.9%**		20.3%		−4.4%
MTBE/C4	**8.4%**		6.1%		2.3%
C5	**−1.8%**		−0.4%		−1.4%

Ethylene oxide sales

During the year under review, the revenue from EO line of business maintained in a similar level in 2018 when compared to 2017, which was primarily resulted from the combined effect of the increase in average selling price of EO by approximately 8.8% and the decrease in EO sales volume by approximately 9.1% as the Group tuned the 5th phase EO/EG production facilities, which is a swing production facility in terms of EO and EG outputs, to maximise the output for EG.

Ethylene glycol sales

During the year under review, the revenue from EG line of business increased by approximately 9.1% when compared to 2017 as the Group maximized the EG output capacity of the 5th phase EO/EG production facilities and, in turn, the sales volume of EG increased by approximately 6.5% when compared to 2017.

Polypropylene sales

During the year under review, the revenue from polypropylene line of business increased by approximately 18.3% when compared to 2017, which was primarily resulted from the completion of ramp-up of the 2nd Phase PP production facility, which provides a 300,000MT production capacity increment on a yearly basis, in July 2018 and the sales volume of PP increased by approximately 13.6% in 2018 when comparing to 2017.

Gross profit margin

Overall gross profit margin decreased by approximately 1.8%, primarily resulted from the increase in Methanol pricing by more than 11% (on a simple average basis) from approximately RMB2,850/MT in 2017 to approximately RMB3,180/MT in 2018 while the direct downstream outputs of Methanol, being Ethylene and Propylene from our perspective, only increased by approximately 5.3% and 17.2% (on a simple average basis) respectively during the corresponding period.

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 RMB453.6 million (2017: approximately RMB RMB273.7 million), most of which were denominated in Renminbi. The Group had interest-bearing borrowings of approximately RMB3,059.7 million as at 31 December 2018 (2017: approximately RMB2,351.6 million). Please refer to notes 24 to the consolidated financial statements for the details of borrowings and the respective charge of assets.

The Group's gearing, expressed as a percentage of total interest-bearing borrowings to total assets, was approximately 32.6% as at 31 December 2018 as compared to approximately 27.1% as at 31 December 2017. 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 (2018: 46.2 days; 2017: 40.5 days).

The trade and notes receivables turnover days maintained at a relatively low level in both 2018 and 2017 (2018: 16.6 days; 2017: 10.6 days).

The trade and notes payables turnover days maintained at a similar level in both 2018 and 2017 (2018: 62.4 days; 2017: 65.9 days).

CONTINGENT LIABILITIES

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

	2018 RMB'000	2017 RMB'000
Guarantees given to banks in connection with facilities granted to:		
A related party/joint venture	**1,022,702**	787,200

As at 31 December 2018, the banking facility granted to a related party subject to guarantees given to banks by the Group was utilised to the extent of approximately RMB915,660,000 (2017: RMB295,227,000).

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2018, the Group employed a total of 1,076 full-time employees (2017: 1,049 employees). For the year ended 31 December 2017, the employee benefit expense was approximately RMB134.9 million (2017: approximately RMB166.8 million). The Group's employee benefits included housing subsidies, shift subsidies, bonuses, allowances, medical check-up, staff quarters, social insurance contributions and housing fund contributions. The remuneration committee of the Company reviews such packages annually, or when the occasion requires. The executive Directors, who are also employees of the Company, receive remuneration in the form of fees, salaries, bonuses and other allowances.

Directors and Senior Management

BIOGRAPHIES OF DIRECTORS

GUAN Jianzhong (管建忠)

aged 50, 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 30 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 41.97% of the issued share capital of the Company.

HAN Jianhong (韓建紅)

aged 44, 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 20 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 47, 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 25 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 45, 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 22 years of experience in the chemical manufacturing industry. Mr. Rao joined the Group in 2010.

SHEN Kaijun (沈凱軍)

aged 51, 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 47, 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 17 years of experience in the legal field in China.

KONG Liang (孔良)

aged 53, 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 17 years of experience in providing higher education course in business management.

BIOGRAPHIES OF SENIOR MANAGEMENT

CHEN Xian (陳嫻)

aged 44, 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 43, 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 42, 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

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 2018 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 the manufacturing and supplying of ethylene oxide, ethylene glycol, polypropylene and surfactants and the provision of processing services. This report covers the Company and all its subsidiaries.

ENVIRONMENTAL ASPECTS

Emission

The Group has a policy in place to monitor emission reduction vigorously and to the best of knowledge of the Directors, during the year ended 31 December 2018 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. Being a vertical-integrated chemical group, the management of the Group always looks for ways to improve emission reduction and believes any outputs from its production processes can be reused/recycled in a certain extent as inputs in other production processes.

During the year under review, the Group adjusted the production capacities for certain production facilities which led to some fluctuation in emissions. The Group has been implementing certain test-run fine-tuning programs for the purpose of reusing certain heats/gas generated during the production processes since 2015.

Key performance indicators	2018	2017
Compliance rate for wastewater discharge (%)	**100.0**	100.0
Change in industrial water consumption (%)	**9.8**	−9.6
Change in COD in wastewater (%)	**−24.2**	6.1
Change in SO2 emission (%)	**0.0**	0.0
Change in nitrogen oxides emission (%)	**−57.5**	65.5
Change in ammoniac nitrogen emission (%)	**−24.2**	6.1
Investment in environmental protection (RMB million)	**26.9**	20.1

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 an increase in the 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 as well as exploring ways to use low pressure steam to replace high pressure steam for the chemical reactions of other facilities and for certain production processes respectively 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 since 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 of knowledge of the Directors, during the year ended 31 December 2018 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 retain 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	2018	2017
Total number of employees	**1,076**	1,049
Total number of male employees	**923**	890
Total number of female employees	**153**	159
Total number of employees	**1,076**	1,049
Total number of full-time employees	**1,076**	1,049
Total number of part-time employees	**0**	0
Total number of employees	**1,076**	1,049
Within the age group of 18–35	**724**	746
Within the age group of 36–55	**336**	292
Within the age group of >55	**16**	11
Turnover rate of employees	**13.9%**	12.0%
Turnover rate of male employees	**13.7%**	12.5%
Turnover rate of female employees	**15.7%**	9.4%
Turnover rate of employees	**13.9%**	12.0%
Within the age group of 18–35	**16.4%**	14.9%
Within the age group of 36–55	**8.6%**	4.5%
Within the age group of >55	**12.5%**	18.2%

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 of knowledge of the Directors, during the year ended 31 December 2018 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 as its 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.

Since 2016, the Group has 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 staff with outstanding performance would be rewarded, while departments and staff with poor performance would be penalised. Besides, in order to raise the health awareness of all employees, the Group has also launched an annual health check-up programme since 2013, in which the Group provides additional day-off and full medical subsidies to ensure all employees can have a thorough health check-up in hospital each year.

Key performance indicators	2018	2017
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 the 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	2018	2017
Total number of employees received training	**1,076**	1,049
Total number of male employees received training	**923**	890
Total number of female employees received training	**153**	159
Total number of senior management received training	**14**	16
Total number of middle management received training	**55**	51
Total number of the rest of staffs received training	**1,007**	982
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 of knowledge of the Directors, during the year ended 31 December 2018 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 resources 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 candidates 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 of the Group. 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 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	**2018**	2017
Number of suppliers (i.e. major suppliers with annual procurement amount of more than RMB1 million) in PRC	**188**	160
Number of suppliers (i.e. major suppliers with annual procurement amount of more than RMB1 million) Overseas	**20**	24

Product Responsibility

The Group has a policy regarding product responsibility in place to cover issues like product safety, advertising, labeling etc. To the best of knowledge of the Directors, during the year ended 31 December 2018 and up to the date of this report, the Directors are not aware of any non-compliance with relevant laws and regulations relating to product safety, advertising, labeling and privacy matters regarding products and services provided and methods of redress.

Being a vertical-integrated chemical group, the Group's major products like ethylene oxide, 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 the company's 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 of knowledge of the Directors, during the year ended 31 December 2018 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 since 2013. 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

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 2018 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

Independent non-executive Directors:

Mr. Shen Kaijun
Ms. Pei Yu
Mr. Kong Liang

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 2018 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 2018 and the annual results of the Group for the year ended 31 December 2018, 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 2018 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 2018.

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 and the diversity of the board and setting out the objectives and monitoring the achievement of the board diversity policy on a regular basis and as required.

During the year ended 31 December 2018 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 2018 and up to the date of this annual report is set out below:

	Meetings attended/held			
	Board	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors				
Mr. Guan Jianzhong *(Chairman)*	9/9*	N/A	1/1	2/2
Ms. Han Jianhong	9/9*	N/A	N/A	N/A
Mr. Han Jianping	4/9*	N/A	N/A	N/A
Mr. Rao Huotao	4/9*	N/A	N/A	N/A
Independent Non-Executive Directors				
Mr. Shen Kaijun	4/9*	2/2	N/A	2/2
Ms. Pei Yu	4/9*	2/2	1/1	2/2
Mr. Kong Liang	4/9*	2/2	1/1	N/A

* Out of the 9 board meetings, 5 were held specifically to discuss the Company's finance and administrative matters in Hong Kong instead of the operations of the Group as a whole and Executive Directors responsible for other businesses of the Group and Independent Non-Executive Directors were invited to join on a voluntary basis.

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 2018 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 2018, the professional fees paid or payable to the independent auditors, Ernst & Young, for services rendered are set out below:

	RMB'000
Annual audit service	1,880
Tax service	400

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 2018.

DIRECTORS' RESPONSIBILITY ON THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2018, 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 41 of this annual report.

NON-COMPETITION UNDERTAKINGS

The Company has received a 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 2018 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.

OTHER INFORMATION

UPDATE ON USAGE OF FUNDING IN RELATION OF THE PLACING IN 2017

The information in relation to the placing of new shares under the general mandate, which was completed on 17 October 2017, was disclosed as follows:

Intended use of net proceeds as disclosed in the announcement of the Company dated 17 October 2017:	Actual use of the net proceeds up to 31 December 2017, 30 June 2018 and 31 December 2018 respectively	Unutilized amount of net proceeds as at 31 December 2017, 30 June 2018 and 31 December 2018 respectively, intended use of such unutilized net proceeds and expected timeline
Approximately HK$435 million (equivalent to approximately RMB367.7 million), intended to be applied in the following manner:	— During the period from 17 October 2017 to 31 December 2017: approximately RMB194.9 million — During the period from 1 January 2018 to 30 June 2018: approximately RMB81.4 million — During the period from 1 July 2018 to 31 December 2018: approximately RMB91.4 million	— As at 31 December 2017: approximately RMB172.8 million — As at 30 June 2018: approximately RMB91.4 million — As at 31 December 2018: Nil — Intended use of such unutilized net proceeds: No change in the intended use of net proceeds — Expected timeline: Before or around 30 June 2019

Intended use of net proceeds as disclosed in the announcement of the Company dated 17 October 2017:	Actual use of the net proceeds up to 31 December 2017, 30 June 2018 and 31 December 2018 respectively	Unutilized amount of net proceeds as at 31 December 2017, 30 June 2018 and 31 December 2018 respectively, intended use of such unutilized net proceeds and expected timeline
(i) approximately RMB100 million for fine-tuning the production of the 5th Phase EO/EG production facilities;	— During the period from 17 October 2017 to 31 December 2017: approximately RMB53.6 million — During the period from 1 January 2018 to 30 June 2018: Nil — During the period from 1 July 2018 to 31 December 2018: approximately RMB46.4 million	— As at 31 December 2017: approximately RMB46.4 million — As at 30 June 2018: approximately RMB46.4 million — As at 31 December 2018: Nil — Intended use of such unutilized net proceeds: No change in the intended use of net proceeds — Expected timeline: Before or around 30 June 2019
(ii) approximately RMB160 million for the construction of another polypropylene production facility;	— During the period from 17 October 2017 to 31 December 2017: approximately RMB33.6 million — During the period from 1 January 2018 to 30 June 2018: approximately RMB81.4 million — During the period from 1 July 2018 to 31 December 2018: approximately RMB45 million	— As at 31 December 2017: approximately RMB126.4 million — As at 30 June 2018: approximately RMB45 million — As at 31 December 2018: Nil — Intended use of such unutilized net proceeds: No change in the intended use of net proceeds — Expected timeline: Before or around 30 June 2019
(iii) remaining balance as general working capital of the Group	— During the period from 17 October 2017 to 31 December 2017: all remaining balance has been used as general working capital of the Group	— As at 31 December 2017: Nil — As at 30 June 2018: Nil — As at 31 December 2018: Nil

The proceeds from the placing of new shares were used and expected to be used according to the intentions previously disclosed in the announcement dated 17 October 2017.

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 Monday, 20 May 2019 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 2018.

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, polypropylene and surfactants and the provision of processing services. 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 2018 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 46 to 154 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 155 of this annual report.

DIVIDENDS

The Board recommends the payment of a final dividend of HK10.0 cents per share in respect of the year, together with the distribution of interim dividend of HK10.0 cents per share, representing a dividend payout ratio of approximately 50% for the year ended 31 December 2018.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 14 May 2019 to Monday, 20 May 2019, both days inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at the AGM. In order to qualify for the right to attend and vote at the forthcoming AGM, all transfers documents accompanied by the relevant share certificates must be lodged with the Company's 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, 10 May 2019. In addition, the register of members of the Company will be closed from Monday, 27 May 2019 to Tuesday, 28 May 2019, 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 Friday, 24 May 2019.

RESERVES

Profit attributable to equity shareholders, (before dividends, if any) of RMB398,915,000 (2017: RMB690,793,000) 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 2018.

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 2018 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

Independent non-executive Directors:

Mr. Shen Kaijun
Ms. Pei Yu
Mr. Kong Liang

Details of the Directors' biographies are set out on pages 10 and 11 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, Ms. Pei Yu and Mr. Kong Liang shall retire from office by rotation at the AGM and, being eligible, offer themselves for re-election as Directors at the AGM.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors namely, Mr. Guan Jianzhong, Ms. Han Jianhong, Mr. 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 section headed "**Connected Transactions/Continuing Connected Transactions**" in this report and note 36 (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 2018, 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)	41.89%
	Beneficial owner	Long position	990,000	0.08%
Han Jianhong ("**Ms. Han**")	Interests of spouse	Long position	499,441,000 (Note)	41.97%

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 2018.

