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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 2021**

**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 2021 (the “**year under review**”).

**RESULTS HIGHLIGHTS**

	<b>2021</b> <i>RMB'000</i>	<b>2020</b> <i>RMB'000</i>	<b>Change</b> %
Revenue	<b>9,498,708</b>	8,322,716	14.1%
Gross profit	<b>652,585</b>	1,599,178	–59.2%
Net profit attributable to shareholders of the Company	<b>380,611</b>	1,122,931	–66.1%
Earnings per share — Basic ( <i>RMB</i> )	<b>32.36 fen</b>	95.10 fen	–66.0%
Dividend per share ( <i>HK\$</i> ) — Interim	<b>12.5 cents</b>	12.5 cents	—
Dividend per share ( <i>HK\$</i> ) — Final	<b>6.0 cents</b>	30.0 cents	–80%
Dividend payout ratio (based on total payout during the year)	<b>48.0%</b>	38.2%	9.8%
Gross profit margin	<b>6.9%</b>	19.2%	–12.3%
Net profit margin	<b>3.9%</b>	14.6%	–10.7%
Gearing — interesting-bearing borrowings to total asset	<b>45.7%</b>	38.1%	7.6%

During the year under review, the Group had a number of unprecedented event-oriented challenges with:- 1) demands/supplies and pricings of certain feedstocks/products changing rapidly in response to the recovery of the economy of PRC during the first half of 2021 after the outbreak of the novel coronavirus global pandemic (the “**COVID-19 Pandemic**”); 2) weather issue in USA during Q1 of 2021, which led to suspension of production of certain major oil-cracking plants in USA and in turn, prompted the price increments of Ethylene and Propylene during the first half of 2021; 3) the imposition of energy consumption and intensity dual control system during Q3 of 2021 (the “**Energy Dual Control System**”), which led to the volatility of the coal pricing and in turn, the volatility of Methanol pricing and the increase in energy cost; and 4) the decrease in production capacities of our certain major products in certain extent as a result of the disruption of logistic for feedstocks procurement after the outbreak of the COVID-19 Pandemic, which led to the delay and decrease in capacity in port loading for certain of our feedstocks. During the year under review, revenue of the Group increased by approximately 14.1%, primarily resulted from the increases 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 8.4% to approximately 37.0% in 2021 when comparing to 2020. Overall gross profit margin of the Group decreased substantially by approximately 12.3% to approximately 6.9% and net profit attributable to shareholders was approximately RMB381 million and basic earnings per share was approximately RMB32.36 fen, for the year ended 31 December 2021, representing decreases of approximately 66.1% and 66.0% respectively as compared to 2020. The Board has recommended a final dividend of HK6 cents per share, together with the distribution of interim dividend of HK12.5 cents per share, representing a dividend payout ratio of approximately 48.0% in total for the year ended 31 December 2021.

The decrease in overall gross profit margin of the Group by approximately 12.3% was primarily due to:- 1) the weather issue in USA during Q1 of 2021, which led to suspension of production of certain major oil-cracking plants in USA during the first half of 2021 and deteriorated the gross profit margins of EO line of business and PP line of business by approximately 12.4% and 17.6% respectively as the pricing of Ethylene and Propylene, which count for approximately 30% in total of the Group’s current feedstock procurement, increased by approximately 38.9% and 27.2% (on a simple average basis) respectively, which were more than the price increments of EO and PP of approximately 8.4% and 13.1% (on a simple average basis) respectively; 2) the imposition of Energy Dual Control System, which led to the volatility of the coal pricing and in turn, the volatility of Methanol pricing and the increase in energy cost. Coal pricing started at approximately RMB600 per metric ton at of 1 January 2021 and remained steady with a gradual upward trend to approximately RMB1,000 per metric ton as of 1 September 2021, since which the coal pricing increased sharply and reached approximately RMB2,300 per metric ton as of 15 October 2021 and then slumped to approximately RMB1,200 per metric ton by the end of October 2021, whilst Methanol pricing moved in

a similar pattern with a slightly lesser volatility, which deteriorated the overall gross profit margin of the Group as Methanol counts for approximately 70% of the Group's current feedstock procurement.

Energy Dual Control System is one of the typical types of event-oriented challenges that the Group aims to mitigate, although Environmental, Social, and Governance (“ESG”) has become increasingly important to the oil and chemical sector (the “Sector”) in the People's Republic of China (“PRC”) in recent years and the imposition of Energy Dual Control System by the PRC authorities is considered as one of the steps in responding and recognising the importance of the environmental aspect of ESG. Keeping on improving operating efficiency, in another word, increasing output ratio for each unit of input and/or energy spend is one of the established strategies that the Group has been pursuing since listing of its shares in the main board of the Stock Exchange of Hong Kong Limited in 2010 and is also considered as a strategic that is well consistent with the requirements and objectives of the Energy Dual Control System. The Group completed the ramp up for a number of EO capacity expansions between 2011 and 2013, the ramp up for Methanol-to-Olefins (“MTO”) production facility in 2015 and the construction/fine-tuning for a number of ancillary facilities (i.e. air-separation facility) between 2016 and 2021, all of which ensure continuing improvements of output ratio for each unit of feedstock input and/or energy spend. During the year under review, except for the adverse impacts from the disruption of logistic for feedstocks procurement after the outbreak of the COVID-19 Pandemic, which led to the delay and decrease in capacity in port loading for certain of our feedstocks, the Group has managed to operate and produce as usual.

