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三江化工
SANJIANG CHEMICAL

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

(incorporated in the Cayman Islands with limited liability)

(stock code: 2198)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

CHAIRMAN'S STATEMENT

On behalf of the board (the "**Board**") of directors (the "**Directors**") of China Sanjiang Fine Chemicals Company Limited (the "**Company**"), I am pleased to announce the annual audited consolidated results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2017.

RESULTS HIGHLIGHTS	**2017** ***RMB'000***	2016 *RMB'000*	**Change** %
Revenue	**8,897,143**	6,647,019	33.9%
Gross profit	**1,085,275**	906,570	19.7%
Net profit attributable to shareholders of the Company	**690,793**	552,614	25.0%
Earnings per share — Basic *(RMB)*	**67.30 fens**	56.09 fens	20.0%
Dividend per share *(HK$)* — Final	**12.5 cents**	11.5 cents	8.7%
Dividend payout ratio (based on total payout during the year)	**30.0%**	18.4%	11.6%
Gross profit margin	**12.2%**	13.6%	−1.4%
Net profit margin	**7.8%**	8.3%	−0.5%
Gearing — interesting-bearing borrowings to total asset	**27.1%**	42.9%	−15.8%

After the turnaround in 2016, the Group maintained its growth momentum in 2017 by achieving a net profit of approximately RMB690.8 million, an increase of approximately 25.0% when comparing to the net profit of RMB552.6 million in 2016, primarily attributable to the combined effects of the improvement of gross profit margin in midstream level of the Group (i.e. the process of converting Ethylene/Propylene to ethylene oxide ("**EO**"), ethylene glycol ("**EG**") and polypropylene ("**PP**")) by approximately 7% and the decline of gross profit margin in upstream level of the Group (i.e. the process of converting Methanol to Ethylene/Propylene) by approximately 11%, which demonstrated the success of the Group's established well-formulated strategies as to being a diversified vertical-integrated chemical group with a risk-balanced product mix.

The Board has recommended a final dividend of HK12.5 cents per share, together with the distribution of interim dividend, representing a dividend payout ratio of approximately 30% in total for the year ended 31 December 2017 (the "**year under review**").

2017 was a challenging year for our Group as certain macro environment variables, in particular, RMB, crude oil pricing and methanol pricing changed in a way beyond our estimation and expectation. Among those changes in macro environment variables, RMB and the crude oil pricing moved in a way that was favorable to the Group. RMB, our Group's functional currency and the currency that all of our revenues are denominated, appreciated apparently in 2017 when comparing to 2016, which contributed to the Group in terms of various areas, in particular, lower procurement costs as majority of our procurements are denominated in USD and exchange gain (2017: net foreign exchange gain of approximately RMB62 million vs. 2016: net foreign exchange loss of approximately RMB114 million), while the appreciation of RMB also had an adverse impact to the Group in terms of investment loss of approximately RMB108 million in respect of hedge arrangements entered into by the Group in 2016 for the purpose of mitigating the market risks in respect of the depreciation of RMB in 2015 and 2016. Another unexpected favorable change of macro environment variables to the Group is the stabilization of crude oil pricing in first half of 2017 and the further upward movement of crude oil pricing in second half of 2017, which improved the market sentiments across the oil and chemical sector (the "**Sector**") and it led to stronger demands for crude oil-derivative products like EO, EG and PP and, in turn, the improvement of gross profit margin in midstream level of the Group.

Methanol pricing, however, moved in an unexpected unfavorable way to the Group during the year under review. Methanol cost counts approximately two-third towards the feedstock procurement cost and methanol pricing increased by approximately 36% (on a simple average basis) from approximately RMB2,100/MT in 2016 to approximately RMB2,850/MT in 2017 while the direct downstream outputs of Methanol, being Ethylene and Propylene from our perspective, only increased by approximately 8% and 21% (on a simple average basis) respectively during the corresponding period, which led to the decline of gross profit margin in upstream level of the Group by approximately 11% in 2017. The unexpected price movements of Methanol was considered to be primarily attributable to a number of factors:- 1) there has been a delay of new supply of Methanol that the market has been expecting as a result of new production capacity from Iran of approximately 4 million MT on an annual basis since early 2017 and such delay affected the market sentiment as to Methanol pricing and led to supply crunch of Methanol (from the perspective of producers in the People's Republic of China ("**PRC**") focusing on importing Methanol from overseas through vessels) in certain extent given the fact that the total volume of Methanol importing from overseas into PRC was expected to be approximately 9 million MT in 2017; 2) there has been more regulatory pressures and measures in terms of environmental protection in light of the growing concern over air-pollution which limited the output of coal, being one of the two major feedstocks for Methanol production in PRC, in particular, during winter and the additional costs incurred for environmental-related facilities and measures also pushed up the Methanol pricing; and 3) there was a new regulatory trend coming out since November 2017 which required burning less coal and using more nature gas, being another one of the two major feedstocks for Methanol production in PRC, for residential heating purpose during winter, which led to the shortage of natural gas as it limited the natural gas usage at industrial and chemical plants.