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

As at 31 December 2018, 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 of Directors	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)	41.89%

Note: 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 2018.

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:

	2018	2017
As a percentage of the Group's total sales		
The largest customer	**8.77%**	12.17%
Five largest customers in aggregate	**25.69%**	36.51%
As a percentage of Group's total purchases		
The largest supplier	**10.56%**	13.00%
Five largest suppliers in aggregate	**37.12%**	38.90%

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 2018.

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 119,000,000, representing approximately 10.00% of the issued share capital of the Company as at the date of this annual report. The maximum number of Shares issuable upon exercise of the options which may be granted under the Share Option Scheme and any other share option scheme of the Group (including both exercised and outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being. Any further grant of share options in excess of this limit is subject to Shareholders' approval in a general meeting.

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

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

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

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

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

(iii) the nominal value of the Shares.

Since the Adoption Date and up to 31 December 2018, no share option has been granted by the Company.

CONTRACT OF SIGNIFICANCE

Save as disclosed in the section headed "**Connected Transactions/Continuing Connected Transactions**" in this annual report and note 36 (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

Save as disclosed in the section headed "**Connected Transactions/Continuing Connected Transactions**" in this annual report and note 36 (Related Party Transactions) to the financial statements, 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.

CONNECTED TRANSACTIONS/CONTINUING CONNECTED TRANSACTIONS

The following related party transactions entered into during the year ended 31 December 2018 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. Sanjiang Water and Miscellaneous Materials Supply Agreement

Pursuant to the desalinated water and miscellaneous materials supply agreements entered into by Sanjiang Chemical Co., Ltd. ("**Sanjiang Chemical**") 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 24 January 2018, Jiahua Energy Chemical Co has agreed to supply desalinated water and miscellaneous materials such as sodium hydroxide and sodium hypochlorite to Sanjiang Chemical at market price for an aggregate term commencing from 24 January 2018 and expiring on 31 December 2020. Relevant details of the agreements and the transactions contemplated thereunder are set out in the announcement dated 24 January 2018.

Sanjiang Chemical is 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. Sanjiang Steam Purchase Agreement

Pursuant to the steam purchase agreement entered into by Sanjiang Chemical with Jiahua Energy Chemical Co on 23 January 2018, Jiahua Energy Chemical Co agreed to supply steam to Sanjiang Chemical at market price for a term commencing from 23 January 2018 and expiring on 31 December 2020. Relevant details of the agreement and the transaction contemplated thereunder are set out in the announcement dated 23 January 2018 and in the circular dated 19 April 2019.

3. Sanjiang New Material Water and Miscellaneous Materials Supply Agreement

Pursuant to the desalinated water and miscellaneous materials supply agreements entered into by Zhejiang Sanjiang Chemical New Material Co., Ltd.* (浙江三江化工新材料有限公司) ("**Sanjiang New Material**") 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 24 January 2018, Jiahua Energy Chemical Co has agreed to supply desalinated water and miscellaneous materials such as sodium hydroxide and sodium hypochlorite to Sanjiang Chemical at market price for an aggregate term commencing from 24 January 2018 and expiring on 31 December 2020. Relevant details of the agreements and the transactions contemplated thereunder are set out in the announcement dated 24 January 2018.

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.

4. Sanjiang New Material Steam Purchase Agreement

Pursuant to the steam purchase agreement entered into by Sanjiang New Material with Jiahua Energy Chemical Co on 23 January 2018, Jiahua Energy Chemical Co agreed to supply steam to Sanjiang New Material at market price for a term commencing from 23 January 2018 and expiring on 31 December 2020. Relevant details of the agreement and the transaction contemplated thereunder are set out in the announcement dated 23 January 2018 and in the circular dated 19 April 2019.

5. **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.

6. **Xing Xing Steam Purchase Agreement**

Pursuant to the desalinated water and miscellaneous materials supply agreements entered into by Zhejiang Xingxing New Energy Technology Co., Ltd.* (浙江興興新能源科技有限公司) ("**Xing Xing**") 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 1 January 2018, Jiahua Energy Chemical Co has agreed to supply steam to Xing Xing at market price for an aggregate term commencing from 1 January 2018 and expiring on 31 December 2020. Relevant details of the agreements and the transactions contemplated thereunder are set set out in the announcement dated 1 January 2018 and in the circular dated 19 April 2019.

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 77.5% by the Company, 9.5% by Jiahua Energy Chemical Co. and 13% by Independent Third Parties.

7. **Xing Xing Water and Miscellaneous Materials Supply Agreement**

Pursuant to the desalinated water and miscellaneous materials supply agreements entered into by Xing Xing with Zhejiang Jiahua Energy Chemical Co., Ltd.* on 24 January 2018, Jiahua Energy Chemical Co has agreed to supply desalinated water and miscellaneous materials such as sodium hydroxide and sodium hypochlorite to Xing Xing at market price for an aggregate term commencing from 24 January 2018 and expiring on 31 December 2020. Relevant details of the agreements and the transactions contemplated thereunder are set out in the announcement dated 24 January 2018.

8. **Xing Xing Condensate Water Purchase Agreement**

Pursuant to the condensate water purchase agreement entered into by Xing Xing with Jiahua Energy Chemical Co on 24 January 2018, Xing Xing agreed to supply condensate water to Jiahua Energy Chemical Co at a price at the weighted average of those obtained by Jiahua Energy Chemical Co from its independent suppliers for the relevant product of comparable quality during the same month of supply for a term commencing from 24 January 2018 and expiring on 31 December 2020. Relevant details of the agreement and the transaction contemplated thereunder are set out in the announcement dated 24 January 2018.

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**"), a wholly-owned subsidiary of Jiahua Energy Chemical Co., Ltd., on 9 January 2018, Mei Fu Port agreed to provide port loading, unloading and storage service to Sanjiang Chemical at market price for a term commencing from 9 January 2018 and expiring on 31 December 2020. Relevant details of the agreement and the transaction contemplated thereunder are set out in the announcements dated 9 January 2018.

10. Sanjiang New Material Port Loading and Service Agreement

Pursuant to the port loading and service agreement entered into by Sanjiang New Material with Mei Fu Port on 9 January 2018, Mei Fu Port agreed to provide port loading, unloading and storage service to Sanjiang New Material at market price for a term commencing from 9 January 2018 and expiring on 31 December 2020. Relevant details of the agreement and the transaction contemplated thereunder are set out in the announcements dated 9 January 2018.

11. 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 9 January 2018, Mei Fu Port agreed to provide port loading, unloading and storage service to Xing Xing at market price for a term commencing from 9 January 2018 and expiring on 31 December 2020. Relevant details of the agreement and the transaction contemplated thereunder are set out in the announcements dated 9 January 2018.

12. Fatty Alcohol Supply Agreement

Pursuant to the fatty alcohol supply agreement entered into by Sanjiang Chemical with Jiahua Energy Chemical Co on 1 January 2018, Jiahua Energy Chemical Co agreed to supply fatty alcohol of no more than 8,000 tonnes per year to Sanjiang Chemical on an ongoing basis at market price for a term commencing from 1 January 2018 and expiring on 31 December 2020. Relevant details of the agreement and the transaction contemplated thereunder are set out in the announcement dated 1 January 2018.

13. 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.

14. 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.

15. 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.

16. 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.

17. Sanjiang Chemical Condensate Water Purchase Agreement

Pursuant to the condensate water purchase agreement entered into by Sanjiang Chemical with Jiahua Energy Chemical Co on 1 January 2018, Sanjiang Chemical agreed to supply condensate water to Jiahua Energy Chemical Co at a price at the weighted average of those obtained by Jiahua Energy Chemical Co from its independent suppliers for the relevant product of comparable quality during the same month of supply for a term commencing from 1 January 2018 and expiring on 31 December 2020. Relevant details of the agreement and the transaction contemplated thereunder are set out in the announcement dated 1 January 2018.

18. MIXED C-4 PURCHASE AGREEMENT

Pursuant to the mixed C-4 purchase agreement entered into by Sanjiang Chemical with Xing Xing on 10 July 2017, Xing Xing agreed to supply mixed C-4 to Sanjiang Chemical in accordance with a pricing formula which is regarded as an approximation of market price for a term commencing from 1 August 2017 and expiring on 31 July 2020. Relevant details of the agreement and the transaction contemplated thereunder are set out in the circular dated 11 August 2017.

19. MANAGEMENT AGREEMENT

Pursuant to the management agreement entered into between the Company, Capitol International (a wholly-owned subsidiary of the Company) and Grand Novel Developments Limited ("**Grand Novel**") on 6 November 2017, Grand Novel agreed to act as a manager of the Company for a term commencing from 6 November 2017 and expiring on 31 October 2020. Relevant details of the agreement and the transaction contemplated thereunder are set out in the announcement dated 6 November 2017.

20. FRAMEWORK AGREEMENT

Pursuant to the framework agreement entered into between the Company and Jiaxing Gangqu Gangan Industrial Equipment Installing Co., Ltd ("**Gangan Industrial**") on 1 August 2017, Gangan Industrial agreed to provide repair and maintenance services in respect of chemical plant and machineries for the Group for a term commencing from 1 August 2017 and expiring on 31 July 2020. Relevant details of the agreement and the transaction contemplated thereunder are set out in the announcement dated 1 August 2017.

21. 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.

22. Sanjiang Nitrogen Supply Agreement

Pursuant to the nitrogen supply agreement entered into by Sanjiang Chemical with Jiahua Energy Chemical Co on 31 March 2018, Sanjiang Chemical agreed to supply nitrogen to Jiahua Energy Chemical Co at market price for a term commencing from 1 April 2018 to 31 December 2018. Relevant details of the agreement and the transaction contemplated thereunder are set out in the announcement dated 31 March 2018.

23. Xing Xing Energy Management Agreement

Pursuant to the energy management agreement entered into by Xing Xing with Jiahua Energy Chemical Co on 29 June 2018, Jiahua Energy Chemical Co. has agreed to modify the drive motors of the circulation pumps of Xing Xing from using electricity-driven basis to steam-driven basis and Jiahua Energy Chemical Co. has also agreed to provide the necessary steam that would be used in those modified drive motors of the circulation pumps and in return, Xing Xing has agreed to supply condensate water (i.e. condensate water is generated during the course of steam usage) to Jiahua Energy Chemical Co. and Xing Xing has also agreed to pay Jiahua Energy Chemical Co. the energy saving costs on an agreed profit sharing basis for a term of commencing from 29 June 2018 to 31 December 2018. Relevant details of the agreement and the transaction contemplated thereunder are set out in the announcement dated 29 June 2018.

24. Sanjiang New Material Energy Management Agreement

Pursuant to the energy management agreement entered into by Sanjiang New Material with Jiahua Energy Chemical Co on 29 June 2018, Jiahua Energy Chemical Co. has agreed to modify the drive motors of the circulation pumps of Sanjiang New Material from using electricity-driven basis to steam-driven basis and Jiahua Energy Chemical Co. has also agreed to provide the necessary steam that would be used in those modified drive motors of the circulation pumps and in return, Sanjiang New Material has agreed to supply condensate water (i.e. condensate water is generated during the course of steam usage) to Jiahua Energy Chemical Co. and Sanjiang New Material has also agreed to pay Jiahua Energy Chemical Co. the energy saving costs on an agreed profit sharing basis for a term of commencing from 29 June 2018 to 31 December 2018. Relevant details of the agreement and the transaction contemplated thereunder are set out in the announcement dated 29 June 2018.

The actual amount of the transactions and approved annual caps for the above mentioned continuing connected transactions during the year ended 31 December 2018 are as follows:

	Nature of transaction	Actual transaction amount RMB	Annual Cap amount RMB	Annual Cap period
1.	Sanjiang Water and Miscellaneous Materials Supply Agreement	1,044,000	1,600,000	2018/1/24–2018/12/31
2.	Sanjiang Steam Purchase Agreement	117,939,000	118,000,000	2018/1/23–2018/12/31
3.	Sanjiang New Material Water and Miscellaneous Materials Supply Agreement	3,835,000	5,300,000	2018/1/24–2018/12/31
4.	Sanjiang New Material Steam Purchase Agreement	88,642,000	90,000,000	2018/1/23–2018/12/31
5.	Rewang Low Pressure Steam Supply Agreement	16,940,000	25,900,000	2018/1/1–2018/12/31
6.	Xing Xing Steam Purchase Agreement	138,734,000	246,300,000	2018/1/1–2018/12/31
7.	Xing Xing Water and Miscellaneous Materials Supply Agreement	6,697,000	19,100,000	2018/1/24–2018/12/31
8.	Xing Xing Condensate Water Purchase Agreement	1,259,000	4,200,000	2018/1/24–2018/12/31
9.	Sanjiang Chemical Port Loading and Service Agreement	4,625,000	5,000,000	2018/1/1–2018/12/31
10.	Sanjiang New Material Chemical Port Loading and Service Agreement	2,968,000	3,500,000	2018/1/1–2018/12/31
11.	Xing Xing Port Loading and Service Agreement	52,601,000	70,000,000	2018/1/1–2018/12/31
12.	Fatty Alcohol Supply Agreement	99,734,000	114,200,000	2018/1/1–2018/12/31
13.	Sanjiang Chemical Methanol Agency Agreement	6,725,000	8,400,000	2017/9/1–2018/8/31
14.	Ethylene Supply Agreement	2,030,774,000	2,736,600,000	2017/10/1–2018/9/30
15.	Nitrogen Supply Agreement	42,378,000	65,200,000	2017/10/1–2018/9/30
16.	Mei Fu Petrochemical Loan and Guarantee Agreement	713,078,000	1,792,310,000	2017/9/1–2018/8/31
16.	Mei Fu Petrochemical Loan and Guarantee Agreement	Cap period not yet finished	1,171,160,000	2018/9/1–2019/8/31
17.	Sanjiang Chemical Condensate Water Purchase Agreement	2,962,000	3,000,000	2018/1/1–2020/12/31
18.	Mixed C-4 Purchase Agreement	253,085,000	423,000,000	2017/8/1–2018/7/31
18.	Mixed C-4 Purchase Agreement	Cap period not yet finished	470,000,000	2018/8/1–2019/7/31

Nature of transaction		Actual transaction amount RMB	Annual Cap amount RMB	Annual Cap period
19.	Management Agreement	21,038,000	50,000,000	2017/11/1–2018/10/31
19.	Management Agreement	Cap period not yet finished	50,000,000	2018/11/1–2019/10/31
20.	Framework Agreement	18,464,000	30,000,000	2017/8/1–2018/7/31
20.	Framework Agreement	Cap period not yet finished	30,000,000	2018/8/1–2019/7/31
21.	C-4 Supply Agreement	—	119,700,000	2017/10/1–2018/9/30
22.	Sanjiang Nitrogen Supply Agreement	7,462,000	13,000,000	2018/3/31–2018/12/31
23.	Xing Xing Energy Management Agreement	692,000	8,900,000	2018/6/29–2018/12/31
24.	Sanjiang New Material Energy Management Agreement	12,272,000	18,300,000	2018/6/29–2018/12/31

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 2018 with their respective annual caps corresponding to annual cap periods ending after 31 December 2018.

