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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 2020**

CHAIRLADY'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 2020 (the “**year under review**”).

RESULTS HIGHLIGHTS

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i> (Restated)	Change %
Revenue	8,322,716	9,190,893	-9.4%
Gross profit	1,599,178	1,038,888	53.9%
Net profit attributable to shareholders of the Company	1,122,931	548,724	104.6%
Earnings per share — Basic (<i>RMB</i>)	95.10 fen	46.43 fen	104.8%
Dividend per share (<i>HK\$</i>) — Interim	12.5 cents	5.0 cents	150.0%
Dividend per share (<i>HK\$</i>) — Final	30.0 cents	20.0 cents	50.0%
Dividend payout ratio (based on total payout during the year)	38.2%	48.9%	-10.7%
Gross profit margin	19.2%	11.3%	7.9%
Net profit margin	14.6%	6.3%	8.3%
Gearing — interesting-bearing borrowings to total asset	38.1%	39.3%	-1.2%

The Group, the oil and chemical sector (the “**Sector**”), the People’s Republic of China (“**PRC**”) as well as the world have been experiencing an unprecedented period as a result of the outbreak of the novel coronavirus and its global pandemic (the “**COVID-19 Pandemic**”). As mentioned in our 2020 interim results announcement, we have been very cautious about the development and the impacts of COVID-19 Pandemic as to business operations of the Group in terms of the potential disturbances to procurement, storage and delivery of feedstocks and finished goods and the operations of production facilities and we have been putting in place various stringent measures, including but not limited to, implementing regular health and travel log declaration for all employees, regulating business travel applications between provinces for all employees, implementing thorough disinfecting procedures on a regular basis and etc. to safeguard the health and safety of our employees and our communities. During the year under review, we have managed to operate and produce as usual and maintain the overall utilization rate of our production capacities at a relatively high level. During the year under review, revenue of the Group decreased by approximately 9.4%, primarily resulted from the decreases in the average selling price (“**ASP**”) of the Group’s major products, namely, ethylene oxide (“**EO**”), ethylene glycol (“**EG**”) and polypropylene (“**PP**”) by a range from approximately 8.3% to approximately 18.4% in 2020 when comparing to 2019, which was offset in a certain extent by the increase in output of EO by approximately 18.7% as the Group’s 5th phase EO/EG production facility operated in full capacity in 2020 and maximised its EO output through the swing option while the 5th phase EO/EG production facility suspended operation during January and February 2019 due to a regular repair and maintenance process and leaned on providing more EG output through the swing option. Overall gross profit margin of the Group increased substantially by approximately 7.9% to approximately 19.2% and net profit attributable to shareholders was approximately RMB1,122.9 million and basic earnings per share was approximately RMB95.1 fen, for the year ended 31 December 2020, representing increases of approximately 104.6% and 104.8% respectively as compared to 2019. The Board has recommended a final dividend of HK30.0 cents per share, together with the distribution of interim dividend of HK12.5 cents per share, representing a dividend payout ratio of approximately 38.2% in total for the year ended 31 December 2020.

Methanol pricing, one of the dominant factors that affect the profitability of the Group stayed at a relatively low level of approximately RMB1,950/MT (on a simple average basis) during the year under review, representing a decrease of approximately 17.5% from approximately RMB2,350/MT (on a simple average basis) in 2019 while the ASP (on a simple average basis) of the Group’s major products namely EO and PP (except for EG) decreased in a less extent, ranging from decreases of approximately 7.6% to approximately 8.0% respectively. The decrease in Methanol pricing to a level below RMB2,000/MT is consistent with the view and expectation that the Group has been upholding since 2017, which directly contributed to the substantial improvement of the overall gross profit margin of the Group.

Apart from the impacts from Methanol pricing, the substantial improvement of the overall gross profit margin in 2020, despite the COVID-19 Pandemic, was also attributable to the combined effects of:- 1) our well-established and usual strategies that we position ourselves as a diversified vertical-integrated chemical group with diversification of business/market risks, on our own terms, representing having both crude oil derivatives — Ethylene and Propylene, and nature gas/coal derivative — Methanol as feedstocks and having EO, EG and PP, which are used in different downstream industries/applications and, in turn, subject to different supply and demand factors, as major outputs on a relatively equal basis under the full capacity condition; and 2) our operating philosophy that we intend to make our production capacities as highly adjustable as possible with each core production capacity having their own separate delivery-in, storage and delivery-out ancillary facilities and with swing option in terms of input and output in a certain extent for major production facilities (i.e. the output swing option of the 5th phase EO/EG production facility and the input/output swing options of the new production facilities — the 6th phase EO/EG production facilities with 1,000,000MT output on a yearly basis and the Naphtha/Ethane/Propane-to-Ethylene/Propylene production facility with 1,250,000MT output on a yearly basis as upstream level) for the purposing of mitigating the market risk and price fluctuation risk.

We had a very dynamic market condition since early 2019 and it became even more volatile after the outbreak of the COVID-19 Pandemic in early 2020 with the demands for certain of our major products namely EG, methyl tert-butyl ether (“**MTBE**”) and Pentene shrinking substantially. The decrease in gross profit margin of EG since 2019 is the most obvious case of demonstrating such dramatic market changes of the market. Although EG was widely used in and had a very stable demand from the textile industry in terms of polyester production, the gross profit margin of EG decreased by approximately 21.9% in two years’ time from having a gross profit margin of approximately 17.5% in 2018 to a gross loss position of approximately 4.4% in 2020 (i.e. 2018: 17.5%; 2019: 2.9%; 2020: -4.4%). The gross loss position of EG in 2020 was primarily due to the prolonged period of social distancing measures, lockdown and travel restrictions, which changed people’s behaviors and demands as to the needs of textile products tremendously, while, on the other hand, the demands as well as the gross profit margin of EO, PP and surfactants & water reducing agent have been improving in 2020, primarily due to increasing demands for sanitizers, packaging materials for various deliveries, liquid detergents and cements, which are downstream applications of EO, PP and surfactants & water reducing agent respectively. The gross profit margin of EO, PP and surfactants & water reducing agent increased from approximately 16.9%, -4.8% and 15.9% respectively in 2018 to approximately 21.1%, 22.2% and 27.9% respectively in 2020 respectively in two years’ time. During the year under review, following our aforesaid operating philosophy, we managed to capture and seize the aforesaid market opportunities by:- i) maximising our EO output through the swing option of our 5th phase EO/EG production facilities; ii) adjusting the OCU reactor of our Methanol-to-Olefins (“**MTO**”) production facility to maximise Propylene output and minimise C4 output; and iii) improving the production conversion rate from feedstocks to finished goods by fine-tuning/adjusting the production processes during each catalyst change-out period.

