



2021

Annual
Report



三江化工
SANJIANG CHEMICAL

中國三江精細化工有限公司
CHINA SANJIANG FINE CHEMICALS COMPANY LIMITED
(Incorporated in the Cayman Islands with limited liability)
Stock Code : 2198

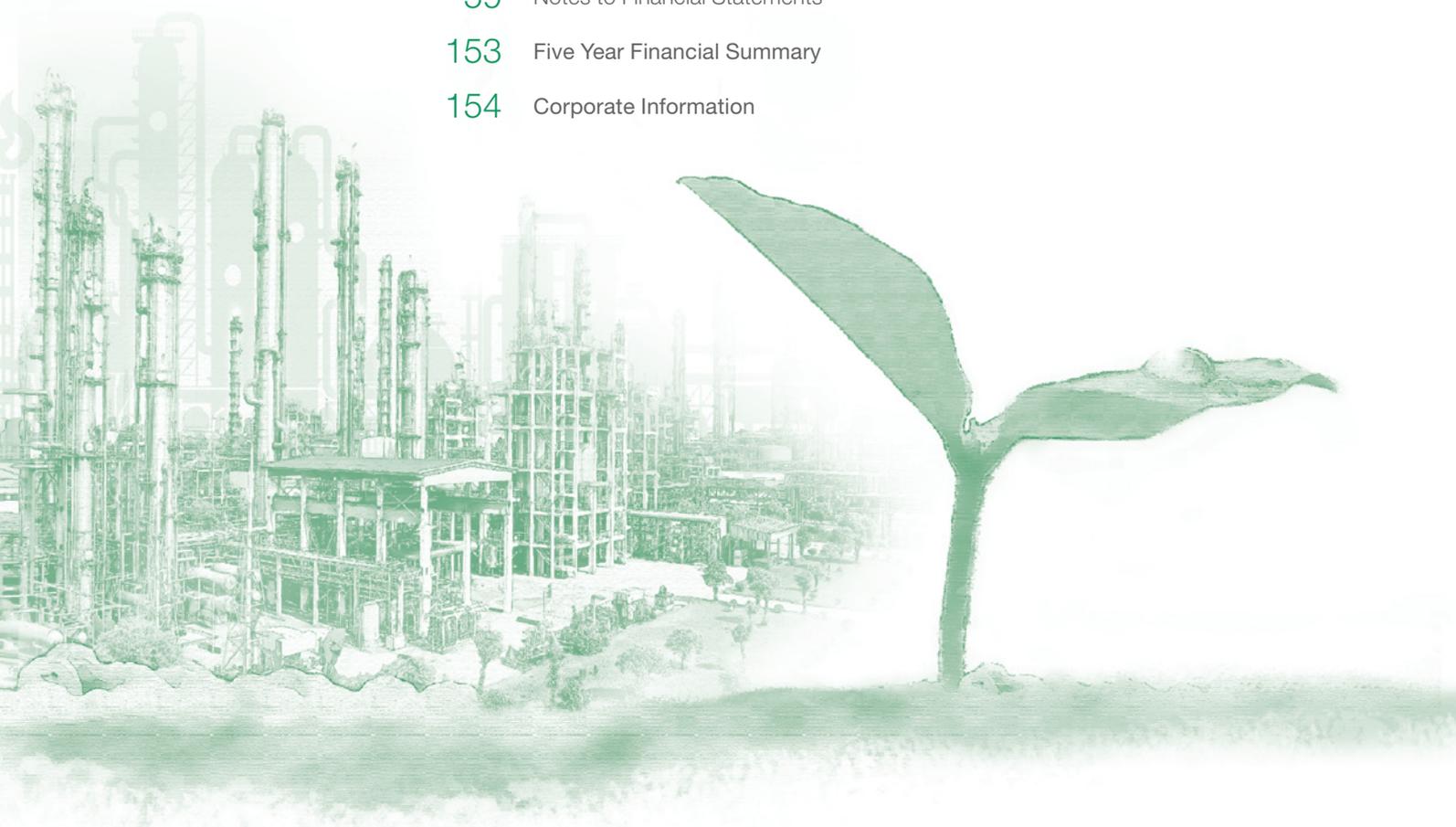


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CONTENTS

2	Chairlady's Statement
6	Management Discussion and Analysis
10	Directors and Senior Management
12	Environmental, Social and Governance Report
23	Corporate Governance Report
29	Report of the Directors
46	Independent Auditor's Report
	FINANCIAL STATEMENTS
50	Consolidated Statement of Profit or Loss
51	Consolidated Statement of Comprehensive Income
52	Consolidated Statement of Financial Position
54	Consolidated Statement of Changes in Equity
56	Consolidated Statement of Cash Flows
59	Notes to Financial Statements
153	Five Year Financial Summary
154	Corporate Information





CHAIRLADY'S

STATEMENT



Chairlady's Statement

During the year ended 31 December 2021 (“**year under review**”), China Sanjiang Fine Chemicals Company Limited (the “**Company**” and together with its subsidiaries, 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 (the “**Board**”) of directors of the Company (the “**Directors**”) 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.

Chairlady's Statement

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.

Chairlady's Statement

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 6th 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, 28 March 2022

MANAGEMENT

DISCUSSION AND ANALYSIS



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 +/(−)
REVENUE (RMB'000)					
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%
	9,498,708	100%	8,322,716	100%	14.1%
SALES VOLUME (MT)					
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%
AVERAGE SELLING PRICE (RMB)					
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%
GROSS PROFIT MARGIN (%)					
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%

Management Discussion and Analysis

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 26 to the consolidated financial statements for the details of borrowings and the respective charge of assets.

The Group's gearing, expressed as a percentage of total interest-bearing borrowings to total assets, was approximately 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).

Management Discussion and Analysis

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.

Directors and Senior Management

BIOGRAPHIES OF DIRECTORS

HAN Jianhong (韓建紅)

aged 47, has been an executive Director since 22 March 2010. Ms. Han is one of the founders of the Group.

Ms. Han has been serving as the chairlady of the board of directors of both Zhejiang Jiahua Group Co., Ltd.* (浙江嘉化集團股份有限公司) and Zhejiang Jiahua Energy Chemical Co., Ltd. (“**Jiahua Energy**”) since 2020. Zhejiang Jiahua Group Co., Ltd. and Jiahua Energy are principally engaged in the manufacturing and supply of agrochemicals and desalinated water and steam in Zhejiang Province, the PRC and both companies are not in competition with the Group. Ms. Han together with Mr. Guan Jianzhong (“**Mr. Guan**”), the spouse of Ms Han, established the Yihao Trust as settlors for the benefit of themselves and their issues. The Yihao Trust holds Yihao Development Limited which in turn holds the entire issued shares of Sure Capital Holdings Limited (“**Sure Capital**”). The trustee of the Yihao Trust is Vistra Trust (Singapore) Pte Ltd. (“**Vistra Singapore**”). Accordingly, each of Mr. Guan, Ms. Han Jianhong, Vistra Singapore were deemed to be interested in approximately 42.56% of the issued share capital of the Company. Mr. Guan also directly owned approximately 1.66% of the issued share capital of the Company. Accordingly, Ms. Han is also deemed to be interested in such shares.

Ms. Han is primarily responsible for the overall business planning, business structuring and restructuring, overseeing legal matters and investor relations of the Group. Ms. Han is also a director of various subsidiaries of the Group and has over 20 years of experience in the chemical industry.

RAO Huotao (饒火濤)

aged 48, has been an executive Director since 15 March 2017. He is primarily responsible for the overall production and project management of the Group. Mr. Rao obtained a bachelor’s degree in chemical process from Wuhan Institute of Technology in 1996 and a master’s degree in chemical engineering from Zhejiang University in 2008 and has over 25 years of experience in the chemical manufacturing industry. Mr. Rao joined the Group in 2010.

CHEN Xian (陳嫻)

aged 47, has been an executive Director since 26 August 2021. She is primarily responsible for the financial management of the Group. Ms. Chen graduated with a diploma in accounting from the Hangzhou Institution of Commerce of Zhejiang Gongshang University (浙江工商大學杭州商學院) in 1996 and a bachelor’s degree in accounting from Renmin University of China (中國人民大學) in 2013. She joined the Group in 2009.

GUAN Siyi (管思怡)

aged 23, has been an executive Director since 26 August 2021. she is primarily responsible for the administrative matters and overall management of the Group. Ms. Guan graduated with a bachelor’s degree with double major in Nutrition and Media from the University of Washington in 2019. She joined the Group in August 2020.

SHEN Kaijun (沈凱軍)

aged 54, has been an independent non-executive Director since 24 August 2010. He is the chairman of the audit committee and a member of the nomination committee of the Company. Mr. Shen graduated with a bachelor’s degree in accounting from Hangzhou Institute of Electronic Engineering (杭州電子工業學院) in 1995 and was admitted as a certified public accountant in China in December 1993. Mr. Shen was further awarded the qualifications as a licensed certified accountant to engage in securities-related businesses in July 1997 and a certified tax agent in June 2000. Mr. Shen has over 25 years of experience in accounting and corporate management.

PEI Yu (裴愚)

aged 50, has been an independent non-executive Director since 30 June 2014. She is a member of all the audit committee, the remuneration committee and the nomination committee. Ms. Pei graduated from the Beijing Normal University (北京師範大學) with a bachelor degree in arts in June 1992 and obtained a double degree in laws from China University of Political Science and Law (中國政法大學) in June 1997. Ms. Pei has more than 20 years of experience in the legal field in China.

KONG Liang (孔良)

aged 56, has been an independent non-executive Director since 25 July 2016. He is a member of the audit committee and the remuneration committee. Mr. Kong obtained a bachelor's degree in management science from the Fudan University in 1988, a master's degree in economics from the University of International Business and Economics in 1991, a master's degree in business administration from the Nyenrode Business Universiteit in 1995 and a doctrine degree in education economics and management from Peking University in 2011. Mr. Kong has more than 20 years of experience in providing higher education course in business management.

BIOGRAPHIES OF SENIOR MANAGEMENT

DING Rong Guo (丁嶸國)

aged 46, is the head of production department of the Group. Mr. Ding is primarily responsible for the production management and safety and environment protection of the Group. He joined the Group in 2004.

YIP Ngai Hang (葉毅恒)

aged 45, is the financial controller and company secretary of the Group. Mr. Yip is primarily responsible for the overall planning, financial reporting and budgeting and implementing business strategies of the Group. Mr. Yip graduated with a bachelor's degree in Accounting with Honours from the University of Hertfordshire in the United Kingdom in 1999.

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

Environmental, Social and Governance Report

ABOUT THIS REPORT

The Company and its subsidiaries (collectively, the “**Group**”, “**We**”, or “**Our**”) present this Environmental, Social and Governance (“**ESG**”) Report for the financial year ended 31 December 2021, in accordance with the ESG Reporting Guide (the “**Guide**”) as set out in Appendix 27 to the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). It details the Group’s approach, strategy, priorities and objectives in relation to the Group’s operational practices, social impact and environmental protection. Corporate governance is addressed separately in the “Corporate Governance Report” of our annual report.

This report has been reviewed and approved by the board (the “**Board**”) of directors (the “**Directors**”) of the Company after their discussion with the relevant management of the Group regarding the effectiveness of the relevant ESG systems.

The Group is committed to undertake corporate social responsibility (“**CSR**”) and considers CSR as a long-term worthy commitment. The Group is also committed to incorporate the concept of sustainable development into its business operations and management processes to better achieve an all-win situation and comprehensive development for the economy, society and the environment.

REPORT SCOPE

This report covers the core business of the Group in the PRC, namely the manufacturing and supplying of ethylene oxide, ethylene glycol, polypropylene, methyl tert-butyl ether and surfactants and the provision of processing services. This report covers the Company and all its subsidiaries.

BASIS OF PREPARATION

This report is prepared and presented with reference to the Guide, in particular, in terms of:

1. **Materiality:** ESG issues that become sufficiently important to investors and other stakeholders should be reported. The materiality assessment (page 14) has ensured the report presents the most material ESG topics pertaining to our businesses.
2. **Quantitative:** KPIs, if any, need to be measurable and should be accompanied by a narrative, explaining their purposes, impacts, and giving comparative data where appropriate.
3. **Balance:** This ESG report should provide an unbiased picture of the Company’s ESG performance on environmental, social and governance aspects and avoid selections, omissions, or presentation formats that may inappropriately influence readers’ decisions or judgments.
4. **Consistency:** This report should use consistent methodologies to allow for meaningful comparisons of relevant data over time. The issuer should disclose any subsequent changes to such methodologies in the report.

STAKEHOLDER ENGAGEMENT

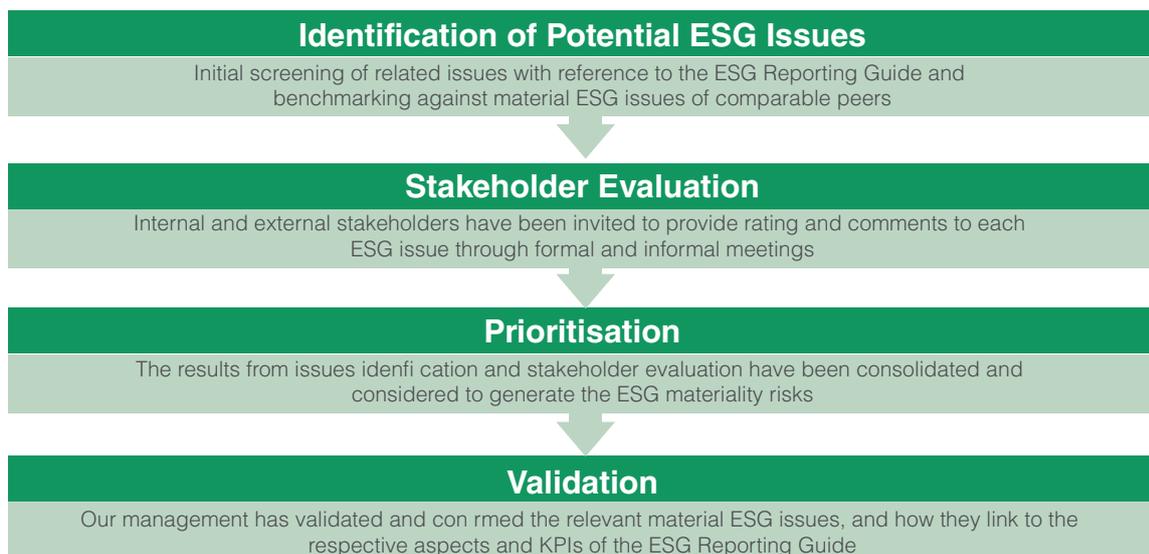
The Group recognises the importance of stakeholders' participation during ESG processes and values the opinions of various stakeholders on operations and ESG matters. As such, the Group has close communications with all stakeholders, including but not limited to, shareholders/potential investors, customers, suppliers, employees, the government and regulators, industry associations, non-government institutions, media and etc. and takes into account the opinions and expectations of all stakeholders during our operation and ESG matters. The Group maintains close contact with all stakeholders through various channels, enabling all stakeholders to have an in-depth understanding of the Group's operations. Through constructive communications, the Group strives to strike a balance between the opinions and interests of such stakeholders, so as to determine its long-term development direction.

