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

# 2014 ANNUAL REPORT

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The panorama of MTO production facility (as at February 2015)

# CHAIRMAN'S STATEMENT

# CHAIRMAN'S STATEMENT

On behalf of the board (the "**Board**") of directors (the "**Directors**") of China Sanjiang Fine Chemicals Company Limited (the "**Company**"), I wish to announce the annual results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2014.

**GUAN Jianzhong**
*Chairman*

2014 was full of challenges for our Group. In the first half of 2014, we were hit substantially by the increase in average market price (approximately 16.8% or USD200/metric tonnes ("**MT**")) of the feedstock of ethylene oxide ("**EO**") – ethylene, primarily resulted from the cyclical nature of chemical sector and ethylene market shifted from low-profitability market to high-profitability market. In the second half of 2014, apart from the aforesaid impact from the ethylene market itself, we were further hit by the unusual price slump of commodities which we have not seen in the last five years. Crude oil price, during the second half of 2014, dropped from approximately USD100 per barrel to approximately USD50 per barrel by February 2015, which has given those oil refineries in PRC cost advantage of feedstock when comparing with our MTO Technology-based production facility ("**MTO production facility**") in terms of the production of ethylene and propylene as the price of methanol, being the feedstock of MTO production facility, did not drop as much as that of crude oil during the corresponding period.

During the year under review, revenue of the Group decreased by approximately RMB303.7 million or 7.7%, primarily resulted from the decrease in EO revenue of approximately RMB225.8 million as the average selling price ("**ASP**") of EO decreased by approximately 3.9% from RMB9,138/MT in 2013 to RMB8,786/MT in 2014. Net profit attributable to shareholders was approximately RMB132.8 million and basic earnings per share was approximately RMB13.49 fens for the year ended 31 December 2014, representing decreases of approximately 78.1% and 78.0% respectively as compared with last year, which was primarily attributable to decrease in ASP of our product, EO and increase in average market price of our feedstock, ethylene as well as provision of inventory for certain inventories as a result of price slump of crude oil during 2014 when comparing to 2013.

After taking into account the substantial capital expenditure for the 5th phase EO/ethylene glycol ("**EG**") production facilities and the MTO production facility, the Board will not recommend the payment of a dividend for the year ended 31 December 2014.

## BUSINESS REVIEW AND OUTLOOK

In 2014, there have been two major developments in the chemical market that hit our Group. One development (i.e. ethylene market shifting from low-profitability market to high-profitability market), we consider, was controllable and we have implemented appropriate measures to deal with while another one (i.e. the unusual price slump of commodities especially crude oil price in a short period of time), we consider, was uncontrollable and beyond the scope of our expectation.

As mentioned in our 2014 Interim Report, we consider both EO market and ethylene market are cyclical and experiencing alternating periods of high-profitability market and low-profitability market which is a common phenomenon in chemical sector that profitability of a market shifts vertically among the chemical production chain, usually every five to ten years. Ethylene market used to be a low-profitability market before 2014, which gave rise to low level of investment in capacity expansion and in turn no meaningful addition of ethylene production capacity in recent years while the downstream of ethylene market, among others, EO market used to be high-profitability markets with relatively high level of investment and capacity expansion, which would, to certain point, reverse the situation and alternate between high-profitability market and low-profitability market. This market shift was indicated by the fact that ethylene price remained relatively strong throughout 2014 evidenced by:- 1) a surge in average market price of ethylene by approximately 16.8% or USD200/MT whilst a stable crude oil price with less than 5% movement during the first half of 2014; and 2) a drop of ethylene price by 36.7% from the peak price of approximately USD1,500 per MT to the bottom price of approximately USD950 per MT in spite of a slump of crude oil price by approximately 50% during the second half of 2014. We expect the average market price of ethylene will maintain in a relatively high level for a considerable amount of time as the adjustment of the market requires certain amount of time (i.e. construction period of the production facility).

We foresaw the aforesaid major development in chemical market and to respond to this development, we have been constructing the MTO production facility since October 2012 which enables the Group to go upstream – getting into ethylene market, a high-profitability market. We are now finalizing the MTO production facility and expect it will finish its construction and commence its commercial operations on a full load basis in the first half of 2015. Going upstream to build a MTO production facility is one of the most important strategic developments of our Group in recent years. Apart from getting into a high-profitability market, another major impact MTO production facility has on our Group is to change the ultimate feedstock of our Group from ethylene to methanol given the fact that we require approximately 540,000 MT of ethylene per annum for EO & EG production purpose after the ramp-up of the 5th phase EO/EG production facilities and the outputs of the MTO production facility, which are approximately 300,000 MT, 390,000 MT, 15,000 MT and 34,000 MT for ethylene, propylene, C4 and C5 per annum respectively, can serve directly 55% of our total ethylene requirement while the remaining 45% ethylene requirement is considered to be served indirectly by the propylene output of the MTO production facility as ethylene price and propylene price are highly correlated and having our own-produced propylene can offset any price fluctuation in respect of those 45% ethylene we are required to procure externally.

Another major development in chemical marker in 2014 was the unusual price slump of commodities especially crude oil price in the second half of 2014. The extent and pace of crude oil's price slump were never seen in the last five years and beyond the scope of our expectation. During the second half of 2014, crude oil price dropped by approximately 50% from approximately USD100 per barrel to approximately USD50 per barrel by February 2015 while the price of methanol (i.e. the feedstock of MTO production facility) only dropped by approximately 17% during the corresponding period. The usual approach to produce ethylene and propylene in China by those oil refineries is to use naphtha as feedstock and naphtha comes from crude oil. Previously, with crude oil price hovered at a level of approximately USD100 per barrel for more than five years before 2014, we did consider MTO production facility, which uses methanol (in turn coming from either coal or nature gas) as feedstock, had cost advantage. However, during the second half of 2014, with crude oil price dropped in a greater extent than the price drop of methanol, the aforesaid cost advantage of methanol vanished and crude-oil-based approach may now be considered relatively cost-effective when comparing with methanol-based approach. Although, from a short-term perspective, MTO production facility may not be a very competitive way to produce ethylene and propylene, we consider it is still sustainable as based on our assessment when comparing the current market prices of all the outputs (i.e. as at 2 March 2015, ethylene, propylene, C4 and C5 at approximately USD1,000/MT, RMB7,400/MT, RMB4,500/MT and RMB4,500/MT respectively) and all the inputs (i.e. as at 2 March 2015, methanol at approximately RMB2,400/MT) after taking into account the expected processing costs and finance costs, we expect the MTO production facility can still generate a ROE of around 9% on a yearly basis.

We are of the view that, cost advantage of a feedstock or in other words, cheapness or expensiveness of a feedstock are in comparative terms and if we look at a timeframe of a decade or more, coal or natural gas, being the ultimate feedstock, are being considered more cost effective in terms of outputs when comparing with crude oil in most of the time. In that sense, we believe, in a long run, the aforesaid comparative relationship between coal or natural gas and crude oil will maintain and methanol, being the downstream product of coal or natural gas, and MTO production facility will regain its position as a competitive way to produce ethylene and propylene.

During the year under review, unlike previous financial years, we did not have any new ramp-up of EO production facility or other facilities and the actual production volume of EO maintained in a similar level when comparing with last year, which is a also common phenomenon for chemical companies having static growth during the construction period of production facilities whilst having strong growth after the commercial operation of production facilities. 2014 was a year of construction for our Group and we have been devoting to construct the 5th phase EO/EG production facilities and the MTO production facility, both of which will finish their constructions and commence their commercial operations in the first half of 2015. After the ramp-up of the 5th phase EO/EG production facilities, the Group's designed annual EO and EG production capacities will increase by 240,000 MT and 130,000 MT respectively, representing a very significant growth when comparing with the Group's current total designed annual EO production capacity of 330,000 MT.

Over the past 3 years, we have put enormous resources into expanding EO production capacity and building up a vertical integrated upstream production facility. Although, these strategic moves have been considered to be correct, we fully understand that gearing of our Group has been reach a relatively high level and, as such, we have decided to hold the execution of any significant capacity expansion plan until 2016, by when we expect gearing will be improved substantially.

## ACKNOWLEDGEMENT

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

**GUAN Jianzhong**
*Chairman*
People's Republic of China, 18th March 2015

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS AND FINANCIAL REVIEW

### Revenue

Revenue of our Group decreased by approximately RMB303.7 million or 7.7%, primarily resulted from the decrease in EO revenue of approximately RMB225.8 million as the average selling price ("**ASP**") of EO decreased by approximately 3.9% from RMB9,138/MT in 2013 to RMB8,786/MT in 2014.

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

| | Full year 2014 | % of revenue | Full year 2013 | % of revenue | Variance +/(-) |
|---|---|---|---|---|---|
| **REVENUE (RMB'000)** | | | | | |
| Ethylene oxide | 3,211,163 | 88% | 3,437,001 | 87% | -6.6% |
| Surfactants | 177,145 | 5% | 226,088 | 6% | -21.6% |
| Surfactants processing services | 39,909 | 1% | 35,750 | 1% | 11.6% |
| Others | 208,583 | 6% | 241,632 | 6% | -13.7% |
| | 3,636,800 | 100% | 3,940,471 | 100% | -7.7% |
| **SALES VOLUME (MT)** | | | | | |
| Ethylene oxide | 365,481 | | 376,103 | | -2.8% |
| Surfactants | 18,269 | | 21,910 | | -16.6% |
| Surfactants processing services | 93,873 | | 83,900 | | 11.9% |
| **AVERAGE SELLING PRICE (RMB)** | | | | | |
| Ethylene oxide | 8,786 | | 9,138 | | -3.9% |
| Surfactants | 9,696 | | 10,319 | | -6.0% |
| Surfactants processing services | 425 | | 426 | | -0.2% |
| **GROSS PROFIT MARGIN (%)** | | | | | |
| Ethylene oxide | 4.6% | | 14.6% | | -10.0% |
| Surfactants | 13.7% | | 16.5% | | -2.8% |
| Surfactants processing services | 78.1% | | 75.2% | | 2.9% |

MTO's Reactors & Regenerator (as at February 2015)

**Ethylene oxide sales**

During the year under review, the revenue from EO sales decreased by approximately 6.6% when compared to 2013, which was primarily resulted from the decrease in ASP of EO by approximately 3.9% from RMB9,138/MT in 2013 to RMB8,786/MT in 2014.

**Surfactants sales and Surfactants processing services**

During the year under review, the overall surfactants production capacity (including production capacities for both surfactants sales and surfactants processing services) improved by 6.0% from 105,810MT for 2013 to 112,142MT for 2014. The decrease in overall revenue of surfactants sales and surfactants processing services was primarily due to change in sales mix while overall gross profit increased as overall utilisation rate increased.

## Others

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

## Gross profit margin

Overall gross profit margin decreased by approximately 9.5%, primarily due to the increase in average market price of ethylene by approximately 11.5% or USD150/MT and decease in ASP of EO by approximately 3.9% in 2014.

## 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 RMB424.3 million (2013: approximately RMB254.0 million), most of which were denominated in Renminbi. The Group had interest-bearing borrowings of approximately RMB5,660.5 million as at 31 December 2014 (2013: approximately RMB3,040.3 million). Please refer to the relevant note(s) to the financial statements of this report 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 54.2% as at 31 December 2014 as compared to 43.1% as at 31 December 2013. 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 has rapid expansion of various production facilities in recent 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 (2014: 28.9 days; 2013: 37.8 days).

The trade and notes receivables turnover days maintained at a relatively low level in both 2014 and 2013 (2014: 26.5 days; 2013: 16.1 days).

The trade and notes payables turnover days maintained at a similar level in both 2014 and 2013 (2014: 135.1 days; 2013: 111.1 days).

## CAPITAL COMMITMENTS

As at 31 December 2014, the Group had capital commitments amounted to approximately RMB1,307.5 million which was primarily related to the procurement of plant and machinery for the constructions of additional production capacities.

## CONTINGENT LIABILITIES

As at 31 December 2014, the Group had provided certain guarantee for a joint venture and a joint operation. Please refer to the relevant note(s) to the financial statements of this report for more details. The Group is not involved in any current material legal proceedings, nor is our Group aware of any pending or potential material legal proceedings involving the Group.

## EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2014, the Group employed a total of 997 full-time employees. For the year ended 31 December 2014, the employee benefit expense was approximately RMB76.3 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

OCU Reactors (as at February 2015)

## BIOGRAPHIES OF DIRECTORS

### GUAN Jianzhong (管建忠)

aged 46, 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 28 years of experience in the chemical industry. Mr. Guan completed a training course in business administration at a management training centre of Zhejiang University (浙江大學) in 2007 and a corporate management training course at Tsinghua University (清華大學) in October 2009. Mr. Guan has been serving as the chairman of the board of directors of both Zhejiang Jiahua Group Co., Ltd.* (浙江嘉化集團股份有限公司) and Zhejiang Jiahua Energy Chemical Co., Ltd. ("**Jiahua Energy**") (Which was formerly known as Zhejiang Jiahua Industrial Park Investment and Development Co., Ltd.) since 2008. Zhejiang Jiahua Group Co., Ltd. and Jiahua Energy are principally engaged in the manufacturing and supply of agrochemicals and desalinated water and steam in Zhejiang Province, the PRC and both companies are not in competition with the Group. Mr. Guan is the spouse of Ms. Han Jianhong, an executive Director, and the brother-in-law of Mr. Han Jianping, an executive Director. Mr. Guan is a director of Sure Capital Holdings Limited, which together with Mr. Guan himself beneficially owned approximately 48.45% of the issued share capital of the Company.

### HAN Jianhong (韓建紅)

aged 40, 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 15 years of experience in the chemical industry. Ms. Han is the spouse of Mr. Guan Jianzhong, an executive Director, and the sister of Mr. Han Jianping, an executive Director.