To respond to the aforesaid unexpected price movements of Methanol, during the year under review, the Group implemented a number of measures for Methanol To Olefins ("**MTO**") production facility, which included but not limited to adjusting production capacity of MTO in certain timings and adjusting timings and volume for Methanol procurement to mitigate the adverse impacts to the Group. The Group considers that the Methanol pricing will return to a lower level gradually after the expected ramp up of the aforesaid new capacity from Iran in 2018 and, on a medium term basis, the Group believes Methanol pricing will eventually come down to a similar level of 2016, representing approximately RMB2,100/MT in average on a yearly basis as the Group is of the view that RMB2,100/MT in average is an equilibrium level for:- 1) the demand side, in the event of the MTO production facilities, being the most major demand catalyst for Methanol in the last few years, failing to operate with certain profit margins, any new expansion plans in respect of MTO production facilities would be put on hold and existing players would decrease their production capacities and in turn, dragging down the demand for Methanol; and 2) the supply side, which is the Methanol producers, who have been making substantial profits due to the low feedstock costs for them, keeping aggressive expansion plans for Methanol production facilities and, in turn, pushing up the supply for Methanol on a medium term basis.

Nevertheless, the Group has well defined its competitive position by implementing very rigorous measures during the course of executing and monitoring the construction and ramp-up of its MTO production facility as well as its other production facilities over the period from the tendering process of construction to commercial operation stage and during the normal course of operations, which enabled to the Group to lower the capital expenditures and the operating costs as much as possible, which would provide the Group with the competitive advantage to outperform the other players in the industry on a medium and long term.

During the year under review, revenue of the Group increased by approximately 33.9% when comparing to 2016, primarily resulted from: 1) as the sales price of ethylene glycol soared in 2017, the average selling price increased by approximately 34.0% from approximately RMB4,578/MT in 2016 to approximately RMB6,136/MT in 2017. Therefore, the Group expanded the production capacity of ethylene glycol in the 5th phase ethylene oxide/ethylene glycol production facility, leading to the increase of sale volume by 44.5%, which in turns resulting in an increase in sales of ethylene glycol by approximately RMB1.057 billion or 93.6%; and 2) compared with 2016, sales of polypropylene business line increased by approximately 33.2% as the average price of propylene increased by approximately 21.0% (calculated on a simple average basis). Net profit attributable to shareholders was approximately RMB690.8 million and basic earnings per share was approximately RMB67.30 fens, for the year ended 31 December 2017, representing increases of approximately 25.0% and 20.0% respectively as compared with 2016, which was primarily attributable to the increase in overall gross profit by 19.7%, primarily resulted from the increases in average selling price of EG line of businesses by approximately 34.0% in 2017.

We are now in the progress of finalising the fine-tuning of the production processes of the 5th Phase EO/EG production facilities and expect the total output of the 5th Phase EO/EG production facilities will increase by more than 20% on a yearly basis. We are also finalising the construction of the 2nd Phase PP production facility, which has a 300,000MT production capacity on a yearly basis. Going forward, we will continue to pursue our established well-formulated strategies by being a more diversified vertical-integrated chemical group and we will keep assessing our product mix from time to time in terms of the balance of risk and the flexibility of adjustments in response to the market changes.

ACKNOWLEDGEMENT

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

GUAN Jianzhong
Chairman
PRC, 26 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2017

	Notes	**2017** **RMB'000** **(Audited)**	2016 RMB'000 (Audited)
REVENUE	4	**8,897,143**	6,647,019
Cost of sales		**(7,811,868)**	(5,740,449)
Gross profit		**1,085,275**	906,570
Other income and gains	4	**886,509**	667,565
Selling and distribution expenses		**(25,801)**	(26,502)
Administrative expenses		**(259,998)**	(317,880)
Other expenses	4	**(783,053)**	(387,695)
Finance costs	5	**(159,086)**	(261,681)
Share of profits of joint ventures		**—**	112,438
PROFIT BEFORE TAX	6	**743,846**	692,815
Income tax expense	7	**(120,709)**	(93,964)
PROFIT FOR THE YEAR		**623,137**	598,851
Attributable to:			
Owners of the parent		**690,793**	552,614
Non-controlling interests		**(67,656)**	46,237
		623,137	598,851
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
Basic		**67.30 fens**	56.09 fens
Diluted		**67.19 fens**	55.96 fens
PROPOSED FINAL DIVIDEND FOR THE YEAR	9	**119,800**	101,675

CONSOLIDATED STATEMENT OF FINANCE POSITION

At 31 December 2017

	Notes	**2017**	2016
		RMB'000	*RMB'000*
		(Audited)	(Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**5,525,528**	5,763,307
Prepaid land lease payments		**366,297**	301,476
Intangible assets		**197,723**	225,246
Due from related parties	18	**99,697**	609,000
Advance payments for property, plant and equipment		**17,866**	16,390
Available-for-sale investments	10	**1,000**	1,000
Deferred tax assets		**8,316**	—
Total non-current assets		**6,216,427**	6,916,419
CURRENT ASSETS			
Inventories	11	**1,007,914**	724,229
Trade and notes receivables	12	**347,926**	170,367
Prepayments, deposits and other receivables	13	**291,931**	406,338
Due from related parties	18	**221,229**	235,935
Available-for-sale investments	10	**235,962**	424,371
Derivative financial instruments		**19,651**	41,941
Pledged deposits	14	**50,000**	410,273
Cash and cash equivalents	14	**273,678**	348,224
Total current assets		**2,448,291**	2,761,678
CURRENT LIABILITIES			
Trade and bills payables	15	**1,365,415**	1,454,312
Other payables and accruals	16	**927,201**	1,062,561
Derivative financial instruments		**36,646**	9,626
Interest-bearing bank and other borrowings	17	**1,753,337**	2,636,267
Due to related parties	19	**343,066**	595,897
Tax payable		**110,363**	86,340
Total current liabilities		**4,536,028**	5,845,003
NET CURRENT LIABILITIES		**(2,087,737)**	(3,083,325)
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,128,690**	3,833,094