Major stakeholders	Demands and expectations	Engagement channels
Shareholders/potential investors	Transparency on corporate information Sound corporate governance Investment return	Company visits/meetings Shareholders' meetings Company website
Customers	High-quality products Timing customer services Stable production and source of supply	Customer feedback Business communication and meetings
Suppliers	Stable demand Stable production	Business communication and meetings Company visits Supplier vetting procedures
Employees	Remuneration and benefits Working environment Career development	Employee trainings Meetings and briefings Company policies Company activities
Government and regulators	Compliance with the laws and regulations	Statutory reporting Written correspondences Meetings and visits
Industry associations	Following industry norms	Industry exhibition Meetings and visits
Media	Timing communication and response	Company's website Business interviews Press release and announcements

Environmental, Social and Governance Report

MATERIALITY ASSESSMENT

Through stakeholder engagement processes based on the aforementioned channels, we have conducted a comprehensive materiality assessment with our stakeholder groups to identify corresponding ESG issues and assess the materiality to the Group's operations. The following outlines the procedures of the assessment:



A materiality assessment matrix is plotted to present the results:

Importance to Stakeholders	High	<ul style="list-style-type: none"> Staff Development and Training Employee Remuneration and Benefits Prevention of Bribery, Blackmail Greenhouse Gas Emissions 	<ul style="list-style-type: none"> Product Quality Inspection Customer Satisfaction Supplier Quality Management Occupational Health and Safety Health and Safety related to Products Fraud and Money Laundering Anti-corruption Mechanism 	
	Medium	<ul style="list-style-type: none"> Community Investment 	<ul style="list-style-type: none"> Electricity Consumption Water Consumption Waste Recycling and Reuse Waste Management Impacts on the Environment and Natural Resources 	<ul style="list-style-type: none"> Customer Information and Privacy Sewage Management Exhaust Gas Emissions
	Low		<ul style="list-style-type: none"> Use of Packaging Materials 	
		Low	Medium	High
		Importance to the Group		

ENVIRONMENTAL ASPECTS

Emission

The Group has a policy in place to monitor emission reduction vigorously and to the best of knowledge of the Directors, during the year ended 31 December 2021 and up to the date of this report, the Directors are not aware of any non-compliance with relevant laws and regulations regarding emissions including air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste. The air emission, discharges and handling of hazardous and non-hazardous wastes have been managed in compliance with relevant emission law and regulations.

The Group has emission reduction targets for all gas emissions, industrial wastewater discharge and industrial water consumption that the emission quantities for all gas emissions, industrial wastewater discharge and industrial water consumption (in terms of tonnes) per RMB1 million of revenue after adjusting with changes of average selling prices of respective relevant products (which basically defines the intensity on sales volume basis), will not be higher by more than 5% when comparing with the emission quantities on the same basis of previous year. Being a vertical-integrated chemical group, the management of the Group always looks for ways to improve emission reduction and believes any outputs from its production processes can be reused/recycled in a certain extent as inputs in other production processes.

During the year under review, the Group has been implementing certain test-run fine-tuning programs for the purpose of reusing certain heats/gas generated during the production processes since 2015.

For non-hazardous waste, the waste generated by the Group is mainly paper waste from office operation for administrative purposes and sales material. The Group requires all departments and employees that generate solid wastes to take measures in collecting and storing solid wastes.

The Group has been reminding employees to take sensible measures when photocopying; encouraging employees to use both sides of the paper; separating paper from other wastes for recycling; and placing a carton and a paper tray next to the photocopier to collect single-sided paper for recycling to enhance paper efficiency, and thereby reducing carbon footprint and the impact on the environment.

For hazardous waste, the Group has been strictly following the requirements and regulations imposed by local authorities as to handling and recycling of hazardous waste during the course of our production.

Environmental, Social and Governance Report

Key performance indicators	2021 (tonnes)	2020 (tonnes)
Industrial wastewater discharge	404,702	497,628
Industrial water consumption	7,361,900	7,408,780
COD in wastewater discharge	40	51
SO ₂ emission	—	—
Nitrogen oxides emission	62	94
Ammoniac nitrogen emission	8	10
Particulate Matter (PM) emission	3	4
Greenhouse Gas — Scope 1 emissions ^(note)	1,748,460	1,715,935
— Scope 1 emissions intensity — Quantity (tonnes) per RMB1 million of revenue	184	206
Greenhouse Gas — Scope 2 emissions ^(note)	589,187	622,127
— Scope 2 emissions intensity — Quantity (tonnes) per RMB1 million of revenue	62	75
Hazardous waste	2,174	266
— Hazardous waste intensity — Quantity (tonnes) per RMB1 million of revenue	0.23	0.03
Non-hazardous waste	3,064	2,893
— Non-hazardous waste intensity — Quantity (tonnes) per RMB1 million of revenue	0.32	0.35
Investment in environmental protection (RMB million)	55.7	43.5

Note: Greenhouse gas emission data are presented in terms of carbon dioxide equivalence with reference to the requirements of, including but not limited to, the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (《溫室氣體盤查議定書：企業會計與報告標準》) published by the World Resources Institute and the World Business Council for Sustainable Development and the Reporting Guidance on Environmental KPIs (《環境關鍵績效指標彙報指引》) published by the Stock Exchange.

Environmental, Social and Governance Report

Use of Resources

The Group has a policy in place to pursue energy conservation and improvement of resource utilization rate vigorously.

Being a vertical-integrated chemical group, the management of the Group always looks for ways to improve energy conservation and resource utilization rate as the management of the Group believes improvement of energy conservation or resource utilization rate can lead to the increase in production efficiency and in turn an increase in the gross profit margin.

The Group has electricity consumption intensity and steam consumption intensity targets (the Group defines the intensity on sales volume basis) that majority of KPIs in 2021 will maintain in a similar level when comparing to 2020.

The Group has been fine-tuning the structure of certain pipelines in order to use spare heats from certain production facilities to generate low pressure steam as well as exploring ways to use low pressure steam to replace high pressure steam for the chemical reactions of other facilities and for certain production processes respectively which will reduce the overall energy/heat losses and save operating costs. The management of the Group considers it as a long-term ongoing measure, which leads to the procurement requirement on low pressure steam on a group basis decreasing over times.

The Group's use of water resources mainly comprises of recycling water used during the course of production and the Group does not heavily rely on the use of water resources.

Due to industry nature, the Group does not require the usage of packaging materials in general.

Key performance indicators	2021	2020
Electricity consumption (kWh)	742,159,175	740,830,933
— Electricity consumption intensity		
— Quantity (kWh) per RMB1 million of revenue	78,130	89,010
Water consumption (cubic metre)	7,361,900	7,317,080
— Water consumption intensity		
— Quantity (cubic metre) per RMB1 million of revenue	775	879
Steam consumption (tonnes)	2,147,631	3,232,179
— Steam consumption intensity		
— Quantity (tonnes) per RMB1 million of revenue	226	388

Environmental, Social and Governance Report

The Environment and Natural Resources

The Group has a policy in place to pursue the minimisation of the Group's impact on the environment and natural resources.

The Group puts continuing efforts in raising the environmental consciousness of its employees by imposing various measures. For instance, (i) when outdoor temperature drops to 25°C, all air-conditioners in production facilities would be turned off; and (ii) the Group has been working towards a no-paper working environment since 2015, with the transaction/agreement approval system substantially upgraded to paperless since 2016.

Climate Change

The Group has a policy in place to pursue the minimisation of the Group's impact on the global climate change as the Group recognises that global climate change is one of the top environmental concerns and challenges in the future, which leads to extreme weathers appearing more frequently year by year in recent years.

The Group has been putting continuing efforts in fine-tuning the structure of certain pipelines in order to use spare heats from certain production facilities to generate low pressure steam and optimizing the production efficiencies, which will save energies/resources and reduce emissions ultimately for each unit of output.

SOCIAL

Employment

The Group has a policy in place to cover employee compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare. To the best of knowledge of the Directors, during the year ended 31 December 2021 and up to the date of this report, the Directors are not aware of any non-compliance with relevant laws and regulations regarding employee compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.

Environmental, Social and Governance Report

Key performance indicators	2021	2020
Total number of employees	1,110	1,037
By gender:		
Total number of male employees	963	887
Total number of female employees	147	150
By employment type:		
Total number of full-time employees	1,110	1,037
Total number of part-time employees	—	—
By age group:		
Within the age group of 18–35	684	648
Within the age group of 36–55	397	364
Within the age group of >55	29	25
By geographic region:		
PRC	1,110	1,025
Hong Kong	10	12
Overseas	—	—
Turnover rate of employees	9.3%	8.4%
By gender:		
Turnover rate of male employees	9.3%	7.4%
Turnover rate of female employees	8.8%	14.0%
By employment type:		
Turnover rate of full-time employees	9.3%	8.4%
Turnover rate of part-time employees	—	—
By age group:		
Turnover rate of employees within the age group of 18–35	12.1%	8.0%
Turnover rate of employees within the age group of 36–55	3.0%	8.8%
Turnover rate of employees within the age group of >55	27.6%	12.0%
By geographic region:		
PRC	9.3%	8.4%
Hong Kong	—	—
Overseas	—	—

Health and Safety

The Group has a policy in place to ensure a safe working environment and protect employees from occupational hazards.

To the best of knowledge of the Directors, during the year ended 31 December 2021 and up to the date of this report, the Directors are not aware of any non-compliance with relevant laws and regulations in terms of providing a safe working environment and protecting employees from occupational hazards.

Environmental, Social and Governance Report

Being a vertical-integrated chemical group, the management of the Group always put safe working environment and safe production as its highest priority as the management of the Group believes it is the key of ensuring the sustainability of the Group on a long-term basis. The management of the Group regularly reinforces the importance of safe working environment and safe production in managerial meetings that are usually held on a quarterly basis. In addition, the Group also regularly reviews procedures and provides training to its employees as to safe working environment and safe production in order to raise their awareness and cautiousness.

Since 2016, the Group has launched a long-term campaign called “safety and healthy cup” encouraging competitions among all operating departments in terms of safe working environment and safe production. The “safety and healthy cup” is a reward system that departments and staff with outstanding performance would be rewarded, while departments and staff with poor performance would be penalised. Besides, in order to raise the health awareness of all employees, the Group has also launched an annual health check-up programme since 2013, in which the Group provides additional day-off and full medical subsidies to ensure all employees can have a thorough health check-up in hospital each year.

Key performance indicators	2021	2020
Number of work-related fatalities	—	—
Rate of work-related fatalities (as a% of total employees)	—	—
Lost days due to work injury	—	—

Development and Training

The Group has a policy in place to ensure that comprehensive trainings are provided to employees on a regular basis. The Group fully understands the importance of provision of training to its employees and how it creates value to the Group in the long run. The Group is committed to hire different external training institutions to provide relevant and comprehensive trainings to its employees at all grades in each year.

Key performance indicators	2021	2020
Total number of employees received training	1,110	1,037
Total number of male employees received training	963	892
Total number of female employees received training	147	145
Total number of senior management received training	18	22
Total number of middle management received training	70	56
Total number of the rest of staffs received training	1,022	959
Average training hours for male employee	96 hours	96 hours
Average training hours for female employee	96 hours	96 hours
Average training hours for senior management	160 hours	160 hours
Average training hours for middle management	160 hours	160 hours
Average training hours for the rest of staffs	96 hours	96 hours

Environmental, Social and Governance Report

Labour Standards

The Group has a policy in place to prevent child and forced labour from hiring and working within the Group. To the best of knowledge of the Directors, during the year ended 31 December 2021 and up to the date of this report, the Directors are not aware of any non-compliance with relevant laws and regulations in terms of hiring and having child and forced labour work within the Group.

The Group has rigorous recruitment procedures and guidelines which set out the basic requirements of each post, including the education background, age, probation period, promotion path etc. Each job applicant would be required to fill in his/her information on a recruitment questionnaire, which would then be checked and verified by the Group's human resources department to ensure the accuracy of the information provided and to ensure the Group's compliance of relevant laws and regulations in terms of hiring child and forced labour, working permission etc. Such exercise enables the Group to hire suitable candidates in accordance with the job requirements.

Supply Chain Management

The Group has a policy in place to manage the environmental and social risks of the supply chain of the Group. The Group implements a set of strict procedures as to suppliers selection, product/service selection and timing of procurement for raw materials and all these decisions are required to be approved by the Board and whether the suppliers are environmental-friendly or are committed to environmental-friendly is one of the most weighted selection criteria in the Group's suppliers selection process, followed by other factors such as commitment to social responsibilities and compliance with laws and regulations. The Group maintains a supplier Enterprise Resource Planning ("ERP") system which requires vetting and registration for every supplier and the finance department of the Group would only be able to process payments to suppliers that have been properly registered and approved in the supplier ERP system. The supplier ERP system sets out a list of procedures and questionnaires to be documented, requiring a certain level of due diligence works to be performed on company background, credibility, operation capacity and track record, management background etc. As at 31 December 2021, all suppliers have been registered in the ERP system.

The Group also implements a set of strict procedures as to tendering for construction works for production facilities, buildings and properties in order to provide a fair and transparent platform for securing the best suppliers and the best pricing. The Boards attend and chair every meeting as to bid opening to ensure a fair tendering process.

Key performance indicators	2021	2020
Number of suppliers (i.e. major suppliers with annual procurement amount of more than RMB1 million) in PRC	155	160
Number of suppliers (i.e. major suppliers with annual procurement amount of more than RMB1 million) Overseas	15	22

Product Responsibility

The Group has a policy regarding product responsibility in place to cover issues like product safety, advertising, labeling and intellectual property rights and etc. To the best of knowledge of the Directors, during the year ended 31 December 2021 and up to the date of this report, the Directors are not aware of any non-compliance with relevant laws and regulations relating to product safety, advertising, labeling, labeling and intellectual property rights, and privacy matters regarding products and services provided and methods of redress.

Environmental, Social and Governance Report

Being a vertical-integrated chemical group, the Group's major products like ethylene oxide, ethylene glycol and polypropylene are all crude oil derivatives, standardised and intermediate products and given the nature of these product, the Group focuses its businesses with long-term recurring customers and it is the Group's practice to enter into long-term volume contracts with these customers. Similar to the Group's supplier ERP system, the Group implements a customer ERP system to facilitate customer selection which requires vetting and registration for every customer and the production department of the Group would only be in the position to deliver the goods to customers that have been properly registered and approved in the customer ERP system. The customer ERP system sets out a list of procedures and questionnaires requiring a certain level of due diligence to be conducted on the company's background, credibility, operation capacity and track record, management background etc. The Group would go through and confirm the product specification details with new customers during the course of setting up accounts in the customer ERP system as well as entering into long-term volume contracts with new customers.