Currently, we are constructing two new production facilities — 1) the 6th phase EO/EG production facilities with 1,000,000MT output on a yearly basis as midstream level production capacity expansion, which enables the Group to double its EO/EG market shares in the East China area by Q4 of 2021; and 2) the Naphtha/Ethane/Propane-to-Ethylene/Propylene production facility with 1,250,000MT output on a yearly basis as upstream level production capacity expansion, which enables the Group to diversify business/market risks in terms of feedstock procurement to rebalance the composition from the current status of Ethylene, Propylene and Methanol on a 20%–10%–70% basis to the expected status of the ratio of the aggregate of Naphtha, Ethane and Propane and Methanol on a 70%–30% basis by Q3 of 2022, where the input ratio among Naphtha, Ethane and Propane can further be adjusted in a large extent as well. The 6th phase EO/EG production facilities and the Naphtha/Ethane/Propane-to-Ethylene/Propylene production facility will be capable of adjusting the output ratio and input ratio in a large extent. We expect the 6th phase EO/EG production facilities and the Naphtha/Ethane/Propane-to-Ethylene/Propylene production facility will finish their constructions and commence commercial operations on a full load basis by Q4 of 2021 and Q3 of 2022 respectively. The aggregate capital expenditures for the 6th phase EO/EG production facilities and the Naphtha/Ethane/Propane-to-Ethylene/Propylene production facility are expected to be approximately RMB6.5 billion in total and the Group has obtained confirmed bank loan facilities of approximately RMB3.16 billion from four PRC banks for these two production capacity expansions, which means around 50% of which (i.e. RMB3.16 billion) would be funded by way of committed bank loan facilities and the remaining (i.e. RMB3.34 billion) would be funded by way of internal resources of the Group. As at 31 December 2020, the Group has paid out RMB2.3 billion, including approximately RMB1.16 billion by way of bank loan (please note that the figures here are presented on a gross basis while the figures being presented in the Cash Flow Statement have been grouped for non-cash settlement) and the remaining balances are expected to be paid in the following manner:- in year 2021–RMB2.7 billion, including approximately RMB1.5 billion bank financing; in year 2022–RMB0.9 billion, including approximately RMB0.5 billion bank financing; and in year 2023–RMB0.6 billion (i.e. being 10% retention money, usually payable in one year after the completion of the whole construction). During the year under review, the Group generated operating cash inflow of approximately RMB1.7 billion (2019: RMB1.2 billion). On that basis that the Group expects to generate operating cash inflow of similar level in the coming years, the Board believes the Group will be able to fulfill the funding requirements of around RMB1.2 billion and RMB0.4 billion for the aforesaid 2021 and 2022 capital expenditures in terms of the portion of the internal resource of the Group and will have sufficient working capital for the coming twelve months. The Group has a gearing guidance of not more than 66.7% on total interest-bearing borrowings to total assets basis, which we consider is a better measure when comparing to total interest-bearing borrowings to total equity basis as 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. Based on our assessment when comparing the current market prices of all the outputs and inputs after taking into account the expected

processing costs and finance costs, we expect the 6th phase EO/EG production facilities and the Naphtha/Ethane/Propane-to-Ethylene/Propylene production facility can generate a return on asset of approximately 20% on a yearly basis, which we believe can be maintained in the long run.

We have been actively monitoring and assessing the impacts of the COVID-19 Pandemic that might have on our Group in terms of our business operations and the health and safety of our employees and our communities and have, in a timely manner, put in place necessary precautionary measures. At present, we believe the impacts of the COVID-19 Pandemic outbreak on the Group and the PRC economy as a whole is temporary.

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.

HAN Jianhong

Chairlady

PRC, 22nd March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2020

	Notes	2020 RMB'000 (Audited)	2019 RMB'000 (Audited) (Restated)
REVENUE	4	8,322,716	9,190,893
Cost of sales		<u>(6,723,538)</u>	<u>(8,152,005)</u>
Gross profit		1,599,178	1,038,888
Other income and gains	4	431,694	208,663
Selling and distribution expenses		(25,330)	(34,631)
Administrative expenses		(394,187)	(278,749)
Impairment losses on financial assets, net		2,768	(5,257)
Other expenses, net	4	(112,055)	(68,623)
Finance costs	5	<u>(110,019)</u>	<u>(203,248)</u>
PROFIT BEFORE TAX	6	1,392,049	657,043
Income tax expense	7	<u>(177,852)</u>	<u>(81,096)</u>
PROFIT FOR THE YEAR		<u>1,214,197</u>	<u>575,947</u>
Attributable to:			
Owners of the parent		1,122,931	548,724
Non-controlling interests		<u>91,266</u>	<u>27,223</u>
		<u>1,214,197</u>	<u>575,947</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
Basic and diluted		<u>RMB95.10 fen</u>	<u>RMB46.43 fen</u>
PROPOSED FINAL DIVIDEND FOR THE YEAR	9	<u>300,451</u>	<u>215,882</u>