### NIU Yingshan (牛瑛山)

aged 41, has been an executive Director since 24 August 2010. He is primarily responsible for the management of production, safety and environmental protection of the Group. Mr. Niu graduated with a bachelor's degree in computer science and application (distance learning course) from the Beijing University of Chemical Technology (北京化工大學) in 2002 and has over 21 years of experience in the chemical manufacturing industry. Mr. Niu joined the Group in 2004.

Hydrogen Oxidation Reactor (as at February 2015)

## HAN Jianping (韓建平)

aged 43, has been an executive Director since 24 August 2010. He is primarily responsible for the sales, procurement, research and development of the Group. Mr. Han is also a director of certain subsidiaries of the Group and has over 22 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.

## SHEN Kaijun (沈凱軍)

aged 47, 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 24 years of experience in accounting and corporate management.

## MUI Ho Cheung, Gary (梅浩彰)

aged 40, has been an independent non-executive Director since 15 May 2011. He is the chairman of the remuneration committee and a member of the audit committee of the Company. Mr. Mui is the executive director and Head of IPO and Capital Markets of Quam Capital Limited ("**Quam Capital**") and also the registered staff on behalf of Quam Capital for Type 6 regulated activity under the Securities and Futures Ordinance. Mr. Mui joined Quam Capital in early 2009. Mr. Mui has over 17 years of experience in the fields of finance and investment banking. Mr. Mui holds a bachelor's degree in accounting and finance from the University of New South Wales and is a member of CPA Australia.

## PEI Yu (裴愚)

aged 43, has been an independent non-executive Director since 30 June 2014. She is a member of all the audit committee, the remuneration committee and the nomination committee. Ms. Pei graduated from the Beijing Normal University (北京師範大學) with a bachelor degree in arts in June 1992 and obtained a double degree in laws from China University of Political Science and Law (中國政法大學) in June 1997. Ms. Pei has more than 15 years of experience in the legal field in China.

## BIOGRAPHIES OF SENIOR MANAGEMENT

### CHA Lixin (查立新)

aged 62, is the head of the production department of the Group. Mr. Cha is primarily responsible for the ethylene oxide production management of the Group. He joined the Group in 2004.

### CHEN Xian (陳嫻)

aged 40, is the secretary of the Board and the chief accountant of the Group. Ms. Chen is primarily responsible for the financial management of the Group. Ms. Chen graduated with a diploma in accounting from the Hangzhou Institution of Commerce of Zhejiang Gongshang University (浙江工商大學杭州商學院) in 1996 and is currently completing a bachelor's degree in accounting from Renmin University of China (中國人民大學) through online distance learning. She joined the Group in 2009.

### DE Xin (德新)

aged 52, is the head of the sales department of the Group. Mr. De is primarily responsible for the sales management of the Group. Mr. De graduated with a diploma in business management (distance learning course) from Northeast Normal University (東北師範大學) in July 1997 and completed a chief marketing officer training course in April 2009. He joined the Group in 2004.

### HAN Zongqi (韓宗奇)

aged 51, is the head of the procurement department of the Group. Mr. Han is primarily responsible for the procurement management of the Group. Mr. Han graduated with a diploma in English at HuaZhong Normal University (華中師範大學) in 1984. He joined the Group in 2005.

### YIP Ngai Hang (葉毅恒)

aged 38, is the financial controller and company secretary of the Group. Mr. Yip is primarily responsible for the overall planning, financial reporting and budgeting and implementing business strategies of the Group. Mr. Yip graduated with a bachelor's degree in Accounting with Honours from the University of Hertfordshire in the United Kingdom in 1999. He joined the Group in 2010.

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

# CORPORATE GOVERNANCE REPORT

# CORPORATE GOVERNANCE REPORT

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

The Company has adopted the code provisions in the Corporate Governance Code ("**CG Code**"), including any revisions and amendments from time to time, as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") as its own code of corporate governance. The Board considers that the Company has complied with all the code provisions of the CG Code during the year ended 31 December 2014 and up to the date of this annual report.

## BOARD OF DIRECTORS

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

The Board currently comprises:

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

Independent non-executive Directors:
Mr. Shen Kaijun
Mr. Mui Ho Cheung, Gary
Ms. Pei Yu

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, Mr. Mui Ho Cheung, Gary and Ms. Pei Yu, 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, Mui Ho Cheung, Gary 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 2014 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 2014 and the annual results of the Group for the year ended 31 December 2014, 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. Mui Ho Cheung, Gary, Guan Jianzhong and Ms. Pei Yu of whom Mr. Mui Ho Cheung, Gary 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 Mr. Mui Ho Cheung, Gary. 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 2014 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 2014.

### Nomination Committee

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

During the year ended 31 December 2014 and up to the date of this annual report, one meeting was held by the Nomination Committee to discharge duties, including assessing the independency of independent non-executive directors under the Listing Rules and review the Board diversity policy and terms of reference.

## BOARD COMMITTEES (Continued)

The attendance of individual members of the Board and other Board committees meetings during the year ended 31 December 2014 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)* | 10/10 | N/A | 1/1 | 1/1 |
| Ms. Han Jianhong | 7/10 | N/A | N/A | N/A |
| Mr. Niu Yingshan | 7/10 | N/A | N/A | N/A |
| Mr. Han Jianping | 7/10 | N/A | N/A | N/A |
| **Independent Non-Executive Directors** | | | | |
| Mr. Shen Kaijun | 7/10 | 2/2 | N/A | 1/1 |
| Mr. Mui Ho Cheung, Gary | 10/10 | 2/2 | 1/1 | N/A |
| Ms. Pei Yu (appointed on 30 June 2014) | 5/10 | 2/2 | 1/1 | 1/1 |
| Mr. Wang Wanxu (resigned on 28 March 2014) | 1/10 | 1/2 | 0/1 | 0/1 |

## 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 2014 and up to the date of this annual report.

## FINANCIAL REPORTING AND INTERNAL CONTROL

### Financial reporting

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

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

### Independent auditors

During the year ended 31 December 2014, the professional fees paid or payable to the independent auditors, Ernst & Young, for services rendered are set out below:

| | RMB'000 |
|---|---|
| Statutory audit – 2014 annual results | 1,850 |

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

## FINANCIAL REPORTING AND INTERNAL CONTROL (Continued)

### Internal controls

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

For the year under review, the Board has reviewed the effectiveness of the Group's internal control system. The Board considers that the internal control system is effective and adequate for the Group as a whole. The Board further considers that, save as disclosed in the "**Continuing Connected Transactions**" subsection contained in the "**Report of the Directors**" section in this annual report, (i) there was no issue relating to the material controls, including financial, operational and compliance controls and risk management functions, of the Group; and (ii) that there were adequate staff with appropriate qualifications and experience, resources and budget of its accounting and financial reporting function, and adequate training programmes have been provided for during the year ended 31 December 2014.

## DIRECTORS' RESPONSIBILITY ON THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2014, and confirm that the financial statements give a true and fair view of the results of the Company and the Group and are prepared in accordance with the applicable statutory requirements and accounting standards.

The statement made by the external auditors regarding their reporting responsibilities on the financial statements of the Group is set out in the Auditors' Report on page 27 of this annual report.

## NON-COMPETITION UNDERTAKINGS

The Company has received declaration from Mr. Guan and Sure Capital Holdings Limited (the "**Covenantors**"), the controlling shareholder of the Company, of their compliance with the terms of the non-competition undertaking ("**Undertaking**"). The Covenantors declared that they have fully complied with the Undertaking during the year ended 31 December 2014 and up to the date of this annual report.

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

## COMMUNICATION WITH SHAREHOLDERS

The Company endeavours to maintain an on-going dialogue with its shareholders and in particular, through annual general meetings or other general meetings to communicate with the shareholders and encourage their participation. The Chairman of the Board will make himself available at the forthcoming annual general meeting to be held on Friday, 29 May 2015 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 2014.

## PRINCIPAL ACTIVITIES

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

## RESULTS

The results of the Group for the year ended 31 December 2014 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 29 to 36 of this annual report.

## FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the latest five financial years is set out on pages 108 and 109 of this annual report.

## DIVIDENDS

The Board will not recommend the payment of a dividend for the year ended 31 December 2014.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 20 May 2015 to Friday, 29 May 2015, both days inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at AGM. In order to qualify for the right to attend and vote at the forthcoming AGM, all transfers documents accompanied by the relevant share certificates must be lodged with the Company's Share Registrars, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Tuesday, 19 May 2015.

## RESERVES

Profits attributable to equity shareholders, before dividends, of RMB132,780,000 (2013: RMB605,131,000) have been transferred to reserves. Other movements in reserves are set out in the Consolidated Statement of Changes in Equity.

## NON-CURRENT ASSETS

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

## BANK BORROWINGS

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

## SHARE CAPITAL

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

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year under review, 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 2014.

## 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 2014 and up to the date of this annual report were:

### Executive Directors

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

### Independent Non-Executive Directors

Mr. Shen Kaijun
Mr. Mui Ho Cheung, Gary
Ms. Pei Yu (appointed on 30 June 2014)
Mr. Wang Wanxu (resigned on 28 March 2014)

Details of the Directors' biographies are set out on pages 9 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, Mr. Niu Yingshan and Mr. Mui Ho Cheung, Gary shall retire from office by rotation at the AGM and, being eligible, offer themselves for re-election as Directors at the AGM. Pursuant to article 109 of the Articles of Association, Ms. Pei Yu shall retire from office and, being eligible, offer herself for re-election at the AGM.

## DIRECTORS' SERVICE CONTRACTS

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

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

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

## DIRECTORS' REMUNERATION

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

## DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in the section headed "**Continuing Connected Transactions**" in this report and the relevant note 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 2014, 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 | 480,213,000 (Note) | 48.35% |
| | Beneficial owner | Long position | 990,000 (Note) | 0.10% |
| Han Jianhong ("**Ms. Han**") | Interests of spouse | Long position | 481,203,000 (Note) | 48.45% |

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 2014.

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

As at 31 December 2014, so far as is known to the Directors, the following persons (other than the Directors or chief executive of the Company), who have interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company in accordance with the provision of Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein, are as follows:

| Name | Capacity/ Nature of interest | Long/ Short position | Number of Shares | Approximate % of issued share capital |
|---|---|---|---|---|
| Sure Capital | Beneficial owner | Long position | 480,213,000 (Note 1) | 48.35% |

Note:

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

Save as disclosed above, no other interest or short position in the shares and underlying shares of the Company were recorded in the register required to be kept under section 336 of the SFO as at 31 December 2014.

## 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:

| | 2014 | 2013 |
|---|---|---|
| As a percentage of the Group's total sales | | |
| The largest customer | 7.2% | 7.3% |
| Five largest customers in aggregate | 32.1% | 30.4% |
| As a percentage of Group's total purchases | | |
| The largest supplier | 46.4% | 30.2% |
| Five largest suppliers in aggregate | 82.4% | 84.1% |

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 2014.

## SHARE OPTION SCHEME

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

Eligible participants of the Share Option Scheme include the following:

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

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

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

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

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

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

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

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

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

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

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

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

(i) 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 2014, no share option has been granted by the Company.

## CONTRACT OF SIGNIFICANCE

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

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

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

## MANAGEMENT CONTRACTS

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

## CONTINUING CONNECTED TRANSACTIONS

The following related party transactions entered into during the year ended 31 December 2014 constitutes continuing connected transactions for the Company under the Listing Rules and are required to be disclosed in this annual report in accordance with Chapter 14A of the Listing Rules:

### 1. Water and Miscellaneous Materials Supply Agreements

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

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

### 2. Low Pressure Steam Supply Agreements

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

### 3. Medium Pressure Steam Supply Agreements

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

### 4. Rewang Low Pressure Steam Supply Agreement

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

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

### 5. Management Agreement

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

## CONTINUING CONNECTED TRANSACTIONS (Continued)

### 6. Installation of Steam Pipes Agreements

Pursuant to the installation of steam pipes agreements entered into between Zhejiang Xing Xing New Energy Technology Co., Ltd.* (浙江興興新能源科技有限公司) ("**Xing Xing**") and Jiahua Energy Chemical Co and between Zhejiang Sanjiang New Material Co., Ltd.* (浙江三江化工新材料有限公司) ("**Sanjiang New Material**") and Jiahua Energy Chemical Co on 22 August 2014 and 24 December 2014 respectively, Jiahua Energy Chemical Co agreed to install steam pipes for Xing Xing and Sanjiang New Material respectively in relation to the upcoming supply of high pressure steam to the Group. Relevant details of the agreements and the transactions contemplated thereunder are set out in the announcements dated 2 September 2014 and 28 December 2014 respectively.

The actual amount of the transactions and approved annual caps for the above mentioned continuing connected transactions during the years ended 31 December 2014 are as follows:

| **Nature of transaction** | **Actual transaction amount** RMB | **Annual Cap amount** RMB |
|---|---|---|
| Water and Miscellaneous Materials Supply Agreements | 1,277,000 | 3,800,000 |
| Low Pressure Steam Supply Agreements | 86,402,000 | 195,000,000 |
| Medium Pressure Steam Supply Agreements | 23,651,000 | 70,000,000 |
| Rewang Low Pressure Steam Supply Agreement | 8,988,000 | 19,000,000 |
| Management agreement | 7,290,000 | 35,960,000 |
| Installation of steam pipes agreements | 30,200,000 | 30,200,000 |

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

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

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

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

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

1. had been approved by the Board;

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

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

4. the aggregate consideration paid in respect of the continuing connected transactions during the year ended 31 December 2014 had not exceeded the cap as disclosed in the agreements or as required under the Listing Rules.