Customer Data Protection

The Group recognizes the importance of customer data protection. We require our staff to comply with the Group's internal rules and regulations on information protection and handle and store customer-related information with prudence and care. The Group has also implemented various computer controls to protect customer information in our computer systems. Such internal control measures are reviewed on a regular basis to ensure their effectiveness.

Key performance indicators	2021	2020
Percentage of total products sold or shipped subject to recalls for safety and health reasons	0%	0%
Number of products and services related complaints received	—	—

Anti-corruption

The Group has a policy in place to prohibit from any wrongdoing in respect of bribery, extortion, fraud and money laundering. To the best of knowledge of the Directors, during the year ended 31 December 2021 and up to the date of this report, the Directors are not aware of any non-compliance with relevant laws and regulations regarding bribery, extortion, fraud and money laundering.

The Group implements a code of conduct that requires all Directors and employees of the Group adhering to a high standard of integrity, avoiding situations that would compromise with conflicts of interest, assets misappropriation and making appropriate declarations/reporting to the Directors in due course and the Group also provides regular trainings to all Directors and employees of the Group covering anti-corruption.

Key performance indicators	2021	2020
Number of concluded legal cases regarding corrupt practices brought against the Group	—	—

Community Investment

The Group has a policy in place as to community engagement where the Group has been working closely with the local government in providing various assistances to the local community. The Group has been providing funding assistance to run a regular direct bus line between Zhapu, the local region where the headquarters of the Group is located at, and Shanghai to improve the communication of people with Shanghai since 2013. The Group has been keeping the dialogues with local education institutions and local labour unions as to the employment needs and the Group has been providing the accommodative measures in this aspects.

Corporate Governance Report

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

The Company has adopted the code provisions in the Corporate Governance Code (“**CG Code**”), including any revisions and amendments from time to time, as set out in Appendix 14 to the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) as its own code of corporate governance. The Board considers that the Company has complied with all the code provisions of the CG Code during the year ended 31 December 2021 and up to the date of this annual report.

BOARD OF DIRECTORS

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

The following is the Board’s composition during the year under review and up to the date of this report:

Executive Directors:

Ms. Han Jianhong (*Chairlady*)
Mr. Rao Huotao
Ms. Chen Xian (appointed on 26 August 2021)
Ms. Guan Siyi (appointed on 26 August 2021)
Mr. Han Jianping (resigned on 4 January 2021)

Independent non-executive Directors:

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

The Board currently comprises four executive Directors and three independent non-executive Directors from different business and professional fields. The profiles of each Director are set out in the “Directors and Senior Management” section in this annual report. The Directors, including the independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective delivery of the Board functions.

Ms. Guan Siyi (“**Ms. Guan**”) was appointed as an executive Director on 26 August 2021. Ms. Guan is the daughter of Ms. Han Jianhong (“**Ms. Han**”), who is the Chairlady of the Board and one of the executive Directors. Mr. Han Jianping, who resigned as an executive Director on 4 January 2021, is the brother of Ms. Han. Save as disclosed, there is no other relationship (whether financial, business, family or other material/relevant relationship) among members of the Board.

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

Corporate Governance Report

The Board has established various Board committees including the audit committee (the “**Audit Committee**”), the remuneration committee (the “**Remuneration Committee**”) and the nomination Committee (the “**Nomination Committee**”) with written terms of reference as suggested under the CG Code. Further details of these committees are set out below.

BOARD MEETINGS

The Company has adopted the practice of holding Board meetings regularly for at least four times in a period of 12 months at approximately quarterly intervals to discuss, among other matters, the financial performance and the business operation and strategic development of the Group. Ad-hoc meetings will also be held if necessary. Notice of Board meeting will be sent to all Directors at least 14 days prior to a regular Board meeting. Reasonable notice will be given to the Directors for ad-hoc Board meetings. Directors may participate either in person or through electronic means of communication.

Agenda and Board papers with complete and reliable information are sent to all the Directors in a timely manner before the meetings. All the Directors are provided with sufficient resources to discharge their duties and there are agreed procedures for the Directors to seek independent professional advice at the Company’s expenses in appropriate circumstances. All Directors will have the opportunity to include matters in the agenda for Board meetings. The company secretary of the Company is responsible for keeping the minutes of Board meetings and meetings of Board committees. All minutes are open for inspection by any Director at reasonable time on reasonable notice.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of the executive Directors has entered into a service contract with the Company for a period of three years and each of the independent non-executive Directors has been appointed for a period of two years.

In accordance with the Company’s Articles of Association, at each annual general meeting of the Company, one-third of the Directors shall retire from office by rotation and every Director shall be subject to retirement at least once every three years. Director(s) newly appointed by the Board shall hold office until the next following general meeting of the Company and shall then be eligible for re-election at the meeting.

Newly appointed Director(s) will be given an induction on the information of the Group and a manual on the duties and responsibilities as a director of a listed company under the Listing Rules and applicable laws.

BOARD COMMITTEES

Audit Committee

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

During the year ended 31 December 2021 and up to the date of this annual report, the Audit Committee reviewed the interim results of the Group for the six months ended 30 June 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 report, 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.

During the year ended 31 December 2021 and up to the date of this annual report, one meeting was held by the Remuneration Committee to review the remuneration packages of the Directors and senior management for the year ended 31 December 2021.

Nomination Committee

As at the date of this report, 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 an executive Director. The chairlady of the Nomination Committee is Ms. Han Jianhong. The primary responsibilities of the Nomination Committee include, among others, considering and recommending to the Board suitably qualified persons to become the member of the Board and reviewing the structure, size and composition of the Board and the diversity of a board and setting out the objectives and monitoring the achievement of the board diversity policy on a regular basis and as required.

During the year ended 31 December 2021 and up to the date of this annual report, two meetings were held by the Nomination Committee to discharge duties, including assessing the independency of independent non-executive directors under the Listing Rules and reviewing the Board diversity policy and terms of reference.

The attendance of individual members of the Board and other Board committees meetings during the year ended 31 December 2021 and up to the date of this annual report is set out below:

	Meetings attended/held			
	Board	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors				
Ms. Han Jianhong (<i>Chairlady</i>)	8/8	N/A	1/1	2/2
Mr. Rao Huotao	8/8	N/A	N/A	N/A
Ms. Chen Xian (appointed on 26 August 2021)	4/8	N/A	N/A	N/A
Ms. Guan Siyi (appointed on 26 August 2021)	4/8	N/A	N/A	N/A
Mr. Han Jianping (resigned on 4 January 2021)	0/8	N/A	N/A	N/A
Independent Non-Executive Directors				
Mr. Shen Kaijun	8/8	2/2	N/A	2/2
Ms. Pei Yu	8/8	2/2	1/1	2/2
Mr. Kong Liang	8/8	2/2	1/1	N/A

Corporate Governance Report

BOARD DIVERSITY POLICY

Pursuant to the CG Code, the Board has adopted a Board diversity policy. The Company recognises and embraces the benefits of diversity of Board members. It endeavours to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business. All Board appointments will continue to be made on a merit basis with due regard for the benefits of diversity of the Board members. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, race, language, cultural background, educational background, industry experience and professional experience.

The Board recognises the importance and benefits of gender diversity at the Board level to enhance the gender diversity among the Board members. Having reviewed the Board composition, the Board is of the view that there is gender diversity in the Board.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("**Model Code**") as set out in Appendix 10 to the Listing Rules as its model code for securities transactions by Directors and senior management. Having made specific enquiries, all the Directors confirmed that they have complied with the Model Code during the year ended 31 December 2021 and up to the date of this annual report.

FINANCIAL REPORTING AND INTERNAL CONTROL

Financial reporting

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

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

Independent auditors

During the year ended 31 December 2021, the professional fees paid or payable to the independent auditors, Ernst & Young, for services rendered are set out below:

	RMB'000
Annual audit service	2,380
Tax and other services	200

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

Internal controls

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

For the year under review, the Board has reviewed the effectiveness of the Group's internal control system. The Board considers that the internal control system is effective and adequate for the Group as a whole. The Board further considers that (i) there was no issue relating to the material controls, including financial, operational and compliance controls and risk management functions, of the Group; and (ii) that there were adequate staff with appropriate qualifications and experience, resources and budget of its accounting and financial reporting function, and adequate training programmes have been provided for during the year ended 31 December 2021.

DIRECTORS' RESPONSIBILITY ON THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2021, and confirm that the financial statements give a true and fair view of the results of the Group and are prepared in accordance with the applicable statutory requirements and accounting standards.

The statement made by the external auditors regarding their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditors' Report on page 46 of this annual report.

NON-COMPETITION UNDERTAKINGS

The Company has received a declaration from Mr. Guan, Ms Han and Sure Capital Holdings Limited (the "**Covenantors**"), the controlling shareholder of the Company, of their compliance with the terms of the non-competition undertaking ("**Undertaking**"). The Covenantors declared that they have fully complied with the Undertaking during the year ended 31 December 2021 and up to the date of this annual report.

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

SHAREHOLDERS' RIGHTS

Shareholders who wish to move a resolution may, however, request the Company to convene an extraordinary general meeting ("**EGM**") in accordance with the "Procedures for Shareholders to convene an EGM" set out below.

PROCEDURES FOR SHAREHOLDERS TO CONVENE AN EGM

Any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company having the right of voting at general meetings of the Company ("**Eligible Shareholder(s)**") shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an EGM to be called by the Board for the transaction of any business specified in such requisition. Eligible Shareholders who wish to convene an EGM for the purpose of moving a resolution at the EGM must deposit a written requisition (the "**Requisition**") signed by the Eligible Shareholder(s) concerned at the principal place of business of the Company in Hong Kong at Room 1702, 17th floor, Infinitus Plaza, 199 Des Voeux Road Central, Sheung Wan, Hong Kong for the attention of the Board or the company secretary. The Requisition must state clearly the name of the Eligible Shareholder(s) concerned, his/her/their shareholding in the Company, the resolution intended to be put forward at the EGM.

Corporate Governance Report

The Company will check the Requisition and the identity of the Eligible Shareholder(s). The shareholding of the Eligible Shareholder(s) will be verified with the Company's branch share registrar and transfer office in Hong Kong. If the Requisition is found to be proper and in order, the Board will convene an EGM within 2 months after the deposit of the Requisition. On the contrary, if the Requisition has been verified as not in order, the Eligible Shareholder(s) concerned will be advised of the outcome and accordingly, the Board will not call for an EGM.

If within 21 days of the deposit of the Requisition the Board fails to proceed to convene such meeting, the requisitioner(s) himself/herself/themselves may do so in the same manner, and all reasonable expenses incurred by the Eligible Shareholder(s) concerned as a result of the failure of the Board shall be reimbursed to the Eligible Shareholder(s) by the Company.

For including a resolution to propose a person for election as a Director at general meeting, the Shareholders are requested to follow the Articles of Association. A notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his/her willingness to be elected shall have been lodged at the Company's principal place of business in Hong Kong or at the Hong Kong branch share registrar and transfer office of the Company. The period for lodgment of the notices required under this Article will commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting and the minimum length of the period during which such notices to the Company may be given will be at least seven days. The written notice must state that person's biographical details as required by Rule 13.51(2) of the Listing Rules. The procedures for the Shareholders to propose a person for election as a Director are posted on the Company's website.

PROCEDURES FOR SHAREHOLDERS TO SEND ENQUIRIES

Shareholders should direct their questions about their shareholdings to the Company's branch share registrar in Hong Kong. Shareholders may at any time make a request for the Company's information to the extent that such information is publicly available. Shareholders may send their enquiries and concerns to the Board by addressing them to the principal place of business of the Company in Hong Kong at Room 1702, 17th floor, Infinitus Plaza, 199 Des Voeux Road Central, Sheung Wan, Hong Kong by post or by email to henryyip@jxsjchem.com or chenx@jxsjchem.com.

Upon receipt of the enquiries, the Company Secretary will forward the communications relating to:

1. matters within the Board's purview to the Directors;
2. matters within a committee's area of responsibility to the chairperson of the appropriate committee; and
3. ordinary business matters, such as suggestions, enquiries and consumer complaints, to the appropriate management of the Company.

COMMUNICATION WITH SHAREHOLDERS

The Company has adopted a Shareholders' communication policy with the objective of ensuring that the Shareholders can have equal and timely access to information about the Company in order to enable the Shareholders to exercise their rights in an informed manner and to allow them to engage actively with the Company. The Group's website www.chinasanjiang.com contains an "Investor Relations" section which offers timely access to the Company's press releases, financial reports and announcements. Information will be communicated to the Shareholders through the Company's financial reports, circulars and announcements, AGMs and other general meetings that may be convened, as well as all the disclosures submitted to the Stock Exchange for publication.

The Company will continue to maintain an open and effective investor communication policy and to update investors with relevant information of the Group in a timely manner.

Report of the Directors

The board (the “**Board**”) of directors (the “**Directors**”) presents its report and the audited consolidated financial statements of the Group for the year ended 31 December 2021.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Group are the manufacturing and supplying of ethylene oxide, ethylene glycol, polypropylene and surfactants and the provision of processing services. The principal activities and other particulars of the subsidiaries are set out in note 1 to the financial statements.

RESULTS

The results of the Group for the year ended 31 December 2021 and the state of the Company’s and the Group’s affairs as at that date are set out in the consolidated financial statements on pages 50 to 152 of this annual report.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the latest five financial years is set out on page 153 of this annual report.

DIVIDENDS

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 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.

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.

Report of the Directors

RESERVES

Profit attributable to equity shareholders, (before dividends, if any) of RMB380,611,000 (2020: RMB1,122,931,000) have been transferred to reserves. Other movements in reserves are set out in the Consolidated Statement of Changes in Equity.

NON-CURRENT ASSETS

Movements in non-current assets (including property, plant and equipment, right-of-use assets and intangible assets) during the financial year are set out in notes 12 to 14 to the financial statements.

BANK BORROWINGS

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

SHARE CAPITAL

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year under review, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2021.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

DIRECTORS

The Directors during the year ended 31 December 2021 and up to the date of this annual report were:

Executive Directors:

Ms. Han Jianhong (*Chairlady*)

Mr. Rao Huotao

Ms. Chen Xian (appointed on 26 August 2021)

Ms. Guan Siyi (appointed on 26 August 2021)

Mr. Han Jianping (resigned on 4 January 2021)

Independent non-executive Directors:

Mr. Shen Kaijun

Ms. Pei Yu

Mr. Kong Liang

Details of the Directors' biographies are set out on pages 10 and 11 of this annual report.

Pursuant to article 105 of the Articles of Association, one-third of the Directors shall retire from office by rotation at each annual general meeting of the Company. Ms. Chen Xian, Ms. Guan Siyi and Mr. Shen Kaijun shall retire from office by rotation at the AGM and, being eligible, offer themselves for re-election as Directors at the AGM.