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	2020 RMB'000 (Audited)	2019 <i>RMB'000</i> (Audited) (Restated)
PROFIT FOR THE YEAR	<u>1,214,197</u>	<u>575,947</u>
OTHER COMPREHENSIVE INCOME		
Other comprehensive (loss)/income that will not be reclassified to profit or loss in subsequent periods:		
Equity investments designated at fair value through other comprehensive income		
Change in fair value	<u>(830)</u>	<u>1,063</u>
	(830)	1,063
Net other comprehensive (loss)/income that will not be reclassified to profit or loss in subsequent periods	<u>(830)</u>	<u>1,063</u>
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR	<u>(830)</u>	<u>1,063</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u><u>1,213,367</u></u>	<u><u>577,010</u></u>
Attributable to:		
Owners of the parent	<u>1,122,101</u>	549,787
Non-controlling interests	<u>91,266</u>	<u>27,223</u>
	<u><u>1,213,367</u></u>	<u><u>577,010</u></u>

CONSOLIDATED STATEMENT OF FINANCE POSITION

At 31 December 2020

	Notes	2020 RMB'000 (Audited)	2019 RMB'000 (Audited) (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment		4,998,987	4,916,872
Right-of-use assets		440,670	442,197
Intangible assets		117,589	147,305
Advance payments for property, plant and equipment		1,360,815	113,135
Equity investments designated at fair value through other comprehensive income	10	3,347	4,177
Due from a related party	18	590,948	275,158
Pledged deposits	14	560,000	—
Deferred tax assets		7,241	13,211
Total non-current assets		<u>8,079,597</u>	<u>5,912,055</u>
CURRENT ASSETS			
Inventories	11	948,500	878,674
Trade and notes receivables	12	249,056	565,834
Prepayments, other receivables and other assets	13	252,950	212,340
Due from related parties	18	4,190	8,946
Derivative financial instruments		—	555
Non-pledged time deposits with original maturity of over three months	14	—	215,145
Financial assets at fair value through profit or loss	10	501,177	706,452
Pledged deposits	14	207,338	1,320,152
Cash and cash equivalents	14	775,849	592,283
Total current assets		<u>2,939,060</u>	<u>4,500,381</u>
CURRENT LIABILITIES			
Trade and bills payables	15	961,017	934,294
Other payables and accruals	16	798,757	859,576
Derivative financial instruments		8,378	1,338
Interest-bearing bank borrowings	17	3,035,889	4,095,668
Lease liabilities		2,104	1,668
Due to related parties	19	67,203	351,798
Tax payable		150,107	83,457
Total current liabilities		<u>5,023,455</u>	<u>6,327,799</u>

	<i>Notes</i>	2020 RMB'000 (Audited)	2019 RMB'000 (Audited) (Restated)
NET CURRENT LIABILITIES		<u>(2,084,395)</u>	<u>(1,827,418)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>5,995,202</u>	<u>4,084,637</u>
NON-CURRENT LIABILITIES			
Lease liabilities		14,143	10,443
Deferred tax liabilities		27,368	18,059
Interest-bearing bank borrowings	<i>17</i>	<u>1,162,000</u>	<u>—</u>
Total non-current liabilities		<u>1,203,511</u>	<u>28,502</u>
Net assets		<u>4,791,691</u>	<u>4,056,135</u>
EQUITY			
Equity attributable to owners of the parent			
Issued capital	<i>20</i>	102,662	102,662
Reserves		<u>4,652,700</u>	<u>3,934,010</u>
		<u>4,755,362</u>	<u>4,036,672</u>
Non-controlling interests		<u>36,329</u>	<u>19,463</u>
Total equity		<u>4,791,691</u>	<u>4,056,135</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 CORPORATE AND GROUP INFORMATION

China Sanjiang Fine Chemicals Company Limited (the “**Company**”) was incorporated with limited liability in the Cayman Islands on 30 January 2009. The registered office address of the Company is Suite 3204, Unit 2A, Block 3, Building D, P.O. Box 1586, Gardenia Court, Camana Bay, Grand Cayman, KY1-1100, Cayman Islands. The principal place of business in China is located at Pinghai Road, Jiaxing Port Area, Zhejiang Province, People’s Republic of China (the “**PRC**”).

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

In the opinion of the directors, the holding company of the Company is Sure Capital Holdings Limited (“**Sure Capital**”) and the ultimate holding company of the Company is Yihao Development Limited (“**Yihao**”), which were both incorporated in the British Virgin Islands.

2 BASIS OF PRESENTATION AND PREPARATION

On 11 December 2020, the Group completed the acquisition of the 100% equity interests in Guan Da and its subsidiary Wuyue from Hangzhou Qiushi Venture Capital Management Partnership (Limited Partnership) (“**Hangzhou Qiushi**”) and Hangzhou Guanshi Venture Capital Management Partnership (Limited Partnership) (“**Hangzhou Guanshi**”). Upon completion of the acquisition, Guan Da became an indirectly wholly owned subsidiary of the Company. Hangzhou Qiushi, Hangzhou Guanshi and Sure Capital are ultimately controlled by the same beneficial owners and Sure Capital is a controlling shareholder of the Company. The Company and Guan Da are ultimately under common control of the same beneficial owner before and after the acquisition and that control is not transitory. Hence, the acquisition has been accounted for as a business combination of entities under common control. The financial impact of the acquisition on the statement of financial position as at 31 December 2019 and consolidated statement of profit or loss for the year ended 31 December 2019 was set out in note 21 to the financial statements.

Accordingly, the consolidated financial statements have been prepared by applying the principles of merger accounting as if the current group structure had been in existence throughout each of the two years ended 31 December 2019 and 2020, or since their respective dates of establishment, whichever is shorter. The consolidated statements of financial position of the Group as at 31 December 2019 have been prepared to present the assets and liabilities of Guan Da before the acquisition using the existing book values from the same beneficial owner's perspective. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the acquisition.

Equity interests in Guan Da and Wuyue held by parties other than the controlling shareholders were presented as non-controlling interests in equity in applying the principles of merger accounting.

Accordingly, the comparative figures of the consolidated financial statements have been restated.

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“**HKASs**”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain equity investments designated at fair value through other comprehensive income, financial assets at fair value through profit or loss, debt instruments at fair value through other comprehensive income and derivative financial instruments which have been measured at fair value. These financial statements are presented in Renminbi (“**RMB**”) and all values are rounded to the nearest thousand except when otherwise indicated.