Although the Group's operation is not subject to the direct impacts from the imposition of Energy Dual Control System, the imposition of Energy Dual Control System did have significant impacts on the Sector in PRC as it led to shortage in coal and shortage in electricity, in particular, during Q3 of 2021 and in turn, the higher average purchase price of Methanol. Currently, Methanol pricing is considered as one of the dominant factors that affect the profitability of the Group and during the year under review, Methanol pricing increased to approximately RMB2,700/MT (on a simple average basis), representing an increase of approximately 38.5% from approximately RMB1,950/MT (on a simple average basis) in 2020 while the ASP (on a simple average basis) of the Group's major products namely EO, EG and PP increased by approximately 8.4%, 37.0% and 13.1% respectively.

Another event-oriented challenge for the Group in 2021 is the weather issue in USA during Q1 of 2021, which led to suspension of production of certain major oil-cracking plants in USA and in turn, prompted the price increments of Ethylene and Propylene, other major feedstocks for the Group and during the year under review, Ethylene pricing and Propylene pricing increased by approximately 38.9% and 27.2% (on a simple average basis) respectively when comparing to 2020 while the ASP (on a simple average basis) of the Group's major products namely EO, EG and PP increased in less extents as mentioned above, which were resulted from the facts that the demands from downstream

producers were soften in 2021 as downstream producers have maximised their production capacities and inventory storage level in 2020 in view of the expected recovery of the economy of PRC in 2020.

It has been the Group's strategic objective to mitigate the impacts of event-oriented incidents through well-established strategies to position itself as an efficient diversified vertical-integrated chemical group:- 1) with diversification of business/market risks by 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; and 2) with production efficiency improvement on a continuing basis, which the Group believes is the key to maintain the Group in a competitive position among its competitors.

Currently, the Group is in the progress of completing the construction of the new production facilities — the 6th phase EO/EG production facilities with 1,000,000MT output on a yearly basis and its ancillary upstream level production facilities and expects the commercial operations will commence during the second half of 2022, which will enable the Group not only to double its EO/EG market shares in the Eastern China area but also to rebalance/adjust its feedstocks composition in a large extent and further diversify business/market risks as to the price fluctuation of crude oil and nature gas/coal. The Group expects the overall revenue of the Group will increase by more than 50% after the commercial operations of the 6<sup>th</sup> phase EO/EG production facilities and its ancillary upstream level production facilities.

## **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, 28th March 2022

# **CONSOLIDATED STATEMENT OF PROFIT OR LOSS**

*For the year ended 31 December 2021*

	<i>Notes</i>	<b>2021</b> <b><i>RMB'000</i></b> <b>(Audited)</b>	<b>2020</b> <b><i>RMB'000</i></b> <b>(Audited)</b>
<b>REVENUE</b>	<b>4</b>	<b>9,498,708</b>	8,322,716
Cost of sales		<u>(8,846,123)</u>	<u>(6,723,538)</u>
Gross profit		<b>652,585</b>	1,599,178
Other income and gains	<b>4</b>	<b>678,413</b>	431,694
Selling and distribution expenses		<b>(12,410)</b>	(25,330)
Administrative expenses		<b>(270,548)</b>	(394,187)
Impairment losses on financial assets, net		<b>754</b>	2,768
Other expenses, net	<b>4</b>	<b>(475,280)</b>	(112,055)
Finance costs	<b>5</b>	<u><b>(131,332)</b></u>	<u>(110,019)</u>
<b>PROFIT BEFORE TAX</b>	<b>6</b>	<b>442,182</b>	1,392,049
Income tax expense	<b>7</b>	<u><b>(66,029)</b></u>	<u>(177,852)</u>
<b>PROFIT FOR THE YEAR</b>		<u><b>376,153</b></u>	<u>1,214,197</u>
Attributable to:			
Owners of the parent		<b>380,611</b>	1,122,931
Non-controlling interests		<u><b>(4,458)</b></u>	<u>91,266</u>
		<u><b>376,153</b></u>	<u>1,214,197</u>
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>	<b>8</b>		
Basic and diluted		<u><b>RMB32.36 fen</b></u>	<u>RMB95.10 fen</u>
<b>PROPOSED FINAL DIVIDEND FOR THE YEAR</b>	<b>9</b>	<u><b>58,377</b></u>	<u>300,451</u>