DIRECTORS' SERVICE CONTRACTS

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

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

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

DIRECTORS' REMUNERATION

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

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in the section headed "Connected Transactions/Continuing Connected Transactions" in this report and note 37 (Related Party Transactions) to the financial statements, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouses or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2021, the interests and short positions of the Directors and/or chief executives of the Company in any shares of the Company (the “**Shares**”), underlying Shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have under such provisions of the SFO), or which are required, pursuant to Section 352 of Part XV of the SFO, to be entered in the register kept by the Company, or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors (the “**Model Code**”) are as follows:

Interest in shares of the Company

Name of Directors	Number of Shares			Total	Approximate % of issued share capital ³
	Personal Interest	Family Interest	Trust/ Corporate Interest		
Han Jianhong (“ Ms. Han ”)	—	19,738,000 ²	516,496,000 ¹	536,234,000	45.06%
Rao Huotao (“ Mr. Rao ”)	659,000	—	—	—	0.06%
Guan Siyi (“ Ms. Guan ”)	—	19,738,000 ²	516,496,000 ¹	536,234,000	45.06%
Chen Xian (“ Ms. Chen ”)	3,367,000	—	—	—	0.28%

Notes:

- (1) The 516,496,000 Shares were held by Sure Capital Holdings Limited (“**Sure Capital**”) which was wholly-owned by Yihao Development Limited which was held under the Yihao Trust, the trustee of which was Vistra Trust (Singapore) Pte. Ltd (“**Vistra Singapore**”). The Yihao Trust was established by Mr. Guan Jianzhong, spouse of Ms. Han, and Ms. Han as settlors for the benefit of the children of Mr. Guan and Ms. Han and their issue. Accordingly, each of Ms. Guan, Ms. Han, Vistra Singapore are deemed to be interested in the Shares under the SFO.
- (2) These shares were beneficially owned by Mr. Guan, the spouse of Ms. Han. Under the SFO, Ms. Han was deemed to be interested in such shares and both Mr. Guan and Ms. Han were also deemed to be interested in 506,451,000 Shares mentioned in Note 1 above.
- (3) Based on 1,190,000,000 Shares in issue as at 31 December 2021.

Interest in shares of associated corporation of the Company

Name of Directors	Name of associated corporation	Number of Shares			Trust/ Corporate Interest	Total	Approximate % of issued share capital ²
		Personal Interest	Family Interest				
Sure Capital	Sure Capital	—	—	516,496,000 ¹	516,496,000	43.40%	
Ms. Han & Ms. Guan	Sure Capital	—	—	516,496,000 ¹	516,496,000	43.40%	

Notes:

(1) The 516,496,000 Shares were held by Sure Capital Holdings Limited (“**Sure Capital**”) which was wholly-owned by Yihao Development Limited which was held under the Yihao Trust, the trustee of which was Vistra Trust (Singapore) Pte. Ltd (“**Vistra Singapore**”). The Yihao Trust was established by Mr. Guan Jianzhong, spouse of Ms. Han, and Ms. Han as settlors for the benefit of the children of Mr. Guan and Ms. Han and their issue. Accordingly, each of Ms. Guan, Ms. Han, Vistra Singapore are deemed to be interested in the Shares under the SFO.

(2) Based on 1,190,000,000 Shares in issue as at 31 December 2021.

Save as disclosed above, none of the Directors and the chief executive of the Company was interested or had any short position in any shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as at 31 December 2021.

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

As at 31 December 2021, so far as is known to the Directors, the following persons (other than the Directors or chief executive of the Company), who have interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company in accordance with the provision of Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein, are as follows:

Name of Shareholder	Capacity	Number of Shares	Approximate% of issued share capital ²
Vistra Trust (Singapore) Pte. Ltd	Trustee	516,496,000 ¹	43.40%
Yihao Development Limited	Interest of controlled corporation	516,496,000 ¹	43.40%
Sure Capital	Interest of controlled corporation	516,496,000 ¹	43.40%

Notes:

(1) The 516,496,000 Shares were held by Sure Capital Holdings Limited (“**Sure Capital**”) which was wholly-owned by Yihao Development Limited which was held under the Yihao Trust, the trustee of which was Vistra Trust (Singapore) Pte. Ltd (“**Vistra Singapore**”). The Yihao Trust was established by Mr. Guan Jianzhong, spouse of Ms. Han, and Ms. Han as settlors for the benefit of the children of Mr. Guan and Ms. Han and their issue. Accordingly, each of Ms. Guan, Ms. Han, Vistra Singapore are deemed to be interested in the Shares under the SFO.

Report of the Directors

(2) Based on 1,190,000,000 Shares in issue as at 31 December 2021.

Save as disclosed above, no other interest or short position in the shares and underlying shares of the Company were recorded in the register required to be kept under section 336 of the SFO as at 31 December 2021.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of sales and purchases attributable to the Group's major customers and suppliers respectively during the year are as follows:

	2021	2020
As a percentage of the Group's total sales		
The largest customer	5.50%	5.12%
Five largest customers in aggregate	23.05%	22.53%
As a percentage of Group's total purchases		
The largest supplier	22.05%	21.47%
Five largest suppliers in aggregate	57.60%	56.91%

None of the Directors or any of their associates or any shareholders of the Company (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interest in the Group's major customers and suppliers during the year ended 31 December 2021.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "**Share Option Scheme**"), which was adopted on 21 December 2021 (the "**Adoption Date**"), for the purpose of providing incentives or rewards to selected eligible participants for their contribution to the Group. Unless otherwise cancelled or amended, the Share Option Scheme will remain in force for 10 years from the Adoption Date.

Eligible Persons of the Share Option Scheme include the following:

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

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

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

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

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

- (i) the closing price of Shares as stated in the daily quotations sheet of the Stock Exchange on the date of the offer of the grant, which must be a business day;
- (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of the offer of grant; and
- (iii) the nominal value of the Shares.

Since the Adoption Date and up to 31 December 2021, no share option has been granted by the Company.

CONTRACT OF SIGNIFICANCE

Save as disclosed in the section headed "Connected Transactions/Continuing Connected Transactions" in this annual report and note 37 (Related Party Transactions) to the financial statements, no contracts of significance in relation to the Company's business to which the Company, or its subsidiaries was a party and in which a Director has a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year, no contract of significance had been entered into between the Company or any of its subsidiaries and the controlling shareholder (as defined in the Listing Rules) of the Company or any of its subsidiaries and no contract of significance for the provision of services to the Company or any of its subsidiaries by the controlling shareholder of the Company or any of its subsidiaries was entered into.

MANAGEMENT CONTRACTS

Save as disclosed in the section headed "Connected Transactions/Continuing Connected Transactions" in this annual report and note 37 (Related Party Transactions) to the financial statements, no contracts of significance concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

CONNECTED TRANSACTIONS/CONTINUING CONNECTED TRANSACTIONS

The following related party transactions entered into during the year ended 31 December 2021 constitutes continuing connected transactions for the Company under the Listing Rules and are required to be disclosed in this annual report in accordance with Chapter 14A of the Listing Rules:

1. Sanjiang, Sanjiang New Material and Xing Xing Water and Miscellaneous Materials Supply Agreement

Pursuant to the desalinated water and miscellaneous materials supply agreements entered into by Sanjiang Chemical Co., Ltd. (“**Sanjiang Chemical**”), Zhejiang Sanjiang Chemical New Material Co., Ltd.* (浙江三江化工新材料有限公司) (“**Sanjiang New Material**”) and Zhejiang Xingxing New Energy Technology Co., Ltd.* (浙江興興新能源科技有限公司) (“**Xing Xing**”) with Zhejiang Jiahua Energy Chemical Co., Ltd.* (浙江嘉化能源化工股份有限公司) (“**Jiahua Energy Chemical Co**”) on 11 December 2020, Jiahua Energy Chemical Co has agreed to supply desalinated water and miscellaneous materials such as sodium hydroxide and sodium hypochlorite to each of Sanjiang Chemical, Sanjiang New Material and Xing Xing at a price which is the weighted average of those offered by Jiahua Energy Chemical Co. to its independent purchasers for desalinated water and miscellaneous materials of comparable quality during the same month of supply. Relevant details of the agreements and the transactions contemplated thereunder are set out in the announcement dated 11 December 2020.

Sanjiang Chemical and Sanjiang New Material are wholly-owned subsidiaries of the Company. Xing Xing is a company established in the PRC with limited liability on 19 January 2011 and a non-wholly owned subsidiary of the Company, which is indirectly owned as to 87% by the Company and 13% by Independent Third Parties. Jiahua Energy Chemical Co is a non-wholly owned subsidiary of Zhejiang Jiahua Group Co., Ltd., which is ultimately controlled by Ms. Han, an executive Director and Mr. Guan, a controlling shareholder of the Company. Jiahua Energy Chemical Co is an associate of Ms. Han, Ms Guan and Mr. Guan and is thus a connected person of our Company under Rule 14A.11(4) of the Listing Rules.

2. Sanjiang Steam Purchase Agreement

Pursuant to the steam purchase agreement entered into by Sanjiang Chemical with Jiahua Energy Chemical Co on 12 November 2020, Jiahua Energy Chemical Co agreed to supply low pressure steam (i.e. 0.8MPa and 1.3MPa), medium pressure steam (i.e. 3.4MPa) and high pressure steam (i.e. 4.6MPa) to Sanjiang Chemical for a term of three years ending 31 December 2023. Relevant details of the agreement and the transaction contemplated thereunder are set out in the announcement dated 12 November 2020.

3. Sanjiang New Material Steam Purchase Agreement

Pursuant to the steam purchase agreement entered into by Sanjiang New Material with Jiahua Energy Chemical Co on 12 November 2020, Jiahua Energy Chemical Co agreed to supply low pressure steam (i.e. 1.3MPa) and medium pressure steam (i.e. 3.4MPa) to Sanjiang New Material for a term of three years ending 31 December 2023. Relevant details of the agreement and the transaction contemplated thereunder are set out in the announcement dated 12 November 2020.

4. Sanjiang Haojia Steam Purchase Agreement

Pursuant to the steam purchase agreement entered into by Sanjiang Haojia with Jiahua Energy Chemical Co on 12 November 2020, Jiahua Energy Chemical Co has agreed to supply low pressure steam (i.e. 0.8MPa) to Sanjiang Haojia for a term of three years ending 31 December 2023. Relevant details of the agreement and the transaction contemplated thereunder are set out in the announcement dated 12 November 2020.

5. Xing Xing Steam Purchase Agreement

Pursuant to the desalinated water and miscellaneous materials supply agreements entered into by Xing Xing with Jiahua Energy Chemical Co on 12 November 2020, Jiahua Energy Chemical Co has agreed to supply steam to Xing Xing at a price which is the weighted average of those obtained by Jiahua Energy Chemical Co. from its independent purchasers for the relevant product of comparable quality and steam pressure during the same month of supply. Relevant details of the agreement and the transaction contemplated thereunder are set out in the announcement dated 12 November 2020.

6. Rewang Low Pressure Steam Supply Agreement

Pursuant to the renewed Rewang low pressure steam supply agreement entered into by Sanjiang Chemical and Sanjiang New Material together with Jiaying Xinggang Rewang Co., Ltd.* (嘉興興港熱網有限公司) (“**Rewang**”) on 1 February 2019, Rewang agreed to supply low pressure steam to Sanjiang Chemical and Sanjiang New Material at market price for an aggregate term commencing from 1 February 2019 and expiring on 31 December 2021. Relevant details of the agreements and the transactions contemplated thereunder are set out in the announcement dated 1 February 2019.

7. Condensate Water Purchase Agreement

Pursuant to the condensate water purchase agreement entered into by each of Xing Xing and Sanjiang Chemical with Jiahua Energy Chemical Co on 11 December 2020, each of Xing Xing and Sanjiang Chemical agreed to supply condensate water to Jiahua Energy Chemical Co at a price which is the weighted average of those obtained by Jiahua Energy Chemical Co. from its independent suppliers for the relevant product of comparable quality during the same month of supply. Relevant details of the agreements and the transactions contemplated thereunder are set out in the announcement dated 11 December 2020.

8. Sanjiang Chemical Port Loading and Service Agreement

Pursuant to the port loading and service agreement entered into by Sanjiang Chemical with Zhejiang Zhapu Mei Fu Port & Storage Co. Ltd (浙江乍浦美福碼頭倉儲有限公司*) (“**Mei Fu Port**”), a wholly-owned subsidiary of Jiahua Energy Chemical Co., Ltd., on 12 November 2020, Mei Fu Port agreed to provide port loading, unloading and storage service to Sanjiang Chemical at market price to be calculated by multiplying the tonnage of goods to be loaded, unloaded, stored and handled at a range between RMB25 per tonne and RMB80 per tonne, depending on the type of goods and level of usage, which is in turn determined taking into account the cost of provision of such Port and Storage Services, including port unloading/loading fees, storage fees, customs reporting and inspection fees, and land transport fees, on the basis of the prevailing market rate and after arm’s length negotiation among the parties concerned. Relevant details of the agreements and the transactions contemplated thereunder are set out in the announcement dated 12 November 2020.

9. Sanjiang New Material Port Loading and Service Agreement

Pursuant to the port loading and service agreement entered into by Sanjiang New Material with Mei Fu Port on 12 November 2020, Mei Fu Port agreed to provide port loading, unloading and storage service to Sanjiang New Material at market price to be calculated by multiplying the tonnage of goods to be loaded, unloaded, stored and handled at a range between RMB50 per tonne and RMB80 per tonne, depending on the type of goods and level of usage, which is in turn determined taking into account the cost of provision of such Port and Storage Services, including port unloading/loading fees, storage fees, customs reporting and inspection fees, and land transport fees, on the basis of the prevailing market rate and after arm’s length negotiation among the parties concerned. Relevant details of the agreements and the transactions contemplated thereunder are set out in the announcement dated 12 November 2020.

10. Xing Xing Port Loading and Service Agreement

Pursuant to the port loading and service agreement entered into by Xing Xing with Mei Fu Port on 12 November 2020, Mei Fu Port agreed to provide port loading, unloading and storage service to Xing Xing at market price to be calculated by multiplying the tonnage of goods to be loaded, unloaded, stored and handled at a range between RMB30 per tonne and RMB80 per tonne, depending on the type of goods and level of usage, which is in turn determined taking into account the cost of provision of such Port and Storage Services, including port unloading/loading fees, storage fees, customs reporting and inspection fees, and land transport fees, on the basis of the prevailing market rate and after arm's length negotiation among the parties concerned. Relevant details of the agreements and the transactions contemplated thereunder are set out in the announcement dated 12 November 2020.