Going concern assumption

As at 31 December 2020, the Group's net current liabilities amounted to approximately RMB2,084,395,000, which comprised current assets of approximately RMB2,939,060,000 and current liabilities of approximately RMB5,023,455,000. The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflows from operations and sufficient financing to meet its financial obligations as and when they fall due. In preparing the financial statements, the directors of the Company have considered the Group's sources of liquidity and believe that adequate funding is available to fulfil the Group's debt obligations and capital expenditure requirements.

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 the Group's operating segment as a whole for the purpose of making decisions about resource allocation and performance assessment.

Information about products and services

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Sale of industrial products	8,212,015	9,092,548
Processing services	97,775	88,835
Rental income	<u>12,926</u>	<u>9,510</u>
	<u><u>8,322,716</u></u>	<u><u>9,190,893</u></u>

Geographical information

All external revenue of the Group during the years ended 31 December 2020 and 2019 was attributable to customers established in the PRC, the place of domicile of the Group's operating entities.

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

Information about major customers

No revenue from the Group's sales to a single customer amounted to 10% or more of the Group's revenue during the years ended 31 December 2020 and 2019.

4 REVENUE, OTHER INCOME AND GAINS AND OTHER EXPENSES

An analysis of revenue is as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
<i>Revenue from contracts with customers</i>	8,309,790	9,181,383
<i>Revenue from other sources</i>		
Rental income from operating leases:		
Lease payments, including fixed payments	<u>12,926</u>	<u>9,510</u>
	<u>12,926</u>	<u>9,510</u>
	<u><u>8,322,716</u></u>	<u><u>9,190,893</u></u>

Revenue from contracts with customers

(a) Disaggregated revenue information

Segments

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Types of goods or services		
Sale of industrial products	8,212,015	9,092,548
Processing services	<u>97,775</u>	<u>88,835</u>
Total revenue from contracts with customers	<u>8,309,790</u>	<u>9,181,383</u>
Timing of revenue recognition		
At a point in time		
Sale of industrial products	8,212,015	9,092,548
Processing services	<u>97,775</u>	<u>88,835</u>
Total revenue from contracts with customers	<u>8,309,790</u>	<u>9,181,383</u>

(b) Contract liabilities

The Group recognised the following revenue-related contract liabilities:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Advance from customers for sale of industrial products and processing services*	<u>166,073</u>	<u>166,557</u>

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

(i) Significant changes in contract liabilities

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

(ii) Revenue recognised in relation to contract liabilities

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Sale of industrial products and processing services	<u>166,557</u>	<u>95,567</u>

(c) *Performance obligations*

At 31 December 2020, the remaining performance obligations (unsatisfied or partially unsatisfied) are expected to be recognised as revenue within one year. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

	<i>Notes</i>	2020 RMB'000	2019 RMB'000 (Restated)
Other income			
Bank interest income		73,669	34,654
Sales of ethylene		52,454	27,067
Interest income from related parties		51,073	51,093
Government subsidies	<i>(a)</i>	52,027	25,672
Investment income from financial assets at fair value through profit or loss		23,935	8,972
Sales of raw materials		41,808	9,133
Compensation income		14,616	—
Utility income		7,329	7,961
Sales of circular water		4,661	6,061
Interest income from a third party		7,000	5,000
Guarantee fee		—	3,931
Gross rental income from operating leases:			
Lease payments, including fixed payments		1,822	3,708
Dividend income from equity investments at fair value through other comprehensive income		233	237
Others		7,530	9,132
		338,157	192,621
Gains			
Fair value gains, net:			
Financial assets at fair value through profit or loss — mandatorily classified as such		6,716	2,209
Foreign exchange gains, net		80,248	—
Investment income from derivative financial instruments, net		—	7,183
Gain on disposal of silver catalysts	<i>(b)</i>	6,573	6,650
		93,537	16,042
		431,694	208,663

	<i>Note</i>	2020 RMB'000	2019 RMB'000 (Restated)
Other expenses, net			
Foreign exchange losses, net		—	52,464
Cost of sales of ethylene		47,558	25,077
Cost of sales of raw materials		40,139	8,923
Fair value losses on derivative financial instruments, net		7,487	539
Reversal of write-down of inventories to net realisable value	(c)	(30,932)	(18,658)
Investment loss from derivative financial instruments, net		42,816	—
Others		4,987	278
		112,055	68,623

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 on disposal of silver catalysts represents the gain from disposal of silver catalysts used in production which were replaced during overhaul for the EO production line.
- (c) Reversal of write-down of inventories to net realisable value represents the reversal of write-down of inventories to net realisable value for the silver catalysts in inventories caused by the fluctuation in silver price.

5 FINANCE COSTS

An analysis of finance costs is as follows:

	2020 RMB'000	2019 RMB'000
Interest on bank borrowings	73,312	143,582
Interest on lease liabilities	750	218
	74,062	143,800
Interest on discounted notes receivable	35,957	59,448
	110,019	203,248

6 PROFIT BEFORE TAX

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i> (Restated)
Cost of inventories sold	6,686,041	8,117,837
Cost of services provided	37,497	34,168
Depreciation of property, plant and equipment*	537,673	559,016
Depreciation of right-of-use assets	12,205	10,198
Amortisation of intangible assets**	30,063	29,003
Reversal of write-down of inventories to net realisable value***	(31,932)	(17,664)
Impairment of trade receivables, net	(633)	3,122
Impairment of financial assets included in prepayments, other receivables and other assets, net	(2,135)	2,135
Loss on disposal of items of property, plant and equipment	323	—
Auditor's remuneration	2,716	2,660
Lease payments not included in the measurement of lease liabilities	979	1,815
Employee benefit expense (including directors' remuneration):****		
Wages and salaries	182,382	149,482
Pension scheme contributions	3,676	5,367
Staff welfare expenses	9,038	11,107
	<u>195,096</u>	<u>165,956</u>

* The depreciation of property, plant and equipment of RMB486,777,000 (2019: RMB498,642,000) for the year is included in "Cost of sales" in the consolidated statement of profit or loss.