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

## SUFFICIENCY OF PUBLIC FLOAT

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

## RETIREMENT AND PENSION SCHEMES

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

## CONFIRMATION OF INDEPENDENCE

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

## AUDITORS

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

By order of the Board

**GUAN Jianzhong**
*Chairman*

People's Republic of China, 18 March 2015

# INDEPENDENT AUDITORS' REPORT

EY 安永

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

We have audited the consolidated financial statements of China Sanjiang Fine Chemicals Company Limited (the "**Company**") and its subsidiaries (together, the "**Group**") set out on pages 29 to 107, which comprise the consolidated and company statements of financial position as at 31 December 2014, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

## AUDITORS' RESPONSIBILITY

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

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

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

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

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

18 March 2015

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2014

| | Notes | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|---|
| REVENUE | 5 | **3,636,800** | 3,940,471 |
| Cost of sales | | **(3,394,678)** | (3,302,259) |
| Gross profit | | **242,122** | 638,212 |
| Other income and gains | 5 | **677,027** | 649,481 |
| Selling and distribution expenses | | **(10,609)** | (18,499) |
| Administrative expenses | | **(123,512)** | (135,146) |
| Other expenses | 5 | **(440,803)** | (429,701) |
| Finance costs | 6 | **(125,608)** | (74,967) |
| Share of (losses)/profits of joint ventures | | **(71,247)** | 56,391 |
| PROFIT BEFORE TAX | 7 | **147,370** | 685,771 |
| Income tax expense | 10 | **(16,564)** | (81,011) |
| PROFIT FOR THE YEAR | | **130,806** | 604,760 |
| Attributable to: | | | |
| Owners of the parent | 11 | **132,780** | 605,131 |
| Non-controlling interests | | **(1,974)** | (371) |
| | | **130,806** | 604,760 |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | 12 | | |
| Basic | | **RMB13.49 fen** | RMB61.33 fen |
| Diluted | | **RMB13.44 fen** | RMB61.12 fen |

Details of the dividends are disclosed in note 31 to the financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2014

| | Note | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|---|
| **PROFIT FOR THE YEAR** | | **130,806** | 604,760 |
| **OTHER COMPREHENSIVE INCOME** | | | |
| Other comprehensive income to be reclassified to profit or loss in subsequent periods: | | | |
| Available-for-sale investments: | | | |
| Changes in fair value | | **(5,405)** | (1,981) |
| Reclassification adjustments for losses/(gains) included in the consolidated statement of profit or loss | | **1,654** | (1,144) |
| Income tax effect | | **905** | 327 |
| **OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX** | | **(2,846)** | (2,798) |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **127,960** | 601,962 |
| Attributable to: | | | |
| Owners of the parent | 11 | **129,934** | 602,333 |
| Non-controlling interests | | **(1,974)** | (371) |
| | | **127,960** | 601,962 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2014

| | Notes | 31 December 2014 RMB'000 | 31 December 2013 RMB'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 13 | **4,854,195** | 2,585,704 |
| Prepaid land lease payments | 14 | **306,080** | 313,893 |
| Intangible assets | 15 | **111,399** | 114,058 |
| Advance payments for property, plant and equipment | | **357,560** | 329,099 |
| Investments in joint ventures | 17 | **306,756** | 378,003 |
| Available-for-sale investments | 18 | **1,000** | – |
| Deferred tax assets | 27 | **21,830** | 19,455 |
| Prepayments, deposits and other receivables | 21 | **6,823** | – |
| Total non-current assets | | **5,965,643** | 3,740,212 |
| **CURRENT ASSETS** | | | |
| Inventories | 19 | **290,594** | 247,580 |
| Trade and notes receivables | 20 | **325,736** | 202,959 |
| Prepayments, deposits and other receivables | 21 | **528,196** | 336,014 |
| Due from related parties | 36(c) | **1,352,463** | 1,074,921 |
| Available-for-sale investments | 18 | **336,468** | 476,133 |
| Pledged deposits | 22 | **1,214,895** | 742,186 |
| Cash and cash equivalents | 22 | **398,790** | 253,981 |
| Total current assets | | **4,447,142** | 3,333,774 |
| **CURRENT LIABILITIES** | | | |
| Trade and bills payables | 23 | **1,304,198** | 1,183,427 |
| Other payables and accruals | 24 | **884,042** | 267,618 |
| Derivative financial instruments | 25 | **6,855** | 4,907 |
| Interest-bearing bank and other borrowings | 26 | **3,763,381** | 2,528,823 |
| Due to related parties | 36(c) | **21,571** | 34,606 |
| Tax payable | | **39,247** | 49,116 |
| Total current liabilities | | **6,019,294** | 4,068,497 |
| **NET CURRENT LIABILITIES** | | **(1,572,152)** | (734,723) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **4,393,491** | 3,005,489 |

| | Notes | 31 December 2014 RMB'000 | 31 December 2013 RMB'000 |
|---|---|---|---|
| **NON-CURRENT LIABILITIES** | | | |
| Interest-bearing bank and other borrowings | 26 | **1,897,100** | 511,506 |
| Deferred tax liabilities | 27 | **18,676** | 26,614 |
| Total non-current liabilities | | **1,915,776** | 538,120 |
| Net assets | | **2,477,715** | 2,467,369 |
| **EQUITY** | | | |
| Equity attributable to owners of the parent | | | |
| Share capital | 28 | **86,048** | 86,048 |
| Reserves | 30(a) | **2,191,243** | 2,070,805 |
| Proposed final dividend | 31 | **–** | 188,118 |
| | | **2,277,291** | 2,344,971 |
| Non-controlling interests | | **200,424** | 122,398 |
| Total equity | | **2,477,715** | 2,467,369 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2014

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

| | Attributable to owners of the parent | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Shares capital RMB'000 | Treasury shares 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 | Proposed final dividend RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| At 1 January 2014 | 86,048 | - | 1,006,429 | 2,371 | (20,603) | (627,092) | (1,654) | 265,332 | 2,379 | 1,519 | 1,442,124 | 188,118 | 2,344,971 | 122,398 | 2,467,369 |
| Profit for the year | - | - | - | - | - | - | - | - | - | - | 132,780 | - | 132,780 | (1,974) | 130,806 |
| Other comprehensive income for the year: | | | | | | | | | | | | | | | |
| Change in fair value of available-for-sale investments, net of tax | - | - | - | - | - | - | (2,846) | - | - | - | - | - | (2,846) | - | (2,846) |
| Total comprehensive income for the year | - | - | - | - | - | - | (2,846) | - | - | - | 132,780 | - | 129,934 | (1,974) | 127,960 |
| Repurchase of shares for the share award plan (note 29) | - | - | - | - | (12,409) | - | - | - | - | - | - | - | (12,409) | - | (12,409) |
| Equity-settled share award plan | - | - | - | - | - | - | - | - | 2,913 | - | - | - | 2,913 | - | 2,913 |
| Final 2013 dividend declared | - | - | - | - | - | - | - | - | - | - | - | (188,118) | (188,118) | - | (188,118) |
| Appropriation to statutory surplus reserve | - | - | - | - | - | - | - | 24,749 | - | - | (24,749) | - | - | - | - |
| Appropriation to safety production reserve | - | - | - | - | - | - | - | - | - | 23,383 | (23,383) | - | - | - | - |
| Safety production reserve used | - | - | - | - | - | - | - | - | - | (18,401) | 18,401 | - | - | - | - |
| Capital increase of non-controlling interests | - | - | - | - | - | - | - | - | - | - | - | - | - | 80,000 | 80,000 |
| At 31 December 2014 | 86,048 | - | 1,006,429 | 2,371 | (33,012) | (627,092) | (4,500) | 290,081 | 5,292 | 6,501 | 1,545,173 | - | 2,277,291 | 200,424 | 2,477,715 |

* These reserve accounts comprise the consolidated reserves of RMB2,191,243,000 (2013: RMB2,070,805,000) in the consolidated statement of financial position.

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2014

| | Notes | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit before tax | | **147,370** | 685,771 |
| Adjustments for: | | | |
| Finance costs | 6 | **125,608** | 74,967 |
| Share of losses/(profits) of joint ventures | | **71,247** | (56,391) |
| Bank interest income | 5 | **(87,803)** | (78,916) |
| Investment income from available-for-sale investments | 5 | **(7,965)** | (16,253) |
| Fair value losses on derivative financial instruments | 5 | **5,325** | 9,929 |
| Interest income from joint ventures | 5 | **(100,657)** | (60,428) |
| Foreign exchange differences, net | | **1,207** | 1,557 |
| Fair value gains on derivative financial instruments | 5 | **(2,761)** | (13,086) |
| Depreciation | 13 | **161,041** | 157,832 |
| Gain on disposal of intangible assets | 5 | **(478)** | – |
| Amortisaton of prepaid land lease payments | 14 | **6,731** | 3,176 |
| Amortisation of intangible assets | 15 | **8,803** | 7,963 |
| (Reversal)/write-down of inventories to net realisable value | | **(2,535)** | 98,478 |
| Equity-settled share award plan expense | 29 | **2,913** | 1,378 |
| | | **328,046** | 815,977 |
| (Increase)/decrease in inventories | | **(40,479)** | 91,018 |
| Increase in trade and notes receivables | | **(122,777)** | (58,808) |
| (Increase)/decrease in prepayments, deposits and other receivables | | **(191,050)** | 168,843 |
| Increase in amounts due from related parties | | **(103,596)** | (71,890) |
| Increase in trade and bills payables | | **5,264** | 102,176 |
| Increase/(decrease) in other payables and accruals | | **329,932** | (150,490) |
| (Decrease)/increase in amounts due to related parties | | **(13,035)** | 27,830 |
| Cash generated from operations | | **192,305** | 924,656 |
| Income tax paid | | **(36,168)** | (115,726) |
| Net cash flows from operating activities | | **156,137** | 808,930 |

| | Notes | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|---|
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchases of items of property, plant and equipment | | **2,220,418** | (933,136) |
| Purchases of prepaid land lease payments | | **(495)** | (241,071) |
| Purchases of intangible assets | | **(6,666)** | (85,557) |
| Proceeds from disposal of items of property, plant and equipment | | **99,396** | 174 |
| Investments in joint ventures | | **–** | (321,612) |
| Advances of loans to joint ventures | | **(781,689)** | (1,965,072) |
| Repayment of loans from joint ventures | | **741,569** | 965,069 |
| Purchases of available-for-sale investments | | **(341,873)** | (478,114) |
| Sales of available-for-sale investments | | **483,439** | 586,000 |
| Exercise of the bullion options | | **(3,377)** | 1,662 |
| Addition to entrusted loan receivables | | **(200,000)** | (200,000) |
| Collection of entrusted loan receivables | | **200,000** | – |
| Bank interest received | | **81,425** | 68,245 |
| Interest received from joint ventures | | **100,476** | 57,700 |
| Fair value losses on derivative financial instruments | | **(5,325)** | (9,929) |
| Fair value gains on derivative financial instruments | | **2,761** | 11,755 |
| Investment income from available-for-sale investments | | **7,965** | 16,253 |
| Net cash flows used in investing activities | | **(1,842,812)** | (2,527,633) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Contribution from non-controlling shareholders | | **80,000** | 95,000 |
| New bank loans | | **9,677,511** | 6,576,736 |
| Repayment of bank loans | | **(7,249,292)** | (5,493,596) |
| Proceeds from issuance of short-term bonds | | **500,000** | 300,000 |
| Repayment of short-term bonds | | **(300,000)** | – |
| (Increase)/decrease in deposits pledged for bank loans | | **(472,709)** | 396,916 |
| Interest paid | | **(202,292)** | (64,858) |
| Dividends paid | | **(188,118)** | (144,818) |
| Repurchase and cancellation of ordinary shares | | **–** | (27,631) |
| Purchases of shares held for the share award plan | | **(12,409)** | (9,289) |
| Net cash flows from financing activities | | **1,832,691** | 1,628,460 |
| **NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS** | | **146,016** | (90,243) |
| Cash and cash equivalents at beginning of year | | **253,981** | 345,781 |
| Effect of foreign exchange rate changes, net | | **(1,207)** | (1,557) |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | 22 | **398,790** | 253,981 |

**Guan Jianzhong**
*Director*

**Han Jianhong**
*Director*

# STATEMENT OF FINANCIAL POSITION

31 December 2014

| | Notes | 31 December 2014 RMB'000 | 31 December 2013 RMB'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Investments in subsidiaries | 16 | **426,588** | 426,588 |
| Total non-current assets | | **426,588** | 426,588 |
| **CURRENT ASSETS** | | | |
| Prepayments, deposits and other receivables | 21 | **2,046** | 2,290 |
| Due from a subsidiary | 36(c) | **552,246** | 825,678 |
| Cash and cash equivalents | 22 | **908** | 3,674 |
| Total current assets | | **555,200** | 831,642 |
| **CURRENT LIABILITIES** | | | |
| Interest-bearing bank borrowings | 26 | **30,512** | 109,363 |
| Other payables and accruals | 24 | **110** | 257 |
| Due to a subsidiary | 36(c) | **35,607** | – |
| Due to a related party | 36(c) | **6,310** | 29,877 |
| Total current liabilities | | **72,539** | 139,497 |
| **NET CURRENT ASSETS** | | **482,661** | 692,145 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **909,249** | 1,118,733 |
| Net assets | | **909,249** | 1,118,733 |
| **EQUITY** | | | |
| Share capital | 28 | **86,048** | 86,048 |
| Reserves | 30(b) | **823,201** | 844,567 |
| Proposed final dividend | 31 | **–** | 188,118 |
| Total equity | | **909,249** | 1,118,733 |

## 1. CORPORATE INFORMATION

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

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

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

## 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable requirements of the Hong Kong Companies Ordinance relating to the preparation of financial statements, which for this financial year and the comparative period continue to be those of the predecessor Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that Ordinance.

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

### Going concern assumption

As at 31 December 2014, the Group's net current liabilities amounted to approximately RMB1,572,152,000, which comprised current assets of approximately RMB4,447,142,000 and current liabilities of approximately RMB6,019,294,000. The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflows from operations and sufficient financing to meet its financial obligations as and when they fall due. In preparing the financial statements, the directors of the Company have considered the Group's sources of liquidity and believe that adequate funding is available to fulfill the Group's debt obligations and capital expenditure requirements.