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 2018 with the respective annual cap periods ended before 31 December 2018. For those Transactions with Non-aligned Cap Periods that continue after 31 December 2018, 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 2018.

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 2018, 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 2018 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.

The following related party transaction entered into during the year ended 31 December 2018 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. Emission Permission Quota Purchase Agreement

Pursuant to the emission permission quota purchase agreement entered into by Sanjiang Chemical with Jiahua Energy Chemical Co. on 5 December 2018, Jiahua Energy Chemical Co. has agreed to transfer the Emission Permission Quota to Sanjiang Chemical at a consideration of not more than RMB4 million. Relevant details of the agreement and the transaction contemplated thereunder are set out in the announcement dated 5 December 2018.

The Company confirms that the related party transactions as disclosed in pages 134 to 139 of the Annual Report have complied with Rule 14A.72 such that the connected transactions and/or continuing connected transactions which did not fall under the de minimis transactions exemption were all stated and listed out in pages 32 to 39 of the Annual Report. Those connected transactions and/or continuing connected transactions which did fall under the de minimis transactions exemption were, on the other hand, fully exempt under Rule 14A.76 of the Listing Rules.

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.

PERMITTED INDEMNITY PROVISIONS

During the year ended 31 December 2018, the Company has purchased liability insurance for all directors to minimise their risks arising from the performance of their duties. The permitted indemnity provisions are provided in such directors liability insurance in respect of potential liability and costs associated with legal proceedings that may be brought against such directors

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, 25 March 2019

Independent auditor's 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 46 to 154 which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, 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 MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of long-lived assets The carrying amount of the net assets of the Group was higher than the market capitalisation of the Company as at 31 December 2018, which represented an indication of impairment of long-lived assets. For this reason, the Group performed an impairment test of the various cash-generating units ("CGUs"). The impairment test was significant to our audit, since the estimation process was complex and subjective and based on assumptions. The assumptions included expectations for sales, unit selling prices of products, unit purchase prices of raw materials, budgeted gross margins 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 discount rates, the terminal growth rates and the valuation model used in the forecasted cash flows.
Provision for inventories As at 31 December 2018, the inventory balance was RMB1,164,328,000. The Group's inventories, comprising majority raw materials and finished goods, are carried at the lower of costs and net realisable value which requires management significant estimation of the net realisable value of the inventories based on future usage and sales, market selling prices and judgements in determining the appropriate level of inventory provisions against identified items. The Group's disclosures about the inventories and provision are included in notes 2.4, 3 and 17 to the financial statements, which specifically explain the accounting policies and management's estimates.	We evaluated management's assessment of the inventories provisions by reviewing the analyses of the ageing of the inventories and assessing actual and forecast usage or sale of inventories. We attended physical inventory counts on a sample basis to ascertain the condition of the inventories. We also evaluated the key assumptions used to determine the net realisable value of inventories and recalculated the expected provisions based on the key assumptions to ensure the mathematical accuracy of the calculation.

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.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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
Hong Kong
25 March 2019

Consolidated Statement of Profit or Loss

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
REVENUE	5	**9,585,859**	8,897,143
Cost of sales		**(8,589,735)**	(7,811,868)
Gross profit		**996,124**	1,085,275
Other income and gains	5	**865,867**	886,509
Selling and distribution expenses		**(25,515)**	(25,801)
Administrative expenses		**(326,948)**	(259,998)
Impairment losses on financial assets	7	**(5,966)**	—
Loss on disposal of financial assets		**(870)**	—
Other expenses	5	**(945,144)**	(783,053)
Interest expenses	6	**(167,773)**	(159,086)
PROFIT BEFORE TAX	7	**389,775**	743,846
Income tax expense	10	**(88,583)**	(120,709)
PROFIT FOR THE YEAR		**301,192**	623,137
Attributable to:			
Owners of the parent		**398,915**	690,793
Non-controlling interests		**(97,723)**	(67,656)
		301,192	623,137
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	11		
Basic		**RMB38.89 fen**	RMB67.30 fen
Diluted		**RMB38.87 fen**	RMB67.19 fen

Consolidated Statement of Comprehensive Income

Year ended 31 December 2018

	2018 RMB'000	2017 RMB'000
PROFIT FOR THE YEAR	**301,192**	623,137
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Changes in fair value	**–**	2,005
Reclassification adjustments for losses included in the consolidated statement of profit or loss	**–**	899
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	**–**	2,904
Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods:		
Equity investments designated at fair value through other comprehensive income	**(665)**	–
Net other comprehensive loss that will not be reclassified to profit or loss in subsequent periods	**(665)**	–
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	**(665)**	2,904
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**300,527**	626,041
Attributable to:		
Owners of the parent	**398,250**	693,697
Non-controlling interests	**(97,723)**	(67,656)
	300,527	626,041

Consolidated Statement of Financial Position

31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	**5,239,614**	5,525,528
Prepaid land lease payments	13	**329,958**	366,297
Intangible assets	14	**173,486**	197,723
Advance payments for property, plant and equipment		**221,921**	17,866
Equity investments designated at fair value through other comprehensive income	16	**3,114**	—
Available-for-sale investments	16	**—**	1,000
Due from related parties	36(c)	**—**	99,697
Deferred tax assets	26	**11,629**	8,316
Total non-current assets		**5,979,722**	6,216,427
CURRENT ASSETS			
Inventories	17	**1,164,328**	1,007,914
Trade and notes receivables	18	**522,701**	347,926
Prepayments, other receivables and other assets	19	**256,114**	291,931
Due from related parties	36(c)	**6,092**	221,229
Derivative financial instruments	23	**736**	19,651
Financial assets at fair value through profit or loss	15	**339,881**	—
Available-for-sale investments	15	**—**	235,962
Pledged deposits	20	**659,000**	50,000
Cash and cash equivalents	20	**453,556**	273,678
Total current assets		**3,402,408**	2,448,291
CURRENT LIABILITIES			
Trade and bills payables	21	**1,570,214**	1,365,415
Other payables and accruals	22	**798,867**	927,201
Derivative financial instruments	23	**—**	36,646
Interest-bearing bank and other borrowings	24	**3,059,725**	1,753,337
Due to related parties	36(c)	**235,705**	343,066
Tax payable		**110,094**	110,363
Total current liabilities		**5,774,605**	4,536,028
NET CURRENT LIABILITIES	2.1	**2,372,197**	2,087,737
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,607,525**	4,128,690

	Notes	2018 RMB'000	2017 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,607,525**	4,128,690
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	24	**–**	598,262
Deferred tax liabilities	26	**13,150**	13,771
Total non-current liabilities		**13,150**	612,033
Net assets		**3,594,375**	3,516,657
EQUITY			
Equity attributable to owners of the parent			
Issued capital	27	**102,662**	102,662
Reserves	29	**3,501,473**	3,326,032
		3,604,135	3,428,694
Non-controlling interests		**(9,760)**	87,963
Total equity		**3,594,375**	3,516,657

Guan Jianzhong
Director

Han Jianhong
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2018

	Attributable to owners of the parent													
	Issued capital RMB'000	Share premium* RMB'000	Capital redemption reserve* RMB'000	Shares 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	Special reserve* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2017	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
Profit for the year	–	–	–	–	–	–	–	–	–	690,793	–	690,793	(67,656)	623,137
Other comprehensive income for the year:														
Changes in fair value of available-for-sale investments	–	–	–	–	–	2,904	–	–	–	–	–	2,904	–	2,904
Total comprehensive income for the year	–	–	–	–	–	2,904	–	–	–	690,793	–	693,697	(67,656)	626,041
Equity-settled share award plan amortisation	–	–	–	–	–	–	–	1,291	–	–	–	1,291	–	1,291
Reduction in reserve due to shares awarded becoming vested	–	(1,774)	–	4,807	–	–	–	(3,033)	–	–	–	–	–	–
Offset with dividends	–	–	–	2,177	–	–	–	–	–	–	–	2,177	–	2,177
Appropriation to statutory surplus reserve	–	–	–	–	–	–	86,956	–	–	(86,956)	–	–	–	–
Appropriation to safety production reserve	–	–	–	–	–	–	–	–	38,595	(38,595)	–	–	–	–
Safety production reserve used	–	–	–	–	–	–	–	–	(36,285)	36,285	–	–	–	–
Interim 2017 dividend	–	–	–	–	–	–	–	–	–	(189,143)	–	(189,143)	–	(189,143)
Issue of shares	16,614	362,187	–	–	–	–	–	–	–	–	–	378,801	–	378,801
Share issue expenses	–	(11,680)	–	–	–	–	–	–	–	–	–	(11,680)	–	(11,680)
Acquisition of non-controlling interests	–	–	–	–	–	–	–	–	–	–	(10,688)	(10,688)	(9,312)	(20,000)
At 31 December 2017	102,662	1,353,639	2,371	(19,764)	(627,092)	922	433,229	4,520	31,533	2,157,362	(10,688)	3,428,694	87,963	3,516,657

	Attributable to owners of the parent													
	Issued capital RMB'000	Share premium* RMB'000	Capital redemption reserve* RMB'000	Shares 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	Special reserve* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 31 December 2017	102,662	1,353,639	2,371	(19,764)	(627,092)	922	433,229	4,520	31,533	2,157,362	(10,688)	3,428,694	87,963	3,516,657
Effect of adoption of HKFRS 9	–	–	–	–	–	1,857	–	–	–	922	–	2,779	–	2,779
At 1 January 2018 (restated)	102,662	1,353,639	2,371	(19,764)	(627,092)	2,779	433,229	4,520	31,533	2,158,284	(10,688)	3,431,473	87,963	3,519,436
Profit for the year	–	–	–	–	–	–	–	–	–	398,915	–	398,915	(97,723)	301,192
Other comprehensive loss for the year: Changes in fair value of equity investments at fair value through other comprehensive income, net of tax	–	–	–	–	–	(665)	–	–	–	–	–	(665)	–	(665)
Total comprehensive income for the year	–	–	–	–	–	(665)	–	–	–	398,915	–	398,250	(97,723)	300,527
Repurchase of shares for the share award	–	–	–	(4,344)	–	–	–	–	–	–	–	(4,344)	–	(4,344)
Equity-settled share award plan amortisation	–	–	–	–	–	–	–	1,800	–	–	–	1,800	–	1,800
Reduction in reserve due to shares awarded becoming vested	–	(1,328)	–	7,648	–	–	–	(6,320)	–	–	–	–	–	–
Offset with dividends	–	–	–	1,801	–	–	–	–	–	–	–	1,801	–	1,801
Appropriation to statutory surplus reserve	–	–	–	–	–	–	79,857	–	–	(79,857)	–	–	–	–
Appropriation to safety production reserve	–	–	–	–	–	–	–	–	46,046	(46,046)	–	–	–	–
Safety production reserve used	–	–	–	–	–	–	–	–	(44,820)	44,820	–	–	–	–
Interim 2018 dividend	–	–	–	–	–	–	–	–	–	(224,845)	–	(224,845)	–	(224,845)
At 31 December 2018	102,662	1,352,311	2,371	(14,659)	(627,092)	2,114	513,086	–	32,759	2,251,271	(10,688)	3,604,135	(9,760)	3,594,375

* These reserve accounts comprise the consolidated reserves of RMB3,501,473,000 (2017: RMB3,326,032,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**389,775**	743,846
Adjustments for:			
Interest expenses	6	**167,773**	159,086
Bank interest income	5	**(16,108)**	(16,224)
Dividend income from equity investment at fair value through other comprehensive income	5	**(550)**	—
Investment income from financial assets at fair value through profit or loss /available-for-sale investments	5	**(25,352)**	(6,621)
Loss on disposal of financial assets at fair value through profit or loss		**870**	—
Investment (income)/loss from derivative financial instruments	5	**(8,351)**	75,599
Fair value gains:			
Derivative instruments	5	**(1,812)**	31,663
Interest income from related parties	5	**(12,485)**	(56,346)
Foreign exchange differences, net		**(2,290)**	8,120
Depreciation	12	**512,959**	521,787
Gain on disposal of intangible assets	5	**—**	(301)
Loss/(gain) on disposal of items of property, plant and equipment	5	**13**	(4)
Loss on disposal of land use right	5	**842**	—
Amortisation of prepaid land lease payments	13	**8,014**	7,394
Amortisation of intangible assets	14	**27,966**	27,503
Write-down of inventories to net realisable value		**65,601**	6,158
Impairment of trade receivables	7	**5,966**	—
Equity-settled share award plan expense	28	**1,800**	1,291
		1,114,631	1,502,951
Increase in inventories		**(222,015)**	(289,843)
Increase in trade and notes receivables		**(198,083)**	(203,487)
Decrease in prepayments, other receivables and other assets		**36,982**	116,525
Decrease in amounts due from related parties		**19,210**	64,988
Increase/(decrease) in trade and bills payables		**204,799**	(90,897)
Decrease in other payables and accruals		**(19,045)**	(6,092)
Increase/(decrease) in amounts due to related parties		**74,550**	(14,694)
Cash generated from operations		**1,011,029**	1,079,451
Income tax paid		**(92,786)**	(114,144)
Net cash flows from operating activities		**918,243**	965,307

	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	**(545,483)**	(412,944)
Purchases of prepaid land lease payments	**–**	(71,930)
Purchases of intangible assets	**(3,729)**	(35)
Proceeds from disposal of items of property, plant and equipment	**15**	23
Loans to a related party	**(657,395)**	(59,796)
Repayment of loans from related parties	**933,627**	473,460
Purchases of financial assets at fair value through profit or loss/available-for-sale investments	**(330,120)**	(213,653)
Sales of financial assets at fair value through profit or loss/ available-for-sale investments	**250,683**	411,587
Exercise of bullion options and forward	**(35,570)**	29,394
Purchases and sales of futures	**19,651**	(11,747)
Dividend income from equity investment at fair value through other comprehensive income	**550**	–
Bank interest received	**16,166**	17,757
Interest received from a related party	**10,705**	64,512
Disposal of intangible assets	**–**	356
Proceeds from disposal of land use right	**28,061**	–
Proceeds from disposal of a joint venture in prior years	**59,500**	65,119
(Increase)/decrease in pledged time deposits	**(609,000)**	360,273
Investment income/(loss) from sales of derivative financial instruments	**8,351**	(75,599)
Net cash flows (used in)/from investing activities	**(853,988)**	576,777

	Notes	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**—**	367,121
Acquisition of non-controlling interests		**(20,000)**	—
New bank loans		**6,290,080**	1,696,417
Repayment of bank loans		**(5,552,329)**	(2,769,981)
Interest paid for a bank loan		**(158,347)**	(131,556)
Interest paid for loans from related parties		**(3,589)**	(24,688)
Loans from related parties		**—**	180,000
Repayment of loans from related parties		**(182,897)**	(437,599)
Dividends paid		**(224,845)**	(189,143)
Repurchase of shares held for the share award plan		**(4,344)**	—
Repayment of sale and lease back transactions		**(30,396)**	(299,081)
Net cash flows from/(used in) financing activities		**113,333**	(1,608,510)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**177,588**	(66,426)
Cash and cash equivalents at beginning of year		**273,678**	348,224
Effect of foreign exchange rate changes, net		**2,290**	(8,120)
CASH AND CASH EQUIVALENTS AT END OF YEAR	20	**453,556**	273,678

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 located at Pinghai Road, Jiaxing Port Area, Zhejiang Province, People's Republic of China (the "PRC").