	Notes	**2017** *RMB'000* **(Audited)**	2016 *RMB'000* (Audited)
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	17	**598,262**	1,081,011
Deferred tax liabilities		**13,771**	22,913
Total non-current liabilities		**612,033**	1,103,924
Net assets		**3,516,657**	2,729,170
EQUITY			
Equity attributable to owners of the parent			
Issued capital	20	**102,662**	86,048
Reserves		**3,326,032**	2,478,191
		3,428,694	2,564,239
Non-controlling interests		**87,963**	164,931
Total equity		**3,516,657**	2,729,170

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 CORPORATE INFORMATION

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

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

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

2 BASIS OF PREPARATION

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

These financial statements have been prepared under the historical cost convention, except for certain 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 2017, the Group's net current liabilities amounted to approximately RMB2,087,737,000. 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 in the foreseeable future and the consolidated financial statements have been prepared on a basis that the Group will be able to continue as a going concern.

3 OPERATING SEGMENT INFORMATION

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

Information about products and services

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

	2017	2016
	RMB'000	*RMB'000*
Sales of goods	**8,662,752**	6,604,250
Provision of services	**225,962**	33,203
Others	**8,429**	9,566
	8,897,143	6,647,019

Geographical information

All external revenue of the Group during the year is attributable to customers established in the PRC, the place of domicile of the Group's operating entities. The Group's non-current assets are all located in Mainland China.

4 REVENUE, OTHER INCOME AND GAINS AND OTHER EXPENSES

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

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

	2017 *RMB'000*	2016 *RMB'000*
Revenue		
Sale of goods	**8,662,752**	6,604,250
Rendering of services	**225,962**	33,203
Rental income	**8,429**	9,566
	8,897,143	6,647,019

	2017 *RMB'000*	2016 *RMB'000*
Other income		
Sales of raw materials — Methanol	**645,817**	163,547
Interest income from related parties	**56,346**	119,903
Foreign exchange gain, net	**62,356**	—
Sales of low sulphur fuel oil	**—**	98,404
Management service fee	**—**	69,811
Sales of ethylene	**59,667**	46,813
Government subsidies (a)	**11,353**	17,514
Guarantee fee	**9,662**	10,199
Sales of circular water	**6,023**	10,070
Bank interest income	**16,224**	8,415
Utility income	**5,886**	7,168
Reparation income	**—**	2,500
Gross rental income	**1,775**	1,765
Commission fee	**891**	998
Agency fee	**—**	60
Others	**2,602**	3,537
	878,602	560,704
Gains		
Investment income from derivative financial instruments	**981**	55,049
Fair value gains on derivative financial instruments	**—**	40,078
Investment income from available-for-sale investments	**6,621**	9,162
Gain on disposal of silver catalysts (b)	**—**	2,572
Gain on disposal of items of property, plant and equipment	**4**	—
Gain on disposal of intangible assets	**301**	—
	7,907	106,861
Other income and gains	**886,509**	667,565

	2017	2016
	RMB'000	*RMB'000*
Other expenses		
Cost of sales of raw materials — Methanol	**598,705**	140,055
Foreign exchange losses, net	**—**	114,483
Cost of sales of low sulphur fuel oil	**—**	92,768
Cost of sales of ethylene	**56,570**	41,100
Loss on disposal of a joint venture	**—**	1,544
Investment loss on derivative financial instruments	**76,580**	8,173
Fair value losses on derivative financial instruments	**31,663**	2,783
Write-down/(reversal of) inventories to net realisable value (c)	**9,423**	(18,451)
Loss on disposal of silver catalysts (b)	**8,915**	—
Others	**1,197**	5,240
	783,053	387,695

Notes:

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

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

(c) Write-down/(reversal of) of inventories to net realisable value represents the write-down/(reversal of) of inventories to net realisable value for the silver catalysts in inventories caused by the fluctuation in silver price.

5 FINANCE COSTS

An analysis of finance costs is as follows:

	2017	2016
	RMB'000	*RMB'000*
Interest on bank loans and other borrowings	**159,086**	235,958
Interest on discounted notes receivable	**—**	25,723
	159,086	261,681

6 PROFIT BEFORE TAX

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

	2017	2016
	RMB'000	*RMB'000*
Cost of inventories sold	**7,712,568**	5,724,098
Cost of services provided	**96,823**	13,870
Depreciation*	**521,787**	586,778
Amortisation of prepaid land lease payments	**7,394**	6,936
Amortisation of intangible assets**	**27,503**	27,850
Loss on disposal of a joint venture	**—**	1,544
Gain on disposal of intangible assets	**301**	—
Write down/(reversal of) inventories to net realisable value***	**9,423**	(76,286)
Impairment of trade receivables	**—**	2,583
Auditor's remuneration	**2,267**	2,221
Minimum lease payments under operating leases	**1,414**	1,676
Employee benefit expense (including directors' remuneration):****		
Wages and salaries	**152,796**	132,968
Pension scheme contributions	**6,154**	6,196
Staff welfare expenses	**6,589**	6,140
Equity-settled share award plan expense	**1,291**	878
	166,830	146,182

* The depreciation of property, plant and equipment of RMB482,878,000 (2016: RMB521,646,000) for the year is included in "Cost of sales" in the consolidated statement of profit or loss.