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS***For the year ended 31 December 2021*

	<b>2021</b> <b>RMB'000</b> <b>(Audited)</b>	2020 <b>RMB'000</b> <b>(Audited)</b>
<b>PROFIT FOR THE YEAR</b>	<u><b>376,153</b></u>	<u>1,214,197</u>
<b>OTHER COMPREHENSIVE INCOME</b>		
Other comprehensive income/(loss) 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><b>62</b></u>	<u>(830)</u>
	<b>62</b>	(830)
Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods	<u><b>62</b></u>	<u>(830)</u>
<b>OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR</b>	<u><b>62</b></u>	<u>(830)</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<u><u><b>376,215</b></u></u>	<u><u>1,213,367</u></u>
Attributable to:		
Owners of the parent	<b>380,673</b>	1,122,101
Non-controlling interests	<u><b>(4,458)</b></u>	<u>91,266</u>
	<u><u><b>376,215</b></u></u>	<u><u>1,213,367</u></u>

# **CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

*As 31 December 2021*

	<i>Notes</i>	<b>2021</b> <b><i>RMB'000</i></b> <b>(Audited)</b>	<b>2020</b> <b><i>RMB'000</i></b> <b>(Audited)</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>6,718,898</b>	4,998,987
Investment properties		<b>84,890</b>	—
Right-of-use assets		<b>709,690</b>	440,670
Goodwill		<b>108,434</b>	—
Other intangible assets		<b>94,294</b>	117,589
Advance payments for property, plant and equipment		<b>1,693,304</b>	1,360,815
Equity investments designated at fair value through other comprehensive income	<i>10</i>	<b>3,409</b>	3,347
Due from a related party	<i>18</i>	—	590,948
Pledged deposits	<i>14</i>	<b>1,336,375</b>	560,000
Deferred tax assets		<b>11,346</b>	7,241
Total non-current assets		<b>10,760,640</b>	8,079,597
<b>CURRENT ASSETS</b>			
Inventories	<i>11</i>	<b>1,060,297</b>	948,500
Trade and notes receivables	<i>12</i>	<b>345,690</b>	249,056
Prepayments, other receivables and other assets	<i>13</i>	<b>280,630</b>	252,950
Due from related parties	<i>18</i>	<b>281,881</b>	4,190
Derivative financial instruments		<b>10,838</b>	—
Financial assets at fair value through profit or loss	<i>10</i>	<b>258,117</b>	501,177
Pledged deposits	<i>14</i>	<b>686,446</b>	207,338
Cash and cash equivalents	<i>14</i>	<b>593,708</b>	775,849
Total current assets		<b>3,517,607</b>	2,939,060

	<i>Notes</i>	<b>2021</b> <b><i>RMB'000</i></b> <b>(Audited)</b>	<b>2020</b> <b><i>RMB'000</i></b> <b>(Audited)</b>
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	15	2,041,706	961,017
Other payables and accruals	16	861,885	798,757
Derivative financial instruments		2,424	8,378
Financial liabilities at fair value through profit or loss	10	157,958	—
Interest-bearing bank borrowings	17	4,308,548	3,035,889
Lease liabilities		4,240	2,104
Due to related parties	19	63,242	67,203
Tax payable		99,111	150,107
Total current liabilities		<u>7,539,114</u>	<u>5,023,455</u>
<b>NET CURRENT LIABILITIES</b>		<u>(4,021,507)</u>	<u>(2,084,395)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>6,739,133</u>	<u>5,995,202</u>
<b>NON-CURRENT LIABILITIES</b>			
Lease liabilities		18,910	14,143
Deferred tax liabilities		38,657	27,368
Interest-bearing bank borrowings	17	1,941,000	1,162,000
Total non-current liabilities		<u>1,998,567</u>	<u>1,203,511</u>
Net assets		<u><u>4,740,566</u></u>	<u><u>4,791,691</u></u>
<b>EQUITY</b>			
Equity attributable to owners of the parent			
Issued capital	20	102,662	102,662
Reserves		4,563,358	4,610,025
		<u>4,666,020</u>	<u>4,712,687</u>
Non-controlling interests		<u>74,546</u>	<u>79,004</u>
Total equity		<u><u>4,740,566</u></u>	<u><u>4,791,691</u></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

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 2021, the Group’s net current liabilities amounted to approximately RMB4,021,507,000, which comprised current assets of approximately RMB3,517,607,000 and current liabilities of approximately RMB7,539,114,000. 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:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Sale of industrial products	9,415,116	8,212,015
Processing services	65,664	97,775
Rental income	17,928	12,926
	<u>9,498,708</u>	<u>8,322,716</u>

#### Geographical information

All external revenue of the Group during the years ended 31 December 2021 and 2020 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 2021 and 2020.