** The amortisation of intangible assets of RMB7,921,000 (2019: RMB6,682,000) for the year is included in "Cost of sales" in the consolidated statement of profit or loss.

*** Reversal of write-down of inventories to net realisable value of RMB994,000 for the year ended 31 December 2020 (2019: write-down of inventories to net realisable value of RMB994,000) was included in "Cost of sales" in the consolidated statement of profit or loss.

**** The employee benefit expense of RMB97,149,000 (2019: RMB94,208,000) 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 operate.

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

	2020 RMB'000	2019 <i>RMB'000</i> (Restated)
Current — Mainland China		
Charge for the year	162,573	77,769
Deferred	15,279	3,327
	<hr/>	<hr/>
Total tax charge for the year	177,852	81,096
	<hr/> <hr/>	<hr/> <hr/>

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% (2019: 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 (2019: Nil).

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

Pursuant to the approval of the tax bureau, Sanjiang Chemical has been qualified as a High and New Technology Enterprise since 2010 and enjoys a preferential corporate income tax rate of 15% from 2010 to 2022. Therefore, Sanjiang Chemical was subject to corporate income tax at a rate of 15% for the year ended 31 December 2020 (2019: 15%).

Pursuant to the approval of the tax bureau, Sanjiang Lotte has been qualified as a High and New Technology Enterprise since 2014 and enjoys a preferential corporate income tax rate of 15% from 2014 to 2022. Therefore, Sanjiang Lotte was subject to corporate income tax at a rate of 15% for the year ended 31 December 2020 (2019: 15%).

Pursuant to the approval of the tax bureau, Sanjiang New Material has been qualified as a High and New Technology Enterprise since 2016 and enjoys a preferential corporate income tax rate of 15% from 2016 to 2022. Therefore, Sanjiang New Material was subject to corporate income tax at a rate of 15% for the year ended 31 December 2020 (2019: 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 2022. Therefore, Xingxing New Energy was subject to corporate income tax at a rate of 15% for the year ended 31 December 2020 (2019: 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:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i> (Restated)
Profit before tax	<u>1,392,049</u>	<u>657,043</u>
Tax at the statutory tax rate	348,349	164,261
Lower tax rates enacted by local authority or in other countries	(123,003)	(49,747)
Additional deduction for research and development activities	(41,926)	(65,488)
Expenses not deductible for tax	19,076	20,150
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	28,960	13,739
Income not subject to tax	(35)	(36)
Tax losses utilised from previous years	(60,812)	(2,249)
Temporary differences not recognised	811	(908)
Waiver of shareholder's loan	3,750	—
Tax losses not recognised	<u>2,682</u>	<u>1,374</u>
Tax charge at the Group's effective rate	<u>177,852</u>	<u>81,096</u>

8 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 plan 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:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i> (Restated)
Earnings		
Profit for the year attributable to ordinary equity holders of the parent	<u>1,122,931</u>	<u>548,724</u>

	Number of shares	
	2020 <i>'000</i>	2019 <i>'000</i>
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	<u>1,180,831</u>	<u>1,181,931</u>

9 DIVIDENDS

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Interim — HK12.5 cents (2019: HK 5.0 cents) per ordinary share	132,090	53,538
Proposed final — HK30.0 cents (2019: HK20.0 cents) per ordinary share	<u>300,451</u>	<u>215,882</u>
	<u>432,541</u>	<u>269,420</u>

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

10-1 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i> (Restated)
Listed equity investments, at fair value	729	26,251
Unlisted investments, at fair value	<u>500,448</u>	<u>680,201</u>
	<u>501,177</u>	<u>706,452</u>

The above equity investments were classified as financial assets at fair value through profit or loss as they were held for trading.

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

As at 31 December 2020, the Group's certain unlisted investments of RMB356,716,000 (2019: RMB451,227,000) were pledged for bank loans (note 17). The Group's certain unlisted investments of RMB109,267,000 (2019: Nil) were pledged for bills payables (note 15).

10-2 EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Equity investments designated at fair value through other comprehensive income		
Unlisted equity investments, at fair value		
Jiaying Port Antong Public Pipe Gallery Co., Ltd.	<u>3,347</u>	<u>4,177</u>

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

During the year ended 31 December 2020, the Group received dividends in the amounts of RMB233,000 (2019: RMB237,000) from Jiaying Port Antong Public Pipe Gallery Co., Ltd. (“嘉興港安通公共管廊有限公司”).

11 INVENTORIES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Raw materials	863,161	757,334
Finished goods	<u>85,339</u>	<u>121,340</u>
	<u>948,500</u>	<u>878,674</u>

12 TRADE AND NOTES RECEIVABLES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Trade receivables	52,157	55,653
Notes receivable	<u>207,937</u>	<u>521,852</u>
	260,094	577,505
Impairment	<u>(11,038)</u>	<u>(11,671)</u>
	<u>249,056</u>	<u>565,834</u>

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

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
1 to 30 days	40,593	35,089
31 to 60 days	905	8,519
61 to 90 days	367	2,228
91 to 360 days	475	—
Over 360 days	9,817	9,817
	52,157	55,653

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
At beginning of year	11,671	8,549
Impairment losses, net	(633)	3,122
At end of year	11,038	11,671

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

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

As at 31 December 2020

	Gross carrying amount <i>RMB'000</i>	Expected credit loss rate	Expected credit losses <i>RMB'000</i>
Trade receivables aged based on the invoice date:			
Less than 1 year	42,340	2.88%	1,221
Between 1 and 2 years	—	91.98%	—
Over 2 years	9,817	100.00%	9,817
	52,157		11,038

As at 31 December 2019

	Gross carrying amount <i>RMB'000</i>	Expected credit loss rate	Expected credit losses <i>RMB'000</i>
Trade receivables aged based on the invoice date:			
Less than 1 year	45,836	4.04%	1,854
Between 1 and 2 years	—	92.21%	—
Over 2 years	<u>9,817</u>	100.00%	<u>9,817</u>
	<u><u>55,653</u></u>		<u><u>11,671</u></u>

As at 31 December 2020, notes receivable of RMB207,937,000 (2019: RMB521,852,000), whose fair values approximate to their carrying values, were classified as financial assets at fair value through other comprehensive income under HKFRS 9. The fair value changes of these notes receivable at fair value through other comprehensive income were insignificant in 2020 and 2019.