** The amortisation of intangible assets of RMB7,679,000 (2016: RMB6,341,000) for the year is included in "Cost of sales" in the consolidated statement of profit or loss.

*** Reversal of inventories to net realisable value of RMB10,467,000 for the year 2016 is included in "Cost of sales" in the consolidated statement of profit or loss.

**** The employee benefit expense of RMB88,331,000 (2016: RMB78,781,000) for the year is included in "Cost of sales" in the consolidated statement of profit or loss.

7 INCOME TAX

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

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

	2017	2016
	RMB'000	*RMB'000*
Current — Mainland China		
Charge for the year	**138,167**	76,405
Deferred	**(17,458)**	17,559
Total tax charge for the year	**120,709**	93,964

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% (2016: 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 (2016: Nil).

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

Pursuant to the approval of the tax bureau, Sanjiang Chemical, Sanjiang Honam and Sanjiang New Material have been qualified as a High and New Technology Enterprise since 2010, 2014 and 2016, respectively, and enjoy a preferential corporate income tax rate of 15% from 2016 to 2018. Therefore, Sanjiang Chemical, Sanjiang Honam and Sanjiang New Material were subject to corporate income tax at a rate of 15% for the year ended 31 December 2017 (2016: 15%).

Pursuant to the approval of the tax bureau, Xingxing New Energy has been qualified as a High and New Technology Enterprise since 2017 and enjoys a preferential corporate income tax rate of 15% from 2017 to 2019. Therefore, Xingxing New Energy was subject to corporate income tax at a rate of 15% for the year ended 31 December 2017 (2016: 25%).

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:

	2017	2016
	RMB'000	*RMB'000*
Profit before tax	**743,846**	692,815
Tax at the statutory tax rate	**185,961**	173,204
Lower tax rates enacted by local authority or in other countries	**(84,239)**	(39,024)
Adjustments in respect of current tax of previous periods	**(12,006)**	—
Additional deduction for research and development activities	**(46,393)**	(14,098)
Expenses not deductible for tax	**11,225**	35,995
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	**10,071**	8,664
Profits attributable to joint ventures	**—**	(28,110)
Tax losses utilised from previous years	**(1,847)**	(43,261)
Temporary differences not recognised	**(451)**	(5,909)
Tax losses not recognised	**58,388**	6,503
Tax charge at the Group's effective rate	**120,709**	93,964

8 EARNING 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:

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

	2017	2016
	RMB'000	*RMB'000*
Earnings		
Profit for the year attributable to ordinary equity holders of the parent	**690,793**	552,614

	Number of shares	
	2017	2016
	'000	*'000*
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,026,452**	985,240
Effect of dilution — weighted average number of ordinary shares under the share award plan	**1,633**	2,334
	1,028,085	987,574

9 DIVIDEND

	2017	2016
	RMB'000	*RMB'000*
Proposed final — HK12.5 cents (2016: HK11.5 cents) per ordinary share	**119,800**	101,675

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

10 AVAILABLE-FOR-SALE INVESTMENTS

	2017	2016
	RMB'000	*RMB'000*
Unlisted investments, at fair value	**235,962**	424,371
Unlisted equity investments, at cost	**1,000**	1,000
	236,962	425,371

Unlisted investments represent investments in certain financial assets and paper silver issued by licensed financial institutions in the PRC. The investments bear expected yield rates of 1.65% to 5.0% (2016: 1.65% to 3.6%) per annum upon maturity.

During the year, the gain in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to RMB2,005,000 (2016: RMB1,982,000). The loss of RMB899,000 (2016: loss of RMB9,510,000) in respect of matured investments was reclassified from other comprehensive income to the statement of profit or loss for the year.

As at 31 December 2017, certain unlisted equity investments with a carrying amount of RMB1,000,000 (2016: RMB1,000,000) were stated at cost because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably. The Group does not intend to dispose of them in the near future.

As at 31 December 2017, the Group's certain unlisted investments of RMB28,000,000 (2016: RMB100,444,000) were pledged for notes payable of RMB93,000,000 (2016: RMB100,000,000).

As at 31 December 2016, the Group's certain unlisted investments of RMB237,000,000 were pledged to secure bank loan facilities granted to the Group.