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

## 2.1 BASIS OF PREPARATION (continued)

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2014. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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

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

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

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised standards and new interpretation for the first time for the current year's financial statements.

| | |
|---|---|
| Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) | *Investment Entities* |
| Amendments to HKAS 32 | *Offsetting Financial Assets and Financial Liabilities* |
| Amendments to HKAS 36 | *Recoverable Amount Disclosures for Non-Financial Assets* |
| Amendments to HKAS 39 | *Novation of Derivatives and Continuation of Hedge Accounting* |
| HK(IFRIC)-Int 21 | *Levies* |
| Amendment to HKFRS 2 included in *Annual Improvements 2010-2012 Cycle* | *Definition of Vesting Condition*[1] |
| Amendment to HKFRS 3 included in *Annual Improvements 2010-2012 Cycle* | *Accounting for Contingent Consideration in a Business Combination*[1] |
| Amendment to HKFRS 13 included in *Annual Improvements 2010-2012 Cycle* | *Short-term Receivables and Payables* |
| Amendment to HKFRS 1 included in *Annual Improvements 2011-2013 Cycle* | *Meaning of Effective HKFRSs* |

1 Effective from 1 July 2014

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

## 2.3 NEW AND REVISED HKFRSs AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED

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

| | |
|---|---|
| HKFRS 9 | *Financial Instruments*[4] |
| Amendments to HKFRS 10 and HKAS 28 (2011) | *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[2] |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011) | *Investment Entities: Applying the Consolidation Exception*[2] |
| Amendments to HKFRS 11 | *Accounting for Acquisitions of Interests in Joint Operations*[2] |
| HKFRS 14 | *Regulatory Deferral Accounts*[5] |
| HKFRS 15 | *Revenue from Contracts with Customers*[3] |
| Amendments to HKAS 1 | *Disclosure Initiative*[2] |
| Amendments to HKAS 16 and HKAS 38 | *Clarification of Acceptable Methods of Depreciation and Amortisation*[2] |
| Amendments to HKAS 16 and HKAS 41 | *Agriculture: Bearer Plants*[2] |
| Amendments to HKAS 19 | *Defined Benefit Plans: Employee Contributions*[1] |
| Amendments to HKAS 27 (2011) | *Equity Method in Separate Financial Statements*[2] |
| *Annual Improvements 2010-2012 Cycle* | Amendments to a number of HKFRSs[1] |
| *Annual Improvements 2011-2013 Cycle* | Amendments to a number of HKFRSs[1] |
| *Annual Improvements 2012-2014 Cycle* | Amendments to a number of HKFRSs[2] |

1 Effective for annual periods beginning on or after 1 July 2014
2 Effective for annual periods beginning on or after 1 January 2016
3 Effective for annual periods beginning on or after 1 January 2017
4 Effective for annual periods beginning on or after 1 January 2018
5 Effective for an entity that first adopts HKFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

In addition, the Hong Kong Companies Ordinance (Cap. 622) will affect the presentation and disclosure of certain information in the consolidated financial statements for the year ending 31 December 2015. The Group is in the process of making an assessment of the impact of these changes.

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

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 January 2018. The Group expects that the adoption of HKFRS 9 will have an impact on the classification and measurement of the Group's financial assets. Further information about the impact will be available nearer the implementation date of the standard.

The 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 Group expects to adopt the amendments from 1 January 2016.

## 2.3 NEW AND REVISED HKFRSs AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED (continued)

The amendments to HKFRS 11 require that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a business must apply the relevant principles for business combinations in HKFRS 3. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to HKFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016.

HKFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. The Group expects to adopt HKFRS 15 on 1 January 2017 and is currently assessing the impact of HKFRS 15 upon adoption.

Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016 as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

The *Annual Improvements to HKFRSs 2010-2012 Cycle* issued in January 2014 sets out amendments to a number of HKFRSs. Except for those described in note 2.2, the Group expects to adopt the amendments from 1 January 2015. None of the amendments are expected to have a significant financial impact on the Group. Details of the amendment most applicable to the Group are as follows:

HKFRS 8 *Operating Segments*: Clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria in HKFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are similar. The amendments also clarify that a reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Subsidiaries

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

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

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

(b) rights arising from other contractual arrangements; and

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

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

### Investments in joint ventures

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

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

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

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with HKFRS 5.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Interests in joint operations

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

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

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

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

### Business combinations and goodwill

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

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts 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 that is a financial instrument and within the scope of HKAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

## 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 and available-for-sale investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

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

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Related parties

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

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

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

(ii) has significant influence over the Group; or

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

or

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

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

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

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

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

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

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

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

### Property, plant and equipment and depreciation

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Property, plant and equipment and depreciation (continued)

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

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

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

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

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

### Intangible assets (other than goodwill)

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

**Software**

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

**Technology use rights**

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Operating leases

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

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

### Investments and other financial assets

**Initial recognition and measurement**

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

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

**Subsequent measurement**

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

**Financial assets at fair value through profit or loss**

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

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

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investments and other financial assets (continued)

**Loans and receivables**

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

**Available-for-sale financial investments**

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

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

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

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Derecognition of financial assets

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

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

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

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

### Impairment of financial assets

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

**Financial assets carried at amortised cost**

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Impairment of financial assets (continued)

**Financial assets carried at amortised cost** (continued)

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

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

**Assets carried at cost**

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

**Available-for-sale financial investments**

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

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

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

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.

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial liabilities

**Initial recognition and measurement**

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

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

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

**Subsequent measurement**

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

**Financial liabilities at fair value through profit or loss**

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

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

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

**Loans and borrowings**

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

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

**Financial guarantee contracts**

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

### Derecognition of financial liabilities

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Offsetting of financial instruments

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

### Treasury shares

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

### Inventories

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

### Cash and cash equivalents

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

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

### Provisions

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

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

### Income tax

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

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Income tax (continued)

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

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

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

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

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

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

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

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

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

### Government grants

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Revenue recognition

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

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

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

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

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

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

### Share-based payments

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

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

The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Share-based payments (continued)

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

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

### Other employee benefits

**Pension scheme**

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

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute 14% of 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.

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate of 3.3% has been applied to the expenditure on the individual assets.

### Dividends

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Foreign currencies

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

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

## 3. SIGNIFICANT ACCOUNTING ESTIMATES

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

### Estimation uncertainty

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

**Impairment of non-financial assets (other than goodwill)**

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

**Deferred tax assets**

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. The amount of unrecognised tax losses at 31 December 2014 was RMB37,616,000 (2013: RMB12,802,000). Further details are contained in note 27 to the financial statements.

## 3. SIGNIFICANT ACCOUNTING ESTIMATES (continued)

### Estimation uncertainty (continued)

**Income tax**

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

**Fair value of available-for-sale investments**

The available-for-sale investments have been valued based on the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics. This valuation requires the Group to make estimates about expected future cash flows, credit risk, volatility and discount rates, and hence they are subject to uncertainty. The fair value of the available-for-sale investments at 31 December 2014 was RMB336,468,000 (2013: RMB476,133,000). Further details are included in note 18 to the financial statements.

**Impairment of available-for-sale financial assets**

The Group classifies certain assets as available for sale and recognises movements of their fair values in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the statement of profit or loss. At 31 December 2014, no impairment loss has been recognised for available-for-sale financial assets (2013: Nil).

**Impairment of trade and other receivables**

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

**Useful lives and residual values of property, plant and equipment**

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

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

## 4. OPERATING SEGMENT INFORMATION

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

### Information about products and services

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

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| EO | **3,211,163** | 3,437,001 |
| Surfactants | **177,145** | 226,088 |
| Liquefied nitrogen, ethylene glycol and others | **199,285** | 233,053 |
| Processing services | **39,909** | 35,750 |
| Rental income | **9,298** | 8,579 |
| | **3,636,800** | 3,940,471 |

### Geographical information

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

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

### Information about a major customer

No revenue from transactions with a single customer amounted to 10% or more of the Group's total revenue during the year (2013: Nil).

## 5. REVENUE, OTHER INCOME AND GAINS AND OTHER EXPENSES

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

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

| | Notes | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|---|
| **Revenue** | | | |
| Sale of goods | | **3,587,593** | 3,896,142 |
| Rendering of services | | **39,909** | 35,750 |
| Others | | **9,298** | 8,579 |
| | | **3,636,800** | 3,940,471 |
| **Other income** | | | |
| Bank interest income | | **87,803** | 78,916 |
| Interest income from joint ventures | | **100,657** | 60,428 |
| Government subsidies | (a) | **32,254** | 26,762 |
| Sales of circular water | | **13,485** | 25,816 |
| Sales of low sulphur fuel oil | | **312,697** | 185,710 |
| Sales of propylene | | **35,836** | 72,694 |
| Sales of silver catalysts | | **21,922** | 33,184 |
| Sales of ethylene | | **17,495** | 27,681 |
| Gross rental income | | **1,985** | 2,610 |
| Commission fee | | **138** | 1,479 |
| Guarantee fee | | **15,519** | – |
| Sales of raw materials | | **16,291** | 378 |
| Others | | **6,713** | 7,655 |
| | | **662,795** | 523,313 |
| **Gains** | | | |
| Foreign exchange gains, net | | **–** | 96,829 |
| Fair value gains on derivative financial instruments | | **2,761** | 13,086 |
| Investment income from available-for-sale investments | | **7,965** | 16,253 |
| Gain on disposal of intangible assets | | **478** | – |
| Gain on disposal of silver catalysts | (b) | **3,028** | – |
| | | **14,232** | 126,168 |
| | | **677,027** | 649,481 |

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

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

| | Notes | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|---|
| **Other expenses** | | | |
| Cost of sales of low sulphur fuel oil | | **307,022** | 183,350 |
| Impairment loss for inventories | (c) | **24,621** | 99,928 |
| Cost of sales of propylene | | **35,564** | 71,962 |
| Cost of sales of silver catalysts | | **17,928** | 31,974 |
| Cost of sales of ethylene | | **15,876** | 25,155 |
| Fair value losses on derivative financial instruments | | **5,325** | 9,929 |
| Loss on disposal of silver catalysts | (b) | **–** | 3,732 |
| Commission fee | | **153** | 107 |
| Foreign exchange losses, net | | **15,263** | – |
| Cost of sales of raw materials | | **16,205** | 46 |
| Others | | **2,846** | 3,518 |
| | | **440,803** | 429,701 |

Notes:

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

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

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

## 6. FINANCE COSTS

An analysis of finance costs is as follows:

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Interest on bank loans wholly repayable within five years | **194,464** | 85,196 |
| Less: Interest capitalised | **(68,856)** | (10,229) |
| | **125,608** | 74,967 |

## 7. PROFIT BEFORE TAX

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

| | Notes | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|---|
| Cost of inventories sold | | **3,383,060** | 3,293,428 |
| Cost of services provided | | **8,750** | 5,959 |
| Depreciation* | 13 | **161,041** | 157,832 |
| Amortisation of prepaid land lease payments | 14 | **6,731** | 3,176 |
| Amortisation of intangible assets** | 15 | **8,803** | 7,963 |
| Gain on disposal of intangible assets | | **478** | – |
| (Reversal)/write-down of inventories to net realisable value | | **(2,535)** | 98,478 |
| Auditors' remuneration | | **2,200** | 2,445 |
| Minimum lease payments under operating leases | | **1,379** | 1,255 |
| Employee benefit expense (including directors' remuneration (note 8))***: | | | |
| Wages and salaries | | **65,545** | 78,700 |
| Pension scheme contributions | | **3,705** | 2,589 |
| Staff welfare expenses | | **4,184** | 3,423 |
| Equity-settled share award plan expense | | **2,913** | 1,378 |
| | | **76,347** | 86,090 |

* The depreciation of property, plant and equipment for the year is included in "Cost of sales" with an amount of RMB156,244,000 (2013: RMB153,830,000) in the consolidated statement of profit or loss.

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

*** The employee benefit expense for the year is included in "Cost of sales" with an amount of RMB23,157,000 (2013: RMB24,554,000) in the consolidated statement of profit or loss.

## 8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and section 78 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), is as follows:

| | **2014 RMB'000** | 2013 RMB'000 |
|---|---|---|
| Fees | **357** | 384 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | **1,883** | 1,970 |
| Equity-settled share award plan expense | **517** | 332 |
| Pension scheme contributions | **71** | 58 |
| Management fee paid to a related company* | **7,290** | 30,318 |
| | **9,761** | 32,678 |
| | **10,118** | 33,062 |

* On 3 April 2013, the Company entered into a management agreement with Guan Jianzhong and Grand Novel Developments Limited ("**Grand Novel**"), which is a company incorporated in the British Virgin Islands and is controlled by a director of the Company, 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 may in its absolute discretion determine, provided that the aggregate amount of management bonuses payable for each financial year shall not exceed 5 per cent of the audited net profit of the Company (after taxation and non-controlling interests and payment of such bonuses 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 29 to the financial statements. The fair value of these shares, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of award, and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

## 8. DIRECTORS' REMUNERATION (continued)

### (a) Independent non-executive directors

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

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Shen Kaijun | 95 | 96 |
| Mui Ho Cheung, Gary | 190 | 192 |
| Pei Yu[(1)] | 48 | – |
| Wang Wanxu[(2)] | 24 | 96 |
| | 357 | 384 |

Notes:

(1) Pei Yu was appointed as an independent non-executive director on 30 June 2014.

(2) Wang Wanxu resigned as an independent non-executive director on 28 March 2014.

There were no other emoluments payable to the independent non-executive directors during the year (2013: Nil).