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

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

Information about subsidiaries

Particulars of the Company's 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 (ii))	PRC/ Mainland China 9 December 2003	US$306,001,309	100% (indirect)	Manufacture and sale of EO, surfactants, EG, MTBE, polymer grade ethylene, industrial gases, provision of 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

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Particulars of the Company's subsidiaries are as follows: (continued)

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
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 and EG
Zhejiang Xingxing New Energy Technology Co., Ltd. ("Xingxing New Energy") (note (i))	PRC/ Mainland China 19 January 2011	RMB800,000,000	77.5% (indirect)	Manufacture and sale of ethylene and polyethylene
Sanjiang Haojia High Polymer Material Technology Co., Ltd. ("Sanjiang Haojia") (note (i))	PRC/ Mainland China 30 December 2018	US$40,000,000	100% (indirect)	Manufacture and sale of PP

Notes:

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

(ii) The entity is a wholly-foreign-owned enterprise 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 certain equity investments designated at fair value through other comprehensive income, financial assets at fair value through profit or loss (2017: available-for-sale investments), debt instrument at fair value through other comprehensive income and derivative financial instruments which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

2.1 BASIS OF PREPARATION (continued)

Going concern assumption

As at 31 December 2018, the Group's net current liabilities amounted to approximately RMB2,372,197,000 which comprised current assets of approximately RMB3,402,408,000 and current liabilities of approximately RMB5,774,605,000. 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.

As at 31 December 2018, the Group's total borrowings amounted to RMB3,059,725,000, all of which will be due within twelve months from 31 December 2018. 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 2018, the Group had unutilised credit facilities from banks of RMB2,572,423,000 to meet the debt obligations and capital expenditure requirements.

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.

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 2018. 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.

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

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 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014–2016 Cycle	Amendments to HKFRS 1 and HKAS 28

Except for the amendments to HKFRS 4, Amendments to HKAS 40, and *Annual Improvements 2014–2016 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) Amendments to HKFRS 2 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 an employee's tax obligation associated with the share-based payment; and 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 amendments have had no impact on the financial position or performance of the Group as the Group does not have any cash-settled share-based payment transactions and has no share-based payment transactions with net settlement features for withholding tax.

(b) HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(b) (continued)

Classification and measurement

The following information sets out the impacts of adopting HKFRS 9 on the statement of financial position, including the effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("ECLs").

A reconciliation between the carrying amounts under HKAS 39 and the balances reported under HKFRS 9 as at 1 January 2018 is as follows:

		HKAS 39 measurement					HKFRS 9 measurement	
	Notes	Category	Amount RMB'000	Re-classification RMB'000	ECL RMB'000	Others RMB'000	Amount RMB'000	Category
Financial assets								
Equity investments designated at fair value through other comprehensive income		N/A	–	1,000	–	2,779	3,779	FVOCI[1] (equity)
From: Available-for-sale investment	(i)			1,000	–	–		
Available-for-sale investment		AFS[2]	236,962	(236,962)	–	–	–	N/A
To: Equity investments designated at fair value through other comprehensive income	(i)			(1,000)	–	–		
To: Financial assets at fair value through profit or loss	(ii)			(235,962)	–	–		
Financial assets at fair value through profit or loss		FVPL[3]	–	235,962	–	–	235,962	FVPL
From: Available- for-sale investment	(ii)			235,962	–	–		
Debt instrument at fair value through other comprehensive income		N/A	–	294,464	–	–	294,464	FVOCI (debt)
From: Notes receivable	(iii)			294,464	–	–		
Notes receivable		L&R[4]	294,464	(294,464)	–	–	–	N/A
To: Debt instrument at fair value through other comprehensive income	(iii)			(294,464)	–	–		

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(b) (continued)

Classification and measurement (continued)

	Notes	HKAS 39 measurement Category	Amount RMB'000	Re-classification RMB'000	ECL RMB'000	Others RMB'000	HKFRS 9 measurement Amount RMB'000	Category
Trade receivables		L&R	53,462	–	–	–	53,462	AC[5]
Financial assets included in prepayments, other receivables and other assets		L&R	101,618	–	–	–	101,618	AC
Due from related parties		L&R	320,926	–	–	–	320,926	AC
Derivative financial instruments		FVPL	19,651	–	–	–	19,651	FVPL
Pledged deposits		L&R	50,000	–	–	–	50,000	AC
Cash and cash equivalents		L&R	273,678	–	–	–	273,678	AC
			1,350,761	–	–	2,779	1,353,540	
Other assets								
Deferred tax assets			8,316	–	–	–	8,316	
Total assets			1,359,077	–	–	2,779	1,361,856	
Financial liabilities								
Trade and bills payables		AC	1,365,415	–	–	–	1,365,415	AC
Financial liabilities included in other payables and accruals		AC	690,340	–	–	–	690,340	AC
Derivative financial instruments		FVPL	36,646	–	–	–	36,646	FVPL
Interest-bearing bank and other borrowings		AC	2,351,599	–	–	–	2,351,599	AC
Due to related parties		AC	343,066	–	–	–	343,066	AC
			4,787,066	–	–	–	4,787,066	
Other liabilities								
Deferred tax liabilities			13,771	–	–	–	13,771	
Total liabilities			4,800,837	–	–	–	4,800,837	

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(b) (continued)

Classification and measurement (continued)

[1] FVOCI: Financial assets at fair value through other comprehensive income
[2] AFS: Available-for-sale investments
[3] FVPL: Financial assets at fair value through profit or loss
[4] L&R: Loans and receivables
[5] AC: Financial assets or financial liabilities at amortised cost

Notes:

(i) The Group has elected the option to irrevocably designate certain of its previous available-for-sale equity investments as equity investments at fair value through other comprehensive income.

(ii) The Group has classified its unlisted investments previously classified as available-for-sale investments as financial assets measured at fair value through profit or loss as these non-equity investments did not pass the contractual cash flow characteristics test in HKFRS 9.

(iii) The Group has classified its notes receivable previously classified as loans and receivables as financial assets measured at fair value through other comprehensive income as these notes receivable are held within a business model with the objective of both holding to collect contractual cash flows and selling, and the contractual terms of the notes receivable give rise on specified dates to cash flows that are solely payments of principal.

Impairment

The following table reconciles the aggregate opening impairment allowances under HKAS 39 to the ECL allowances under HKFRS 9. Further details are disclosed in note 18 to the financial statements.

	Impairment allowances under HKAS 39 at 31 December 2017 RMB'000	Re-measurement RMB'000	**ECL allowances under HKFRS 9 at 1 January 2018 RMB'000**
Trade receivables	2,583	–	**2,583**

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(b) (continued)

Impact on reserves and retained profits

The impact of transition to HKFRS 9 on reserves and retained profits is as follows:

	Reserves and retained profits RMB'000
Fair value reserve under HKFRS 9 (available-for-sale investment revaluation reserve under HKAS 39)	
Balance as at 31 December 2017 under HKAS 39	922
Reclassification of financial assets from available-for-sale investments to financial assets at fair value through profit or loss	(922)
Remeasurement of equity investments designated at fair value through other comprehensive income previously measured at cost under HKAS 39	2,779
Balance as at 1 January 2018 under HKFRS 9	2,779
Retained profits	
Balance as at 31 December 2017 under HKAS 39	2,157,362
Reclassification of available-for-sale investments to financial assets at fair value through profit or loss	922
Balance as at 1 January 2018 under HKFRS 9	2,158,284

(c) HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. 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 disclosures are included in notes 4 and 5 to the financial statements. As a result of the application of HKFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 2.4 to the financial statements. The adoption of HKFRS 15 has had no significant financial effect on the financial statements except for the effect described below.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(c) (continued)

(i) Consideration received from customers in advance

Before the adoption of HKFRS 15, the Group recognised consideration received from customers in advance as advances from customers. Under HKFRS 15, the amount is classified as contract liabilities which are included in other payables and accruals.

Therefore, upon adoption of HKFRS 15, the Group reclassified RMB90,332,000 from advances from customers to contract liabilities as at 1 January 2018 in relation to the consideration received from customers in advance as at 1 January 2018.

As at 31 December 2018, under HKFRS 15, RMB95,567,000 was reclassified from advance from customers to contract liabilities in relation to the consideration received from customers in advance for the sale of products.

(d) HK(IFRIC)-Int 22 provides guidance on how to determine the date of the transaction when applying HKAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. The interpretation has had no impact on the Group's financial statements as the Group's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities is consistent with the guidance provided in the interpretation.

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 3	*Definition of a Business*[2]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 16	*Leases*[1]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[2]
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015–2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020.

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

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 adoption now.

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 elective 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, or relates to a class of property, plant and equipment to which the revaluation model is applied. 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. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt HKFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balances of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application.

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

The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Group has performed a detailed assessment on the impact of adoption of HKFRS 16. The Group has estimated that right-of-use assets of RMB16,699,000 and lease liabilities of RMB16,699,000 will be recognised at 1 January 2019.

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group will adopt the amendments on 1 January 2019 and will assess its business model for such long-term interests based on the facts and circumstances that exist on 1 January 2019 using the transitional requirements in the amendments. The Group also intends to apply the relief from restating comparative information for prior periods upon adoption of the amendments.

HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group will adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Interests in joint operations

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

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

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

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

Business combinations and goodwill

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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.

Fair value measurement

The Group measures its derivative financial instruments, certain equity investments designated at fair value through other comprehensive income, financial assets at fair value through profit or loss (2017: available-for-sale investments) and debt instrument at fair value through other comprehensive income 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill)

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

Software

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

Technology use rights

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

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 (policies under HKFRS 9 applicable from 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from 1 January 2018)" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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 amortised cost (debt instruments)
The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018) (continued)

Subsequent measurement (continued)

Financial assets at fair value through other comprehensive income (debt instruments)

The Group measures debt investments at fair value through other comprehensive income if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss.

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under HKAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018) (continued)

Subsequent measurement (continued)

Financial assets at fair value through profit or loss (continued)

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. 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.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018)

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 (applicable before 1 January 2018)” below.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018) (continued)

Loans and receivables

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

Available-for-sale financial investments

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

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial assets are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for “Revenue recognition (applicable before 1 January 2018)” 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 (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018)

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018)

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

For debt investments at fair value through other comprehensive income, the Group applies the low credit risk simplification. At each reporting date, the Group evaluates whether the debt investments are considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the external credit ratings of the debt investments. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018) (continued)

General approach (continued)

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs.

Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs.

Stage 3 — Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs.

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables and contract assets that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018)

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018) (continued)

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).

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018) (continued)

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.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

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

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, 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 (policies under HKFRS 9 applicable from 1 January 2018)
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 incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKFRS 9. 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 initial date of recognition, and only if the criteria in HKFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in the statement of profit or loss, except for the gains or losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018) (continued)

Subsequent measurement (continued)

Financial liabilities at fair value through profit or loss (policies under HKAS 39 applicable before 1 January 2018)
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 profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

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

Loans and borrowings

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018) (continued)

Financial guarantee contracts (policies under HKFRS 9 applicable from 1 January 2018)

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 contracts at the higher of: (i) the ECL allowance determined in accordance with the policy as set out in "Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018)"; and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

Financial guarantee contracts (policies under HKAS 39 applicable before 1 January 2018)

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 (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

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 (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

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 (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

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

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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 (applicable from 1 January 2018)

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

(a) Sale of industrial products
Revenue from the sale of industrial products is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the industrial products.

(b) Provision of processing services
Revenue from the provision of processing services is recognised at the point when the services have been rendered to the customer, generally on delivery of the processed products.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (applicable from 1 January 2018) (continued)

Revenue from other sources

Rental income is recognised on a time proportion basis over the lease terms.

Other income

Interest income is recognised 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.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Revenue recognition (applicable before 1 January 2018)

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.

Contract liabilities (applicable from 1 January 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

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. Proposed final dividends are disclosed in note 30 to the financial statements.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

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

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND 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.

Judgement

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") to be 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.

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (continued)

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.

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by customer type and rating).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 18 to the financial statements, respectively.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there is any indicator 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.

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (continued)

Estimation uncertainty (continued)

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 carried at net realisable value as at 31 December 2018 was RMB649,471,000 (2017: RMB189,410,000).