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

An analysis of revenue is as follows:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
<i>Revenue from contracts with customers</i>	<b>9,480,780</b>	8,309,790
<i>Revenue from other sources</i>		
Rental income from operating leases:		
Lease payments, including fixed payments	<u>17,928</u>	<u>12,926</u>
	<u>17,928</u>	<u>12,926</u>
	<b><u>9,498,708</u></b>	<b><u>8,322,716</u></b>

#### Revenue from contracts with customers

##### (a) *Disaggregated revenue information*

Segments	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
<b>Types of goods or services</b>		
Sale of industrial products	<b>9,415,116</b>	8,212,015
Processing services	<u>65,664</u>	<u>97,775</u>
Total revenue from contracts with customers	<b><u>9,480,780</u></b>	<b><u>8,309,790</u></b>
<b>Timing of revenue recognition</b>		
At a point in time		
Sale of industrial products	<b>9,415,116</b>	8,212,015
Processing services	<u>65,664</u>	<u>97,775</u>
Total revenue from contracts with customers	<b><u>9,480,780</u></b>	<b><u>8,309,790</u></b>

**(b) Contract liabilities**

The Group recognised the following revenue-related contract liabilities:

	<b>2021</b> <b>RMB'000</b>	2020 <i>RMB'000</i>
Advance from customers for sale of industrial products and processing services*	<b>224,141</b>	166,073

\* 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:

	<b>2021</b> <b>RMB'000</b>	2020 <i>RMB'000</i>
Sale of industrial products and processing services	<b>166,073</b>	166,557

**(c) Performance obligations**

At 31 December 2021, 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>	<b>2021</b> <b>RMB'000</b>	2020 <i>RMB'000</i>
<b>Other income</b>			
Bank interest income		<b>65,193</b>	73,669
Sales of ethylene		<b>35,196</b>	52,454
Interest income from a related party		<b>8,979</b>	51,073
Government subsidies	(a)	<b>14,620</b>	52,027
Investment income from financial assets at fair value through profit or loss		<b>3,349</b>	23,935
Sales of raw materials		<b>419,870</b>	41,808
Compensation income		—	14,616
Utility income		<b>8,287</b>	7,329
Sales of circular water		<b>6,083</b>	4,661
Interest income from a third party		—	7,000
Gross rental income from operating leases:			
Lease payments, including fixed payments		<b>3,630</b>	1,822
Investment income from derivative financial instruments, net		<b>35,162</b>	—
Dividend income from equity investments at fair value through other comprehensive income		—	233
Others		<b>20,400</b>	7,530
		<b>620,769</b>	338,157
<b>Gains</b>			
Fair value gains, net:			
Financial assets at fair value through profit or loss — mandatorily classified as such		<b>1,819</b>	6,716
Fair value gains on derivative financial instruments, net		<b>11,015</b>	—
Foreign exchange gains, net		<b>34,995</b>	80,248
Gain on disposal of silver catalysts	(b)	<b>9,815</b>	6,573
		<b>57,644</b>	93,537
		<b>678,413</b>	431,694

	<i>Note</i>	<b>2021</b> <b>RMB'000</b>	2020 <i>RMB'000</i>
<b>Other expenses, net</b>			
Cost of sales of ethylene		<b>28,815</b>	47,558
Cost of sales of raw materials		<b>427,574</b>	40,139
Fair value losses on derivative financial instruments, net		—	7,487
Write-down/(reversal of write-down) of inventories to net realisable value	(c)	<b>18,066</b>	(30,932)
Investment loss from derivative financial instruments, net		—	42,816
Others		<b>825</b>	4,987
		<b>475,280</b>	112,055

*Notes:*

- (a) Government subsidies mainly represent incentives provided by the local government to the Group for its operation in Jiaying, 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) Write-down/(reversal of write-down) of inventories to net realisable value represents the write-down/(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:

	<b>2021</b> <b>RMB'000</b>	2020 <i>RMB'000</i>
Interest on bank loans borrowings	<b>127,646</b>	110,185
Interest on lease liabilities	<b>892</b>	750
	<b>128,538</b>	110,935
Less: Interest capitalised	<b>(82,459)</b>	(36,873)
	<b>46,079</b>	74,062
Interest on discounted notes receivable and discounted letter of credit	<b>85,253</b>	35,957
	<b>131,332</b>	110,019

## 6. PROFIT BEFORE TAX

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Cost of inventories sold	8,817,924	6,686,041
Cost of services provided	28,199	37,497
Depreciation of property, plant and equipment*	466,279	537,673
Depreciation of right-of-use assets	17,227	12,205
Amortisation of intangible assets**	27,013	30,063
Write-down/(reversal of write-down) of inventories to net realisable value	18,066	(30,932)
Reversal of impairment of trade receivables, net	(754)	(633)
Reversal of impairment of financial assets included in prepayments, other receivables and other assets, net	—	(2,135)
Loss on disposal of items of property, plant and equipment	—	323
Auditor's remuneration	2,380	2,716
Lease payments not included in the measurement of lease liabilities	818	979
Employee benefit expense (including directors' remuneration):***		
Wages and salaries	118,716	182,382
Pension scheme contributions****	5,972	3,676
Staff welfare expenses	11,041	9,038
	<u>135,729</u>	<u>195,096</u>

\* The depreciation of property, plant and equipment of RMB459,915,000 (2020: RMB486,777,000) for the year is included in "Cost of sales" in the consolidated statement of profit or loss.