At 31 December 2020, the Group endorsed certain notes receivable accepted by certain banks in the PRC (the “**Endorsed Notes**”) to certain of its suppliers in order to settle the trade and other payables due to such suppliers with a carrying amount in aggregate of RMB1,138,850,000 (2019: RMB621,343,000). In addition, the Group discounted certain notes receivable (the “**Discounted Notes**”) with a carrying amount in aggregate of RMB879,301,000 (2019: RMB1,891,958,000). The Endorsed Notes and the Discounted Notes had a maturity from one to twelve months as at 31 December 2020. 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 RMB956,917,000 (2019: RMB173,054,000) and nil (2019: RMB138,368,000), 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 RMB181,933,000 as at 31 December 2020 (2019: RMB448,289,000). The Group recognised the proceeds received from the discount of the remaining Discounted Notes with an amount of RMB879,301,000 as short-term loans at 31 December 2020 (2019: RMB1,753,590,000) because the Directors believed that the Group has retained the substantial risks and rewards, which include default risks relating to such remaining Endorsed Notes and Discounted Notes.

13 PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	<i>Notes</i>	2020 RMB'000	2019 RMB'000 (Restated)
A loan to a third party	<i>(a)</i>	—	100,000
Deposits and other receivables		135,538	88,408
Prepayments		115,858	24,802
Loans to employees	<i>(b)</i>	986	986
Prepaid expenses		568	279
		252,950	214,475
Impairment allowance		—	(2,135)
		252,950	212,340

Notes:

- (a) A loan to a third party represents the loan to Guangde Jinheng Building Materials Market Company Limited (“**Guangde Jinheng**”), which bore interest at a fixed rate of 12% per annum and matured on 26 December 2019. The loan was secured by certain buildings belonging to Guangde Jinheng and the collateral was held by Han Jianping, an executive director, on behalf of the Group. The loan had been fully repaid on 10 June 2020.
- (b) The loans to employees were given by the Group for the purpose of enabling the employees to purchase property.

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 and past due amounts, except the loan to the third party mentioned in note (a). As at 31 December 2019, the loss allowance was assessed to be RMB2,135,000 mainly due to the loan to the third party mentioned in note (a). As at 31 December 2020, the loss allowance was assessed to be minimal.

14 CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i> (Restated)
Cash and bank balances	775,849	592,283
Time deposits and pledged deposits	<u>767,338</u>	<u>1,535,297</u>
	<u>1,543,187</u>	<u>2,127,580</u>
Less: Pledged time deposits:		
Pledged for bills payable (<i>note 15</i>)	298,736	10,000
Pledged for letters of credit	—	120,002
Pledged for bank loans (<i>note 17</i>)	468,602	1,190,150
Non-pledged time deposits with original maturity of over three months when acquired	<u>—</u>	<u>215,145</u>
	<u>767,338</u>	<u>1,535,297</u>
Cash and cash equivalents	<u>775,849</u>	<u>592,283</u>
Denominated in RMB	737,803	537,574
Denominated in United States dollars	3,153	46,411
Denominated in Hong Kong dollars	34,858	8,272
Denominated in other currencies	<u>35</u>	<u>26</u>
Cash and cash equivalents	<u>775,849</u>	<u>592,283</u>

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Pledged short term time deposits are made for periods with a maturity of the underlying notes payable, letters of credit and bank loans secured by these deposits, and non-pledged short term time deposits are made for varying periods of between one day and twelve months depending on the immediate cash requirements of the Group. Time deposits 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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Trade payables	474,233	924,294
Bills payable	486,784	10,000
	<u>961,017</u>	<u>934,294</u>

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Within 3 months	708,540	900,188
3 to 6 months	242,400	28,419
6 to 12 months	6,973	3,741
12 to 24 months	1,783	1,009
24 to 36 months	782	465
Over 36 months	539	472
	<u>961,017</u>	<u>934,294</u>

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

As at 31 December 2020, the bills payable of RMB395,194,000 (2019: RMB10,000,000) were secured by the Group's pledged deposits with a carrying amount of RMB298,736,000 (2019: RMB10,000,000) (note 14) and the Group's certain unlisted investments with a carrying amount of RMB109,267,000 (2019: Nil) (note 10).

16 OTHER PAYABLES AND ACCRUALS

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i> (Restated)
Deferred income	10,000	10,000
Other payables	468,230	552,668
Taxes payable other than income tax	94,405	85,976
Contract liabilities (<i>note 5</i>)	166,073	166,557
Payroll payable	52,475	39,587
Interest payable	7,574	4,788
	<u>798,757</u>	<u>859,576</u>

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

17 INTEREST-BEARING BANK BORROWINGS

	Effective interest rate (%)	Maturity	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Current				
US\$39,208,000				
secured bank loans	3.059–3.710	2020	—	273,521
Bank loans — secured	3.120–4.350	2020	—	205,000
Bank loans — secured	3.350	2021	100,000	—
Bank loans — unsecured	4.300–4.600	2020	—	636,000
Bank loans — unsecured	3.050–4.408	2021	813,000	—
US\$23,373,000				
unsecured bank loans	2.264–3.800	2020	—	163,057
US\$52,249,000				
unsecured bank loans	2.735–3.600	2020	—	364,500
US\$80,400,000				
unsecured bank loans	0.835–2.700	2021	452,167	—
US\$51,253,000				
unsecured bank loans	0.607–2.181	2021	334,424	—
			1,699,591	1,642,078
Discounted notes receivable	2.440–4.000	2020	—	1,753,590
Discounted notes receivable	2.600–3.500	2021	879,301	—
Discounted letter of credit	2.760–3.700	2020	—	700,000
Discounted letter of credit	2.550–3.900	2021	456,997	—
			3,035,889	4,095,668
Non-Current				
Bank loans — secured	5.142	2026	458,000	—
Bank loans — secured	5.142–5.292	2027	704,000	—
			1,162,000	—
			4,197,889	4,095,668
Analysed into:				
Bank loans repayable:				
Within one year			3,035,889	4,095,668
Beyond five years			1,162,000	—
			4,197,889	4,095,668