11. Sanjiang Haojia Port Loading and Service Agreement

Pursuant to the port loading and service agreement entered into by Sanjiang Haojia with Mei Fu Port on 12 November 2020, Mei Fu Port agreed to provide port loading, unloading and storage service to Sanjiang Haojia at market price to be calculated by multiplying the tonnage of goods to be loaded, unloaded, stored and handled at a range between RMB30 per tonne and RMB80 per tonne, depending on the type of goods and level of usage, which is in turn determined taking into account the cost of provision of such Port and Storage Services, including port unloading/loading fees, storage fees, customs reporting and inspection fees, and land transport fees, on the basis of the prevailing market rate and after arm's length negotiation among the parties concerned. Relevant details of the agreements and the transactions contemplated thereunder are set out in the announcement dated 12 November 2020.

12. Sanjiang Chemical and Jiahua Energy Storage Services Agreement

Pursuant to the Sanjiang Chemical and Jiahua Energy Storage Services Agreement, Jiahua Energy Chemical Co. has agreed to provide the Port and Storage Services to Sanjiang Chemical for a period of three years ending 31 December 2023. Pursuant to the Sanjiang Chemical and Jiahua Energy Storage Services Agreement, the consideration for the Port and Storage Services shall be calculated by multiplying the tonnage of goods to, for this agreement purpose, be stored and handled at a range between RMB150 per tonne and RMB250 per tonne, depending on the type of goods and level of usage and type of chemical stored, which is in turn determined taking into account the cost of provision of such Port and Storage Services, including, for this agreement purpose, the storage fees and land transport fees, on the basis of the prevailing market rate and after arm's length negotiation among the parties concerned. Relevant details of the agreements and the transactions contemplated thereunder are set out in the announcement dated 12 November 2020.

13. Fatty Alcohol Supply Agreement

Pursuant to the fatty alcohol supply agreement entered into by Sanjiang Chemical with Jiahua Energy Chemical Co on 11 December 2020, Jiahua Energy Chemical Co agreed to supply fatty alcohol to Sanjiang Chemical on an ongoing basis at market price to be calculated with reference to the weighted average price of the fatty alcohol purchased by Jiahua Energy Chemical Co.'s independent customers with comparable purchase level of Sanjiang Chemical during the same month of supply taking into account the additional transportation costs of RMB10 per tonne in the case for pipeline customers. Relevant details of the agreements and the transactions contemplated thereunder are set out in the announcement dated 11 December 2020.

14. Sanjiang Chemical Ethylene Storage Service Agreement

Pursuant to the Sanjiang Chemical Ethylene Storage Service Agreement entered into by Sanjiang Chemical with Jiahua Energy Chemical Co on 11 December 2020, Sanjiang Chemical has agreed to provide ethylene storage services to Jiahua Energy Chemical Co. for the three years ending 31 December 2023. The consideration for the provision of ethylene storage services by Sanjiang Chemical shall be calculated by multiplying the tonnage of goods to be stored and handled at a range between RMB200 per tonne and RMB300 per tonne, which is in turn determined by taking into account the weighted average of unit storage fee offered by Sanjiang Chemical to its independent customers for the relevant service of comparable quality during the same month of supply and after arm's length negotiation among the parties concerned based on the prevailing market rate. Relevant details of the agreements and the transactions contemplated thereunder are set out in the announcement dated 11 December 2020.

15. Sanjiang Chemical Ethylene Sales Agreement

Pursuant to the Sanjiang Chemical Ethylene Sales Agreement entered into by Sanjiang Chemical with Jiahua Energy Chemical Co on 12 November 2020, Sanjiang Chemical has agreed to supply ethylene to Jiahua Energy Chemical Co. for a period of three years ending 31 December 2023. Pursuant to the Sanjiang Chemical Ethylene Sales Agreement, the selling price for ethylene shall be at a price which is the weighted average of those offered by Sanjiang Chemical to its independent customers for the relevant product of comparable quality during the same month of supply. Relevant details of the agreements and the transactions contemplated thereunder are set out in the announcement dated 12 November 2020.

16. Mei Fu Petrochemical Renewed Loan Agreement

Pursuant to the 2nd Supplemental LG Agreement entered into by the Company with Mei Fu Petrochemical on 12 September 2019, the Company agreed to continue to provide the Loan to Mei Fu Petrochemical for a term of three years from 30 November 2019 to 29 November 2022. Relevant details of the agreement and the transaction contemplated thereunder are set out in the circular dated 30 October 2019.

17. Management Agreement

Pursuant to the management agreement entered into between the Company, Capitol International (a wholly-owned subsidiary of the Company) and Grand Novel Developments Limited ("**Grand Novel**") on 11 December 2020, Grand Novel agreed to act as a manager of the Company for a term commencing from 11 December 2020 and expiring on 30 November 2023. Relevant details of the agreement and the transaction contemplated thereunder are set out in the announcement dated 11 December 2020.

18. Framework Agreement

Pursuant to the framework agreement entered into between the Company and Jiaying Gangqu Gangan Industrial Equipment Installing Co., Ltd ("**Gangan Industrial**") on 3 August 2020, Gangan Industrial agreed to provide repair and maintenance services in respect of chemical plant and machineries for the Group for a term commencing from 3 August 2020 and expiring on 31 December 2022. Relevant details of the agreement and the transaction contemplated thereunder are set out in the announcements dated 3 August 2020 and 30 November 2020.

19. Sanjiang Oxygen And Miscellaneous Supply Agreement

Pursuant to the supply agreement entered into by Sanjiang Chemical with Jiahua Energy Chemical Co on 11 December 2020, Sanjiang Chemical has agreed to supply oxygen gas and nitrogen gas together with other miscellaneous materials to Jiahua Energy Chemical Co. for the three years ending 31 December 2023. Pursuant to the Sanjiang Chemical Gas and Miscellaneous Materials Sales Agreement, the purchase price for oxygen gas and nitrogen gas together with other miscellaneous materials shall be at a price which is the weighted average of those obtained by Jiahua Energy Chemical Co. from its independent suppliers for the relevant product of comparable quality during the same month of supply. The relevant purchase price shall be tallied on the end of each calendar month, and shall be payable on or before the end of the following months. Relevant details of the agreement and the transaction contemplated thereunder are set out in the announcement dated 11 December 2020.

20. Xing Xing Energy Management Agreement

Pursuant to the energy management agreement entered into by Xing Xing with Jiahua Energy Chemical Co on 28 December 2021, Jiahua Energy Chemical Co. has agreed to modify the drive motors of the circulation pumps of Xing Xing from using electricity-driven basis to steam-driven basis and Jiahua Energy Chemical Co. has also agreed to provide the necessary steam that would be used in those modified drive motors of the circulation pumps and in return, Xing Xing has agreed to supply condensate water (i.e. condensate water is generated during the course of steam usage) to Jiahua Energy Chemical Co. and Xing Xing has also agreed to pay Jiahua Energy Chemical Co. the energy saving costs on an agreed profit sharing basis. Relevant details of the agreement and the transaction contemplated thereunder are set out in the announcement dated 28 December 2021.

21. Sanjiang New Material Energy Management Agreement

Pursuant to the energy management agreement entered into by Sanjiang New Material with Jiahua Energy Chemical Co on 28 December 2021, Jiahua Energy Chemical Co. has agreed to modify the drive motors of the circulation pumps of Sanjiang New Material from using electricity-driven basis to steam-driven basis and Jiahua Energy Chemical Co. has also agreed to provide the necessary steam that would be used in those modified drive motors of the circulation pumps and in return, Sanjiang New Material has agreed to supply condensate water (i.e. condensate water is generated during the course of steam usage) to Jiahua Energy Chemical Co. and Sanjiang New Material has also agreed to pay Jiahua Energy Chemical Co. the energy saving costs on an agreed profit sharing basis. Relevant details of the agreement and the transaction contemplated thereunder are set out in the announcement dated 28 December 2021.

22. Sanjiang Chemical Energy Management Agreement

Pursuant to the energy management agreement entered into by Sanjiang Chemical with Zhejiang Haoxing Energy Conservation Technology Co. Ltd.* (浙江浩星節能科技有限公司) (“**Haoxing Energy Conservation**”), a company established on the PRC with limited liability on 12 August 2011, on 15 May 2020, Haoxing Energy Conservation has agreed to modify the drive motors of the circulation pumps of Sanjiang Chemical by using/ installing the technology and equipments developed by Haoxing Energy Conservation to increase the efficiency and output of the drive motors of the circulation pumps of Sanjiang Chemical for each unit of electricity consumed which enables Sanjiang Chemical to save electricity costs and in return, Sanjiang Chemical has agreed to pay Haoxing Energy Conservation the energy saving costs at an annual cap not exceeding RMB3.0 million (on an agreed profit sharing basis which is fixed at 40: 60 for Sanjiang Chemical and Haoxing Energy Conservation respectively), for a term from 15 May 2020 to 31 December 2022. Relevant details of the agreement and the transaction contemplated thereunder are set out in the announcement dated 15 May 2020.

Haoxing Energy Conservation is owned as to approximately 55.5% by Mr. Guan, a controlling shareholder of the Company. Haoxing Energy Conservation is an associate of Mr. Guan and is thus a connected person of our Company under Rule 14A.11(4) of the Listing Rules.

23. Sanjiang Haojia Energy Management Agreement

Pursuant to the energy management agreement entered into by Sanjiang Haojia High Polymer Material Technology Co., Ltd.* (三江浩嘉高分子材料科技有限公司) (“**Sanjiang Haojia**”) with Haoxing Energy Conservation on 15 May 2020, Haoxing Energy Conservation has agreed to modify the drive motors of the circulation pumps of Sanjiang Haojia by using/installing the technology and equipments developed by Haoxing Energy Conservation to increase the efficiency and output of the drive motors of the circulation pumps of Sanjiang Haojia for each unit of electricity consumed which enables Sanjiang Haojia to save electricity costs and in return, Sanjiang Haojia has agreed to pay Haoxing Energy Conservation the energy saving costs at an annual cap not exceeding RMB2.0 million (on an agreed profit sharing basis which is fixed at 40: 60 for Sanjiang Haojia and Haoxing Energy Conservation respectively), for a term from 15 May 2020 to 31 December 2022. Relevant details of the agreement and the transaction contemplated thereunder are set out in the announcement dated 15 May 2020.

Sanjiang Haojia, a company established in the PRC with limited liability on 28 December 2018, is an indirect wholly-owned subsidiary of the Company.

24. Xing Xing and Haoxing Energy Management Agreement

Pursuant to the energy management agreement entered into by Xing Xing with Haoxing Energy Conservation on 15 May 2020, Haoxing Energy Conservation has agreed to modify the drive motors of the circulation pumps of Xing Xing by using/installing the technology and equipments developed by Haoxing Energy Conservation to increase the efficiency and output of the drive motors of the circulation pumps of Xing Xing for each unit of electricity consumed which enables Xing Xing to save electricity costs and in return, Xing Xing has agreed to pay Haoxing Energy Conservation the energy saving costs at an annual cap not exceeding RMB3.0 million (on an agreed profit sharing basis which is fixed at 48: 52 for Xing Xing and Haoxing Energy Conservation respectively), for a term from 15 May 2020 to 31 December 2022. Relevant details of the agreement and the transaction contemplated thereunder are set out in the announcement dated 15 May 2020.

25. Sanjiang Chemical Nitrogen Gas Sales Agreement

On 28 December 2020, Sanjiang Chemical and Jiahua New Material entered into the Sanjiang Chemical Nitrogen Gas Sales Agreement pursuant to which, Sanjiang Chemical has agreed to supply nitrogen gas to Jiahua New Material for a period of one year ending on 31 December 2021 at an annual cap not exceeding RMB1,900,000. Pursuant to the Sanjiang Chemical Nitrogen Gas Sales Agreement, the purchase price for nitrogen gas shall be at a price which is the weighted average of those obtained by Jiahua New Material from its independent suppliers for the relevant product of comparable quality and volume during the same month of supply. The relevant purchase price shall be tallied on the end of each calendar month, and shall be payable on or before the end of the following months. Relevant details of the agreement and the transaction contemplated thereunder are set out in the announcement dated 28 December 2020.

26. Hydrogen Gas And Other Miscellaneous Materials Framework agreement

On 28 December 2020, the Company entered into the Framework Agreement with Mei Fu Petrochemical pursuant to which, Mei Fu Petrochemical has agreed to supply hydrogen gas and other miscellaneous materials to the Company for a term of three years ending on 31 December 2023 with a consideration net exceeding RMB10 million on an annual basis. Pursuant to the Framework Agreement, the purchase price for hydrogen gas and other miscellaneous materials shall be the weighted average price of hydrogen gas and other miscellaneous materials of comparable quality purchased by Mei Fu Petrochemical's independent customers with comparable purchase level of the Company during the same month of supply. The purchase price payable by the Company in respect of the purchases under the Framework Agreement shall be tallied at the end of each calendar month, and shall be payable by the Company on or before the end of the following month. Relevant details of the agreement and the transaction contemplated thereunder are set out in the announcement dated 28 December 2020.