### (b) Executive directors

| | Salaries, allowances and benefits in kind RMB'000 | Equity-settled share award plan expense RMB'000 | Pension scheme contributions RMB'000 | Management fee paid to a related company RMB'000 | Total remuneration RMB'000 |
|---|---|---|---|---|---|
| **2014** | | | | | |
| Guan Jianzhong | – | – | – | 7,290 | 7,290 |
| Han Jianhong | 849 | – | 26 | – | 875 |
| Niu Yingshan | 597 | 202 | 26 | – | 825 |
| Han Jianping | 437 | 315 | 19 | – | 771 |
| | 1,883 | 517 | 71 | 7,290 | 9,761 |
| **2013** | | | | | |
| Guan Jianzhong | – | – | – | 30,318 | 30,318 |
| Han Jianhong | 897 | – | 22 | – | 919 |
| Niu Yingshan | 638 | 109 | 22 | – | 769 |
| Han Jianping | 435 | 223 | 14 | – | 672 |
| | 1,970 | 332 | 58 | 30,318 | 32,678 |

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

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

## 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees included four directors (2013: four), details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining one (2013: one) non-director, highest paid employee for the year are as follows:

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Salaries, allowances and benefits in kind | **889** | 850 |
| Equity-settled share award plan expense | **101** | 55 |
| Pension scheme contributions | **13** | 12 |
| | **1,003** | 917 |

The remuneration of the remaining one non-director, highest paid employee fell within the range of HK$1,000,001 to HK$1,500,000.

During the year ended 31 December 2013, shares were awarded to a non-director, highest paid employee in respect of his services to the Group, further details of which are included in the disclosures in note 29 to the financial statements. The fair value of such share awards, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of award and the amount included in the financial statements for the current year is included in the above non-director, highest paid employee's remuneration disclosures.

## 10. INCOME TAX

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

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

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Current – Mainland China | | |
| Charge for the year | **31,206** | 103,061 |
| Underprovision/(overprovision) in prior years | **2,876** | (5,289) |
| Deferred (note 27) | **(17,518)** | (16,761) |
| Total tax charge for the year | **16,564** | 81,011 |

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% (2013: 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 (2013: Nil).

## 10. INCOME TAX (continued)

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

Pursuant to the approval of the tax bureau, Sanjiang Chemical Co., Ltd. ("**Sanjiang Chemical**") has been qualified as a High and New Technology Enterprise since 2010 and enjoys a favourable corporate income tax rate of 15% from year 2013 to year 2015. Therefore, Sanjiang Chemical was subject to corporate income tax at a rate of 15% for the year ended 31 December 2014 (2013: 15%).

Pursuant to the approval of the tax bureau, Jiaxing Yongming Petrochemical Co., Ltd. ("**Yongming Petrochemical**") has been qualified as a High and New Technology Enterprise since 2013 and enjoys a preferential CIT tax rate of 15% from year 2013 to year 2015. Therefore, Yongming Chemical was subject to corporate income tax at a rate of 15% for the year ended 31 December 2014 (2013: 15%).

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:

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Profit before tax | **147,370** | 685,771 |
| Tax at the statutory tax rate | **36,842** | 171,442 |
| Lower tax rates enacted by local authority | **(18,562)** | (52,263) |
| Additional deduction for research and development activities | **(11,917)** | (9,283) |
| Adjustments in respect of current tax of previous periods | **2,876** | (5,289) |
| Expenses not deductible for tax | **156** | 435 |
| Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries (note 27) | **(15,860)** | (11,541) |
| Losses/(profits) attributable to joint ventures | **17,812** | (14,098) |
| Tax losses not recognised | **5,217** | 1,608 |
| Tax charge at the Group's effective rate | **16,564** | 81,011 |

## 11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2014 includes a loss of RMB11,870,000 (2013: RMB53,742,000) which has been dealt with in the financial statements of the Company (note 30(b)).

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

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

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

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

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| **Earnings** | | |
| Profit for the year attributable to ordinary equity holders of the parent | **132,780** | 605,131 |

| | Number of shares | |
|---|---|---|
| | 2014<br>'000 | 2013<br>'000 |
| **Shares** | | |
| Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation | **983,964** | 986,705 |
| Effect of dilution – weighted average number of ordinary shares under the share award plan | **4,266** | 3,358 |
| | **988,230** | 990,063 |

## 13. PROPERTY, PLANT AND EQUIPMENT

**Group**

| | Buildings RMB'000 | Plant and machinery RMB'000 | Office equipment RMB'000 | Motor vehicles RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **31 December 2014** | | | | | | |
| At 1 January 2014: | | | | | | |
| Cost | 366,174 | 1,780,928 | 9,349 | 9,039 | 969,448 | 3,134,938 |
| Accumulated depreciation | (76,742) | (461,504) | (4,376) | (6,612) | – | (549,234) |
| Net carrying amount | 289,432 | 1,319,424 | 4,973 | 2,427 | 969,448 | 2,585,704 |
| At 1 January 2014, net of accumulated depreciation | 289,432 | 1,319,424 | 4,973 | 2,427 | 969,448 | 2,585,704 |
| Additions | 84,576 | 43,891 | 3,074 | 56 | 2,397,331 | 2,528,928 |
| Disposal | (94,239) | (5,149) | – | (8) | – | (99,396) |
| Depreciation provided during the year | (17,688) | (141,256) | (1,514) | (583) | – | (161,041) |
| Transfers | 13,502 | 9,469 | 1,109 | – | (24,080) | – |
| At 31 December 2014, net of accumulated depreciation | 275,583 | 1,226,379 | 7,642 | 1,892 | 3,342,699 | 4,854,195 |
| At 31 December 2014: | | | | | | |
| Cost | 370,013 | 1,829,139 | 13,532 | 9,087 | 3,342,699 | 5,564,470 |
| Accumulated depreciation | (94,430) | (602,760) | (5,890) | (7,195) | – | (710,275) |
| Net carrying amount | 275,583 | 1,226,379 | 7,642 | 1,892 | 3,342,699 | 4,854,195 |

## 13. PROPERTY, PLANT AND EQUIPMENT (continued)

**Group**

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

As at 31 December 2014, the Group's property, plant and equipment of RMB559,772,000 (2013: RMB110,323,000) were pledged to secure bank loan facilities granted to the Group (note 26(iii)).

## 14. PREPAID LAND LEASE PAYMENTS

**Group**

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Carrying amount at beginning of year | **319,047** | 81,152 |
| Additions | **495** | 241,071 |
| Recognised during the year | **(6,731)** | (3,176) |
| Carrying amount at end of year | **312,811** | 319,047 |
| Current portion included in prepayments, deposits and other receivables (note 21) | **(6,731)** | (5,154) |
| Non-current portion | **306,080** | 313,893 |

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

As at 31 December 2014, the Group's leasehold land of RMB207,632,000 (2013: RMB185,334,000) was pledged to secure bank loan facilities granted to the Group (note 26(iv)).

## 15. INTANGIBLE ASSETS

**Group**

| | Software RMB'000 | Technology use rights RMB'000 | Others RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| 31 December 2014 | | | | |
| Cost at 1 January 2014, net of accumulated amortisation | **354** | **104,327** | **9,377** | **114,058** |
| Additions | **24** | **6,012** | **630** | **6,666** |
| Disposal | **–** | **–** | **(522)** | **(522)** |
| Amortisation provided during the year | **(20)** | **(8,039)** | **(744)** | **(8,803)** |
| At 31 December 2014 | **358** | **102,300** | **8,741** | **111,399** |
| At 31 December 2014: | | | | |
| Cost | **538** | **140,493** | **10,159** | **151,190** |
| Accumulated amortisation | **(180)** | **(38,193)** | **(1,418)** | **(39,791)** |
| Net carrying amount | **358** | **102,300** | **8,741** | **111,399** |

## 15. INTANGIBLE ASSETS (continued)

**Group**

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

## 16. INVESTMENTS IN SUBSIDIARIES

**Company**

| | **2014 RMB'000** | 2013 RMB'000 |
|---|---|---|
| Unlisted shares, at cost | **426,588** | 426,588 |

The amounts due from and to a subsidiary included in the Company's current assets and current liabilities are disclosed in note 36(c) to the financial statements.

## 16. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the subsidiaries are as follows:

| Name | Place and date of incorporation/ registration and place of operations | Issued ordinary share/registered paid-up capital | Percentage of equity interest attributable to the Group | Principal activities |
|---|---|---|---|---|
| Capitol International Limited ("**Capitol International**") | Hong Kong 18 July 2003 | HK$1,000,000 | 100% (direct) | Investment holding |
| Sanjiang Chemical (note (i)) | PRC/Mainland China 9 December 2003 | US$94,450,000 | 100% (indirect) | Manufacture and sale of EO, surfactants, ethylene glycol, polymer grade ethylene, industrial gases and provision of sufactant processing services, and lease and storage services |
| Yongming Petrochemical (note (iii)) | PRC/Mainland China 9 December 2003 | US$133,000,000 | 100% (indirect) | Manufacture and sale of EO, surfactants, ethylene glycol, polymer grade ethylene, industrial gases and provision of surfactant processing services |
| Jiaxing Port Chemical Industry Park Pipe Gallery Co., Ltd. ("**Guanlang**") (note (ii)) | PRC/Mainland China 29 September 2005 | RMB13,000,000 | 83.85% (indirect) | Construction and management of a pipe network at Jiaxing Port Chemical Industrial Park |
| Sanjiang Trading Co., Ltd. ("**Sanjiang Trading**") (note (ii)) | PRC/Mainland China 29 October 2004 | RMB5,000,000 | 100% (indirect) | Trading of ethylene, EO and other chemical products |
| Hangzhou Textile Auxilaries Co., Ltd. ("**Hangzhou Sanjiang**") (note (ii)) | PRC/Mainland China 1 April 2010 | RMB5,000,000 | 100% (indirect) | Manufacture and sale of alcohol ethoxylate, nonylphenols and textile auxiliaries |
| Zhejiang Sanjiang Chemical New Material Co., Ltd. ("**Sanjiang New Material**") (note (ii)) | PRC/Mainland China 23 December 2011 | US$100,000,000 | 100% (indirect) | Manufacture and sale of water reducing auxiliaries |
| Zhejiang Xingxing New Energy Technology Co., Ltd ("**Xingxing New Energy**") (note (iv)) | PRC/ Mainland China 19 January 2011 | RMB800,000,000 | 75% (indirect) | Manufacture and sale of polyethylene |

Notes:

(i) The entity is a wholly-foreign-owned enterprise established under PRC law.
(ii) These entities are limited liability enterprises established under PRC law.
(iii) The entity is a Sino-foreign joint venture enterprise established under PRC law, and is wholly owned by the Group. On 8 April 2014, Yongming Petrochemical and Sanjiang Chemical entered into a merger agreement that Yongming Petrochemical to merge into Sanjiang Chemical. On 31 December 2014, the liquidation application of Yongming Petrochemical was pre-approved by the Administration of Industry and Commerce.
(iv) The entity is limited liability enterprise established under PRC law. During the year, the registered paid-up capital of this entity increased from RMB480,000,000 to RMB800,000,000 with additional capital injection of RMB320,000,000 from its shareholders.

## 17. INVESTMENTS IN JOINT VENTURES

**Group**

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Share of net assets | **174,379** | 245,626 |
| Goodwill on acquisition | **132,377** | 132,377 |
| | **306,756** | 378,003 |

The Group's trade receivable and payable balances due from and to joint ventures are disclosed in note 36(c) to the financial statements.

The Group's loans to the joint ventures bear interest and will repayable within one year. The interest income and balance of the loans to the joint ventures are disclosed in note 36(a) to the financial statements.

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

| | | | Percentage of | | | |
|---|---|---|---|---|---|---|
| Name | Place and date of registration and place of operations | Registered paid-up capital | Ownership interest | Voting power | Profit sharing | Principal activities |
| Zhejiang ZhapuMeifu Port & Storage Co., Ltd. ("**Mei Fu Port**") | PRC/Mainland China 20 March 2003 | US$24,490,000 | 51% | 57% | 50% | Port service including loading and storage |
| Zhejiang Meifu Petrochemical Co., Ltd. ("**Mei Fu Petrochemical**")* | PRC/Mainland China 20 March 2003 | US$39,550,000 | 51% | 57% | 50%/74.1% | Manufacture and sale of polyethylene and derivative products |

* On 1 July 2014, the Group entered into contractual management agreements with the shareholders of Mei Fu Petrochemical, Guansheng Petroleum Co., Ltd. (Singapore) ("**Guansheng Petroleum**") and Hangzhou Weiyu Industrial investment Co., Ltd. ("**Hangzhou Weiyu**"), pursuant to which Guansheng Petroleum granted the Group and Hangzhou Weiyu the rights to operate and manage Mei Fu Petrochemical from 1 June 2014 to 31 May 2017.

## 17. INVESTMENTS IN JOINT VENTURES (continued)

Pursuant to the contractual management agreements, the Group and Hangzhou Weiyu have (a) the rights to operate and manage Mei Fu Petrochemical; (b) the rights to make decision over all operational and financial activities of Mei Fu Petrochemical, including appointment of senior management; (c) the rights to receive the distributable profits and the obligation to fund the losses of Mei Fu Petrochemical generated and incurred during the contractual management period according to an agreed percentage of sharing between the Group and Hangzhou Weiyu of 74.1% and 25.9%, respectively. For the contractual management period from 1 June 2014 to 31 May 2017, the Group is obligated to pay a fixed fee of RMB14,450,000 to Guangsheng Petroleum. In this connection, the Group's percentage of profit sharing in Mei Fu Petrochemical increased from 50% to 74.1% since 1 June 2014.