Deferred tax assets

Deferred tax assets are recognised for unused tax losses and other deductible temporary differences 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 2018 was RMB1,079,054,000 (2017: RMB653,452,000). The amount of unrecognised deductible temporary differences at 31 December 2018 was RMB44,045,000 (2017: RMB35,277,000). 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.

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (continued)

Estimation uncertainty (continued)

Fair value of unlisted equity investments

The unlisted equity investments have been valued based on a market-based valuation technique as detailed in note 38 to the financial statements. The valuation requires the Group to determine the comparable public companies (peers) and select the price multiple. In addition, the Group makes estimates about the discount for illiquidity and size differences. The Group classifies the fair value of these investments as Level 3. The fair value of the unlisted equity investments at 31 December 2018 was RMB3,114,000 (2017: RMB1,000,000). Further details are included in note 16 to the financial statements.

Fair value of financial assets at fair value through profit or loss

Certain of the Group's financial assets at fair value through profit or loss had been valued based on the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics. This valuation required the Group to make estimates about expected future cash flows, credit risk, volatility and discount rates, and hence they were subject to uncertainty. The fair value of the investments at 31 December 2018 was RMB339,881,000. Further details are included in note 15 to the financial statements.

Fair value of available-for-sale investments

Before 1 January 2018, certain of the Group's available-for-sale investments had been valued based on the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics. This valuation required the Group to make estimates about expected future cash flows, credit risk, volatility and discount rates, and hence they were subject to uncertainty. The fair value of the available-for-sale investments at 31 December 2017 was RMB235,962,000. Further details are included in note 15 to the financial statements.

Impairment of available-for-sale financial assets

Before 1 January 2018, the Group classified certain assets as available for sale and recognised movements of their fair values in equity. When the fair value declined, management made assumptions about the decline in value to determine whether there was an impairment that should be recognised in the statement of profit or loss. At 31 December 2017, no impairment loss has been recognised for available-for-sale financial assets.

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.

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (continued)

Estimation uncertainty (continued)

Useful lives and residual values of property, plant and equipment (continued)

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 resource allocation and performance assessment.

Information about products and services

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

	2018 RMB'000	2017 RMB'000
EO	**2,821,678**	2,851,373
EG	**2,385,058**	2,186,596
PP	**2,490,258**	645,470
Surfactants	**756,842**	554,627
MTBE	**410,961**	206,716
Liquefied nitrogen, ethylene glycol and others	**340,551**	338,000
C4 and crude pentene	**276,167**	523,762
Processing services	**81,197**	225,962
Propylene	**13,759**	1,356,208
Rental income	**9,388**	8,429
	9,585,859	8,897,143

Geographical information

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

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

Information about a major customer

No revenue (2017: RMB1,082,874,000) from the Group's sales to a single customer amounted to 10% or more of the Group's revenue during the year ended 31 December 2018.

5. REVENUE, OTHER INCOME AND GAINS AND OTHER EXPENSES

An analysis of revenue is as follows:

	2018 RMB'000	2017 RMB'000
Revenue from contracts with customers	**9,576,471**	—
Sale of goods	**—**	8,662,752
Processing services	**—**	225,962
Revenue from other sources		
Rental income	**9,388**	8,429
	9,585,859	8,897,143

Revenue from contracts with customers

(a) Disaggregated revenue information

For the year ended 31 December 2018

Segments	**RMB'000**
Type of goods or services	
Sale of goods	**9,495,274**
Processing services	**81,197**
Total revenue from contracts with customers	**9,576,471**
Timing of revenue recognition	
At a point in time	
Sale of goods	**9,495,274**
Processing services	**81,197**
Total revenue from contracts with customers	**9,576,471**

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

Revenue from contracts with customers (continued)

(b) Contract liabilities

The Group recognised the following revenue-related contract liabilities:

	2018 RMB'000
Advance from customers for sale of goods and processing services*	**95,567**

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

(i) Significant changes in contract liabilities

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

(ii) Revenue recognised in relation to contract liabilities

The following table shows the amounts of revenue recognised in the current year that were included in the contract liabilities at the beginning of the year:

	2018 RMB'000
Sale of goods and processing services	**90,332**

(c) Performance obligations

At 31 December 2018, the remaining performance obligations (unsatisfied or partially unsatisfied) are expected to be recognised within one year. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

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

	Notes	2018 RMB'000	2017 RMB'000
Other income			
Sales of raw materials		**727,136**	645,817
Sales of ethylene		**31,025**	59,667
Investment income from financial assets at fair value through profit or loss		**25,352**	–
Bank interest income		**16,108**	16,224
Interest income from related parties		**12,485**	56,346
Government subsidies	(a)	**11,763**	11,353
Guarantee fee		**9,434**	9,662
Utility income		**6,727**	5,886
Sales of circular water		**5,869**	6,023
Gross rental income		**3,855**	1,775
Dividend income from equity investments at fair value through other comprehensive income		**550**	–
Foreign exchange gain, net		**–**	62,356
Commission fee		**–**	891
Others		**4,847**	2,602
		855,151	878,602
Gains			
Investment income from derivative financial instruments, net		**8,351**	981
Fair value gains from derivative financial instruments		**1,812**	–
Gain on disposal of silver catalysts	(b)	**553**	–
Investment income from available-for-sale investments		**–**	6,621
Gain on disposal of intangible assets		**–**	301
Gain on disposal of items of property, plant and equipment		**–**	4
		10,716	7,907
		865,867	886,509

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

	Note	2018 RMB'000	2017 RMB'000
Other expenses			
Cost of sales of raw materials		**744,901**	598,705
Foreign exchange losses, net		**119,220**	—
Write-down of inventories to net realisable value	(c)	**50,699**	9,423
Cost of sales of ethylene		**29,458**	56,570
Loss on disposal of land use right		**842**	—
Loss on disposal of items of property, plant and equipment		**13**	—
Investment loss from derivative financial instruments		**—**	76,580
Fair value losses on derivative financial instruments, net		**—**	31,663
Loss on disposal of silver catalysts	(b)	**—**	8,915
Others		**11**	1,197
		945,144	783,053

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) Write-down of inventories to net realisable value represents impairment provision for the silver catalysts in inventories caused by the fluctuation in silver price.

6. INTEREST EXPENSES

	2018 RMB'000	2017 RMB'000
Interest on bank loans and other borrowings	**167,773**	159,086

7. PROFIT BEFORE TAX

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

	Notes	2018 RMB'000	2017 RMB'000
Cost of inventories sold		**8,553,706**	7,712,568
Cost of services provided		**33,643**	96,823
Depreciation*	12	**512,959**	521,787
Amortisation of prepaid land lease payments	13	**8,014**	7,394
Amortisation of intangible assets**	14	**27,966**	27,503
Gain on disposal of intangible assets		**—**	301
Write down inventories to net realisable value***		**67,677**	9,423
Impairment of trade receivables		**5,966**	—
Auditor's remuneration		**2,351**	2,267
Minimum lease payments under operating leases		**4,059**	1,414
Employee benefit expense (including directors' remuneration (note 8)):****			
Wages and salaries		**121,377**	152,796
Pension scheme contributions		**6,350**	6,154
Staff welfare expenses		**5,384**	6,589
Equity-settled share award plan expense		**1,800**	1,291
		134,911	166,830

* The depreciation of property, plant and equipment of RMB392,426,000 (2017: RMB482,878,000) for the year is included in "Cost of sales" in the consolidated statement of profit or loss.

** The amortisation of intangible assets of RMB7,537,000 (2017: RMB7,679,000) for the year is included in "Cost of sales" in the consolidated statement of profit or loss.

*** Write down of inventories to net realisable value of RMB16,978,000(2017: nil) for the year 2018 was included in "Cost of sales" in the consolidated statement of profit or loss of 2018.

**** The employee benefit expense of RMB75,836,000 (2017: RMB88,331,000) 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:

	2018 RMB'000	2017 RMB'000
Fees	**315**	312
Other emoluments:		
Salaries, allowances and benefits in kind	**2,490**	2,495
Management fee paid to a related company*	**17,966**	21,038
Equity-settled share award plan expense	**171**	147
Pension scheme contributions	**78**	59
	20,705	23,739
	21,020	24,051

* 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 and a management bonus in such sum as the board of directors (the "Board") may in its absolute discretion determine, provided that the aggregate amount of management bonus payable for each financial year shall not exceed 5 per cent of the audited net profit of the Company (after taxation and non-controlling interests and payment of such bonus but excluding extraordinary and exceptional items) in respect of each financial year.

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.

(a) Independent non-executive directors

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

	2018 RMB'000	2017 RMB'000
Shen Kaijun	**105**	104
Pei Yu	**105**	104
Kong Liang	**105**	104
	315	312

There were no other emoluments payable to the independent non-executive directors during the year (2017: 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
2018					
Guan Jianzhong	**—**	**17,966**	**—**	**—**	**17,966**
Han Jianhong	**1,348**	**—**	**—**	**21**	**1,369**
Rao Huotao	**714**	**—**	**63**	**21**	**798**
Han Jianping	**428**	**—**	**108**	**36**	**572**
	2,490	**17,966**	**171**	**78**	**20,705**
2017					
Guan Jianzhong	—	21,038	—	—	21,038
Han Jianhong	1,313	—	—	22	1,335
Niu Yingshan(1)	126	—	22	5	153
Rao Huotao(2)	618	—	38	16	672
Han Jianping	438	—	87	16	541
	2,495	21,038	147	59	23,739

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.

Notes:

(1) Niu Yingshan resigned as an executive director on 15 March 2017.

(2) Rao Huotao was appointed as an executive director on 15 March 2017.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees included two (2017: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2017: three) non-director highest paid employees for the year are as follows:

	2018 **RMB'000**	2017 RMB'000
Salaries, allowances and benefits in kind	**3,163**	2,592
Equity-settled share award plan expense	**135**	195
Pension scheme contributions	**58**	59
	3,356	2,846

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

	Number of employees	
	2018	2017
HK$1,000,001 to HK$1,500,000	**3**	3

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 employees' 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:

	2018 **RMB'000**	2017 RMB'000
Current — Mainland China		
Charge for the year	**92,517**	138,167
Deferred (note 26)	**(3,934)**	(17,458)
Total tax charge for the year	**88,583**	120,709

10. INCOME TAX (continued)

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% (2017: 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 (2017: 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 2018 (2017: 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 2017 to 2019. Therefore, Sanjiang Honam was subject to corporate income tax at a rate of 15% for the year ended 31 December 2018 (2017: 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 2018 (2017: 15%).

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

10. INCOME TAX (continued)

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

	2018 RMB'000	2017 RMB'000
Profit before tax	**389,775**	743,846
Tax at the statutory tax rate	**97,444**	185,961
Lower tax rates enacted by local authority or in other countries	**(34,060)**	(84,239)
Adjustments in respect of current tax of previous periods	**–**	(12,006)
Additional deduction for research and development activities	**(55,349)**	(46,393)
Expenses not deductible for tax	**10,254**	11,225
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries (note 26)	**5,373**	10,071
Income not subject to tax	**(83)**	–
Tax losses utilised from previous years	**(6,307)**	(1,847)
Temporary differences not recognised	**1,325**	(451)
Tax losses not recognised	**69,986**	58,388
Tax charge at the Group's effective rate	**88,583**	120,709

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

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

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

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

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

	2018 RMB'000	2017 RMB'000
Earnings		
Profit for the year attributable to ordinary equity holders of the parent	**398,915**	690,793

	Number of shares	
	2018 '000	2017 '000
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,025,661**	1,026,452
Effect of dilution — weighted average number of ordinary shares under the share award plan	**506**	1,633
	1,026,167	1,028,085

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 2018						
At 1 January 2018:						
Cost	1,199,973	5,858,889	32,223	13,070	302,949	7,407,104
Accumulated depreciation	(244,287)	(1,612,607)	(15,104)	(9,578)	–	(1,881,576)
Net carrying amount	955,686	4,246,282	17,119	3,492	302,949	5,525,528
At 1 January 2018, net of accumulated depreciation	955,686	4,246,282	17,119	3,492	302,949	5,525,528
Additions	1,755	104,962	213	465	119,678	227,073
Disposals	–	–	–	(28)	–	(28)
Depreciation provided during the year	(59,689)	(448,086)	(4,044)	(1,140)	–	(512,959)
Transfers	19,892	215,704	61	–	(235,657)	–
At 31 December 2018, net of accumulated depreciation	917,644	4,118,862	13,349	2,789	186,970	5,239,614
At 31 December 2018:						
Cost	1,221,620	6,111,606	32,497	13,212	186,970	7,565,905
Accumulated depreciation	(303,976)	(1,992,744)	(19,148)	(10,423)	–	(2,326,291)
Net carrying amount	917,644	4,118,862	13,349	2,789	186,970	5,239,614

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 2017						
At 1 January 2017:						
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
At 1 January 2017, net of accumulated depreciation	943,025	4,575,124	17,623	4,657	222,878	5,763,307
Additions	54,261	26,919	639	85	202,123	284,027
Disposals	—	—	—	(19)	—	(19)
Depreciation provided during the year	(58,232)	(457,822)	(4,502)	(1,231)	—	(521,787)
Transfers	16,632	102,061	3,359	—	(122,052)	—
At 31 December 2017, net of accumulated depreciation	955,686	4,246,282	17,119	3,492	302,949	5,525,528
At 31 December 2017:						
Cost	1,199,973	5,858,889	32,223	13,070	302,949	7,407,104
Accumulated depreciation	(244,287)	(1,612,607)	(15,104)	(9,578)	—	(1,881,576)
Net carrying amount	955,686	4,246,282	17,119	3,492	302,949	5,525,528

As at 31 December 2017, the Group's buildings, plant and machinery of RMB151,458,000 were pledged to secure finance lease payables (note 24(ii)).

13. PREPAID LAND LEASE PAYMENTS

	2018 RMB'000	2017 RMB'000
Carrying amount at beginning of year	**374,707**	308,412
Additions	**—**	73,689
Disposal of land use right	**(28,903)**	—
Recognised during the year	**(8,014)**	(7,394)
Carrying amount at end of year	**337,790**	374,707
Current portion included in prepayments, other receivables and other assets (note 19)	**(7,832)**	(8,410)
Non-current portion	**329,958**	366,297

As at 31 December 2018, the Group's leasehold land of RMB157,920,000 (2017: RMB161,469,000) was pledged to secure bank loan facilities granted to the Group (note 24(i)).