Report of the Directors

The actual amount of the transactions and approved annual caps for the above mentioned continuing connected transactions during the year ended 31 December 2021 are as follows:

Nature of transaction	Actual transaction amount RMB	Annual Cap amount RMB	Annual Cap period
1. Sanjiang, Sanjiang New Material and Xing Xing Water and Miscellaneous Materials Supply Agreement	20,016,000	44,300,000	2021/01/01–2021/12/31
2. Sanjiang Steam Purchase Agreement	165,384,000	297,700,000	2021/01/01–2021/12/31
3. Sanjiang New Material Steam Purchase Agreement	97,924,000	120,000,000	2021/01/01–2021/12/31
4. Sanjiang Haojia Steam Purchase Agreement	3,293,000	6,300,000	2021/01/01–2021/12/31
5. Xing Xing Steam Purchase Agreement	210,613,000	223,400,000	2021/01/01–2021/12/31
6. Rewang Low Pressure Steam Supply Agreement	20,314,000	25,900,000	2021/02/01–2021/12/31
7. Condensate Water Purchase Agreement	3,972,000	11,000,000	2021/01/01–2021/12/31
8. Sanjiang Chemical Port Loading and Service Agreement	6,922,000	77,100,000	2021/01/01–2021/12/31
9. Sanjiang New Material Port Loading and Service Agreement	2,292,000	8,400,000	2021/01/01–2021/12/31
10. Xing Xing Port Loading and Service Agreement	63,940,000	84,400,000	2021/01/01–2021/12/31
11. Sanjiang Haojia Port Loading and Service Agreement	1,291,000	5,600,000	2021/01/01–2021/12/31
12. Sanjiang Chemical and Jiahua Energy Storage Services Agreement	—	80,000,000	2021/01/01–2021/12/31
13. Fatty Alcohol Supply Agreement	—	120,000,000	2021/01/01–2021/12/31
14. Sanjiang Chemical Ethylene Storage Service Agreement	24,541,000	28,900,000	2021/01/01–2021/12/31
15. Sanjiang Chemical Ethylene Sale Agreement	—	106,000,000	2021/01/01–2021/12/31
16. Mei Fu Petrochemical Renewed Loan Agreement	760,857,000	770,000,000	2021/01/01–2021/12/31
17. Management Agreement	15,977,000	70,000,000	2020/12/11–2021/11/30
17. Management Agreement	Cap period not yet finished	70,000,000	2021/12/01–2022/11/30
18. Framework Agreement	19,977,000	40,000,000	2021/01/01–2021/12/31
19. Sanjiang Oxygen and Miscellaneous Supply Agreement	24,743,000	30,000,000	2021/01/01–2021/12/31
20. Xing Xing Energy Management Agreement	6,541,000	13,000,000	2021/01/01–2021/12/31
21. Sanjiang New Material Energy Management Agreement	7,759,000	25,000,000	2021/01/01–2021/12/31
22. Sanjiang Chemical Energy Management Agreement	1,514,000	3,000,000	2021/01/01–2021/12/31
23. Sanjiang Haojia Energy Management Agreement	1,149,000	2,000,000	2021/01/01–2021/12/31

Nature of transaction	Actual transaction amount RMB	Annual Cap amount RMB	Annual Cap period
24. Xing Xing and Haoxing Energy Management	583,000	3,000,000	2021/01/01–2021/12/31
25. Sanjiang Chemical Nitrogen Gas Sales Agreement	1,888,000	1,900,000	2021/01/01–2021/12/31
26. Hydrogen Gas And Other Miscellaneous Materials Framework Agreement	2,913,000	10,000,000	2021/01/01–2021/12/31
27. Pipeline Network Usage Service Framework Agreement	2,357,000	3,000,000	2021/02/26–2021/12/31

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

- (a) in the ordinary and usual course of business of the Company;
- (b) on normal commercial terms no less favourable to the Company than terms available to or from independent third parties; and
- (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditors of the Company were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and with reference to Practice Note 740 Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules issued by the HKICPA. The auditors of the Company have issued their qualified letter containing their findings and conclusion in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.38 of listing rules before bulk print date of annual report. The annual cap period of certain continuing connected transactions did not fall in the same period as the Company's financial year end date of 31 December ("**Transactions with Non-aligned Cap Periods**"). The qualification in the auditors' letter was in respect of the comparison of those Transactions with Non-aligned Cap Periods that continue after 31 December 2021 with their respective annual caps corresponding to annual cap periods ending after 31 December 2021.

For the purpose of drawing a conclusion on whether the Transactions with Non-aligned Cap Periods have exceeded the annual caps, the auditors of the Company could only perform procedures on those Transactions with Non-aligned Cap Periods that did not continue after 31 December 2021 with the respective annual cap periods ended before 31 December 2021. For those Transactions with Non-aligned Cap Periods that continue after 31 December 2021, the auditors were unable to conduct a meaningful comparison between such transactions and their respective annual caps corresponding to annual cap periods ending after 31 December 2021.

In respect of the Group's disclosed continuing connected transactions, the auditors of the Company confirmed that:

- a. nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have not been approved by the Company's board of directors.

Report of the Directors

- b. for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group.
- c. nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions.
- d. with respect to the aggregate amount of each of the continuing connected transactions, based on the procedures performed and the evidence obtained by them, except for the Transactions with Non-aligned Cap Periods that continue after 31 December 2021, nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have exceeded the annual cap as set by the Company.

The independent non-executive directors of the Company have reviewed the relevant continuing connected transactions and confirmed that the transaction amounts during annual cap periods ended in 2021 had not exceeded the respective annual caps.

The directors of the Company will not implement procedures to align all annual cap periods with the Company's financial year as the directors of the Company consider that the Listing Rules do not explicitly require any alignment of annual cap periods with the Company's financial year.

The following related party transaction entered into during the year ended 31 December 2021 constitutes connected transactions for the Company under the Listing Rules and are required to be disclosed in this annual report in accordance with Chapter 14A of the Listing Rules:

1. Land Use Right Transfer Agreement

On 20 January 2021, Sanjiang Chemical (an indirectly wholly-owned subsidiary of the Company) entered into the Land Use Right Transfer Agreement with Mei Fu Petrochemical pursuant to which, Mei Fu Petrochemical has agreed to transfer one land parcel (the "**Subject Land**") at a consideration of RMB44,000,000 to Sanjiang Chemical. Relevant details of the agreement and the transaction contemplated thereunder are set out in the announcement dated 20 January 2021.

The Company confirms that the related party transactions as disclosed in pages 131 to 136 of the Annual Report have complied with Rule 14A.72 such that the connected transactions and/or continuing connected transactions which did not fall under the de minimis transactions exemption were all stated and listed out in pages 36 to 43 of the Annual Report. Those connected transactions and/or continuing connected transactions which did fall under the de minimis transactions exemption were, on the other hand, fully exempt under Rule 14A.76 of the Listing Rules.

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

SUFFICIENCY OF PUBLIC FLOAT

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

RETIREMENT AND PENSION SCHEMES

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

CONFIRMATION OF INDEPENDENCE

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

PERMITTED INDEMNITY PROVISIONS

During the year ended 31 December 2021, the Company has purchased liability insurance for all directors to minimise their risks arising from the performance of their duties. The permitted indemnity provisions are provided in such directors liability insurance in respect of potential liability and costs associated with legal proceedings that may be brought against such directors.

AUDITORS

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

By order of the Board

HAN Jianhong

Chairlady

People's Republic of China, 28 March 2022

Independent Auditor's Report



Independent auditor's report

To the shareholders of China Sanjiang Fine Chemicals Company Limited

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China Sanjiang Fine Chemicals Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 50 to 152, which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

KEY AUDIT MATTERS (continued)**Key audit matter****How our audit addressed the key audit matter***Impairment of long-lived assets*

The carrying amount of the net assets of the Group was higher than the market capitalisation of the Company as at 31 December 2021, which represented an indication of impairment of long-lived assets. For this reason, the Group performed an impairment test of the various cash-generating units ("CGUs"). The impairment test was significant to our audit, since the estimation process was complex and subjective and based on assumptions. The assumptions included expectations for sales, unit selling prices of products, unit purchase prices of raw materials, budgeted gross margins and the growth rate and overall market and economic conditions.

The Group's disclosures about impairment of assets are included in notes 2.4 and 3, which explain the accounting policies and management's accounting estimates. The Group's disclosures about long-lived assets are included in notes 12, 13, 14(a), 15 and 16.

We evaluated management's assessment of impairment indications and management's definition of CGUs within the Group. We reviewed and tested management's future forecasted cash flows and key assumptions by comparing to the Group's development plan and external forecasts and analysis on the industry. We also performed sensitivity analysis on the forecasts and assessed the status of significant commercial contracts under negotiation. We involved our valuation specialist to assist us in evaluating the key valuation parameters such as the discount rates, the terminal growth rates and the valuation model used in the forecasted cash flows.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

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

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is SIU FUNG TERENCE HO.

Certified Public Accountants
Hong Kong
28 March 2022

Consolidated Statement of Profit or Loss

Year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
REVENUE	5	9,498,708	8,322,716
Cost of sales		(8,846,123)	(6,723,538)
Gross profit		652,585	1,599,178
Other income and gains	5	678,413	431,694
Selling and distribution expenses		(12,410)	(25,330)
Administrative expenses		(270,548)	(394,187)
Impairment losses on financial assets, net	7	754	2,768
Other expenses, net	5	(475,280)	(112,055)
Finance costs	6	(131,332)	(110,019)
PROFIT BEFORE TAX	7	442,182	1,392,049
Income tax expense	10	(66,029)	(177,852)
PROFIT FOR THE YEAR		376,153	1,214,197
Attributable to:			
Owners of the parent		380,611	1,122,931
Non-controlling interests		(4,458)	91,266
		376,153	1,214,197
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	11		
Basic and diluted		RMB32.36 fen	RMB95.10 fen

Consolidated Statement of Comprehensive Income

Year ended 31 December 2021

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

Consolidated Statement of Financial Position

31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	6,718,898	4,998,987
Investment properties	13	84,890	—
Right-of-use assets	14(a)	709,690	440,670
Goodwill	15	108,434	—
Other intangible assets	16	94,294	117,589
Advance payments for property, plant and equipment		1,693,304	1,360,815
Equity investments designated at fair value through other comprehensive income	18	3,409	3,347
Due from a related party	37(c)	—	590,948
Pledged deposits	22	1,336,375	560,000
Deferred tax assets	27	11,346	7,241
Total non-current assets		10,760,640	8,079,597
CURRENT ASSETS			
Inventories	19	1,060,297	948,500
Trade and notes receivables	20	345,690	249,056
Prepayments, other receivables and other assets	21	280,630	252,950
Due from related parties	37(c)	281,881	4,190
Derivative financial instruments	25	10,838	—
Financial assets at fair value through profit or loss	17	258,117	501,177
Pledged deposits	22	686,446	207,338
Cash and cash equivalents	22	593,708	775,849
Total current assets		3,517,607	2,939,060
CURRENT LIABILITIES			
Trade and bills payables	23	2,041,706	961,017
Other payables and accruals	24	861,885	798,757
Derivative financial instruments	25	2,424	8,378
Financial liabilities at fair value through profit or loss	17	157,958	—
Interest-bearing bank borrowings	26	4,308,548	3,035,889
Lease liabilities	14(b)	4,240	2,104
Due to related parties	37(c)	63,242	67,203
Tax payable		99,111	150,107
Total current liabilities		7,539,114	5,023,455
NET CURRENT LIABILITIES	2.1	(4,021,507)	(2,084,395)

Consolidated Statement of Financial Position

31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		6,739,133	5,995,202
NON-CURRENT LIABILITIES			
Lease liabilities	14(b)	18,910	14,143
Deferred tax liabilities	27	38,657	27,368
Interest-bearing bank borrowings	26	1,941,000	1,162,000
Total non-current liabilities		1,998,567	1,203,511
Net assets		4,740,566	4,791,691
EQUITY			
Equity attributable to owners of the parent			
Issued capital	28	102,662	102,662
Reserves	30	4,563,358	4,610,025
Non-controlling interests		4,666,020	4,712,687
		74,546	79,004
Total equity		4,740,566	4,791,691

Han Jianhong
Director

Rao Huotao
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2021

	Attributable to owners of the parent														Total equity
	Issued capital	Share premium*	Capital redemption reserve*	Shares repurchased for share award plan*	Merger reserve*	Fair value reverse of financial assets at fair value through other comprehensive income*	Statutory surplus reserve*	Share award plan reserve*	Safety production reserve*	Retained profits*	Special reserve*	Total	Non-controlling interests		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 1 January 2020															
As previously stated	102,662	1,352,311	2,371	(13,891)	(627,092)	3,177	564,210	—	38,637	2,589,442	(10,688)	4,001,139	17,263	4,018,402	
Effect of business combination under a common control (note 2.1)	—	—	—	—	50,000	—	—	—	—	(14,467)	—	35,533	2,200	37,733	
As restated	102,662	1,352,311	2,371	(13,891)	(577,092)	3,177	564,210	—	38,637	2,574,975	(10,688)	4,036,672	19,463	4,056,135	
Profit for the year	—	—	—	—	—	—	—	—	—	1,122,931	—	1,122,931	91,266	1,214,197	
Other comprehensive income for the year:															
Changes in fair value of equity investments at fair value through other comprehensive income	—	—	—	—	—	(830)	—	—	—	—	—	(830)	—	(830)	
Total comprehensive income for the year	—	—	—	—	—	(830)	—	—	—	1,122,931	—	1,122,101	91,266	1,213,367	
Repurchase of shares for the share award	—	—	—	(19,173)	—	—	—	—	—	—	—	(19,173)	—	(19,173)	
Offset with dividends	—	—	—	1,360	—	—	—	—	—	—	—	1,360	—	1,360	
Appropriation to statutory surplus reserve	—	—	—	—	—	—	107,728	—	—	(107,728)	—	—	—	—	
Appropriation to safety production reserve	—	—	—	—	—	—	—	—	46,138	(46,138)	—	—	—	—	
Safety production reserve used	—	—	—	—	—	—	—	—	(31,502)	31,502	—	—	—	—	
Final 2019 dividend declared	—	—	—	—	—	—	—	—	—	(218,508)	—	(218,508)	—	(218,508)	
Interim 2020 dividend	—	—	—	—	—	—	—	—	—	(132,090)	—	(132,090)	—	(132,090)	
Dividends paid by a subsidiary to a then shareholder	—	—	—	—	—	—	—	—	—	—	—	—	(200)	(200)	
Capital contribution by a then shareholder of a subsidiary	—	—	—	—	—	—	—	—	—	—	15,000	15,000	—	15,000	
Reduction of capital from a then shareholder of a subsidiary	—	—	—	—	(40,000)	—	—	—	—	—	—	(40,000)	—	(40,000)	
Business combination under common control (note 2.1)	—	—	—	—	(10,000)	—	—	—	—	—	—	(10,000)	—	(10,000)	
Acquisition of non-controlling interests	—	—	—	—	—	—	—	—	—	—	(42,675)	(42,675)	(31,525)	(74,200)	
At 31 December 2020	102,662	1,352,311	2,371	(31,704)	(627,092)	2,347	671,938	—	53,273	3,224,944	(38,363)	4,712,687	79,004	4,791,691	

Consolidated Statement of Changes in Equity

Year ended 31 December 2021

	Attributable to owners of the parent														Total equity RMB'000
	Issued capital RMB'000	Share premium* RMB'000	Capital redemption reserve* RMB'000	Shares repurchased for share award plan* RMB'000	Merger reserve* RMB'000	Fair value reverse of financial assets at fair value through other comprehensive income* RMB'000	Statutory surplus reserve* RMB'000	Share award plan reserve* RMB'000	Safety production reserve* RMB'000	Retained profits* RMB'000	Special reserve* RMB'000	Total RMB'000	Non-controlling interests RMB'000		
At 31 December 2020	102,662	1,352,311	2,371	(31,704)	(627,092)	2,347	671,938	—	53,273	3,224,944	(38,363)	4,712,687	79,004	4,791,691	
Profit for the year	—	—	—	—	—	—	—	—	—	380,611	—	380,611	(4,458)	376,153	
Other comprehensive income for the year:															
Changes in fair value of equity investments at fair value through other comprehensive income	—	—	—	—	—	62	—	—	—	—	—	62	—	62	
Total comprehensive income for the year	—	—	—	—	—	62	—	—	—	380,611	—	380,673	(4,458)	376,215	
Repurchase of shares for the share award	—	—	—	(9,954)	—	—	—	—	—	—	—	(9,954)	—	(9,954)	
Offset with dividends	—	—	—	3,476	—	—	—	—	—	—	—	3,476	—	3,476	
Appropriation to statutory surplus reserve	—	—	—	—	—	—	35,740	—	—	(35,740)	—	—	—	—	
Appropriation to safety production reserve	—	—	—	—	—	—	—	—	50,610	(50,610)	—	—	—	—	
Safety production reserve used	—	—	—	—	—	—	—	—	(42,151)	42,151	—	—	—	—	
Final 2020 dividend declared	—	—	—	—	—	—	—	—	—	(297,403)	—	(297,403)	—	(297,403)	
Interim 2021 dividend	—	—	—	—	—	—	—	—	—	(123,459)	—	(123,459)	—	(123,459)	
At 31 December 2021	102,662	1,352,311	2,371	(38,182)	(627,092)	2,409	707,678	—	61,732	3,140,494	(38,363)	4,666,020	74,546	4,740,566	