\*\* The amortisation of intangible assets of RMB8,807,000 (2020: RMB7,921,000) for the year is included in "Cost of sales" in the consolidated statement of profit or loss.

\*\*\* The employee benefit expense of RMB71,990,000 (2020: RMB97,149,000) for the year is included in "Cost of sales" in the consolidated statement of profit or loss.

\*\*\*\* There are no forfeited contributions that may be used by the Group as the employer to reduce the existing level of contributions.

## 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:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Current — Mainland China		
Charge for the year	60,593	162,573
Deferred	<u>5,436</u>	<u>15,279</u>
Total tax charge for the year	<u><u>66,029</u></u>	<u><u>177,852</u></u>

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% (2020: 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 (2020: 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 2021 (2020: 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 2021 (2020: 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 2021 (2020: 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 2021 (2020: 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:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Profit before tax	<u>442,182</u>	<u>1,392,049</u>
Tax at the statutory tax rate	110,546	348,349
Lower tax rates enacted by local authority or in other regions	(38,585)	(123,003)
Additional deduction for research and development activities	(58,889)	(41,926)
Expenses not deductible for tax	7,037	19,076
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	9,762	28,960
Income not subject to tax	—	(35)
Tax losses utilised from previous years	(1,134)	(60,812)
Temporary differences not recognised	(68)	811
Waiver of shareholder's loan	—	3,750
Tax losses not recognised	<u>37,360</u>	<u>2,682</u>
Tax charge at the Group's effective rate	<u>66,029</u>	<u>177,852</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:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
<b>Earnings</b>		
Profit for the year attributable to ordinary equity holders of the parent	<u>380,611</u>	<u>1,122,931</u>

	<b>Number of shares</b>	
	<b>2021</b>	<b>2020</b>
	<b>'000</b>	<b>'000</b>
<b>Shares</b>		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	<b><u>1,176,119</u></b>	<b><u>1,180,831</u></b>

## 9. DIVIDENDS

	<b>2021</b>	<b>2020</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Interim — HK12.5 cents (2020: HK 12.5 cents) per ordinary share	<b>123,459</b>	132,090
Proposed final — HK6.0 cents (2020: HK30.0 cents) per ordinary share	<b><u>58,377</u></b>	<u>300,451</u>
	<b><u>181,836</u></b>	<b><u>432,541</u></b>

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/LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	<b>2021</b>	
	<b>Assets</b>	<b>Liabilities</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Unlisted investments, at fair value	<b><u>258,117</u></b>	<b><u>157,958</u></b>
	<b>2020</b>	
	<b>Assets</b>	<b>Liabilities</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Listed equity investments, at fair value	729	—
Unlisted investments, at fair value	<u>500,448</u>	<u>—</u>
	<b><u>501,177</u></b>	<b><u>—</u></b>

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 and silver leasing 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 2021, the Group's certain unlisted investments of RMB180,000,000 (2020: RMB356,716,000) were pledged for bank loans (note 17). As at 31 December 2020, the Group's certain unlisted investments of RMB109,267,000 were pledged for bills payables (note 15).

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Equity investments designated at fair value through other comprehensive income		
Unlisted equity investments, at fair value		
Jiaxing Port Antong Public Pipe Gallery Co., Ltd.	<u>3,409</u>	<u>3,347</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 2021, the Group did not received any dividend from Jiaxing Port Antong Public Pipe Gallery Co., Ltd. (“嘉興港安通公共管廊有限公司”). (2020: RMB233,000).