As at 31 December 2018, the Group has obtained legal title for all leasehold land. As at 31 December 2017, the Group has not obtained a legal title for certain leasehold land with a carrying amount of RMB73,230,000.

14. INTANGIBLE ASSETS

	Software RMB'000	Technology use rights RMB'000	Others RMB'000	Total RMB'000
31 December 2018				
Cost at 1 January 2018, net of accumulated amortisation	**463**	**170,019**	**27,241**	**197,723**
Additions	**502**	**2,830**	**397**	**3,729**
Amortisation provided during the year	**(100)**	**(25,279)**	**(2,587)**	**(27,966)**
At 31 December 2018	**865**	**147,570**	**25,051**	**173,486**
At 31 December 2018:				
Cost	**1,289**	**282,537**	**35,232**	**319,058**
Accumulated amortisation	**(424)**	**(134,967)**	**(10,181)**	**(145,572)**
Net carrying amount	**865**	**147,570**	**25,051**	**173,486**

14. INTANGIBLE ASSETS (continued)

	Software RMB'000	Technology use rights RMB'000	Others RMB'000	Total RMB'000
31 December 2017				
Cost at 1 January 2017, net of accumulated amortisation	494	195,108	29,644	225,246
Additions	35	—	—	35
Disposal	—	—	(55)	(55)
Amortisation provided during the year	(66)	(25,089)	(2,348)	(27,503)
At 31 December 2017	463	170,019	27,241	197,723
At 31 December 2017:				
Cost	787	279,707	34,835	315,329
Accumulated amortisation	(324)	(109,688)	(7,594)	(117,606)
Net carrying amount	463	170,019	27,241	197,723

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS/AVAILABLE-FOR-SALE INVESTMENTS

	2018 RMB'000	2017 RMB'000
Financial assets at fair value through profit or loss		
Unlisted investments, at fair value	**339,881**	—
Available-for-sale investments		
Unlisted investments, at fair value	**—**	235,962

The above unlisted investments at 31 December 2018 were wealth management products issued by banks in Mainland China. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

Unlisted investments at 31 December 2017 represent investments in certain financial assets and paper silver issued by licensed financial institutions in the PRC.

During the year 2017, the gain in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to RMB2,005,000. The loss of RMB899,000 in respect of matured investments was reclassified from other comprehensive income to the statement of profit or loss for the year ended 31 December 2017.

As at 31 December 2017, the Group's certain unlisted investments of RMB28,000,000 were pledged for notes payable of RMB93,000,000 (note 21).

16. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE-FOR-SALE INVESTMENTS

	2018 **RMB'000**	2017 RMB'000
Equity investments designated at fair value through other comprehensive income		
Unlisted equity investments, at fair value		
Jiaxing Port Antong Public Pipe Gallery Co., Ltd.	**3,114**	–
Available-for-sale investments		
Unlisted equity investments, at cost	**–**	1,000

The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

During the year ended 31 December 2018, the Group received dividends in the amounts of RMB550,000 from Jiaxing Port Antong Public Pipe Gallery Co., Ltd. ("嘉興港安通公共管廊有限公司").

As at 31 December 2017, certain unlisted equity investments with a carrying amount of 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.

17. INVENTORIES

	2018 **RMB'000**	2017 RMB'000
Raw materials	**1,018,809**	940,244
Finished goods	**145,519**	67,670
	1,164,328	1,007,914

18. TRADE AND NOTES RECEIVABLES

	2018 RMB'000	2017 RMB'000
Trade receivables	**80,878**	56,045
Notes receivable	**450,372**	294,464
	531,250	350,509
Impairment	**(8,549)**	(2,583)
	522,701	347,926

The credit period is generally 15 to 60 days, extending up to three months for certain customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

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

	2018 RMB'000	2017 RMB'000
1 to 30 days	**58,887**	51,610
31 to 60 days	**7,936**	663
61 to 90 days	**4,037**	136
91 to 360 days	**50**	647
Over 360 days	**9,968**	2,989
	80,878	56,045

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

	2018 RMB'000	2017 RMB'000
At beginning of year	**2,583**	2,583
Impairment losses, net recognised (note 7)	**5,966**	—
At end of year	**8,549**	2,583

18. TRADE AND NOTES RECEIVABLES (continued)

Impairment under HKFRS 9 for the year ended 31 December 2018

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by customer type and rating). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2018

	Gross carrying amount RMB'000	Expected credit loss rate	Expected credit losses RMB'000
Trade receivables aged based on the invoice date:			
Less than 1 year	**70,910**	**2.64%**	**1,875**
Between 1 and 2 years	**6,978**	**52.79%**	**3,684**
Over 2 years	**2,990**	**100.00%**	**2,990**
	80,878		**8,549**

Impairment under HKAS 39 for the year ended 31 December 2017

Included in the above provision for impairment of trade receivables, which was measured based on incurred credit losses under HKAS 39, as at 31 December 2017 was a provision for individually impaired trade receivables of RMB2,583,000 with a carrying amount before provision of RMB2,583,000.

The individually impaired trade receivables as at 31 December 2017 related to customers that were in financial difficulties or ceased trading with the Group and none of the receivables is expected to be recovered.

18. TRADE AND NOTES RECEIVABLES (continued)

Impairment under HKAS 39 for the year ended 31 December 2017 (continued)

The ageing analysis of the trade receivables as at 31 December 2017 that were neither individually nor collectively considered to be impaired under HKAS 39 is as follows:

	2017 RMB'000
Neither past due nor impaired	50,203
Less than 30 days past due	2,071
31 to 60 days past due	136
61 to 90 days past due	149
91 to 360 days past due	497
Over 360 days past due	2,989
	56,045

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

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, the directors of the Company were of the opinion that no provision for impairment under HKAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

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

As at 31 December 2018, notes receivable of RMB450,372,000, whose fair values approximate to their carrying values, were classified as financial assets at fair value through other comprehensive income under HKFRS 9. The fair value changes of these notes receivable at fair value through other comprehensive income were insignificant in 2018.

At 31 December 2018, the Group endorsed certain notes receivable accepted by certain banks in the PRC (the "Endorsed Notes") to certain of its suppliers in order to settle the trade and other payables due to such suppliers with a carrying amount in aggregate of RMB1,425,585,000 (2017: RMB664,163,000). In addition, the Group discounted certain notes receivable accepted by certain banks in the PRC (the "Discounted Notes") with a carrying amount in aggregate of RMB753,658,000 (2017: RMB20,000,000). The Endorsed Notes and the Discounted Notes had a maturity from one to twelve months as at 31 December 2018. 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").

18. TRADE AND NOTES RECEIVABLES (continued)

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 RMB1,202,399,000 (2017: RMB529,031,000) and RMB681,627,000 (2017: RMB20,000,000), respectively (the "Derecognised Notes"). Accordingly, it has derecognised the full carrying amounts of the Derecognised Notes and the associated trade and other payables settled by the Endorsed Notes. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Notes and the undiscounted cash flows to repurchase these Derecognised Notes is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Notes are not significant.

The Group continued to recognise the full carrying amount of the remaining Endorsed Notes and the associated trade and other payables settled with an amount of RMB223,186,000 as at 31 December 2018 (2017: RMB135,132,000). The Group recognised the proceeds received from the discount of the remaining Discounted Notes with an amount of RMB72,031,000 as short-term loans at 31 December 2018 (2017: Nil) because the Directors believed that the Group has retained the substantial risks and rewards, which include default risks relating to such remaining Endorsed Notes and Discounted Notes.

As at 31 December 2018, no notes receivable (2017: RMB2,900,000) were pledged to secure the foreign currency options and swap transactions entered into by the Group (note 23).

19. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2018 RMB'000	2017 RMB'000
Deposits and other receivables	**198,212**	100,495
Prepayments	**47,910**	181,879
Prepaid land lease payments (note 13)	**7,832**	8,410
Loans to employees	**1,086**	1,123
Prepaid expenses	**1,074**	24
	256,114	291,931

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

	2018 RMB'000	2017 RMB'000
Cash and bank balances	**453,556**	273,678
Pledged deposits	**659,000**	50,000
	1,112,556	323,678
Less:		
Pledged time deposits:		
Pledged for notes payable (note 21)	**229,000**	50,000
Pledged for letter of credit	**30,000**	—
Pledged for a related party*	**400,000**	—
	659,000	50,000
Cash and cash equivalents	**453,556**	273,678
Denominated in RMB	**427,662**	131,815
Denominated in United States dollars	**23,782**	140,238
Denominated in other currencies	**2,112**	1,625
Cash and cash equivalents	**453,556**	273,678

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to RMB427,662,000 (2017: RMB131,815,000). 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. Pledged short term time deposits are made for periods with a maturity of the underlying notes payable, letter of credit and bank loans of a related party secured by these deposits, 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.

* The Group's time deposits amounting to RMB400,000,000 as at 31 December 2018 (2017: Nil) were pledged for bank loans to Zhejiang Meifu Petrochemical Co., Ltd. ("Mei Fu Petrochemical") amounting to RMB398,500,000.

21. TRADE AND BILLS PAYABLES

	2018 RMB'000	2017 RMB'000
Trade payables	**1,250,214**	1,245,598
Bills payable	**320,000**	119,817
	1,570,214	1,365,415

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

	2018 RMB'000	2017 RMB'000
Within 3 months	**1,449,830**	1,230,755
3 to 6 months	**117,036**	128,253
6 to 12 months	**2,125**	3,110
12 to 24 months	**618**	1,443
24 to 36 months	**154**	1,341
Over 36 months	**451**	513
	1,570,214	1,365,415

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

As at 31 December 2018, the bills payable of RMB320,000,000 were secured by the Group's pledged deposits with a carrying amount of RMB229,000,000 (note 20).

As at 31 December 2017, the bills payable of RMB119,817,000 were secured by the Group's pledged deposits with a carrying amount of RMB50,000,000 (note 20) and unlisted investments with a carrying amount of RMB28,000,000 (note 15).

22. OTHER PAYABLES AND ACCRUALS

	2018 RMB'000	2017 RMB'000
Other payables	**562,289**	686,830
Taxes payable other than income tax	**96,764**	84,695
Contract liabilities	**95,567**	—
Advances from customers	**—**	90,332
Payroll payable	**35,671**	61,834
Interest payable	**8,576**	3,510
	798,867	927,201

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

23. DERIVATIVE FINANCIAL INSTRUMENTS

	2018 Assets RMB'000	2018 Liabilities RMB'000
Forward contracts for silver	**736**	**—**

	2017 Assets RMB'000	2017 Liabilities RMB'000
Futures	19,651	—
Bullion options contracts	—	25
Foreign currency options and swaps	—	36,621
	19,651	36,646

The forward contracts for silver are not designated for hedge purposes and are measured at fair value through profit or loss. Changes in the fair value gain of non-hedging derivative financial instruments amounting to RMB1,812,000 (2017: loss of RMB31,663,000) were charged to the statement of profit or loss during the year.

As at 31 December 2017, the foreign currency options and swaps of RMB2,959,000 were secured by the Group's notes receivable with a carrying amount of RMB2,900,000 (note 18).

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

	Effective interest rate (%)	Maturity	2018 RMB'000	2017 RMB'000
Current				
US$6,859,000				
secured bank loans	3.738–3.788	2019	**47,078**	—
US$17,488,000				
secured bank loans	2.256–3.500	2018	**—**	114,275
Bank loans — secured	2.265	2018	**—**	26,535
Finance lease payables (note 25)	4.750–5.250	2018	**—**	29,625
Bank loans — unsecured	4.568–5.090	2019	**935,098**	—
	4.350–4.620	2018	**—**	554,531
US$25,232,000				
unsecured bank loans	3.942–4.580	2019	**173,169**	—
US$99,675,000				
unsecured bank loans	3.632–4.645	2019	**684,087**	—
US$88,055,000				
unsecured bank loans	1.930	2018	**—**	575,371
Current portion of long-term	4.750–4.900	2019/2018	**598,262**	438,298
Bank loans — secured				
US$2,250,000	5.329	2018	**—**	14,702
			2,437,694	1,753,337
Discounted notes receivable	3.300–4.050	2019/2018	**72,031**	—
Discounted letter of credit	2.225–4.601	2019/2018	**550,000**	—
			3,059,725	1,753,337

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

	Effective interest rate (%)	Maturity	2018 RMB'000	2017 RMB'000
Non-current				
Finance lease payables (note 25)	4.750–5.250	2018	–	–
Bank loans-secured	4.750–4.900	2020	–	–
Bank loans-secured	4.750–4.900	2019	–	598,262
			–	598,262
			3,059,725	2,351,599
Analysed into:				
Bank loans repayable:				
Within one year			**3,059,725**	1,723,712
In the second year			–	598,262
			3,059,725	2,321,974
Other borrowings repayable:				
Within one year			–	29,625
			–	29,625
			3,059,725	2,351,599

Notes:

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

(i) mortgages over the Group's leasehold land, which had an aggregate carrying value at the end of the reporting period of approximately RMB157,920,000 (2017: RMB161,469,000) (note 13); and

(ii) mortgages over the Group's property, plant and equipment, which had an aggregate carrying value amounting to RMB151,458,000 as at 31 December 2017 (note 12).

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

Except for the secured bank loans amounted to RMB47,078,000 (2017: RMB128,977,000) and unsecured bank loans amounted to RMB857,256,000 (2017: RMB575,371,000) which are denominated in United States dollars, all borrowings are in RMB.

Xingxing New Energy entered into a syndicated loan agreement with Industrial and Commercial Bank of China Limited, China Construction Bank Limited and Bank of China Limited in June 2013 in relation to the funding requirement for the construction of the Methanol To Olefins ("MTO") production facility with a total loan amount of RMB1,600,000,000 which was guaranteed by its shareholders, Sanjiang Chemical, holding 77.5% of its equity interest, and Zhejiang Jiahua Group Co., Ltd. ("Jiahua Group"), holding 9.5% of its equity interest, for amounts not exceeding RMB1,200,000,000 and RMB400,000,000, respectively. Xingxing New Energy had used RMB398,262,000 of the facility as at 31 December 2018 (2017: RMB798,262,000) and the facility was also secured by its leasehold land with a carrying value of approximately RMB157,920,000 as at 31 December 2018 (2017: RMB161,469,000) which was included in the amount in note (i) 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 RMB200,000,000 of the facility as at 31 December 2018 (2017: RMB253,000,000).