Notes:

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

- (i) mortgages over the Group's leasehold lands, which had an aggregate carrying value at the end of the reporting period of approximately RMB199,090,000 (2019: Nil) as at 31 December 2020;
- (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 RMB3,242,602,000 (2019: Nil) as at 31 December 2020;
- (iii) the Group's financial assets at fair value through profit or loss which had an aggregate carrying value amounting to RMB356,716,000 (2019: RMB451,227,000) as at 31 December 2020 (note 10);
- (iv) the Group's pledged deposit, which had an aggregate carrying value amounting to RMB468,602,000 (2019: RMB1,190,150,000) as at 31 December 2020 (note 14);
- (v) guarantees from Lotte Chemical Corporation with mortgages over the Group's property, plant and equipment, which had an aggregate carrying value amounting to RMB235,045,000 (2019: RMB278,398,000) as at 31 December 2020 (note 12);
- (vi) guarantees from Hangzhou Haoming Investment Co., Ltd. ("**Hangzhou Haoming**"), a related company and a company established in the PRC with limited liability, for an amount not exceeding RMB650,000,000 (2019: Nil); and
- (vii) mortgages over 100% of the equity interest of Hangzhou Haoming.

Sanjiang Chemical Company Limited, one of the Group's wholly owned subsidiaries, entered into a syndicated loan agreement with Bank of Communications Corporation Limited, China CITIC Bank Corporation Limited, Agricultural Bank of China Limited and China Minsheng Banking Corporation Limited in 2020 in relation to the funding requirement for the construction of an additional EO/EG production facility with a total loan amount of RMB3,160,000,000, out of which RMB1,162,000,000 has been used as at 31 December 2020.

18 DUE FROM RELATED PARTIES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Mei Fu Petrochemical (a)	593,713	280,716
Gangan Intelligent	1,000	—
Jiahua Import Export	320	376
Hangzhouwan Petro	100	100
Jiahua Group	4	1,018
Sure Capital	1	1
Jiahua Energy	—	1,785
Jiahua New Material	—	108
	<u>595,138</u>	<u>284,104</u>

Notes:

- (a) The amount due from Zhejiang Mei Fu Petrochemical Co., Ltd, was mainly derived in relation to the 2nd Supplemental LG agreement entered into on 12 September 2019 between the Company and Zhejiang Mei Fu Petrochemical Co., Ltd. as to the provision of Renewed loan to Zhejiang Mei Fu Petrochemical Co., Ltd.

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

19 DUE TO RELATED PARTIES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Jiahua Energy	47,997	219,189
Mei Fu Port	8,454	44,847
Hangzhouwan Petro	4,010	—
Grand Novel	2,209	67,915
Gangan Intelligent	1,567	11,553
Haoxing Energy Conservation	1,136	5,198
Jiahua Group	711	711
Jiaying Rewang	388	1,372
Jiafu New Materials	300	—
Mei Fu Petrochemical	228	421
Jianghao Eco-agriculture	140	29
Zhapu Construction	63	63
Qixia Baohua Property	—	500
	<u>67,203</u>	<u>351,798</u>

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

20 SHARE CAPITAL

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

The issued capital of the Company is as follows:

	Number of shares	Amount <i>RMB'000</i>
Issued and fully paid ordinary shares of HK\$0.1 each: At 31 December 2019, 1 January 2020 and 31 December 2020	<u>1,190,000,000</u>	<u>102,662</u>

21 COMPARATIVE AMOUNTS

Due to the adoption of merger accounting for the business combination under common control during the year ended 31 December 2020, certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

The following table demonstrates the effect of adopting merger accounting for the common control business combination on the consolidated statement of profit or loss for the year ended 31 December 2019 and the consolidated statement of financial position as at 31 December 2019:

Effect on the consolidated income statement for the year ended 31 December 2019:

	As previously reported RMB'000	Effect of business combination under common control RMB'000	As restated RMB'000
Other income and gains	207,455	1,208	208,663
Administrative expenses	(275,991)	(2,758)	(278,749)
Profit before tax	658,593	(1,550)	657,043
Profit for the year	577,497	(1,550)	575,947
Attributable to:			
Owners of the parent	550,474	(1,750)	548,724
Non-controlling interests	27,023	200	27,223

Effect on the consolidated statement of financial position as at 31 December 2019:

	As previously reported RMB'000	Effect of business combination under common control RMB'000	As restated RMB'000
Assets:			
Property, plant and equipment	4,916,741	131	4,916,872
Financial asset at fair value through profit or loss	678,105	28,347	706,452
Prepayments, other receivables and other assets	203,154	9,186	212,340
Cash and cash equivalents	591,671	612	592,283
Liabilities:			
Other payables and accruals	859,023	543	859,576