#### 11. INVENTORIES

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Raw materials	963,324	863,161
Finished goods	<u>96,973</u>	<u>85,339</u>
	<u>1,060,297</u>	<u>948,500</u>

#### 12. TRADE AND NOTES RECEIVABLES

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Trade receivables	46,113	52,157
Notes receivable	<u>309,861</u>	<u>207,937</u>
	355,974	260,094
Impairment	<u>(10,284)</u>	<u>(11,038)</u>
	<u>345,690</u>	<u>249,056</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:

	<b>2021</b> <b>RMB'000</b>	2020 <b>RMB'000</b>
1 to 30 days	<b>32,903</b>	40,593
31 to 60 days	<b>758</b>	905
61 to 90 days	<b>57</b>	367
91 to 360 days	<b>2,105</b>	475
Over 360 days	<b>10,290</b>	9,817
	<b>46,113</b>	52,157

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

	<b>2021</b> <b>RMB'000</b>	2020 <b>RMB'000</b>
At beginning of year	<b>11,038</b>	11,671
Reversal of impairment losses, net	<b>(754)</b>	(633)
At end of year	<b>10,284</b>	11,038

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 2021**

	<b>Gross carrying amount RMB'000</b>	<b>Expected credit loss rate</b>	<b>Expected credit losses RMB'000</b>
Trade receivables aged based on the invoice date:			
Less than 1 year	<b>35,823</b>	<b>0.40%</b>	<b>142</b>
Between 1 and 2 years	<b>473</b>	<b>68.71%</b>	<b>325</b>
Over 2 years	<b>9,817</b>	<b>100.00%</b>	<b>9,817</b>
	<b>46,113</b>		<b>10,284</b>

**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
	<u>52,157</u>		<u>11,038</u>

As at 31 December 2021, notes receivable of RMB309,861,000 (2020: RMB207,937,000), 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 2021 and 2020.

At 31 December 2021, 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 RMB936,169,000 (2020: RMB1,138,850,000). In addition, the Group discounted certain notes receivable (the “**Discounted Notes**”) with a carrying amount in aggregate of RMB1,035,050,000 (2020: RMB879,301,000). The Endorsed Notes and the Discounted Notes had a maturity from one to twelve months as at 31 December 2021. 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 or the counterparties 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 RMB655,903,000 (2020: RMB956,917,000) and RMB5,000,000 (2020: Nil), 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 RMB280,266,000 as at 31 December 2021 (2020: RMB181,933,000). The Group recognised the proceeds received from the discount of the remaining Discounted Notes with an amount of RMB1,030,050,000 as short-term loans at 31 December 2021 (2020: RMB879,301,000) 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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Deposits and other receivables	135,455	135,538
Prepayments	143,237	115,858
Loans to employees	986	986
Prepaid expenses	952	568
	<u>280,630</u>	<u>252,950</u>

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. As at 31 December 2021, the loss allowance was assessed to be minimal.

### 14. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Cash and bank balances	593,708	775,849
Time deposits and pledged deposits	<u>2,022,821</u>	<u>767,338</u>
	<u>2,616,529</u>	<u>1,543,187</u>
Less: Pledged time deposits:		
Pledged for bills payable (note 15)	888,993	298,736
Pledged for letters of credit (note 17)	140,050	—
Pledged for bank loans (note 17)	<u>993,778</u>	<u>468,602</u>
	<u>2,022,821</u>	<u>767,338</u>
Cash and cash equivalents	<u>593,708</u>	<u>775,849</u>
Denominated in RMB	550,822	737,803
Denominated in United States dollars	17,922	3,153
Denominated in Hong Kong dollars	24,933	34,858
Denominated in other currencies	<u>31</u>	<u>35</u>
Cash and cash equivalents	<u>593,708</u>	<u>775,849</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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Trade payables	1,207,339	474,233
Bills payable	<u>834,367</u>	<u>486,784</u>
	<u><b>2,041,706</b></u>	<u><b>961,017</b></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:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Within 3 months	1,659,671	708,540
3 to 6 months	368,391	242,400
6 to 12 months	9,654	6,973
12 to 24 months	3,135	1,783
24 to 36 months	424	782
Over 36 months	<u>431</u>	<u>539</u>
	<u><b>2,041,706</b></u>	<u><b>961,017</b></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 2021, the bills payable of RMB834,367,000 were secured by the Group's pledged deposits with a carrying amount of RMB888,993,000 (note 14). As at 31 December 2020, the bills payable of RMB395,194,000 were secured by the Group's pledged deposits with a carrying amount of RMB298,736,000 (note 14) and the Group's certain unlisted investments with a carrying amount of RMB109,267,000 (note 10).

## 16. OTHER PAYABLES AND ACCRUALS

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Deferred income	28,000	10,000
Other payables	512,896	468,230
Taxes payable other than income tax	65,884	94,405
Contract liabilities ( <i>note 4</i> )	224,141	166,073
Payroll payable	30,964	52,475
Interest payable	—	7,574
	<u>861,885</u>	<u>798,757</u>