11 INVENTORIES

	2017	2016
	RMB'000	*RMB'000*
Raw materials	**940,244**	646,387
Finished goods	**67,670**	77,842
	1,007,914	724,229

12 TRADE AND NOTES RECEIVABLES

	2017	2016
	RMB'000	*RMB'000*
Trade receivables	**56,045**	44,307
Notes receivable	**294,464**	128,643
	350,509	172,950
Impairment	**(2,583)**	(2,583)
	347,926	170,367

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:

	2017	2016
	RMB'000	*RMB'000*
1 to 30 days	**51,610**	39,925
31 to 60 days	**663**	202
61 to 90 days	**136**	318
91 to 360 days	**647**	1,289
Over 360 days	**2,989**	2,573
	56,045	44,307

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

	2017	2016
	RMB'000	*RMB'000*
Neither past due nor impaired	**50,203**	39,925
Less than 30 days past due	**2,071**	202
31 to 60 days past due	**136**	318
61 to 90 days past due	**149**	542
91 to 360 days past due	**497**	747
Over 360 days past due	**2,989**	2,573
	56,045	44,307

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

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

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

At 31 December 2017, the Group endorsed certain notes receivable accepted by the certain banks in the PRC (the "**Endorsed Notes**") to certain of its suppliers in order to settle the trade and other payables due to such suppliers with a carrying amount in aggregate of RMB664,163,000 (2016: RMB510,037,000) (the "**Endorsement**"). In addition, the Group discounted certain notes receivable accepted by certain banks in the PRC (the "**Discounted Notes**") with a carrying amount in aggregate of RMB20,000,000 (2016: RMB729,146,000) (the "**Discount**"). The Endorsed Notes and the Discounted Notes have a maturity from one to twelve months as at 31 December 2017. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Endorsed Notes and the Discounted Notes have a right of recourse against the Group if the PRC banks default (the "**Continuing Involvement**").

In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to certain Endorsed Notes and the Discounted Notes accepted by large and reputable banks with amounts of RMB529,031,000 (2016: RMB419,151,000) and RMB20,000,000 (2016: RMB665,146,000), respectively (the "**Derecognised Notes**"). Accordingly, it has derecognised the full carrying amounts of the Derecognised Notes and the associated trade and other payables settled by the Endorsed Notes. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Notes and the undiscounted cash flows to repurchase these Derecognised Notes is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Notes are not significant.

The Group continued to recognise the full carrying amount of the remaining Endorsed Notes and the associated trade and other payables settled with an amount of RMB135,132,000 as at 31 December 2017 (2016: RMB90,886,000), and recognised the proceeds received from the discount of the remaining Discounted Notes with an amount of RMB64,000,000 as short-term loans at

31 December 2016 because the Directors believe that the Group has retained the substantial risks and rewards, which include default risks relating to such remaining Endorsed Notes and Discounted Notes.

As at 31 December 2017, an amount of RMB2,900,000 of the Group's notes receivable (2016: RMB10,950,000) was pledged to secure the foreign currency options and swaps transactions entered into by the Group.

13 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017	2016
	RMB'000	*RMB'000*
Deposits and other receivables	**100,495**	239,601
Prepayments	**181,879**	157,692
Prepaid land lease payments	**8,410**	6,936
Loans to employees	**1,123**	1,263
Prepaid expenses	**24**	846
	291,931	406,338

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

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

14 CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2017	2016
	RMB'000	*RMB'000*
Cash and bank balances	**273,678**	348,224
Time deposits	**50,000**	410,273
	323,678	758,497
Less: Pledged time deposits:		
Pledged for notes payable	**50,000**	322,064
Pledged for letters of credit	**—**	69,400
Pledged for bank loans	**—**	13,805
Pledged for foreign currency options and swaps	**—**	5,004
	50,000	410,273
Cash and cash equivalents	**273,678**	348,224

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to RMB131,815,000 (2016: RMB220,164,000). Although RMB is not freely convertible into other currencies, 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.

15 TRADE AND BILLS PAYABLES

	2017	2016
	RMB'000	*RMB'000*
Trade payables	**1,245,598**	803,409
Bills payable	**119,817**	650,903
	1,365,415	1,454,312

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:

	2017	2016
	RMB'000	*RMB'000*
Within 3 months	**1,230,755**	1,301,188
3 to 6 months	**128,253**	17,097
6 to 12 months	**3,110**	132,218
12 to 24 months	**1,443**	2,160
24 to 36 months	**1,341**	1,638
Over 36 months	**513**	11
	1,365,415	1,454,312

Trade payables are non-interest-bearing and have an average credit term of three months and bills payable were all aged within one year. As at 31 December 2017, the bills payable of RMB119,817,000 (2016: RMB650,903,000) were secured by the Group's pledged deposits with a carrying amount of RMB50,000,000 (2016: RMB322,064,000) and unlisted investments with a carrying amount of RMB28,000,000 (2016: RMB100,444,000).

16 OTHER PAYABLES AND ACCRUALS

	2017	2016
	RMB'000	*RMB'000*
Other payables	**686,830**	809,440
Advances from customers	**90,332**	147,600
Payroll payable	**61,834**	64,852
Taxes payable other than income tax	**84,695**	33,573
Interest payable	**3,510**	7,096
	927,201	1,062,561

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

17 INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)	Maturity	**2017** *RMB'000*	2016 *RMB'000*
Current				
Finance lease payables	4.750–5.250	2018/2017	**29,625**	292,115
Bank loans — secured	2.265	2018	**26,535**	—
Bank loans — secured	2.256–3.500	2018	**114,275**	—
(Denominated in US$, equivalent to US$17,488,000)				
Bank loans — secured	1.600–3.151	2017	**—**	297,046
(Denominated in US$, equivalent to US$42,820,000)				
Bank loans — unsecured	4.350–4.620	2018	**554,531**	—
	2.287–4.850	2017	**—**	900,343
Bank loans — unsecured	1.930	2018	**575,371**	—
(Denominated in US$, equivalent to US$88,055,000)				
Bank loans — unsecured	1.124–3.716	2017	**—**	732,670
(Denominated in US$, equivalent to US$105,620,000)				
Bank loans — unsecured	4.611	2017	**—**	50,093
(Denominated in HK$, equivalent to HK$56,000,000)				
Current portion of long-term	4.750–4.900	2018	**438,298**	—
Other loans — secured	4.900	2017	**—**	300,000
Bank loans — secured	5.329	2018	**14,702**	—
(Denominated in US$, equivalent to US$2,250,000)				
			1,753,337	2,572,267
Discounted notes receivable	2.960	2017	**—**	64,000
			1,753,337	2,636,267