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

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

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | Mei Fu Port RMB'000 | Mei Fu Petrochemical RMB'000 | Mei Fu Port RMB'000 | Mei Fu Petrochemical RMB'000 |
| Cash and cash equivalents | 646 | 1,620 | 16,506 | 111,770 |
| Other current assets | 43,638 | 2,024,202 | 6,156 | 1,387,282 |
| Current assets | 44,284 | 2,025,822 | 22,662 | 1,499,052 |
| Non-current assets, excluding goodwill | 188,184 | 1,959,800 | 201,607 | 1,314,797 |
| Current liabilities | (11,489) | (3,743,877) | (35,378) | (2,489,392) |
| Non-current liabilities | (7,002) | (67,855) | (7,176) | (14,921) |
| Net assets, excluding goodwill | 213,977 | 173,890 | 181,715 | 309,536 |
| Reconciliation to the Group's interest in the joint venture: | | | | |
| Proportion of the Group's profit sharing | 50% | 50%/74.1% | 50% | 50% |
| Group's share of net assets of the joint venture, excluding goodwill | 106,989 | 67,390 | 90,858 | 154,768 |
| Goodwill on acquisition | 60,395 | 71,982 | 60,395 | 71,982 |
| Carrying amount of the investment | 167,384 | 139,372 | 151,253 | 226,750 |

## 17. INVESTMENTS IN JOINT VENTURES (continued)

Results of the joint ventures:

| | 2014 | | From 16 July 2013 (date of acquisition) to 31 December 2013 | |
|---|---|---|---|---|
| | Mei Fu Port RMB'000 | Mei Fu* Petrochemical RMB'000 | Mei Fu Port RMB'000 | Mei Fu Petrochemical RMB'000 |
| Revenue | **62,149** | **3,195,651** | 24,548 | 2,496,810 |
| Interest income | **351** | **12,411** | 62 | 4,512 |
| Cost of sales | **(9,748)** | **(3,165,322)** | (5,198) | (2,311,088) |
| Depreciation and amortisation | **(9,640)** | **(80,234)** | (6,720) | (39,572) |
| Interest expenses | **(1,925)** | **(140,200)** | (1,246) | (60,592) |
| Income tax expense | **(11,414)** | **30,727** | (3,178) | (37,554) |
| Profit and total comprehensive income for the year | **32,262** | **(135,646)** | 9,044 | 103,738 |
| Dividend received | **–** | **–** | – | – |

## 18. AVAILABLE-FOR-SALE INVESTMENTS

**Group**

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Unlisted investments, at fair value | **336,468** | 476,133 |
| Unlisted equity investments, at cost | **1,000** | – |
| | **337,468** | 476,133 |

Unlisted investments represent investments in certain financial assets and paper silver issued by licensed financial institutions in the PRC. The investments bear expected yield rates of 2.0% to 5.8% (2013: 2.0% to 7.3%) per annum upon maturity.

During the year, the gross gain amounting to RMB925,000 (2013: Nil) in respect of the investments in financial assets and the gross loss amounting to RMB6,330,000 (2013: RMB1,981,000) in respect of the paper silver were recognised in other comprehensive income. The loss amounting to RMB1,654,000 (2013: gain of RMB1,144,000) in respect of matured investments was reclassified from other comprehensive income to the statement of profit or loss during the year.

As at 31 December 2014, certain unlisted equity investments with a carrying amount of RMB1,000,000 (2013: Nil) were stated at cost because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably. The Group does not intend to dispose of them in the near future.

## 19. INVENTORIES

**Group**

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Raw materials | **259,577** | 229,579 |
| Finished goods | **31,017** | 18,001 |
| | **290,594** | 247,580 |

The carrying amount of inventories carried at net realisable value was RMB218,414,000 (2013: RMB131,340,000) as at 31 December 2014.

## 20. TRADE AND NOTES RECEIVABLES

**Group**

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Trade receivables | **55,737** | 53,315 |
| Notes receivable | **269,999** | 149,644 |
| | **325,736** | 202,959 |

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

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

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| 1 to 30 days | **51,139** | 48,970 |
| 31 to 60 days | **539** | 991 |
| 61 to 90 days | **429** | 592 |
| 91 to 360 days | **3,119** | 2,665 |
| Over 360 days | **511** | 97 |
| | **55,737** | 53,315 |

## 20. TRADE AND NOTES RECEIVABLES (continued)

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

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Neither past due nor impaired | **51,139** | 48,970 |
| Less than 30 days past due | **539** | 991 |
| 31 to 60 days past due | **429** | 592 |
| 61 to 90 days past due | **1,472** | 1,389 |
| 91 to 360 days past due | **1,647** | 1,276 |
| Over 360 days past due | **511** | 97 |
| | **55,737** | 53,315 |

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

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

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

At 31 December 2014, the Group endorsed certain notes receivable accepted by the public listed banks in the PRC (the "**Derecognised Bills**"), to certain of its suppliers in order to settle the trade and bills payables due to such suppliers with a carrying amount in aggregate of RMB385,228,000 (2013: RMB183,743,000). The Derecognised Bills have a maturity from one to six months as at 31 December 2014. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "**Continuing Involvement**"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade and bills payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

As at 31 December 2014, the Group's notes receivable of RMB201,109,000 (2013: RMB152,844,000) were pledged to secure bank loan facilities granted to the Group (note 26(ii)).

## 21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

**Group**

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Other receivables | **268,218** | 114,220 |
| Entrusted loan receivable* | **200,000** | 200,000 |
| Prepayments | **46,634** | 15,828 |
| Prepaid expenses | **13,436** | 812 |
| Prepaid land lease payments (note 14) | **6,731** | 5,154 |
| | **535,019** | 336,014 |
| Less: Prepaid expenses, non-current portion | **(6,823)** | – |
| Prepayments, deposits and other receivables, current portion | **528,196** | 336,014 |

* On 12 December 2014, Sanjiang Chemical entered into a trust agreement with China Merchants Bank ("**CMB**") and entrusted the fund of RMB200,000,000 in total to CMB. As agreed by Sanjiang Chemical, CMB advanced the fund of RMB200,000,000 to Jiaxing Kaiyuan Construction Co., Limited ("**Jiaxing Kaiyuan**") pursuant to the entrusted loan agreement between CMB and Jiaxing Kaiyuan. The entrusted loan carries interest at a rate of 11.30% per annum and matures on 31 March 2015. A guarantee was provided in favour of the Group by Zhejiang Zhongfang Properties Co., Limited ("**Zhejiang Zhongfang**") which was the parent company of Jiaxing Kaiyuan, and Zhu Xingfu who was the legal representative of Zhejiang Zhongfang.

**Company**

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Other receivables | **2,046** | 2,290 |

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.

## 22. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

**Group**

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Cash and bank balances | **398,790** | 253,981 |
| Time deposits | **1,214,895** | 742,186 |
| | **1,613,685** | 996,167 |
| Less: Pledged time deposits: | | |
| Pledged for notes payable (note 23) | **434,077** | 225,842 |
| Pledged for bank loans (note 26(i)) | **743,723** | 501,444 |
| Pledged for letters of credit | **37,095** | 14,900 |
| | **1,214,895** | 742,186 |
| Cash and cash equivalents | **398,790** | 253,981 |

**Company**

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Cash and bank balances | **908** | 3,674 |

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to RMB261,432,000 (2013: RMB166,235,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

## 23. TRADE AND BILLS PAYABLES

**Group**

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Trade payables | **790,183** | 784,919 |
| Bills payable | **514,015** | 398,508 |
| | **1,304,198** | 1,183,427 |

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

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Within 3 months | **1,070,214** | 964,878 |
| 3 to 6 months | **168,455** | 215,813 |
| 6 to 12 months | **63,433** | 633 |
| 12 to 24 months | **1,370** | 1,366 |
| 24 to 36 months | **117** | 139 |
| Over 36 months | **609** | 598 |
| | **1,304,198** | 1,183,427 |

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

As at 31 December 2014, the bills payable of RMB514,015,000 (2013: RMB398,508,000) were secured by the Group's pledged deposits with a carrying amount of RMB434,077,000 (2013: RMB225,842,000) (note 22).

## 24. OTHER PAYABLES AND ACCRUALS

**Group**

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Other payables | **779,315** | 164,208 |
| Advances from customers | **70,630** | 65,847 |
| Taxes payable other than income tax | **10,660** | 10,563 |
| Payroll payable | **9,147** | 11,646 |
| Interest payable | **10,261** | 10,022 |
| Other accrued liabilities | **4,029** | 5,332 |
| | **884,042** | 267,618 |

**Company**

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Other payables | **–** | 148 |
| Interest payable | **110** | 109 |
| | **110** | 257 |

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

## 25. DERIVATIVE FINANCIAL INSTRUMENTS

**Group**

| | 2014 Liabilities RMB'000 | 2013 Liabilities RMB'000 |
|---|---|---|
| Bullion options contracts | **5,942** | 4,907 |
| Forward contracts for silver | **913** | – |
| | **6,855** | 4,907 |

## 26. INTEREST-BEARING BANK AND OTHER BORROWINGS

**Group**

| | Effective interest rate (%) | Maturity | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|---|---|
| **Current** | | | | |
| Bank loans – secured | 1.857 – 3.764 | 2015 | **814,461** | – |
| | 1.082 – 5.600 | 2014 | **–** | 938,953 |
| | 1.778 – 1.783 | 2015 | **51,693** | – |
| Bank loans – unsecured | 2.738 – 6.600 | 2014 | **–** | 253,620 |
| | 1.032 – 6.732 | 2015 | **2,095,185** | – |
| | 2.043 – 5.880 | 2014 | **–** | 1,026,141 |
| | 6.400 | 2015 | **100,000** | – |
| Current portion of long term loans – secured | 6.550 | 2015 | **200,000** | – |
| | | | **3,261,339** | 2,218,714 |
| Short term bond | 8.010 | 2015 | **502,042** | – |
| | 5.300 | 2014 | **–** | 310,109 |
| | | | **3,763,381** | 2,528,823 |
| **Non-current** | | | | |
| Bank loans – secured | 1.778 – 1.783 | 2015 | **–** | 51,506 |
| | 5.125 – 6.550 | 2016 – 2019 | **1,497,100** | – |
| | 6.550 | 2015 – 2019 | **–** | 460,000 |
| | | | **1,497,100** | 511,506 |
| Bank loans – unsecured | 6.400 | 2016 | **400,000** | – |
| | | | **1,897,100** | 511,506 |

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

**Company**

| | Effective interest rate (%) | Maturity | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|---|---|
| **Current** | | | | |
| Bank loans – unsecured | 3.386 – 3.534 | 2015 | **30,512** | – |
| | 2.876 – 3.860 | 2014 | **–** | 109,363 |
| | | | **30,512** | 109,363 |

**Group**

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| **Analysed into:** | | |
| Bank loans | | |
| Within one year | **3,261,339** | 2,218,714 |
| In the second year | **700,000** | 251,506 |
| In the third to fifth years, inclusive | **1,197,100** | 40,000 |
| Beyond five years | **–** | 220,000 |
| | **5,158,439** | 2,730,220 |

**Company**

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| **Analysed into:** | | |
| Bank loans | | |
| Within one year | **30,512** | 109,363 |

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

Notes:

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

(i) the pledge of certain of the Group's time deposits amounting to RMB743,723,000 as at 31 December 2014 (2013: RMB501,444,000) (note 22);

(ii) the pledge of certain of the Group's notes receivable amounting to RMB201,109,000 as at 31 December 2014 (2013: RMB152,844,000) (note 20);

(iii) mortgages over the Group's property, plant and equipment, which had an aggregate carrying value at the end of the reporting period of approximately RMB559,772,000 (2013: RMB110,323,000) (note 13); and

(iv) mortgages over the Group's leasehold land, which had an aggregate carrying value at the end of the reporting period of approximately RMB207,632,000 (2013: RMB185,334,000) (note 14).

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, with a total loan amount of RMB1,600,000,000 which was guaranteed by its shareholders, Sanjiang Chemical, holding 75% of its equity interest, and Zhejiang Jiahua Group Co., Ltd. ("**Jiahua Group**"), holding 25% of its equity interest, for amounts not exceeding RMB1,200,000,000 and RMB400,000,000, respectively. Xingxing New Energy had used the facility of RMB1,500,100,000 as at 31 December 2014 (2013: RMB460,000,000) and the facility was also secured by its leasehold land with a carrying value of approximately RMB172,117,000 as at 31 December 2014 (2013: RMB175,666,000) which was included in the amounts in note (iv) above.

Sanjiang New Material entered into a syndicated loan agreement with Industrial and Commercial Bank of China Limited and CMB in September 2014 in relation to the funding requirement for the construction of the EO/EG (ethylene glycol) production facility with a total loan amount of RMB500,000,000 which was guaranteed by Sanjiang Chemical and Yongming Petrochemical for amounts not exceeding RMB600,000,000 and RMB500,000,000, respectively. Sanjiang New Material had used the facility of RMB197,000,000 as at 31 December 2014 (2013: Nil) and the facility was also secured by its property, plant and equipment and leasehold land with carrying values of approximately RMB459,584,000 and RMB26,079,000, respectively, which were included in the amounts in note (iii) and note (iv) above.

On 25 November 2014, Sanjiang Chemical, a subsidiary of the Company, with China CITIC Banking Corp., Ltd. as the principal underwriter, issued a short term unsecured corporate bond of RMB500,000,000 to a number of financial institutions, with a maturity period of 1 year and a fixed nominal interest rate of 7.5% per annum. The principal and the interest will be repaid at the end of the term on 24 November 2015.