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

## 17. INTEREST-BEARING BANK BORROWINGS

	Effective interest rate (%)	Maturity	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
<b>Current</b>				
Bank loans — secured	3.350	2021	—	100,000
Bank loans — unsecured	3.360–4.350	2022	701,510	—
Bank loans — unsecured	3.050–4.408	2021	—	813,000
US\$6,837,000 secured bank loans	0.507	2022	43,593	—
US\$104,753,000 unsecured bank loans	0.724–1.932	2022	668,097	—
US\$21,394,000 unsecured bank loans	0.531–1.900	2022	136,398	—
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
			<u>1,549,598</u>	<u>1,699,591</u>
Discounted notes receivable	1.800–3.700	2022	1,030,050	—
Discounted notes receivable	2.600–3.500	2021	—	879,301
Discounted letter of credit	2.400–3.550	2022	1,728,900	—
Discounted letter of credit	2.550–3.900	2021	—	456,997
			<u>4,308,548</u>	<u>3,035,889</u>
<b>Non-current</b>				
Bank loans — secured	3.580	2023	10,000	—
Bank loans — secured	3.580–5.142	2024	104,000	—
Bank loans — secured	5.142	2025	424,000	—
Bank loans — secured	5.142	2026	623,000	458,000
Bank loans — secured	5.142–5.292	2027	780,000	704,000
			<u>1,941,000</u>	<u>1,162,000</u>
			<u>6,249,548</u>	<u>4,197,889</u>



	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
<b>Analysed into:</b>		
Bank loans repayable:		
Within one year	4,308,548	3,035,889
In the second year	10,000	—
In the third to fifth years, inclusive	1,151,000	—
Beyond five years	780,000	1,162,000
	<u>6,249,548</u>	<u>4,197,889</u>

*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 RMB223,079,000 (2020: RMB199,090,000) as at 31 December 2021;
- (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 RMB2,884,971,000 (2020: RMB3,242,602,000) as at 31 December 2021;
- (iii) the Group's financial assets at fair value through profit or loss which had an aggregate carrying value amounting to RMB180,000,000 (2020: RMB356,716,000) as at 31 December 2021 (note 10);
- (iv) the Group's pledged deposit, which had an aggregate carrying value amounting to RMB1,133,828,000 (2020: RMB468,602,000) as at 31 December 2021 (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 RMB207,671,000 (2020: RMB235,045,000) as at 31 December 2021;
- (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 (2020: RMB650,000,000); 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 RMB1,841,000,000 has been used as at 31 December 2021.

## 18. DUE FROM RELATED PARTIES

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Mei Fu Petrochemical	278,800	593,713
Grand Novel	2,320	—
Haoxing Energy Conservation	440	—
Jiahua Import Export	320	320
Sure Capital	1	1
Gangan Intelligent	—	1,000
Hangzhouwan Petro	—	100
Jiahua Group	—	4
	<u>281,881</u>	<u>595,138</u>

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

## 19. DUE TO RELATED PARTIES

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Jiahua Energy	53,131	47,997
Mei Fu Port	5,268	8,454
Hangzhouwan Petro	2,501	4,010
Jiahua Group	711	711
Gangan Intelligent	622	1,567
Jiaxing Rewang	378	388
Jiafu New Materials	285	300
Jianghao Eco-agriculture	283	140
Zhapu Construction	63	63
Grand Novel	—	2,209
Haoxing Energy Conservation	—	1,136
Mei Fu Petrochemical	—	228
	<u>63,242</u>	<u>67,203</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:

	<b>Number of shares</b>	<b>Amount <i>RMB'000</i></b>
Issued and fully paid ordinary shares of HK\$0.1 each:		
At 1 January 2020, 31 December 2020, 1 January 2021 and 31 December 2021	<u>1,190,000,000</u>	<u>102,662</u>

## 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 2021	% of revenue	Full year 2020	% of revenue	Variance +/(−)
<b>REVENUE (RMB'000)</b>					
Ethylene oxide	2,561,142	27%	2,658,305	32%	−3.7%
Ethylene glycol	1,016,527	11%	601,234	7%	69.1%
Polypropylene	3,831,421	41%	3,319,396	40%	15.4%
Surfactants & water reducing agent	800,628	8%	783,587	9%	2.2%
MTBE/C4	493,942	5%	343,992	4%	43.6%
Pentene	226,036	2%	283,681	3%	−20.3%
Polypropylene processing service	20,443	0%	53,349	1%	−61.7%
Surfactants processing service	45,308	0%	44,382	1%	2.1%
Others	503,261	5%	234,790	3%	114.3%
	<u>9,498,708</u>	100%	<u>8,322,716</u>	100%	14.1%
<b>SALES VOLUME (MT)</b>					
Ethylene oxide	376,464		431,298		−12.7%
Ethylene glycol	211,946		175,626		20.7%
Polypropylene	521,991		555,760		−6.1%
Surfactants & water reducing agent	98,527		106,481		−7.5%
MTBE/C4	96,945		101,186		−4.2%
Pentene	49,118		91,092		−46.1%
Polypropylene processing service	37,081		94,051		−60.6%
Surfactants processing service	151,473		151,976		−0.3%