	Effective interest rate (%)	Maturity	2017 *RMB'000*	2016 *RMB'000*
Non-current				
Finance lease payables				
	4.750–5.250	2018	—	29,625
Bank loans — secured	5.329	2018	—	15,608
(Denominated in US$, equivalent to US$2,250,000)				
Bank loans-secured	4.750–4.900	2019	**598,262**	598,386
	4.750–4.900	2018	—	437,392
			598,262	1,081,011
			2,351,599	3,717,278
Analysed into:				
Bank loans repayable:				
Within one year			**1,723,712**	2,344,152
In the second year			**598,262**	453,000
In the third to fifth years, inclusive			—	598,386
			2,321,974	3,395,538
Other borrowings repayable:				
Within one year			**29,625**	292,115
In the second year			—	29,625
			29,625	321,740
			2,351,599	3,717,278

Notes:

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

(i) mortgages over the Group's leasehold land, which had an aggregate carrying value at the end of the reporting period of approximately RMB161,469,000 (2016: RMB165,018,000);

(ii) mortgages over the Group's property, plant and equipment, which had an aggregate carrying value at the end of the reporting period of approximately RMB151,458,000 (2016: RMB358,321,000);

(iii) the pledge of certain of the Group's time deposits amounting to RMB13,805,000 as at 31 December 2016; and

(iv) the pledge of certain unlisted investments amounting to RMB237,000,000 as at 31 December 2016.

Except for the secured bank loans amounted of RMB128,977,000 (2016: RMB312,654,000) and unsecured bank loans amounted of RMB575,371,000(2016: RMB732,670,000)which are denominated in United States dollars, unsecured bank loans amounted of RMB50,093,000as at 31 December 2016 which are denominated in Hong Kong dollars, all borrowings are in RMB.

Xingxing New Energy entered into a syndicated loan agreement with Industrial and Commercial Bank of China Limited, China Construction Bank Limited and Bank of China Limited in June 2013 in relation to the funding requirement for the construction of the Methanol To Olefins ("**MTO**") production facility with a total loan amount of RMB1,600,000,000 which was guaranteed by its shareholders, Sanjiang Chemical, holding 77.5% of its equity interest, and Zhejiang Jiahua Group Co., Ltd. ("**Jiahua Group**"), holding 9.5% of its equity interest, for amounts not exceeding RMB1,200,000,000 and RMB400,000,000, respectively. Xingxing New Energy had used RMB798,262,000 of the facility of as at 31 December 2017 (2016: RMB1,098,386,000) and the facility was also secured by its leasehold land with a carrying value of approximately RMB161,469,000as at 31 December 2017 (2016: RMB165,018,000) which was included in the amount in note (i) above.

Sanjiang New Material entered into a syndicated loan agreement with Industrial and Commercial Bank of China Limited and China Merchants Bank in September 2014 in relation to the funding requirement for the construction of the EO/EG production facility with a total loan amount of RMB500,000,000 which was guaranteed by Sanjiang Chemical and Xingxing New Energy for amounts not exceeding RMB600,000,000 and RMB600,000,000, respectively. Sanjiang New Material had used RMB253,000,000 of the facility as at 31 December 2017 (2016: RMB253,000,000).

Sanjiang Chemical entered into a sale and lease back agreement with International Far Eastern Leasing Co., Ltd. in November 2016 with a total present value of minimum lease payments of RMB29,625,000 as at 31 December 2017 (2016: RMB140,740,000) which was secured by certain of its plant and machinery amounting to RMB151,458,000(2016: RMB161,212,000)which were included in the amount in note (ii) above.

18 DUE FROM RELATED PARTIES

	2017 *RMB'000*	2016 *RMB'000*
Sure Capital Holdings Limited (a)	—	5,619
Zhejiang Mei Fu Petrochemical Co., Ltd (b)	**261,479**	728,549
Hangzhou Haoming Investment Co., Limited	**122**	122
Zhejiang Jiahua Import Export Co., Ltd	**720**	284
Zhejiang Jiahua Group Co., Ltd.	**2**	92
Zhejiang Jiahua Energy Chemical Co., Ltd. (c)	**58,603**	110,269
	320,926	844,935

Notes:

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

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

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

The balances with related parties are unsecured, interest-free and repayable on demand, except the loan balances due from Mei Fu Petrochemical, which bear interest at 8% to 10% per annum and are repayable within three years.