* These reserve accounts comprise the consolidated reserves of RMB4,563,358,000 (2020: RMB4,610,025,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		442,182	1,392,049
Adjustments for:			
Finance costs	6	131,332	110,019
Bank interest income	5	(65,193)	(73,669)
Interest income from a third party	5	—	(7,000)
Dividend income from an equity investment at fair value through other comprehensive income	5	—	(233)
Investment income from financial assets at fair value through profit or loss	5	(3,349)	(23,935)
Investment (income)/loss from derivative financial instruments	5	(35,162)	42,816
Fair value (gains)/loss, net:			
Derivative instruments	5	(11,015)	7,487
Financial assets at fair value through profit or loss	5	(1,819)	(6,716)
Interest income from related parties	5	(8,979)	(51,073)
Foreign exchange differences, net		3,752	497
Depreciation of property, plant and equipment	12	466,279	537,673
Depreciation of investment properties	13	460	—
Depreciation of right-of-use assets	14	17,227	12,205
Loss on disposal of items of property, plant and equipment	7	—	323
Amortisation of other intangible assets	16	27,013	30,063
Reversal of impairment of trade receivables	7	(754)	(633)
Reversal of impairment of financial assets included in prepayments, other receivables and other assets	7	—	(2,135)
		961,974	1,967,738
Increase in inventories		(111,797)	(69,826)
(Increase)/decrease in trade and notes receivables		(95,880)	301,878
Increase in prepayments, other receivables and other assets		(50,208)	(125,751)
(Increase)/decrease in amounts of due from related parties		(1,521)	4,756
Increase in trade and bills payables		1,080,689	26,723
(Decrease)/increase in other payables and accruals		(24,894)	14,781
Decrease in amounts due to related parties		(3,961)	(284,095)
		1,754,402	1,836,204
Cash generated from operations		1,754,402	1,836,204
Income tax paid		(126,015)	(95,923)
		1,628,387	1,740,281
Net cash flows from operating activities		1,628,387	1,740,281

Consolidated Statement of Cash Flows

Year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(2,462,675)	(1,949,407)
Addition of right-of-use assets		(198,900)	(4,740)
Purchases of intangible assets		(2,159)	(347)
Receipt of government grants for property, plant and equipment		18,000	3,230
Purchase of investment properties		(85,350)	—
Acquisition of a subsidiary	32	(169,102)	—
Advances of loans to a related party		(332,734)	(1,314,554)
Repayment of loans from a related party		640,620	1,017,700
Purchases of financial assets at fair value through profit or loss		(255,628)	(492,371)
Proceeds from disposal of investments at fair value through profit or loss		682,533	728,297
Exercise of options, swaps and forward contracts		(5,777)	108
Repayment of loans from a third party		—	100,000
Dividend income from an equity investment at fair value through other comprehensive income		—	233
Bank interest received		87,721	60,945
Interest received from a related party		15,871	47,670
Interest received from a third party		—	7,000
Decrease in time deposits with original maturity of over three months		—	215,145
(Increase)/decrease in pledged time deposits		(1,255,483)	552,814
Investment income/(loss) from sales of derivative financial instruments		35,162	(42,816)
Net cash flows used in investing activities		(3,287,901)	(1,071,093)

Consolidated Statement of Cash Flows

Year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Acquisition of non-controlling interests		—	(74,200)
Acquisition of a business combination under common control	37(b)	—	(10,000)
Reduction of capital from a then shareholder of a subsidiary		—	(25,000)
New bank loans		4,523,440	5,141,271
Repayment of bank loans		(2,471,781)	(5,039,050)
Interest paid for bank loans		(138,014)	(106,483)
Interest paid for lease liabilities		(892)	(750)
Repayment of loans from related parties		—	(500)
Principal portion of lease payments		(4,288)	(1,802)
Dividends paid		(417,386)	(349,238)
Dividends paid by a subsidiary to a then shareholder		—	(200)
Repurchase of shares held for the share award plan		(9,954)	(19,173)
Net cash flows from/(used in) financing activities		1,481,125	(485,125)
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		775,849	592,283
Effect of foreign exchange rate changes, net		(3,752)	(497)
CASH AND CASH EQUIVALENTS AT END OF YEAR	22	593,708	775,849
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	22	593,708	775,849

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, Jiaying Port Area, Zhejiang Province, People’s Republic of China (the “PRC”).

During the year, the Company and its subsidiaries (the “Group”) were 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.

Notes to Financial Statements

31 December 2021

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

Name	Place and date of incorporation/ registration and place of operations	Issued ordinary share/ registered share capital	Percentage of equity attributable to the Company	Principal activities
Capitol International Limited ("Capitol International")	Hong Kong 18 July 2003	HK\$1,000,000	100% (direct)	Investment holding
Sanjiang Chemical Co., Ltd. ("Sanjiang Chemical") (note (ii))	The PRC/Mainland China 9 December 2003	US\$526,001,300	100% (indirect)	Manufacture and sale of EO, surfactants, EG, MTBE, polymer grade ethylene, industrial gases, provision of processing services, and lease and storage services
Jiaxing Port Chemical Industry Park Pipe Gallery Co., Ltd. ("Guanlang") (note (i))	The PRC/ Mainland China 29 September 2005	RMB13,000,000	83.85% (indirect)	Construction and management of a pipe network at Jiaxing Port Chemical Industrial Park
Hangzhou Textile Auxiliaries Co., Ltd. ("Hangzhou Sanjiang") (note (i))	The PRC/ Mainland China 1 April 2010	RMB5,000,000	100% (indirect)	Manufacture and sale of alcohol ethoxylate, nonylphenols and textile auxiliaries
Zhejiang Sanjiang Chemical New Material Co., Ltd. ("Sanjiang New Material") (note (i))	The PRC/ Mainland China 23 December 2011	RMB424,573,480	100% (indirect)	Manufacture and sale of EO and EG
Zhejiang Xingxing New Energy Technology Co., Ltd. ("Xingxing New Energy") (note (i))	The PRC/ Mainland China 19 January 2011	RMB800,000,000	87% (indirect)	Manufacture and sale of ethylene and polyethylene
Sanjiang Haojia High Polymer Material Technology Co., Ltd. ("Sanjiang Haojia") (note (ii))	The PRC/ Mainland China 30 December 2018	US\$40,000,000	100% (indirect)	Manufacture and sale of PP
Jiaxing Yixing Chemical Co., Ltd. ("Jiaxing Yixing") (note (i))	The PRC/ Mainland China 30 December 2019	RMB5,000,000	87% (indirect)	Sale of chemicals and equipment rental
Zhejiang Sanjiang Siyi New Material Co., Ltd. ("Siyi") (note (i))	The PRC/ Mainland China 11 November 2020	US\$150,000,000	100% (indirect)	Manufacture and sale of surfactants

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Name	Place and date of incorporation/ registration and place of operations	Issued ordinary share/ registered share capital	Percentage of equity attributable to the Company	Principal activities
Zhejiang Guan Da Asset Management Co., Ltd. ("Guan Da") (note (ii))	The PRC/ Mainland China 20 July 2015	RMB10,000,000	100% (indirect)	Asset management
Hangzhou Guanda Wuyue Investment Co., Ltd. ("Wuyue") (note (i))	The PRC/ Mainland China 11 August 2015	RMB100,000	100% (indirect)	Asset management
Zhejiang Sanjiang Chemical Supply Chain Co., Ltd. ("Supply Chain") (note (ii))	The PRC Mainland China 8 February 2021	US\$40,000,000	100% (indirect)	Sale of chemicals and supply chain management
Zhejiang Zhebei Petrochemical Co., Ltd. ("Zhebei Petrochemical") (note (i))	The PRC Mainland China 29 November 2007	US\$29,800,000	100% (indirect)	Manufacture and sale of fertilisers
Zhejiang Sanjiang Chemical Package Material Co., Ltd. (note (ii))	The PRC Mainland China 26 March 2021	US\$33,350,000	100% (indirect)	Manufacture of plastics
Shanghai Haolei Petrochemical Co., Ltd. (note (i))	The PRC Mainland China 2 February 2021	RMB10,000,000	100% (indirect)	Sale of petroleum and chemical products

Notes:

- (i) These entities are limited liability enterprises established under PRC law.
- (ii) These entities are wholly-foreign-owned enterprises established under PRC law.

2.1 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.

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.

2.1 BASIS OF PRESENTATION AND PREPARATION (continued)

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.

As at 31 December 2021, the Group's total borrowings amounted to RMB4,308,548,000, all of which will be due within twelve months from 31 December 2021. The Group has not experienced any significant difficulties in renewing its short-term borrowings upon their maturities and there is no indication that the banks will not renew the existing borrowings if the Group applies for the renewal. As at the reporting date, the Group had unutilised credit facilities from banks of RMB3,458,120,000 to meet the debt obligations and capital expenditure requirements.

The directors of the Company have reviewed the Group's cash flow forecast prepared by management which covers a period of twelve months from the end of the reporting period. They are of the opinion that, taking into account the above-mentioned measures, the Group will have sufficient working capital to finance its operations and meet its financial obligations as and when they fall due in the foreseeable future.

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2021. A subsidiary is an entity, directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

2.1 BASIS OF PRESENTATION AND PREPARATION (continued)

Basis of consolidation (continued)

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

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 9, HKAS 39,
HKFRS 7, HKFRS 4 and HKFRS 16
Amendment to HKFRS 16

Interest Rate Benchmark Reform – Phase 2

*Covid-19-Related Rent Concessions beyond
30 June 2021 (early adopted)*

The nature and the impact of the revised HKFRSs are described below:

- (a) Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate (“RFR”). The amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy.

The amendments did not have any impact on the financial position and performance of the Group.

- (b) Amendment to HKFRS 16 issued in April 2021 extends the availability of the practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted.

The Group has early adopted the amendment on 1 January 2021 and the amendment did not have any impact on the financial position and performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 3	<i>Reference to the Conceptual Framework</i> ¹
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ³
HKFRS 17	<i>Insurance Contracts</i> ²
Amendments to HKFRS 17	<i>Insurance Contracts</i> ^{2, 5}
Amendments to HKFRS 17	<i>Initial Application of HKFRS 17 and HKFRS 9 – Comparative Information</i> ²
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current</i> ^{2, 4}
Amendments to HKAS 1 and HKFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i> ²
Amendments to HKAS 8	<i>Definition of Accounting Estimates</i> ²
Amendments to HKAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i> ²
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i> ¹
Amendments to HKAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i> ¹
<i>Annual Improvements to HKFRSs 2018–2020</i>	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41 ¹

¹ Effective for annual periods beginning on or after 1 January 2022

² Effective for annual periods beginning on or after 1 January 2023

³ No mandatory effective date yet determined but available for adoption

⁴ As a consequence of the amendments to HKAS 1, Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised in October 2020 to align the corresponding wording with no change in conclusion

⁵ As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

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

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

Amendments to HKFRS 3 are intended to replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from 1 January 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss resulting from a downstream transaction when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

Amendments to HKAS 1 *Classification of Liabilities as Current or Non-current* clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

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

Amendments to HKAS 1 *Disclosure of Accounting Policies* require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to HKFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. Amendments to HKAS 1 are effective for annual periods beginning on or after 1 January 2023 and earlier application is permitted. Since the guidance provided in the amendments to HKFRS Practice Statement 2 is non-mandatory, an effective date for these amendments is not necessary. The Group is currently assessing the impact of the amendments on the Group's accounting policy disclosures.

Amendments to HKAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 12 narrow the scope of the initial recognition exception so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset and a deferred tax liability for temporary differences arising from these transactions. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and shall be applied to transactions related to leases and decommissioning obligations at the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to the opening balance of retained profits or other component of equity as appropriate at that date. In addition, the amendments shall be applied prospectively to transactions other than leases and decommissioning obligations. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

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

Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. Earlier application is permitted. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening equity at the date of initial application without restating the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

Annual Improvements to HKFRSs 2018–2020 sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

- HKFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.
- HKFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Interests in joint operations

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Interests in joint operations (continued)

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

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

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

Business combinations and goodwill

Business combinations not under common control are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

The Group determines that it has acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

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

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its derivative financial instruments, certain equity investments designated at fair value through other comprehensive income, financial assets at fair value through profit or loss and debt instrument at fair value through other comprehensive income at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs. In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset (e.g., a headquarters building) is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of cash-generating units.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

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

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

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

Buildings	5%
Plant and machinery	6%–7%
Office equipment	18%–20%
Motor vehicles	18%–20%

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are interests in land and buildings (including the leasehold property held as a right-of-use asset which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any impairment losses.

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

Commercial properties	3%
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Intangible assets (other than goodwill)

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

Software

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

Technology use rights

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

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Group as a lessee (continued)

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Leasehold land	45–50 years
Pipes	20 years
Offices	3–4 years
Motor vehicles	6 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g. a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

The Group's lease liabilities are presented separately in the statement of financial position.

(c) Short-term leases

The Group applies the short-term lease recognition exemption to its short-term leases of warehouses (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Lease payments on short-term leases are recognised as an expense on a straight-line basis over the lease term.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in other income in the statement of profit or loss due to its non-operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Investments and other financial assets

Initial recognition and measurement

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

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

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

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

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

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

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

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

Financial assets at fair value through profit or loss

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

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

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

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

Derecognition of financial assets

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

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

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

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

Impairment of financial assets

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

General approach

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

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

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

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

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

- Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
- Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
- Stage 3 — Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Simplified approach

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

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in HKFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in the statement of profit or loss, except for the gains or losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Financial liabilities at amortised cost (loans and borrowings)

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

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

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contracts at the higher of: (i) the ECL allowance determined in accordance with the policy as set out in "Impairment of financial assets"; and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as options for silver, forward contracts for silver, options for foreign currency and forward contracts for foreign currency to hedge the commodity price risk and foreign currency risk, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss.

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.
- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.
- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

Treasury shares

Own equity instruments that are reacquired and held by the Company or the Group (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in the statement of profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Inventories

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

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

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

Provisions

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

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

Income tax

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

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

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

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

Government grants

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue from contracts with customers

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

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

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

(a) Sale of industrial products

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

(b) Provision of processing services

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

Revenue from other sources

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

Other income

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contract liabilities (included under other payables and accruals)

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Share-based payments

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

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

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments (continued)

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

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

Other employee benefits

Pension schemes

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

The employees of the Group’s subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute 14% of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as a part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in note 31 to the financial statements.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

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

Judgement

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements:

Joint arrangement — Group as joint operator

The Group determines the joint arrangement of Lotte Sanjiang Chemical Co., Ltd. ("Sanjiang Lotte") to be a joint operation, based on the evaluation of its rights and obligations arising from the arrangement, pursuant to which the Group has the rights to the assets, and obligations for the liabilities.