## 27. DEFERRED TAX

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

### Deferred tax liabilities

**Group**

| | Fair value on derivative financial instruments RMB'000 | Available-for-sale investment revaluation RMB'000 | Withholding tax on distributable profits RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| At 1 January 2013 | 109 | 164 | 27,298 | 27,571 |
| Deferred tax charged/(credited) to the statement of profit or loss during the year (note 10) | (109) | – | 8,337 | 8,228 |
| Deferred tax reversed during the year (note 10) | – | – | (9,021) | (9,021) |
| Deferred tax realised during the year | – | (164) | – | (164) |
| At 31 December 2013 and 1 January 2014 | **–** | **–** | **26,614** | **26,614** |
| Deferred tax charged to the statement of profit or loss during the year (note 10) | **–** | **–** | **1,985** | **1,985** |
| Deferred tax reversed during the year (note 10) | **–** | **–** | **(17,845)** | **(17,845)** |
| Deferred tax charged to other comprehensive income during the year | **–** | **139** | **–** | **139** |
| Deferred tax transferred from tax payable | **–** | **–** | **7,783** | **7,783** |
| At 31 December 2014 | **–** | **139** | **18,537** | **18,676** |

## 27. DEFERRED TAX (continued)

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

### Deferred tax assets

**Group**

| | Accrued expense RMB'000 | Available for sale investment revaluation RMB'000 | Impairment of assets RMB'000 | Government grants RMB'000 | Tax losses RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| At 1 January 2013 | 451 | – | 2,709 | – | – | 3,160 |
| Deferred tax credited to other comprehensive income during the year | – | 327 | – | – | – | 327 |
| Deferred tax credited/(charged) to the statement of profit or loss during the year (note 10) | (451) | – | 16,419 | – | – | 15,968 |
| At 31 December 2013 and 1 January 2014 | **–** | **327** | **19,128** | **–** | **–** | **19,455** |
| Deferred tax credited to other comprehensive income during the year | **–** | **1,044** | **–** | **–** | **–** | **1,044** |
| Deferred tax credited/(charged) to the statement of profit or loss during the year (note 10) | **–** | **–** | **(1,931)** | **344** | **3,245** | **1,658** |
| Deferred tax realised during the year | **–** | **(327)** | **–** | **–** | **–** | **(327)** |
| At 31 December 2014 | **–** | **1,044** | **17,197** | **344** | **3,245** | **21,830** |

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.

## 27. DEFERRED TAX (continued)

### Deferred tax assets (continued)

Pursuant to the approval of the tax bureau in 2013, 5% withholding tax is levied on dividends declared from the profit of 2010 and 2011 of Sanjiang Chemical and Jiaxing Yongming according to the related tax arrangement between Mainland China and Hong Kong. In the opinion of the directors, the lower withholding tax rate of 5% should be applied for the dividends declared since 2012 in view of the fact that Capitol International engages in substantive operation activities in Hong Kong and is the beneficial owner of the dividends.

Deferred tax liabilities are recognised based on 30% of the accumulated distributable earnings of the subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries established in Mainland China will distribute the remaining 70% of such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised was approximately RMB1,239,460,000 as at 31 December 2014 (2013: RMB1,146,838,000).

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

The Group has tax losses arising in Hong Kong of RMB11,608,000 (2013: Nil) that are available indefinitely for offsetting against future taxable profits of the company in which the losses arose.

The Group also has tax losses arising in Mainland China of RMB24,316,000 (2013: RMB11,110,000) that will expire in one to five years for offsetting against future taxable profits of Hangzhou Sanjiang, Xingxing New Energy, Sanjiang New Material and Sanjiang Trading.

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

## 28. SHARE CAPITAL

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

| | Number of shares | Amount RMB'000 |
|---|---|---|
| Authorised ordinary shares of HK$0.1 each: | | |
| At 31 December 2013, 1 January 2014 and 31 December 2014 | 5,000,000,000 | 432,465 |
| Issued and fully paid ordinary shares of HK$0.1 each: | | |
| At 1 January 2013 | 1,006,640,000 | 87,144 |
| Repurchase and cancellation of ordinary shares* | (13,536,000) | (1,096) |
| At 31 December 2013, 1 January 2014 and 31 December 2014 | **993,104,000** | **86,048** |

## 29. SHARE AWARD PLAN

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

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

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

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

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

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

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

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

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

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

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

## 29. SHARE AWARD PLAN (continued)

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

Pursuant to share award notices issued on 1 December 2012 to those selected employees, an aggregate of 2,940,000 shares (the "**2012 Awarded Shares**") of the Company of HK$0.1 each were granted at nil consideration and the earliest vesting date of the 2012 Awarded Shares is 1 December 2017. There is no other performance target required except the eligible participant remains as an employee of the Group.

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

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

| | Number of shares purchased for the Share Award Plan | Number of awarded shares |
|---|---|---|
| At 1 January 2013 | **579,000** | 4,852,000 |
| Purchased and withheld | **3,137,000** | – |
| Granted on 1 December 2013 | **(2,998,000)** | 2,998,000 |
| At 31 December 2013 | **718,000** | 7,850,000 |
| Exercisable as at 31 December 2013 | | – |
| At 1 January 2014 | **718,000** | 7,850,000 |
| Purchased and withheld | **4,691,000** | – |
| At 31 December 2014 | **5,409,000** | 7,850,000 |
| Exercisable as at 31 December 2014 | | – |

During the year, a net Share Award Plan expense of RMB2,913,000 was charged to the statement of profit or loss (2013: RMB1,378,000), of which RMB517,000 was included in the directors' remuneration (2013: RMB332,000).

## 30. RESERVES

### (a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 33 of the financial statements.

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

### (b) Company

| | Shares premium RMB'000 | Capital redemption reserve RMB'000 | Share repurchased for share award plan RMB'000 | Share award plan reserve RMB'000 | (Accumulated losses)/ retained profits RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| Balance at 1 January 2013 | 1,039,320 | 1,275 | (11,314) | 1,001 | 96,947 | 1,127,229 |
| Total comprehensive income for the year | – | – | – | – | (53,742) | (53,742) |
| Repurchase of shares for the share award plan | – | – | (9,289) | – | – | (9,289) |
| Equity-settled share award plan expense | – | – | – | 1,378 | – | 1,378 |
| Repurchase and cancellation of ordinary shares | (32,891) | 1,096 | – | – | (1,096) | (32,891) |
| Proposed final 2013 dividend | (188,118) | – | – | – | – | (188,118) |
| At 31 December 2013 | 818,311 | 2,371 | (20,603) | 2,379 | 42,109 | 844,567 |
| Total comprehensive income for the year | **–** | **–** | **–** | **–** | **(11,870)** | **(11,870)** |
| Repurchase of shares for the share award plan | **–** | **–** | **(12,409)** | **–** | **–** | **(12,409)** |
| Equity-settled share award plan expense | **–** | **–** | **–** | **2,913** | **–** | **2,913** |
| At 31 December 2014 | **818,311** | **2,371** | **(33,012)** | **5,292** | **30,239** | **823,201** |

## 31. DIVIDENDS

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Proposed final – Nil (2013: HK24 cents) per ordinary share | – | 188,118 |
| | – | 188,118 |

The board of directors does not recommend the payment of final dividend for the year ended 31 December 2014.

## 32. CONTINGENT LIABILITIES

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

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Guarantees given to banks in connection with facilities granted to: | | |
| Joint venture | **1,398,801** | 120,000 |
| Joint operation | **80,315** | 60,988 |
| | **1,479,116** | 180,988 |

As at 31 December 2014, the banking facilities granted to a joint venture and a joint operation subject to guarantees given to banks by the Group were utilised to the extent of approximately RMB299,932,000 (2013: RMB29,977,000) and RMB80,315,000 (2013: RMB60,988,000), respectively.

## 33. PLEDGE OF ASSETS

Details of the Group's bank borrowings, which are secured by the assets of the Group, are included in note 26 to these financial statements.

## 34. OPERATING LEASES ARRANGEMENTS

### As lessor

The Group leases pipes under operating lease arrangements as at 31 December 2014. Leases for pipes are negotiated for terms ranging from six to ten years. The Group had total future minimum lease receivables under non-cancellable operating leases falling due as follows:

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Within one year | **9,574** | 9,144 |
| In the second to third years, inclusive | **8,887** | 9,144 |
| In the fourth to fifth years, inclusive | **18,528** | 20,212 |
| After five years | **28,721** | 32,442 |
| | **65,710** | 70,942 |

### As lessee

The Group leases certain of its office properties under operating lease arrangements as at 31 December 2014. Leases for properties are negotiated for terms ranging from six to ten years. The Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Within one year | **1,379** | 1,388 |
| In the second to third years, inclusive | **1,149** | 1,388 |
| After three years | **–** | 1,273 |
| | **2,528** | 4,049 |

## 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:

| | **2014 RMB'000** | 2013 RMB'000 |
|---|---|---|
| Contracted, but not provided for: | | |
| Plant and machinery | **1,307,452** | 2,410,735 |

In addition, the Group's share of the joint ventures' own capital commitments, which are not included in the above, is as follows:

| | **2014 RMB'000** | 2013 RMB'000 |
|---|---|---|
| Contracted, but not provided for: | | |
| Plant and machinery | **1,005** | – |

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

## 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 |
| 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 |
| 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 | Joint venture |
| Mei Fu Port | Joint venture |
| Grand Novel | 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:

### Group

| | Notes | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|---|
| Sales of goods to: | | | |
| Mei Fu Petrochemical | (i) | **356,051** | 259,392 |
| Jiahua Group | (i) | **1,336** | 977 |
| Jiahua Energy | (i) | **1,002** | 230 |
| | | **358,389** | 260,599 |
| Purchases of goods from: | | | |
| Mei Fu Petrochemical | (i) | **2,293** | 2,153 |
| Jiahua Group | (i) | **13** | – |
| Jiahua Energy | (i) | **111,330** | 117,663 |
| Jiaxing Rewang | (i) | **8,988** | 10,394 |
| | | **122,624** | 130,210 |
| Rental income from: | | | |
| Mei Fu Petrochemical | (ii) | **1,921** | – |
| Jiaxing Rewang | (ii) | **879** | 879 |
| Jiahua Energy | (ii) | **238** | 238 |
| | | **3,038** | 1,117 |
| Rental expense to: | | | |
| Hangzhou Haoming | (ii) | **1,200** | 1,200 |
| Loans to: | | | |
| Mei Fu Petrochemical | (iii) | **781,689** | 1,787,072 |
| Mei Fu Port | (iii) | **–** | 178,000 |
| | | **781,689** | 1,965,072 |
| Interest fee from: | | | |
| Mei Fu Petrochemical | (iii) | **99,000** | 58,610 |
| Mei Fu Port | (iii) | **1,657** | 1,818 |
| | | **100,657** | 60,428 |
| Guarantee fee from: | | | |
| Mei Fu Petrochemical | (iv) | **14,796** | – |
| Steam pipe installation expense to: | | | |
| Jiahua Energy | (v) | **30,200** | – |
| Management services expense to: | | | |
| Mei Fu Petrochemical | | **368** | – |
| Grand Novel (note 8) | | **7,290** | 30,318 |
| | | **7,658** | 30,318 |

## 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)

### Group (continued)

Notes:

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

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

(iii) The Group made loans to Mei Fu Petrochemical and Mei Fu Port amounting to RMB781,689,000 (2013: RMB1,787,072,000) and nil (2013: RMB178,000,000), respectively as working capital. Amounts of RMB719,569,000 (2013: RMB809,069,000) and RMB22,000,000 (2013: RMB156,000,000) respectively, had been repaid during the year. These loans were unsecured, bore interest at 5% to 10% per annum and were repayable within one year.

(iv) The Group has guaranteed bank loans made to Mei Fu Petrochemical of up to RMB299,932,000 (2013: RMB29,977,000) as at the end of the reporting period and charged Mei Fu Petrochemical a guarantee fee of RMB14,796,000 (2013: Nil).

(v) The consideration for the installation of steam pipes was determined after arm's length negotiations among the relevant parties with reference to the maximum output volume of low pressure steam and medium pressure steam with installed steam pipes.

(b) Other transactions with related parties

Xingxing New Energy entered into a syndicated loan agreement with Industrial and Commercial Bank of China Limited, China Construction Bank Limited and Bank of China Limited in June 2013 in relation to the funding requirement for the construction of the MTO production facility with a total loan amount of RMB1,600,000,000 which was guaranteed by its shareholders, Sanjiang Chemical, holding 75% of its equity interest, and remaining shareholders, collectively holding 25% of its equity interest, for amounts not exceeding RMB1,200,000,000 and RMB400,000,000, respectively. Xingxing New Energy had used the facility of RMB1,500,100,000 as at 31 December 2014 (2013: RMB460,000,000) and the facility was also secured by its leasehold land with a carrying value of approximately RMB172,117,000 as at 31 December 2014 (2013: RMB175,666,000) as further detailed in note 26 to the financial statements.