19 DUE TO RELATED PARTIES

	2017	2016
	RMB'000	*RMB'000*
Grand Novel Developments Limited	**26,686**	9,929
Mei Fu Petrochemical	**494**	30,080
Mei Fu Port	**23,199**	8,269
Zhejiang Jiahua Energy Chemical Co., Ltd.	**82,993**	67,253
Zhejiang Jiahua Group Co., Ltd.	**200,566**	435,201
Jiaxing Xinggang Rewang Co., Ltd.	**2,262**	392
Zhejiang Jiahua Import Export Co., Ltd	**—**	42,320
Haoxing Energy Conservation Technology Co., Ltd	**924**	1,763
Gangqu Gangan Industrial Equipment Installing Co., Ltd	**5,940**	672
Jiaxing Jianghao Eco-agriculture Co., Ltd. (嘉興市江浩生態農業有限公司)	**2**	18
	343,066	595,897

The balances with related parties are unsecured, interest-free and repayable on demand, except the loan balances due from Mei Fu Petrochemical, which bear interest at 8% to 10% per annum and are repayable within three years and the loan balance due to Jiahua Group, of which RMB180,000,000 bears interest at 8% and is repayable within one year.

20 ISSUED CAPITAL

The issued capital of the Company are as follows:

	Number of shares	**Amount**
		RMB'000
Issued and fully paid ordinary shares of HK$0.1 each:		
At 31 December 2016 and 1 January 2017	993,104,000	86,048
Issue of placing shares (a)	196,896,000	16,614
At 31 December 2017	1,190,000,000	102,662

Notes:

(a) On October 9, 2017, the Company held the board meeting in relation to the placing for an aggregate of 196,896,000 ordinary shares of the Company at the placing price of HK$2.28 per share (the "**Placing Shares**").

On October 17, 2017, the Placing Shares with par value of HK$0.1 each were issued at a placing price of HK$2.28 per share to certain investors for aggregate placing proceeds totalling HK$448,923,000 (equivalent to approximately RMB378,801,000), of which HK$19,690,000 (equivalent to approximately RMB16,614,000) were credited to share capital and HK$429,233,000 (equivalent to approximately RMB362,187,000) were credited to share premium. Transaction costs in relation to the placing of RMB11,680,000 were debited to share premium.

These shares represented approximately 16.55% of the enlarged issued share capital of the Company as at the date of placing.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND FINANCIAL REVIEW

Revenue

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

	Full year 2017	**% of revenue**	Full year 2016	% of revenue	**Variance +/(-)**
REVENUE ***(RMB'000)***					
Ethylene oxide	**2,851,373**	**32%**	2,683,430	40%	6.3%
Ethylene glycol	**2,186,596**	**25%**	1,129,261	17%	93.6%
Polypropylene	**2,155,791**	**24%**	1,618,495	24%	33.2%
Surfactants	**589,359**	**7%**	461,859	7%	27.6%
MTBE/C4	**455,076**	**5%**	356,612	5%	27.6%
C5	**288,240**	**3%**	190,948	3%	51.0%
Others	**370,708**	**4%**	206,414	3%	79.6%
	8,897,143	**100%**	6,647,019	100%	33.9%
SALES VOLUME ***(MT)***					
Ethylene oxide	**350,618**		366,042		−4.2%
Ethylene glycol	**356,373**		246,672		44.5%
Polypropylene	**317,809**		298,057		6.6%
Surfactants	**162,755**		154,738		5.2%
MTBE/C4	**99,879**		101,185		−1.3%
C5	**63,596**		45,016		41.3%
AVERAGE SELLING PRICE ***(RMB)***					
Ethylene oxide	**8,132**		7,331		10.9%
Ethylene glycol	**6,136**		4,578		34.0%
Polypropylene	**6,783**		5,430		24.9%
Surfactants	**3,621**		2,985		21.3%
MTBE/C4	**4,556**		3,524		29.3%
C5	**4,532**		4,242		6.9%
GROSS PROFIT MARGIN ***(%)***					
Ethylene oxide	**22.3%**		26.7%		-4.4%
Ethylene glycol	**22.0%**		15.4%		6.6%
Polypropylene	**-9.4%**		-5.9%		-3.5%
Surfactants	**20.3%**		13.6%		6.7%
MTBE/C4	**6.1%**		-0.1%		6.2%
C5	**-0.4%**		-0.5%		0.1%

Ethylene oxide sales

During the year under review, the revenue from EO line of business increased by approximately 6.3% when compared to 2016, which was primarily resulted from the combined effect of the increase in average selling price of EO by approximately 10.9% and the decrease in EO sales volume by approximately 4.2% as the Group tuned the 5th phase EO/EG production facilities, which is a swing production facility in terms of EO and EG outputs, to maximise the output for EG in view of the fact that the selling price of EG soared in 2017 with average selling price increased by approximately 34.0% in 2017.

Ethylene glycol sales

During the year under review, the revenue from EG line of business increased by approximately 93.6% when compared to 2016 as the Group maximized the output capacity and, in turn, the sales volume of EG for the 5th phase EO/EG production facilities by approximately 44.5% as the selling price of EG soared in 2017 with average selling price increased by approximately 34.0% from approximately RMB4,578/MT in 2016 to approximately RMB6,136/MT in 2017

Polypropylene sales

During the year under review, the revenue from polypropylene line of business increased by approximately 33.2% when compared to 2016, which was primarily resulted from the increase in average price of Propylene by approximately 21.0% (on a simple average basis) in 2017 when comparing to 2016 which pushed up the selling price of polypropylene.