	Full year 2021	% of revenue	Full year 2020	% of revenue	Variance +/(%)
<b>AVERAGE SELLING PRICE (RMB)</b>					
Ethylene oxide	6,803		6,163		10.4%
Ethylene glycol	4,796		3,423		40.1%
Polypropylene	7,340		5,973		22.9%
Surfactants & water reducing agent	8,126		7,359		10.4%
MTBE/C4	5,110		3,400		50.3%
Pentene	4,602		3,114		47.8%
Polypropylene processing service	551		567		-2.8%
Surfactants processing service	299		292		2.4%
<b>GROSS PROFIT MARGIN (%)</b>					
Ethylene oxide	8.7%		21.1%		-12.4%
Ethylene glycol	-4.1%		-4.4%		0.3%
Polypropylene	4.6%		22.2%		-17.6%
Surfactants & water reducing agent	14.0%		27.9%		-13.9%
MTBE/C4	3.1%		-3.3%		6.7%
Pentene	0.4%		-6.9%		7.3%
Polypropylene processing service	66.5%		69.4%		-2.9%
Surfactants processing service	65.1%		68.5%		-3.4%

### ***Ethylene oxide sales***

During the year under review, the revenue from EO line of business decreased by approximately 3.7% in 2021 when comparing to 2020, primarily due to the combined effects of the increase in ASP of EO by approximately 10.4% in view of the price volatility of major commodities and decrease in sale volume of EO by approximately 12.7% 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 EG.

### ***Ethylene glycol sales***

During the year under review, the revenue from EG line of business increased by approximately 69.1% when compared to 2020 as the Group increased the EG output capacity of the 5th phase EO/EG production facilities and, in turn, the sales volume of EG increased by approximately 20.7% when compared to 2020.

### ***Polypropylene sales***

During the year under review, the revenue from polypropylene line of business increased by approximately 15.4% when compared to 2020, primarily due to the combined effects of the increase in ASP of PP by approximately 22.9% in view of the price volatility of major commodities and decrease in sale volume of PP by approximately 6.1%.

### **Gross profit margin**

Overall gross profit margin decreased by approximately 12.3%, primarily due to:- 1) the weather issue in USA during Q1 of 2021, which led to suspension of production of certain major oil-cracking plants in USA during the first half of 2021; 2) the imposition of Energy Dual Control System, which led to the volatility of the coal pricing and in turn, the volatility of Methanol pricing and the increase in energy cost.

### **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 RMB593.7 million (2020: approximately RMB775.8 million), most of which were denominated in Renminbi. The Group had interest-bearing borrowings of approximately RMB6,249.5 million as at 31 December 2021 (2020: approximately RMB4,197.9 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 45.7% as at 31 December 2021 as compared to approximately 38.1% as at 31 December 2020. 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 (2021: 35.7 days; 2020: 49.6 days).

The trade and notes receivables turnover days maintained at a relatively low level in both 2021 and 2020 (2021: 11.5 days; 2020: 17.9 days).

The trade and notes payables turnover days maintained at a similar level in both 2021 and 2020 (2021: 58.0 days; 2020: 51.4 days).

## **CAPITAL COMMITMENTS**

As at 31 December 2021, the Group had capital commitments amounted to approximately RMB2,632.3 million (2020: RMB3,862.6 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 2021 and 31 December 2020, the Group did not have any significant contingent liabilities.

## **EMPLOYEES AND REMUNERATION POLICY**

As at 31 December 2021, the Group employed a total of 1,110 full-time employees (2020: 1,037 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 HK6.0 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 48.0% for the year ended 31 December 2021.

Subject to the approval of the shareholders at the forthcoming annual general meeting, the final dividend will be distributed on or about Wednesday, 1 June 2022 to the shareholders whose names appear on the register of members of the Company as at Wednesday, 25 May 2022.

## **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 2021 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 2021 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 2021 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 2021 and the annual results of the Group for the year ended 31 December 2021, 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 2021.

## **ANNUAL GENERAL MEETING**

The forthcoming 2021 annual general meeting ("AGM") of the Company will be held at Hong Kong on Monday, 16 May 2022. 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 Wednesday, 11 May 2022 to Monday, 16 May 2022, 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 Tuesday, 10 May 2022. In addition, the register of members of the Company will be closed from Monday, 23 May 2022 to Wednesday, 25 May 2022, 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, 20 May 2022.

## **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 2021, but represents an extract from the consolidated financial statements for the year ended 31 December 2021 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 2021 will be dispatched to the shareholders of the Company and published on the websites of the Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)) and the Company ([www.chinasanjiang.com](http://www.chinasanjiang.com)) in due course.

By order of the Board  
**China Sanjiang Fine Chemicals Company Limited**  
**HAN Jianhong**  
*Chairlady and executive Director*

PRC, 28th March 2022

*As at the date of this announcement, the Board comprises four executive Directors: Ms. HAN Jianhong, Mr. RAO Huotao, Ms. CHEN Xian and Ms. GUAN Siyi 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.*