## 36. RELATED PARTY TRANSACTIONS (continued)

(c) Outstanding balances with related parties:

### Group

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Due from related parties: | | |
| Mei Fu Petrochemical | **1,351,142** | 1,052,487 |
| Mei Fu Port | **–** | 22,000 |
| Jiaxing Rewang | **46** | – |
| Hangzhou Haoming | **300** | 300 |
| Jiahua Group | **811** | – |
| Jiahua Energy | **164** | 134 |
| | **1,352,463** | 1,074,921 |
| Due to related parties: | | |
| Grand Novel | **6,310** | 29,877 |
| Mei Fu Petrochemical | **392** | 1,819 |
| Jiahua Energy | **13,490** | 1,615 |
| Jiaxing Rewang | **1,340** | 1,239 |
| Jiahua Group | **9** | 26 |
| Hangzhou Haoming | **30** | 30 |
| | **21,571** | 34,606 |

### Company

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Due from a subsidiary: | | |
| Capitol International | **552,246** | 825,678 |
| Due to a subsidiary: | | |
| Capitol International | **35,607** | – |
| Due to a related party: | | |
| Grand Novel | **6,310** | 29,877 |

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

## 36. RELATED PARTY TRANSACTIONS (continued)

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

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Short term employee benefits | **11,145** | 34,338 |
| Equity-settled share award plan expense | **1,022** | 585 |
| Pension scheme contributions | **187** | 147 |
| Total compensation paid to key management personnel | **12,354** | 35,070 |

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

The related party transactions in respect of purchases of goods from Jiahua Energy and Jiaxing Rewang, steam pipe installation expense to Jiahua Energy and management services expense to Grand Novel 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:

### Group

**Financial assets**

| | 2014<br>Loans and receivables<br>RMB'000 | Available-for-sale financial assets<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|
| Trade and notes receivables | **325,736** | **–** | **325,736** |
| Financial assets included in prepayments, deposits and other receivables | **468,218** | **–** | **468,218** |
| Due from related parties | **1,352,463** | **–** | **1,352,463** |
| Available-for-sale investments | **–** | **336,468** | **336,468** |
| Pledged deposits | **1,214,895** | **–** | **1,214,895** |
| Cash and cash equivalents | **398,790** | **–** | **398,790** |
| | **3,760,102** | **336,468** | **4,096,579** |

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

## 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)

### Group

**Financial liabilities**

| | 2014 | | |
|---|---|---|---|
| | 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 | – | 1,304,198 | 1,304,198 |
| Financial liabilities included in other payables and accruals | – | 793,605 | 793,605 |
| Derivative financial instruments | 6,855 | – | 6,855 |
| Interest-bearing bank and other borrowings | – | 5,660,481 | 5,660,481 |
| Due to related parties | – | 21,571 | 21,571 |
| | 6,855 | 7,779,855 | 7,786,710 |

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

## 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)

### Company

**Financial assets**

| | 2014 Loans and receivables RMB'000 | 2013 Loans and receivables RMB'000 |
|---|---|---|
| Financial assets included in prepayments, deposits and other receivables | **2,046** | 2,290 |
| Due from a subsidiary | **552,246** | 825,678 |
| Cash and cash equivalents | **908** | 3,674 |
| | **555,200** | 831,642 |

**Financial liabilities**

| | 2014 Financial liabilities at amortised cost RMB'000 | 2013 Financial liabilities at amortised cost RMB'000 |
|---|---|---|
| Interest-bearing bank and other borrowings | **30,512** | 109,363 |
| Financial liabilities included in other payables and accruals | **110** | 257 |
| Due to a subsidiary | **35,607** | – |
| Due to a related party | **6,310** | 29,877 |
| | **72,539** | 139,497 |

## 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:

### Group

| | Carrying amounts | | Fair values | |
|---|---|---|---|---|
| | **2014 RMB'000** | 2013 RMB'000 | **2014 RMB'000** | 2013 RMB'000 |
| **Financial assets** | | | | |
| Available-for-sale investments | **336,468** | 476,133 | **336,468** | 476,133 |
| **Financial liabilities** | | | | |
| Derivative financial instruments | **6,855** | 4,907 | **6,855** | 4,907 |

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

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

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

The fair values of the available-for-sale investments have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for available-for-sale investments as at 31 December 2014 was assessed to be insignificant.

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

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

### Fair value hierarchy

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

**Assets measured at fair value:**

**Group**

**As at 31 December 2014**

| | Fair value measurement using | | | |
|---|---|---|---|---|
| | Quoted prices in active markets (Level 1) RMB'000 | Significant observable inputs (Level 2) RMB'000 | Significant unobservable inputs (Level 3) RMB'000 | Total RMB'000 |
| Available-for-sale investments | **–** | **336,468** | **–** | **336,468** |

The Company did not have any financial assets measured at fair value as at 31 December 2014 (2013: Nil).

As at 31 December 2013

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

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

### Fair value hierarchy (continued)

**Liabilities measured at fair value:**

**Group**

**As at 31 December 2014**

| | 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 | **–** | **6,855** | **–** | **6,855** |

As at 31 December 2013

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

The Company did not have any financial liabilities measured at fair value as at 31 December 2014 (2013: Nil).

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 (2013: 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 short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and notes receivables and trade and bills payables, which arise directly from its operations.

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

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

### Interest rate risk

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

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

| | Group | | Company | |
|---|---|---|---|---|
| | Increase/ (decrease) in basis points | Increase/ (decrease) in profit before tax RMB'000 | Increase/ (decrease) in basis points | Increase/ (decrease) in profit before tax RMB'000 |
| **2014** | | | | |
| RMB | **5** | **(558)** | **5** | **–** |
| RMB | **(5)** | **558** | **(5)** | **–** |
| United States dollar | **5** | **(629)** | **5** | **–** |
| United States dollar | **(5)** | **629** | **(5)** | **–** |
| Hong Kong dollar | **5** | **(2)** | **5** | **(2)** |
| Hong Kong dollar | **(5)** | **2** | **(5)** | **2** |
| **2013** | | | | |
| RMB | 5 | (599) | 5 | – |
| RMB | (5) | 599 | (5) | – |
| United States dollar | 5 | (633) | 5 | – |
| United States dollar | (5) | 633 | (5) | – |
| Hong Kong dollar | 5 | (16) | 5 | (16) |
| Hong Kong dollar | (5) | 16 | (5) | 16 |

## 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 82% (2013: 87%) of the Group's purchases for the year ended 31 December 2014 are denominated in currencies other than the functional currencies of the operating units making the purchase, whilst almost 100% of sales for the year are denominated in the respective operating units' functional currencies. At present, the Group does not intend to seek to hedge its exposure to foreign exchange fluctuations. However, management constantly monitors the economic situation and the Group's foreign exchange risk profile and will consider appropriate hedging measures in the future should the need arise.

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

**Group**

| | Increase/ (decrease) in foreign currency rate % | Increase/ (decrease) in profit before tax RMB'000 |
|---|---|---|
| **2014** | | |
| If RMB weakens against the United States dollar | **5** | **(167,665)** |
| If RMB strengthens against the United States dollar | **(5)** | **167,665** |
| If RMB weakens against the Hong Kong dollar | **5** | **(1,113)** |
| If RMB strengthens against the Hong Kong dollar | **(5)** | **1,113** |
| **2013** | | |
| If RMB weakens against the United States dollar | 5 | (142,794) |
| If RMB strengthens against the United States dollar | (5) | 142,794 |
| If RMB weakens against the Hong Kong dollar | 5 | (5,259) |
| If RMB strengthens against the Hong Kong dollar | (5) | 5,259 |

### Credit risk

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

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

## 39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Credit risk (continued)

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

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

### Liquidity risk

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

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

**Group**

| | 2014 | | | | |
|---|---|---|---|---|---|
| | 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 | **85,949** | **979,852** | **238,397** | **–** | **1,304,198** |
| Other payables | **549,939** | **227,274** | **16,392** | **–** | **793,605** |
| Derivative financial instruments | **–** | **6,855** | **–** | **–** | **6,855** |
| Interest-bearing bank and other borrowings | **–** | **1,147,066** | **2,832,074** | **2,212,270** | **6,191,410** |
| Due to related parties | **21,571** | **–** | **–** | **–** | **21,571** |
| Guarantees given to banks in connection with facilities granted to: | | | | | |
| a joint venture | **299,932** | **–** | **–** | **–** | **299,932** |
| a joint operation | **80,315** | **–** | **–** | **–** | **80,315** |
| | **1,037,706** | **2,361,047** | **3,086,863** | **2,212,270** | **8,697,886** |

| | 2013 | | | | |
|---|---|---|---|---|---|
| | 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 | 9,156 | 919,233 | 255,038 | – | 1,183,427 |
| Other payables | 140,554 | 33,993 | 5,015 | – | 179,562 |
| Derivative financial instruments | – | 2,855 | 2,052 | – | 4,907 |
| Interest-bearing bank and other borrowings | – | 926,103 | 1,659,695 | 672,760 | 3,258,558 |
| Due to related parties | 34,606 | – | – | – | 34,606 |
| Guarantees given to banks in connection with facilities granted to: | | | | | |
| a joint venture | 29,977 | – | – | – | 29,977 |
| a joint operation | 60,988 | – | – | – | 60,988 |
| | 275,281 | 1,882,184 | 1,921,800 | 672,760 | 4,752,025 |

## 39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Liquidity risk (continued)

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

**Company**

| | 2014 | | | | | |
|---|---|---|---|---|---|---|
| | On demand RMB'000 | Less than 3 months RMB'000 | 3 to less than 12 months RMB'000 | 1 to 5 years RMB'000 | Over 5 years RMB'000 | Total RMB'000 |
| Other payables | **–** | **110** | **–** | **–** | **–** | **110** |
| Interest-bearing bank and other borrowings | **–** | **30,622** | **–** | **–** | **–** | **30,622** |
| | **–** | **30,732** | **–** | **–** | **–** | **30,732** |

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

### Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2013 and 2014.

## 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:

| | **2014**<br>**RMB'000** | 2013<br>RMB'000 |
|---|---|---|
| Trade and bills payables | **1,304,198** | 1,183,427 |
| Other payables and accruals | **884,042** | 267,618 |
| Interest-bearing bank and other borrowings | **5,660,481** | 3,040,329 |
| Due to related parties | **21,571** | 34,606 |
| Less: Cash and cash equivalents | **(398,790)** | (253,981) |
| Pledged deposits | **(1,214,895)** | (742,186) |
| Net debt | **6,256,607** | 3,529,813 |
| Equity attributable to owners of the parent | **2,277,291** | 2,344,971 |
| Capital and net debt | **8,533,898** | 5,874,784 |
| Gearing ratio | **73%** | 60% |

## 40. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 18 March 2015.

# FIVE YEAR FINANCIAL SUMMARY

| | 2014 RMB'000 | 2013 RMB'000 | 2012 RMB'000 | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|---|---|---|
| **REVENUE** | **3,636,800** | 3,940,471 | 2,410,125 | 2,078,188 | 1,582,526 |
| Gross profit | **242,122** | 638,212 | 574,511 | 433,344 | 360,164 |
| Finance costs | **125,608** | 74,967 | 67,195 | 32,438 | 19,087 |
| **PROFIT BEFORE TAX** | **147,370** | 685,771 | 561,649 | 463,888 | 318,574 |
| Income tax expense | **16,564** | 81,011 | 94,639 | 58,369 | 52,263 |
| Net profit for the year | **130,806** | 604,760 | 467,010 | 405,519 | 266,311 |
| Profits attributable to ordinary equity holders of the parent | **132,780** | 605,131 | 466,776 | 405,020 | 266,126 |
| **NON-CURRENT ASSETS** | **5,965,358** | 3,740,212 | 1,866,216 | 1,378,808 | 1,270,284 |
| **CURRENT ASSETS** | **4,472,700** | 3,333,774 | 2,944,513 | 2,284,243 | 1,266,758 |
| Interest-bearing borrowings | **5,660,481** | 3,040,329 | 1,647,080 | 1,435,829 | 793,760 |
| **CURRENT LIABILITIES** | **6,044,567** | 4,068,497 | 2,764,128 | 1,928,453 | 1,120,960 |
| **NET CURRENT (LIABILITIES)/ASSETS** | **(1,571,867)** | (734,723) | 180,385 | 355,790 | 145,798 |
| **NON-CURRENT LIABILITIES** | **1,915,776** | 538,120 | 95,834 | 71,126 | 81,271 |
| **Net assets/Total equity** | **2,477,715** | 2,467,369 | 1,950,767 | 1,687,545 | 1,334,811 |
| Cash inflow from operating activities | **181,695** | 808,930 | 824,084 | 265,974 | 370,274 |
| Cash (outflow) from investing activities | **(1,842,812)** | (2,527,633) | (556,988) | (613,292) | (322,366) |
| Cash inflow/(outflow) from financing activities | **1,832,691** | 1,628,460 | (221,281) | 36,889 | 444,200 |

| | RMB fens | RMB fens | RMB fens | RMB fens | RMB fens |
|---|---|---|---|---|---|
| Earnings per share – Basic | **13.49** | 61.33 | 46.58 | 39.77 | 34.82 |
| Earnings per share – Diluted | **13.44** | 61.12 | 46.55 | 39.76 | 34.82 |
| Net assets per share | **249.5** | 248.5 | 194.6 | 167.1 | 130.37 |

| | In % | In % | In % | In % | In % |
|---|---|---|---|---|---|
| Gross profit margin | **6.7** | 16.2 | 23.8 | 20.9 | 22.8 |
| Profit before tax margin | **4.1** | 17.4 | 23.3 | 22.3 | 20.1 |
| Net profit margin | **3.6** | 15.3 | 19.4 | 19.5 | 16.8 |
| Effective tax rate | **11.2** | 11.8 | 16.9 | 12.6 | 16.4 |
| ROE – net profit for the year to total equity | **5.8** | 24.5 | 23.9 | 24.0 | 20.0 |
| Gearing – total interest-bearing bank borrowings to total asset | **54.2** | 43.1 | 34.2 | 39.2 | 31.3 |

| | **2014 In days** | 2013 In days | 2012 In days | 2011 In days | 2010 In days |
|---|---|---|---|---|---|
| Inventory turnover days – Average opening and closing inventories divided by cost of sales x 365 days | **28.9** | 37.8 | 65.6 | 36.2 | 25.6 |
| Trade and notes receivables turnover days – Average opening and closing trade and note receivables divided by revenue x 365 days | **26.5** | 16.1 | 26.3 | 21.0 | 8.6 |
| Trade and bills payables turnover days – Average opening and closing trade payables divided by cost of sales x 365 days | **135.1** | 111.1 | 115.6 | 59.7 | 68.2 |

# CORPORATE INFORMATION

## DIRECTORS

### Executive Directors

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

### Independent non-executive Directors

Shen Kaijun
Mui Ho Cheung, Gary
Pei Yu

## SHARE LISTING

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

## AUDITORS

Ernst & Young
22nd Floor, CITIC Tower,
1 Tim Mei Avenue, Central
Hong Kong

## LEGAL ADVISERS AS TO HONG KONG LAW

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

## PRINCIPAL PLACE OF BUSINESS IN THE PRC AND HEADQUARTERS

Pinghai Road, Jiaxing Port Area, Zhejiang Province, PRC

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 601-602, 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, 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

Industrial and Commercial Bank of China (Asia) Limited
33/F., ICBC Tower, 3 Garden Road, Central, Hong Kong

Australia and New Zealand Banking Group
Hong Kong Branch
13/F Three Exchange Square, 8 Connaught Place, Central

## PRINCIPAL BANKERS IN THE PRC

Agricultural Bank of China
Pinghu Zhapu Branch
42 Tianfei Road, Zhapu District
Pinghu City, Zhejiang Province, PRC

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

Bank of China
Pinghu City Branch
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