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 2020	% of revenue	Full year 2019	% of revenue	Variance +/(-)
REVENUE (RMB'000)					
Ethylene oxide	2,658,305	32%	2,441,936	26%	8.9%
Ethylene glycol	601,234	7%	1,080,070	12%	-44.3%
Polypropylene	3,319,396	40%	3,670,890	40%	-9.6%
Surfactants & water reducing agent	783,587	9%	859,073	9%	-8.8%
MTBE/C4	343,992	4%	470,839	5%	-26.9%
Pentene	283,681	3%	340,328	4%	-16.6%
Polypropylene processing service	53,349	1%	54,455	1%	-2.0%
Surfactants processing service	44,382	1%	34,380	0%	29.1%
Others	234,790	3%	238,922	3%	-1.7%
	<u>8,322,716</u>	100%	<u>9,190,893</u>	100%	-9.4%
SALES VOLUME (MT)					
Ethylene oxide	431,298		363,479		18.7%
Ethylene glycol	175,626		257,393		-31.8%
Polypropylene	555,760		512,985		8.3%
Surfactants & water reducing agent	106,481		108,816		-2.1%
MTBE/C4	101,186		99,154		2.0%
Pentene	91,092		89,631		1.6%
Polypropylene processing service	94,051		100,152		-6.1%
Surfactants processing service	151,976		118,929		27.8%
AVERAGE SELLING PRICE (RMB)					
Ethylene oxide	6,163		6,718		-8.3%
Ethylene glycol	3,423		4,196		-18.4%
Polypropylene	5,973		7,156		-16.5%
Surfactants & water reducing agent	7,359		7,895		-6.8%
MTBE/C4	3,400		4,749		-28.4%
Pentene	3,114		3,797		-18.0%
Polypropylene processing service	567		544		4.2%
Surfactants processing service	292		291		0.3%
GROSS PROFIT MARGIN (%)					
Ethylene oxide	21.1%		14.5%		6.6%
Ethylene glycol	-4.4%		2.9%		-7.3%
Polypropylene	22.2%		10.5%		11.7%
Surfactants & water reducing agent	27.9%		19.3%		8.6%
MTBE/C4	-3.3%		2.5%		-5.8%
Pentene	-6.9%		-2.4%		-4.5%
Polypropylene processing service	69.4%		66.8%		2.6%
Surfactants processing service	68.5%		65.1%		3.4%

Ethylene oxide sales

During the year under review, the revenue from EO line of business increased by approximately 8.9% in 2020 when comparing to 2019, primarily due to the combined effects of the decrease in ASP of EO by approximately 8.3% in view of the price volatility of major commodities and increase in sale volume of EO by approximately 18.7% 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 EO.

Ethylene glycol sales

During the year under review, the revenue from EG line of business decreased by approximately 44.3% when compared to 2019 as the Group decreased the EG output capacity of the 5th phase EO/EG production facilities and, in turn, the sales volume of EG decreased by approximately 31.8% when compared to 2019.

Polypropylene sales

During the year under review, the revenue from polypropylene line of business decreased by approximately 9.6% when compared to 2019, primarily due to the combined effects of the decrease in ASP of PP by approximately 16.5% in view of the price volatility of major commodities and increase in sale volume of PP by approximately 8.3%.

Gross profit margin

Overall gross profit margin increased by approximately 7.9%, primarily resulted from the decrease in Methanol pricing by approximately 17.5% (on a simple average basis) from approximately RMB2,350/MT in 2019 to approximately RMB1,950/MT in 2020.

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 RMB775.8 million (2019: approximately RMB592.3 million), most of which were denominated in Renminbi. The Group had interest-bearing borrowings of approximately RMB4,197.9 million as at 31 December 2020 (2019: approximately RMB4,095.7 million). Please refer to note 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 approximately 38.1% as at 31 December 2020 as compared to approximately 39.3% as at 31 December 2019. 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 (2020: 49.6 days; 2019: 45.7 days).

The trade and notes receivables turnover days maintained at a relatively low level in both 2020 and 2019 (2020: 17.9 days; 2019: 21.6 days).

The trade and notes payables turnover days maintained at a similar level in both 2020 and 2019 (2020: 51.4 days; 2019: 56.1 days).

CAPITAL COMMITMENTS

As at 31 December 2020, the Group had capital commitments amounted to approximately RMB3,862.6 million (2019: RMB702.5 million) which was primarily related to the procurement of plant and machineries for the constructions of additional production capacities.

CONTINGENT LIABILITIES

As at 31 December 2020 and 31 December 2019, the Group did not have any significant contingent liabilities.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2020, the Group employed a total of 1,037 full-time employees (2019: 1,012 employees). 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 HK30.0 cents per share in respect of the year, together with the distribution of an interim dividend of HK12.5 cents per share, representing a dividend payout ratio of approximately 38% for the year ended 31 December 2020.

Subject to the approval of the shareholders at the forthcoming annual general meeting, the final dividend will be distributed on or about Wednesday, 12 May 2021 to the shareholders whose names appear on the register of members of the Company as at Wednesday, 5 May 2021.

OTHER INFORMATION

CORPORATE GOVERNANCE

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 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 2020 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 2020 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 Mr. Shen Kaijun, Mr. 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 2020 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 2020 and the annual results of the Group for the year ended 31 December 2020, 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 Mr. Kong Liang, Ms. Han Jianhong and Ms. Pei Yu of whom Mr. Kong Liang and Ms. Pei Yu are independent non-executive Directors and Ms. Han Jianhong is the Chairlady of the Board and an executive Director. The chairlady 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 Ms. Han Jianhong, Mr. Shen Kaijun and Ms. Pei Yu, of whom Mr. Shen Kaijun and Ms. Pei Yu are independent non-executive Directors and Ms. Han Jianhong is the Chairlady of the Board and the Nomination Committee 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, composition of the Board and board diversity 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 2020.

ANNUAL GENERAL MEETING

The forthcoming 2020 annual general meeting (“AGM”) of the Company will be held at Hong Kong on Tuesday, 27 April 2021. 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 Thursday, 22 April 2021 to Tuesday, 27 April 2021, 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 branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Wednesday, 21 April 2021. In addition, the register of members of the Company will be closed from Monday, 3 May 2021 to Wednesday, 5 May 2021, 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 branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 30 April 2021.

SCOPE OF WORK FOR ANNUAL RESULTS ANNOUNCEMENT BY AUDITORS

The financial information set out in this announcement does not constitute the Group's audited accounts for the year ended 31 December 2020, but represents an extract from the consolidated financial statements for the year ended 31 December 2020 which have been audited by the auditor of the Company, Ernst & Young in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. The financial information has been reviewed by the audit committee of the Company and approved by the Board.

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 2020 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
HAN Jianhong
Chairlady and executive Director

PRC, 22nd March 2021

As at the date of this announcement, the Board comprises two executive Directors: Ms. HAN Jianhong 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.*