Gross profit margin

Overall gross profit margin decreased by approximately 1.4%, primarily resulted from the increase in Methanol pricing by approximately 36% (on a simple average basis) from approximately RMB2,100/MT in 2016 to approximately RMB2,850/MT in 2017 while the direct downstream outputs of Methanol, being Ethylene and Propylene from our perspective, only increased by approximately 8% and 21% (on a simple average basis) respectively during the corresponding period.

Administrative expenses

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

LIQUIDITY AND FINANCIAL RESOURCES

Financial position and bank borrowings

The Group had cash and bank balances of approximately RMB273.7 million (2016: approximately RMB348.2 million), most of which were denominated in Renminbi. The Group had interest-bearing borrowings of approximately RMB2,351.6 million as at 31 December 2017 (2016: approximately RMB3,717.3 million). Please refer to notes 17 to the consolidated financial statements of this announcement for the details of borrowings and the respective charge of assets.

The Group's gearing, expressed as a percentage of total interest-bearing borrowings to total assets, was 27.1% as at 31 December 2017 as compared to 42.9% as at 31 December 2016. The Group has a gearing guidance of not more than 66.7% on total interest-bearing borrowings to total assets basis, which management considers is a better measure when comparing to total interest-bearing borrowings to total equity basis as the Group will have rapid expansion of various production facilities in the coming years and there is a time lag of approximately 2 years between the construction period of production facilities and the profit and revenue generated from these facilities.

Working capital

The inventory turnover days maintained in a similar level during the year under review (2017: 40.5 days; 2016: 38.9 days).

The trade and notes receivables turnover days maintained at a relatively low level in both 2017 and 2016 (2017: 10.6 days; 2016: 24.0 days).

The trade and notes payables turnover days maintained at a similar level in both 2017 and 2016 (2017: 65.9 days; 2016: 86.1 days).

CAPITAL COMMITMENTS

As at 31 December 2017, the Group had capital commitments amounted to approximately RMB16.9 million which was primarily related to the procurement of plant and machinery for the constructions of additional production capacities.

CONTINGENT LIABILITIES

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

	2017	2016
	RMB'000	*RMB'000*
Guarantees given to banks in connection with facilities granted to:		
A related party/joint venture	**787,200**	649,358
A joint operation	**—**	265,898
	787,200	915,256

As at 31 December 2017, the banking facility granted to a related party subject to guarantees given to banks by the Group was utilised to the extent of approximately RMB295,227,000 (2016: RMB89,989,000). The banking facility granted to a joint operation doesn't exist (2016: RMB120,573,000).

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2017, the Group employed a total of 1,049 full-time employees (2016: 1054 employees). For the year ended 31 December 2017, the employee benefit expense was approximately RMB166.8 million (2016: approximately RMB146.2 million). The Group's employee benefits included housing subsidies, shift subsidies, bonuses, allowances, medical check-up, staff quarters, social insurance contributions and housing fund contributions. The remuneration committee of the Company reviews such packages annually, or when the occasion requires. The executive Directors, who are also employees of the Company, receive remuneration in the form of fees, salaries, bonuses and other allowances.

DIVIDEND

The Board recommends the payment of a final dividend of HK12.5 cents per share in respect of the year, representing a dividend payout of RMB119.8 million and dividend payout ratio of 30% for the year ended 31 December 2017.

Subject to the approval of the shareholders at the forthcoming annual general meeting, the final dividend will be distributed on or about Wednesday, 6 June 2018 to the shareholders whose names appear on the register of members of the Company as at Tuesday, 29 May 2018.

OTHER INFORMATION

CORPORATE GOVERNANCE

The Company has adopted the code provisions in the Code of Corporate Governance Practices (to be renamed as the Corporate Governance Code effective from 1st April 2012) ("**CG Code**"), including any revisions and amendments from time to time, as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**") 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 2017 and up to the date of this annual results announcement.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("**Model Code**") as set out in Appendix 10 to the Listing Rules as its model code for securities transactions by Directors and senior management. Having made specific enquiries, all the Directors confirmed that they have complied with the Model Code during the year ended 31 December 2017 and up to the date of this annual results announcement.

AUDIT COMMITTEE

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

During the year ended 31 December 2017 and up to the date of this annual results announcement, the Audit Committee reviewed the interim results of the Group for the six months ended 30 June 2017 and the annual results of the Group for the year ended 31 December 2017, including the accounting principles and practices adopted by the Group, and the Group's internal control functions.

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES

During the year under review, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2017.

ANNUAL GENERAL MEETING

The forthcoming 2017 annual general meeting ("**AGM**") of the Company will be held at Hong Kong on Monday, 21 May 2018. Notice of the AGM will be published and despatched to the shareholders of the Company in the manner as required by the Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 15 May 2018 to Monday, 21 May 2018, both days inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at the AGM. In order to qualify for the right to attend and vote at the forthcoming AGM, all transfers documents accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Monday, 14 May 2018. In addition, the register of members of the Company will be closed from Monday, 28 May 2018 to Tuesday, 29 May 2018, both days inclusive, for the purpose of ascertaining shareholders' entitlement to the proposed final dividend. In order to qualify for the proposed final dividend, all transfers documents accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 25 May 2018.

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

The Company's Annual Report for the year ended 31 December 2017 will be dispatched to the shareholders of the Company and published on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (www.chinasanjiang.com) in due course.

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

PRC, 26 March 2018

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

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