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 RMB29,625,000 as at 31 December 2017 which was secured by certain of its plant and machinery of RMB151,458,000 which were included in the amount in note (ii) above. The agreement expired in March 2018.

25. FINANCE LEASE PAYABLES

The Group sells and leases back certain of its plant and machinery. These leases were classified as finance leases and already expired in March 2018.

At 31 December 2018, the total future minimum lease payments under finance leases and their present values were as follows:

	Minimum lease payments 2018 HK$'000	Minimum lease payments 2017 HK$'000	**Present value of minimum lease payments 2018 HK$'000**	Present value of minimum lease payments 2017 HK$'000
Amounts payable:				
Within one year	**–**	30,396	**–**	29,625
In the second year	**–**	–	**–**	–
Total minimum finance lease payments	**–**	30,396	**–**	29,625
Future finance charges	**–**	(771)		
Total net finance lease payables	**–**	29,625		
Portion classified as current liabilities (note 24)	**–**	(29,625)		
Non-current portion (note 24)	**–**	–		

As the risks and rewards of the assets remain with the Group, the transaction could be accounted for based on its substance which is a borrowing arrangement, with the assets held as security. Hence, the Group continues to recognise the leased assets at their 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	**Capitalised trial production loss** RMB'000	**Withholding tax on distributable profits** RMB'000	**Total** RMB'000
At 31 December 2016 and 1 January 2017	7,034	—	19,701	26,735
Deferred tax (credited)/ charged to the statement of profit or loss during the year (note 10)	(7,034)	458	(5,930)	(12,506)
At 31 December 2017 and 1 January 2018	**—**	**458**	**13,771**	**14,229**
Deferred tax (credited)/ charged to the statement of profit or loss during the year (note 10)	**306**	**908**	**(927)**	**287**
Gross deferred tax liabilities at 31 December 2018	**306**	**1,366**	**12,844**	**14,516**

26. DEFERRED TAX (continued)

Deferred tax assets

	Fair value change on derivative financial instruments RMB'000	Impairment of assets RMB'000	Government grants RMB'000	Interest income on discounted long-term receivables RMB'000	Capitalised trial production gain RMB'000	Total RMB'000
At 1 January 2017	6	1,627	298	985	906	3,822
Deferred tax credited/ (charged) to the statement of profit or loss during the year (note 10)	4,112	739	(23)	177	(53)	4,952
At 31 December 2017 and 1 January 2018	**4,118**	**2,366**	**275**	**1,162**	**853**	**8,774**
Deferred tax credited/ (charged) to the statement of profit or loss during the year (note 10)	**(4,118)**	**9,577**	**(23)**	**(1,162)**	**(53)**	**4,221**
Gross deferred tax assets at 31 December 2018	**—**	**11,943**	**252**	**—**	**800**	**12,995**

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:

	2018 RMB'000	2017 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	**11,629**	8,316
Net deferred tax liabilities recognised in the consolidated statement of financial position	**13,150**	13,771

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)

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 RMB2,238,274,000 as at 31 December 2018 (2017: RMB1,987,552,000).

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 RMB1,079,054,000 (2017: RMB653,452,000) and deductible temporary differences of RMB44,045,000 (2017: RMB35,277,000) 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 RMB1,079,054,000 (2017: RMB636,920,000) that will expire in one to five years for offsetting against future taxable profits.

The Group has no tax losses arising in Hong Kong as at 31 December 2018 (2017: RMB16,532,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

27. SHARE CAPITAL

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

The issued capital of the Company is as follows:

	Number of shares	**Amount** RMB'000
Issued and fully paid ordinary shares of HK$0.1 each:		
At 31 December 2017 and 1 January 2018	1,190,000,000	102,662
Issue of placing shares	—	—
At 31 December 2018	1,190,000,000	102,662

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 reverted to the Trustee.

The legal and beneficial ownership of the relevant awarded shares shall vest in the relevant selected employee within 10 business days after the later 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 interests 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$0.1 each were granted at nil consideration and the earliest vesting date of the 2011 Awarded Shares was 1 April 2016. There is no other performance target required except that 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 was 1 December 2017. There is no other performance target required except that the eligible participant remains as an employee of the Group during the vesting period. On 1 December 2017, 2,600,000 shares were vested.

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 that 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 2017	5,409,000	6,152,000
Vested	—	(2,600,000)
At 31 December 2017	5,409,000	3,552,000
Exercisable as at 31 December 2017	—	—
At 1 January 2018	5,409,000	3,552,000
Purchased and withheld	1,679,000	—
Vested	—	(2,591,000)
At 31 December 2018	7,088,000	961,000
Exercisable as at 31 December 2018	—	—

28. SHARE AWARD PLAN (continued)

During the year, a share award plan expense of RMB1,800,000 was charged to the consolidated statement of profit or loss (2017: RMB1,291,000), of which an amount of RMB171,000 was included in the directors' remuneration (2017: RMB147,000).

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 pages 10 and 11 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

	2018	2017
	RMB'000	RMB'000
Interim — HK12.5 cents (2017: HK11.5 cents) per ordinary share	**120,993**	100,696
Interim — HK10.0 cents (2017: HK10.5 cents) per ordinary share	**103,852**	88,447
Proposed final — HK10.0 cents (2017: HK12.5 cents) per ordinary share	**103,911**	119,800
	328,756	308,943

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

31. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

	Bank and other loans RMB'000	Finance lease payables RMB'000	Interest payable RMB'000	Amounts due to related parties RMB'000
At 1 January 2018	2,321,974	29,625	3,510	183,608
Changes from financing cash flows	737,751	(30,396)	(158,347)	(186,486)
Interest expense	–	771	163,413	3,589
At 31 December 2018	3,059,725	–	8,576	711

32. CONTINGENT LIABILITIES

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

	2018 RMB'000	2017 RMB'000
Guarantees given to banks in connection with facilities granted to a related party	1,022,702	787,200

As at 31 December 2018, the banking facility granted to a related party subject to guarantees given to banks by the Group was utilised to the extent of approximately RMB915,660,000 (2017: RMB295,227,000).

33. PLEDGE OF ASSETS

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

34. OPERATING LEASE ARRANGEMENTS

As lessor

The Group leases its pipes under operating lease arrangements as at 31 December 2018. Leases for pipes are negotiated for terms ranging from one to ten years. The Group had total future minimum lease receivables under non-cancellable operating leases falling due as follows:

	2018 **RMB'000**	2017 RMB'000
Within one year	**13,561**	12,124
In the second to third years, inclusive	**23,605**	23,220
In the fourth to fifth years, inclusive	**18,703**	20,005
After five years	**28,621**	32,105
	84,490	87,454

As lessee

The Group leases certain of its office properties under operating lease arrangements as at 31 December 2018. Leases for properties are negotiated for terms ranging from one to nine years. The Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 **RMB'000**	2017 RMB'000
Within one year	**3,562**	1,929
In the second to third years, inclusive	**5,184**	3,859
In the fourth to fifth years, inclusive	**5,184**	1,638
After five years	**6,024**	1,229
	19,954	8,655

35. COMMITMENTS

In addition to the operating lease commitments detailed in note 34 above, the Group had the following capital commitments at the end of the reporting period:

	2018 **RMB'000**	2017 RMB'000
Contracted, but not provided for:		
Plant and machinery	**249,789**	79,117

36. 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
Zhejiang Jiahua Energy Chemical Co., Ltd. ("Jiahua Energy")	An entity controlled by the ultimate controlling shareholder
Mei Fu Petrochemical	An entity controlled by the ultimate controlling shareholder
Zhejiang Zhapu Meifu Port & Storage Co., Ltd. ("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
Jiaxing Jianghao Estate Co., Ltd. ("Jianghao Estate")	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
Zhejiang Jiahua New Material Co., Ltd. ("Jiahua New Material")	An entity controlled by the ultimate controlling shareholder

36. 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	2018 RMB'000	2017 RMB'000
Sales of goods to:			
Jiahua Energy	(i)	**11,898**	4,843
Jiahua New Material	(i)	**649**	—
Gangqu Gangan	(i)	**167**	—
		12,714	4,843
Purchases of goods from:			
Jiahua Energy	(i)	**457,747**	455,904
Gangqu Gangan	(i)	**19,269**	11,821
Jiaxing Rewang	(i)	**16,940**	9,507
Haoxing Energy Conservation	(i)	**2,200**	2,200
Jianghao Eco-agriculture	(i)	**1,123**	878
Mei Fu Petrochemical	(i)	**937**	330
Jianghao Estate	(i)	**—**	17
		498,216	480,657
Energy management fee to:			
Jiahua Energy	(i)	**12,964**	—
Service income from:			
Jiahua New Material	(ii)	**113**	—
Jiahua Energy	(ii)	**94**	—
		207	—
Loading and service provided by:			
Mei Fu Port	(ii)	**60,194**	71,980

36. 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	2018 RMB'000	2017 RMB'000
Rental income from:			
Mei Fu Petrochemical	(ii)	**1,965**	1,965
Gangqu Gangan	(ii)	**1,818**	—
Jiahua Energy	(ii)	**1,617**	1,342
Jiaxing Rewang	(ii)	**838**	841
		6,238	4,148
Agency fee to:			
Jiahua Import Export	(ii)	**—**	2,513
Rental expense to:			
Hangzhou Haoming	(ii)	**600**	600
Royalty fee to:			
Jiahua Group	(ii)	**1,014**	1,014
Loans to:			
Mei Fu Petrochemical	(iii)	**674,737**	87,723
Loans from:			
Jiahua Group	(iv)	**—**	180,000
Interest income from:			
Mei Fu Petrochemical	(iii)	**10,705**	47,977
Interest expense to:			
Jiahua Group	(iv)	**3,589**	24,150
Guarantee fee from:			
Mei Fu Petrochemical	(v)	**9,434**	9,434

36. 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	**2018 RMB'000**	2017 RMB'000
Management fees to:			
Grand Novel (note 8)		**17,966**	21,038
Land lease payment to:			
Mei Fu Petrochemical	(vi)	**–**	28,479
Land lease sales to:			
Mei Fu Petrochemical	(vi)	**28,479**	–

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 RMB674,737,000 (2017: RMB87,723,000) as working capital. An aggregate amount of RMB933,627,000 (2017: RMB473,459,000) had been repaid during the year. These loans were unsecured, bore interest at 8% per annum (2017: 8% to 10% per annum) and as of 31 December 2018, Mei Fu Petrochemical had repaid all borrowings. The interest income amounting to RMB10,705,000 (2017: RMB47,977,000) was incurred during the year.

(iv) The Group obtained a loan of RMB180,000,000 from Jiahua Group in 2017 as the working capital for the new operation of Xingxing New Energy. The loan had been repaid during 2018. The loan was unsecured, bore interest at 8% per annum. The interest expense amounting to RMB3,589,000 (2017: RMB24,150,000) was incurred during the year.

(v) The Group has guaranteed bank loans made to Mei Fu Petrochemical up to RMB915,660,000 (2017: RMB295,227,000) as at the end of the reporting period and charged Mei Fu Petrochemical a guarantee fee of RMB9,434,000 (2017: RMB9,434,000).

(vi) The Group has purchased a land use right amounting to RMB28,479,000 from Mei Fu Petrochemical in 2017. As the location of the land use right does not meet the demand of the project, the Group has sold a land use right amounting to RMB28,479,000 to Mei Fu Petrochemical in 2018.

36. 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 77.5% of its equity interest, and Jiahua Group, holding 9.5% of its equity interest, for amounts not exceeding RMB1,200,000,000 and RMB400,000,000, respectively. Xingxing New Energy had utilised RMB398,262,000 of the facility as at 31 December 2018 (2017: RMB798,262,000) as further detailed in note 24 to the financial statements.

(c) Outstanding balances with related parties:

	2018 RMB'000	2017 RMB'000
Due from related parties:		
Gangqu Gangan	**2,196**	—
Jiahua Group	**2,038**	2
Jiahua Energy	**1,196**	58,603
Jiahua Import Export	**376**	720
Mei Fu Petrochemical	**182**	261,479
Jiahua New Material	**103**	—
Sure Capital	**1**	—
Hangzhou Haoming	**—**	122
	6,092	320,926

	2018 RMB'000	2017 RMB'000
Due to related parties:		
Jiahua Energy	**130,772**	82,993
Grand Novel	**37,524**	26,686
Mei Fu Port	**30,832**	23,199
Mei Fu Petrochemical	**21,127**	494
Gangqu Gangan	**8,611**	5,940
Haoxing Energy Conservation	**3,284**	924
Jiaxing Rewang	**2,820**	2,262
Jiahua Group	**711**	200,566
Jianghao Eco-agriculture	**24**	2
	235,705	343,066

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

36. RELATED PARTY TRANSACTIONS (continued)

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

	2018 RMB'000	2017 RMB'000
Short term employee benefits	**22,968**	26,894
Equity-settled share award plan expense	**703**	373
Pension scheme contributions	**136**	138
Total compensation paid to key management personnel	**23,087**	27,405

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, Jiahua New Material and Gangqu Gangan, purchases of goods from Jiahua Energy, Gangqu Gangan, Jiaxing Rewang, Haoxing Energy Conservation, Jianghao Eco-agriculture, Mei Fu Petrochemical and Jianghao Estate, an energy management fee to Jiahua Energy, service income from Jiahua New Material and Jiahua Energy, loading and service fee to MeiFu Port, rental income from Mei Fu Petrochemical, Gangqu Gangan, Jiaxing Rewang and Jiahua Energy, an agency fee to Jiahua Import Export, a rental expense to Hangzhou Haoming, a royalty fee to Jiahua Group, loans and guarantees to Mei Fu Petrochemical, loans from Jiahua Group, interest income from Mei Fu Petrochemical, an interest expense to Jiahua Group, a guarantee fee from Mei Fu Petrochemical, a management fee to Grand Novel, land lease payment to Mei Fu Petrochemical and land lease sales to Mei Fu Petrochemical above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

37. 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:

2018

Financial assets

	Financial assets at fair value through profit or loss		Financial assets at fair value through other comprehensive income		Financial assets at amortised cost	
		Held for trading	Debt investments	Equity investments		Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Equity investments at fair value through other comprehensive income	–	–	–	3,114	–	3,114
Financial assets at fair value through profit or loss	339,881	–	–	–	–	339,881
Trade and notes receivables	–	–	450,372	–	72,329	522,701
Financial assets included in prepayments, other receivables and other assets	–	–	–	–	199,298	199,298
Due from related parties	–	–	–	–	6,092	6,092
Derivative financial instruments	–	736	–	–	–	736
Pledged deposits	–	–	–	–	659,000	659,000
Cash and cash equivalents	–	–	–	–	453,556	453,556
	339,881	736	450,372	3,114	1,390,275	2,184,378

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	1,570,214
Financial liabilities included in other payables and accruals	570,865
Interest-bearing bank and other borrowings	3,059,725
Due to related parties	235,705
	5,436,509

37. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

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

2017

Financial assets

	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	—	347,926	—	347,926
Financial assets included in prepayments, other receivables and other assets	—	101,618	—	101,618
Due from related parties	—	320,926	—	320,926
Available-for-sale investments	—	—	235,962	235,962
Derivative financial instruments	19,651	—	—	19,651
Pledged deposits	—	50,000	—	50,000
Cash and cash equivalents	—	273,678	—	273,678
	19,651	1,094,148	235,962	1,349,761

Financial liabilities

	Financial liabilities at fair value through profit or loss held for trading RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and bills payables	—	1,365,415	1,365,415
Financial liabilities included in other payables and accruals	—	690,340	690,340
Derivative financial instruments	36,646	—	36,646
Interest-bearing bank and other borrowings	—	2,351,599	2,351,599
Due to related parties	—	343,066	343,066
	36,646	4,750,420	4,787,066

38. 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	
	2018	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Due from related parties	**–**	99,697	**–**	99,697
Equity investments designated at fair value through other comprehensive income	**3,114**	–	**3,114**	–
Available-for-sale investments	**–**	235,962	**–**	235,962
Debt investments at fair value through other comprehensive income	**450,372**	–	**450,372**	–
Financial assets at fair value through profit or loss	**339,881**	–	**339,881**	–
Derivative financial instruments	**736**	19,651	**736**	19,651
	794,103	355,310	**794,103**	355,310
Financial liabilities				
Derivative financial instruments	**–**	36,646	**–**	36,646

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade receivables, financial assets included in prepayments, other receivables and other assets, trade and bills payables, financial liabilities included in other payables and accruals and 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 value of long-term amounts 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.

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

The fair values of unlisted equity investments designated at fair value through other comprehensive income, which were previously classified as available-for-sale equity investments, have been estimated using a market-based valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to determine comparable public companies (peers) based on industry, size, leverage and strategy, and calculates an appropriate price multiple, such as enterprise value to earnings before interest, taxes, depreciation and amortisation ("EV/EBITDA") multiple and price to earnings ("P/E") multiple, for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by an earnings measure. The trading multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company-specific facts and circumstances. The discounted multiple is applied to the corresponding earnings measure of the unlisted equity investments to measure the fair value. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

The Group invests in unlisted investments, which represent wealth management products issued by banks in Mainland China. The Group has estimated the fair value of these unlisted investments by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

The fair values of the notes receivables classified as debt investments at fair value through other comprehensive income as at 31 December 2018 have been calculated by discounting the expected future cash flows, which are the par values of the notes receivable. In addition, the notes receivable will mature within one year, thus their fair values approximate to their carrying values.

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 expected 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. 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.

As at 31 December 2018, the marked to market value of the derivative asset position is net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationship and other financial instruments recognised at fair value.

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

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2018 and 2017:

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Unlisted equity investments (2017: Unlisted available-for-sale equity investments)	Valuation multiples	Average P/E multiple of peers	2018: 13.6 to 21.8 (2017: 22.6 to 38.7)	5% (2017: 5%) increase/decrease in multiple would result in increase/decrease in fair value by RMB156,000 (2017: RMB189,000)
		Discount for lack of marketability	2018:20% (2017: 28%)	5% (2017: 5%) increase/decrease in discount would result in decrease/increase in fair value by RMB39,000 (2017: RMB73,000)

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 2018

	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	736	–	–	736
Equity investments designated at fair value through other comprehensive income	–	–	3,114	3,114
Debt investments at fair value through other comprehensive income	–	450,372	–	450,372
Financial assets at fair value through profit or loss	–	339,881	–	339,881
	736	790,253	3,114	794,103

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

Fair value hierarchy (continued)

Assets measured at fair value: (continued)

As at 31 December 2017

	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	19,651	—	—	19,651
Available-for-sale investments	—	235,962	—	235,962
	19,651	235,962	—	255,613

The movements in fair value measurements within Level 3 during the year are as follows:

	2018 RMB'000	2017 RMB'000
Equity investments at fair value through other comprehensive income/ Available-for-sale investments — unlisted:		
At 1 January	**1,000**	1,000
Effect of adoption of HKFRS 9	**2,779**	2,779
At 1 January (restated)	**3,779**	3,779
Total losses recognised in other comprehensive income	**(665)**	(665)
At 31 December	**3,114**	3,114

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

Fair value hierarchy (continued)

Liabilities measured at fair value:

As at 31 December 2018

	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	–	–	–	–

As at 31 December 2017

	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	–	36,646	–	36,646

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 (2017: Nil).

39. 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 pledged 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.

39. 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 rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
2018		
RMB	**5**	**(325)**
RMB	**(5)**	**325**
United States dollar	**5**	**(21)**
United States dollar	**(5)**	**21**
Hong Kong dollar	**5**	**—**
Hong Kong dollar	**(5)**	**—**
2017		
RMB	5	(684)
RMB	(5)	684
United States dollar	5	(60)
United States dollar	(5)	60
Hong Kong dollar	5	—
Hong Kong dollar	(5)	—

39. 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 59% (2017:58%) of the Group's purchases for the year ended 31 December 2018 are denominated in currencies other than the functional currencies of the operating units making the purchase, whilst almost 100% (2017: 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 EUR exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ (decrease) in foreign currency rate %	Increase/ (decrease) in profit before tax RMB'000
2018		
If RMB weakens against the United States dollar	**5**	**(76,835)**
If RMB strengthens against the United States dollar	**(5)**	**76,835**
If RMB weakens against the Hong Kong dollar	**5**	**(261)**
If RMB strengthens against the Hong Kong dollar	**(5)**	**261**
If RMB weakens against EUR	**5**	**3**
If RMB strengthens against EUR	**(5)**	**(3)**
2017		
If RMB weakens against the United States dollar	5	(77,280)
If RMB strengthens against the United States dollar	(5)	77,280
If RMB weakens against the Hong Kong dollar	5	(75)
If RMB strengthens against the Hong Kong dollar	(5)	75
If RMB weakens against EUR	5	2
If RMB strengthens against EUR	(5)	(2)

39. 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.

Maximum exposure and year-end staging as at 31 December 2018

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2018. The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables*	–	–	–	72,329	72,329
Debt investments at fair value through other comprehensive income	450,372				450,372
Financial assets included in prepayments, other receivables and other assets					
– Normal**	199,298	–	–	–	199,298
Amounts due from related parties	6,092	–	–	–	6,092
Pledged deposits					
– Not yet past due	659,000	–	–	–	659,000
Cash and cash equivalents					
– Not yet past due	453,556	–	–	–	453,556
Guarantees given to banks in connection with facilities granted to a related party					
– Not yet past due	915,660	–	–	–	915,660
	2,683,978	–	–	72,329	2,756,307

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 18 to the financial statements, respectively.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Maximum exposure as at 31 December 2017

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 32 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, other receivables and other assets 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:

			2018		
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills payables	**239,171**	**1,011,043**	**320,000**	**–**	**1,570,214**
Other payables	**508,190**	**47,725**	**14,950**	**–**	**570,865**
Finance lease payables	**–**	**–**	**–**	**–**	**–**
Derivative financial instruments	**–**	**–**	**–**	**–**	**–**
Interest-bearing bank borrowings	**–**	**869,926**	**2,272,241**	**–**	**3,142,167**
Due to related parties	**235,705**	**–**	**–**	**–**	**235,705**
Guarantees given to banks in connection with facilities granted to a related party	**915,660**	**–**	**–**	**–**	**915,660**
	1,898,726	**1,928,694**	**2,607,191**	**–**	**6,434,611**

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

	2017				
	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	442,026	662,820	260,569	—	1,365,415
Other payables	604,781	72,485	13,074	—	690,340
Finance lease payables	—	30,396	—	—	30,396
Derivative financial instruments	—	36,646	—	—	36,646
Interest-bearing bank borrowings	—	690,356	1,124,004	619,149	2,433,509
Due to related parties	343,066	—	—	—	343,066
Guarantees given to banks in connection with facilities granted to a related party	295,227	—	—	—	295,227
	1,685,100	1,492,703	1,397,647	619,149	5,194,599

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 2018 and 2017.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

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

	2018 RMB'000	2017 RMB'000
Trade and bills payables	**1,570,214**	1,365,415
Other payables and accruals (note 22)	**798,867**	927,201
Interest-bearing bank and other borrowings	**3,059,725**	2,351,599
Due to related parties	**235,705**	343,066
Less: Cash and cash equivalents	**(453,556)**	(273,678)
Pledged deposits	**(659,000)**	(50,000)
Net debt	**4,551,955**	4,663,603
Equity attributable to owners of the parent	**3,604,135**	3,428,694
Capital and net debt	**8,156,090**	8,092,297
Gearing ratio	**56%**	58%

40. 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:

	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**426,588**	426,588
CURRENT ASSETS		
Prepayments, other receivables and other assets	**5,066**	3,900
Due from a subsidiary	**407,478**	610,187
Cash and cash equivalents	**568**	451
Total current assets	**413,112**	614,538
CURRENT LIABILITIES		
Other payables and accruals	**2,061**	50,406
Due to a subsidiary	**87,509**	41,014
Due to a related party	**37,524**	6,686
Total current liabilities	**127,094**	98,106
NET CURRENT ASSETS	**286,018**	516,432
TOTAL ASSETS LESS CURRENT LIABILITIES	**712,606**	943,020
Net assets	**712,606**	943,020
EQUITY		
Issued capital	**102,662**	102,662
Reserves (note)	**609,944**	840,358
Total equity	**712,606**	943,020

40. 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	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2017	816,788	2,371	(26,748)	6,262	(77,033)	721,640
Total comprehensive loss for the year	–	–	–	–	(46,114)	(46,114)
Issue of shares	362,187	–	–	–	–	362,187
Share issue expenses	(11,680)	–	–	–	–	(11,680)
Equity-settled share award plan expense	(1,774)	–	6,984	(1,742)	–	3,468
Interim 2017 dividend	–	–	–	–	(189,143)	(189,143)
At 31 December 2017 and 1 January 2018	**1,165,521**	**2,371**	**(19,764)**	**4,520**	**(312,290)**	**840,358**
Total comprehensive loss for the year	**–**	**–**	**–**	**–**	**(4,826)**	**(4,826)**
Equity-settled share award plan expense	**(1,328)**	**–**	**5,105**	**(4,520)**	**–**	**(743)**
Interim 2018 dividend	**–**	**–**	**–**	**–**	**(224,845)**	**(224,845)**
At 31 December 2018	**1,164,193**	**2,371**	**(14,659)**	**–**	**(541,961)**	**609,944**

41. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 25 March 2019.

Five Year Financial Summary

	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
REVENUE	**9,585,859**	8,897,143	6,647,019	4,966,427	3,636,800
Gross profit	**996,124**	1,085,275	906,570	164,449	242,122
Finance costs	**167,773**	159,086	261,681	276,978	125,608
PROFIT/(LOSS) BEFORE TAX	**389,775**	743,846	692,815	(164,964)	147,370
Income tax expense	**88,583**	120,709	93,964	62,268	16,564
Net profit/(loss) for the year	**301,192**	623,137	598,851	(227,232)	130,806
Profits/(Losses) attributable to ordinary equity holders of the parent	**398,915**	690,793	552,614	(145,502)	132,780
NON-CURRENT ASSETS	**5,979,722**	6,216,427	6,916,419	6,711,126	5,965,643
CURRENT ASSETS	**3,402,408**	2,448,291	2,761,678	3,956,061	4,447,142
Interest-bearing borrowings	**3,059,725**	2,351,599	3,717,278	5,428,841	5,660,481
CURRENT LIABILITIES	**5,774,605**	4,536,028	5,845,003	7,048,488	6,019,294
NET CURRENT (LIABILITIES)/ ASSETS	**(2,372,197)**	(2,087,737)	(3,083,325)	(3,092,427)	(1,572,152)
NON-CURRENT LIABILITIES	**13,150**	612,033	1,103,924	1,370,387	1,915,776
Net assets/Total equity	**3,594,375**	3,516,657	2,729,170	2,248,312	2,477,715
Cash inflow from operating activities	**918,243**	965,307	1,832,939	43,218	156,137
Cash inflow/(outflow) from investing activities	**(853,988)**	576,777	293,984	6,837	(1,842,812)
Cash inflow/(outflow) from financing activities	**113,333**	(1,608,510)	(1,876,216)	(361,183)	1,832,691

	RMB fens	RMB fens	RMB fens	RMB fens	RMB fens
Earnings/(loss) per share — Basic	**38.89**	67.30	56.09	(14.79)	13.49
Earnings/(loss) per share — Diluted	**38.87**	67.19	55.96	(14.73)	13.44

	In %	In %	In %	In %	In %
Gross profit margin	**10.4**	12.2	13.6	3.3	6.7
Gearing — total interest-bearing borrowings to total asset	**32.6**	27.1	42.9	50.9	54.2

	2018 In days	2017 In days	2016 In days	2015 In days	2014 In days
Inventory turnover days — Average opening and closing inventories divided by cost of sales x 365 days	**46.2**	40.5	38.9	30.0	28.9
Trade and notes receivables turnover days — Average opening and closing trade and note receivables divided by revenue x 365 days	**16.6**	10.6	24.0	37.8	26.5
Trade and bills payables turnover days — Average opening and closing trade payables divided by cost of sales x 365 days	**62.4**	65.9	86.1	97.2	135.1

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
Hong Kong

LEGAL ADVISERS AS TO HONG KONG LAW

Withersworldwide
20th Floor, Gloucester Tower, The Landmark
15 Queen's Road Central, 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