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (continued)

Estimation uncertainty

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

Provision for expected credit losses on trade receivables

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

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

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 20 to the financial statements.

Impairment of non-financial assets (other than goodwill)

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2021 was RMB108,434,000 (2020: Nil). Further details are given in note 15.

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (continued)

Estimation uncertainty (continued)

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated cost to be incurred to completion and disposal. These estimates are based on the current market condition and the historical experience of selling products of a similar nature. It could change significantly as a result of changes in downstream industries. Any write-down of inventories to net realisable value or reversal of write-down of inventories will impact on the carrying values of the inventories and the expenses of that period. Management reassesses these estimates at the end of each reporting period. The carrying amount of inventories carried at net realisable value as at 31 December 2021 was RMB83,016,000 (2020: RMB5,963,000).

Deferred tax assets

Deferred tax assets are recognised for unused tax losses and other deductible temporary differences to the extent that it is probable that taxable profit will be available against which the tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. The amount of unrecognised tax losses at 31 December 2021 was RMB941,693,000 (2020: RMB682,347,000). The amount of unrecognised deductible temporary differences at 31 December 2021 was RMB42,949,000 (2020: RMB43,999,000). Further details are contained in note 27 to the financial statements.

Income tax

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

Useful lives and residual values of property, plant and equipment

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

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

Notes to Financial Statements

31 December 2021

4. OPERATING SEGMENT INFORMATION

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

Information about products and services

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

	2021 RMB'000	2020 RMB'000
PP	3,831,421	3,320,882
EO	2,561,143	2,661,754
EG	1,016,527	601,503
Surfactants	800,628	783,938
MTBE	484,738	344,146
C4 and crude pentene	326,886	283,809
Liquefied nitrogen, ethylene glycol and others	335,660	179,707
Processing services	65,664	97,775
Propylene	58,113	36,276
Rental income	17,928	12,926
	9,498,708	8,322,716

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.

5. REVENUE, OTHER INCOME AND GAINS AND OTHER EXPENSES

An analysis of revenue is as follows:

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

Revenue from contracts with customers

(a) Disaggregated revenue information

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

Notes to Financial Statements

31 December 2021

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

Revenue from contracts with customers (continued)

(b) Contract liabilities

The Group recognised the following revenue-related contract liabilities:

	2021 RMB'000	2020 RMB'000
Advance from customers for sale of industrial products and processing services*	224,141	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:

	2021 RMB'000	2020 RMB'000
Sale of industrial products and processing services	166,073	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.

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

	Notes	2021 RMB'000	2020 RMB'000
Other income			
Bank interest income		65,193	73,669
Sales of ethylene		35,196	52,454
Interest income from a related party		8,979	51,073
Government subsidies	(a)	14,620	52,027
Investment income from financial assets at fair value through profit or loss		3,349	23,935
Sales of raw materials		419,870	41,808
Compensation income		—	14,616
Utility income		8,287	7,329
Sales of circular water		6,083	4,661
Interest income from a third party		—	7,000
Gross rental income from operating leases:			
Lease payments, including fixed payments		3,630	1,822
Investment income from derivative financial instruments, net		35,162	—
Dividend income from equity investments at fair value through other comprehensive income		—	233
Others		20,400	7,530
		620,769	338,157
Gains			
Fair value gains, net:			
Financial assets at fair value through profit or loss — mandatorily classified as such		1,819	6,716
Fair value gains on derivative financial instruments, net		11,015	—
Foreign exchange gains, net		34,995	80,248
Gain on disposal of silver catalysts	(b)	9,815	6,573
		57,644	93,537
		678,413	431,694
Other expenses, net			
Cost of sales of ethylene		28,815	47,558
Cost of sales of raw materials		427,574	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)	18,066	(30,932)
Investment loss from derivative financial instruments, net		—	42,816
Others		825	4,987
		475,280	112,055

Notes to Financial Statements

31 December 2021

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

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) 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.

6. FINANCE COSTS

An analysis of finance costs is as follows:

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

7. PROFIT BEFORE TAX

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

	Notes	2021 RMB'000	2020 RMB'000
Cost of inventories sold		8,817,924	6,686,041
Cost of services provided		28,199	37,497
Depreciation of property, plant and equipment*	12	466,279	537,673
Depreciation of right-of-use assets	14(a)	17,227	12,205
Amortisation of intangible assets**	16	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 (note 8)): ^{***}			
Wages and salaries		118,716	182,382
Pension scheme contributions ^{****}		5,972	3,676
Staff welfare expenses		11,041	9,038
		135,729	195,096

* 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.

Notes to Financial Statements

31 December 2021

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2021 RMB'000	2020 RMB'000
Fees	294	321
Other emoluments:		
Salaries, allowances and benefits in kind	2,909	2,906
Management fee paid to a related company*	15,977	57,607
Pension scheme contributions	68	86
	18,954	60,599
	19,248	60,920

- * The Company entered into a management agreement with Grand Novel Developments Limited ("Grand Novel"), a company incorporated in the British Virgin Islands and controlled by a director of the Company, Han Jianhong. Pursuant to the management agreement, Grand Novel agreed to act as a manager of the Company and in return, the Company agreed to pay Grand Novel a monthly fee of HK\$100,000 and a management bonus in such sum as the board of directors (the "Board") may in its absolute discretion determine, provided that the maximum aggregate annual value of services to be provided by Grand Novel shall not exceed RMB50,000,000 for the twelve months ended 31 October 2020. On 11 December 2020, the Group announced that the maximum aggregate annual value of services to be provided by Grand Novel shall not exceed RMB70,000,000 for each of the three years ending 30 November 2023.

8. DIRECTORS' REMUNERATION (continued)**(a) Independent non-executive directors**

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

	2021 RMB'000	2020 RMB'000
Shen Kaijun	98	107
Pei Yu	98	107
Kong Liang	98	107
	294	321

There were no other emoluments payable to the independent non-executive directors during the year (2020: Nil).

(b) Executive directors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Management fee paid to a related company RMB'000	Equity-settled share award plan expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2021						
Han Jianhong ⁽¹⁾	—	299	15,977	—	18	16,294
Rao Huotao	—	1,116	—	—	25	1,141
Guan Siyi ⁽²⁾	—	196	—	—	—	196
Chen Xian ⁽²⁾	—	1,298	—	—	25	1,323
	—	2,909	15,977	—	68	18,954
2020						
Guan Jianzhong ⁽³⁾	—	958	19,730	—	10	20,698
Han Jianhong ⁽¹⁾	—	731	37,877	—	51	38,659
Rao Huotao	—	895	—	—	25	920
Han Jianping	—	322	—	—	—	322
	—	2,906	57,607	—	86	60,599

Notes to Financial Statements

31 December 2021

8. DIRECTORS' REMUNERATION (continued)

(b) Executive directors (continued)

Notes:

- (1) Han Jianhong, an executive director, has been appointed as the chairlady of the Board, a member of the remuneration committee, a member and the chairlady of the nomination committee with effect from 18 September 2020.
- (2) Guan Siyi and Chen Xian have been appointed as executive directors from 26 August 2021.
- (3) Guan Jianzhong has resigned as an executive director and the chairman of the Board with effect from 18 September 2020.

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees included two (2020: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2020: three) non-director highest paid employees for the year are as follows:

	2021 RMB'000	2020 RMB'000
Salaries, allowances and benefits in kind	3,184	5,882
Pension scheme contributions	88	75
	3,272	5,957

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

	Number of employees	
	2021	2020
Nil to HK\$1,000,000	2	—
HK\$1,000,001 to HK\$1,500,000	1	1
HK\$1,500,001 to HK\$2,000,000	—	2
	3	3

10. INCOME TAX

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

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

	2021 RMB'000	2020 RMB'000
Current — Mainland China		
Charge for the year	60,593	162,573
Deferred (note 27)	5,436	15,279
Total tax charge for the year	66,029	177,852

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 which 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%).

Notes to Financial Statements

31 December 2021

10. INCOME TAX (continued)

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

	2021 RMB'000	2020 RMB'000
Profit before tax	442,182	1,392,049
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 (note 27)	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	37,360	2,682
Tax charge at the Group's effective rate	66,029	177,852

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares in issue during the year. The number of shares for the current year has been arrived at after eliminating the shares of the Company held under the share award 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 RMB'000	2020 RMB'000
Earnings		
Profit for the year attributable to ordinary equity holders of the parent	380,611	1,122,931

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

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

12. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2021						
At 1 January 2021						
Cost	1,253,966	6,130,263	33,963	14,240	813,049	8,245,481
Accumulated depreciation	(427,833)	(2,778,238)	(27,553)	(12,870)	—	(3,246,494)
Net carrying amount	826,133	3,352,025	6,410	1,370	813,049	4,998,987
At 1 January 2021, net of accumulated depreciation	826,133	3,352,025	6,410	1,370	813,049	4,998,987
Additions	20,092	117,968	6,854	481	2,040,795	2,186,190
Depreciation provided during the year	(63,562)	(399,871)	(2,708)	(138)	—	(466,279)
Transfers	55,583	21,428	25	—	(77,036)	—
At 31 December 2021, net of accumulated depreciation	838,246	3,091,550	10,581	1,713	2,776,808	6,718,898
At 31 December 2021:						
Cost	1,329,641	6,178,049	40,842	14,721	2,776,808	10,340,061
Accumulated depreciation	(491,395)	(3,086,499)	(30,261)	(13,008)	—	(3,621,163)
Net carrying amount	838,246	3,091,550	10,581	1,713	2,776,808	6,718,898

Notes to Financial Statements

31 December 2021

12. PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2020						
At 1 January 2020						
Cost	1,252,881	6,144,079	33,137	13,539	279,846	7,723,482
Accumulated depreciation	(365,903)	(2,405,652)	(23,344)	(11,711)	—	(2,806,610)
Net carrying amount	886,978	3,738,427	9,793	1,828	279,846	4,916,872
At 1 January 2020, net of accumulated depreciation						
886,978	3,738,427	9,793	1,828	279,846	4,916,872	
Additions	511	35,375	768	709	582,748	620,111
Disposals	(315)	—	—	(8)	—	(323)
Depreciation provided during the year	(62,108)	(470,197)	(4,209)	(1,159)	—	(537,673)
Transfers	1,067	48,420	58	—	(49,545)	—
At 31 December 2020, net of accumulated depreciation	826,133	3,352,025	6,410	1,370	813,049	4,998,987
At 31 December 2021:						
Cost	1,253,966	6,130,263	33,963	14,240	813,049	8,245,481
Accumulated depreciation	(427,833)	(2,778,238)	(27,553)	(12,870)	—	(3,246,494)
Net carrying amount	826,133	3,352,025	6,410	1,370	813,049	4,998,987

As at 31 December 2021, the Group's buildings, plant and machinery of RMB207,671,000 (2020: RMB235,045,000) were pledged to Lotte Chemical Corporation, which held 50% of Sanjiang Lotte's equity interest and has provided guarantees for Sanjiang Lotte's bank loans (note 26).

As at 31 December 2021, the Group's buildings, plant and machinery of RMB2,884,971,000 (2020: RMB3,242,602,000) were pledged to secure the bank loans of the Group (note 26).

13. INVESTMENT PROPERTIES

	2021 RMB'000	2020 RMB'000
At the beginning of the year		
Cost	—	—
Accumulated depreciation	—	—
Net carrying amount	—	—
At the beginning of the year, net of accumulated depreciation	—	—
Additions	85,350	—
Depreciation provided during the year	(460)	—
At the end of the year, net of accumulated depreciation	84,890	—
At the end of the year		
Cost	85,350	—
Accumulated depreciation	(460)	—
Net carrying amount	84,890	—

The Group's investment properties consist of commercial properties located in Mainland China held to earn rentals.

At 31 December 2021, the Group has not obtained building ownership certificates for the commercial properties with an aggregate net book value of RMB84,890,000. The Group is not able to assign, transfer or mortgage these assets until the certificates are obtained.

The investment properties are measured at cost. The fair value of the investment properties was RMB85,893,000 as at 31 December 2021 (2020: Nil) based on valuation performed by Jiaying Yuanfeng Appraisal Office (“嘉興市源豐資產評估事務所”), an independent professionally qualified valuer.

Notes to Financial Statements

31 December 2021

13. INVESTMENT PROPERTIES (continued)

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties for disclosure of fair value only:

As at 31 December 2021

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Commercial properties	—	—	85,893	85,893

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2020: Nil).

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

As at 31 December 2021:

Valuation technique	Significant unobservable inputs	Range of unobservable inputs
Income method	Estimated rental value	RMB38.10–RMB59.54 per square metre per month
	Discount rate	4.00%

Estimated market rents are estimated based on the independent valuer's view of recent renting transactions within the subject properties and other comparable properties. A significant increase (decrease) in the estimated rental value in isolation would result in a significant increase (decrease) in the fair value of the investment properties. A significant increase (decrease) in the discount rate in isolation would result in a significant decrease (increase) in the fair value of the investment properties. Generally, a change in the assumption made for the estimated rental value is accompanied by a directionally similar change in the term yield.

14. LEASES

The Group as a lessee

The Group has lease contracts for pipes, offices and motor vehicles. Lump sum payments were made upfront to acquire the leasehold lands from the owners with lease periods of 45 to 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of pipes have lease terms of 20 years. Certain offices have lease terms of 3 to 4 years, while other offices have lease terms of 12 months or less. Leases of motor vehicles have lease terms of 6 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Leasehold lands RMB'000	Pipes RMB'000	Offices RMB'000	Motor vehicles RMB'000	Total RMB'000
As at 1 January 2020	430,065	8,567	3,565	—	442,197
Additions	4,740	5,938	—	—	10,678
Depreciation charge	(9,870)	(1,088)	(1,247)	—	(12,205)
At 31 December 2020 and 1 January 2021	424,935	13,417	2,318	—	440,670
Additions	198,900	—	4,745	6,446	210,091
Additions as a result of acquisition of a subsidiary (note 32)	76,156	—	—	—	76,156
Depreciation charge	(13,486)	(994)	(1,458)	(1,289)	(17,227)
At 31 December 2021	686,505	12,423	5,605	5,157	709,690

As at 31 December 2021, the Group's leasehold lands of RMB233,079,000 (2020: RMB199,090,000) were pledged to secure the bank loans of the Group (note 26).

Notes to Financial Statements

31 December 2021

14. LEASES (continued)

The Group as a lessee (continued)

(b) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

	2021 RMB'000	2020 RMB'000
Carrying amount at 1 January	16,247	12,111
New leases	11,191	5,938
Accretion of interest recognised during the year	892	750
Payments	(5,180)	(2,552)
Carrying amount at 31 December	23,150	16,247
Analysed into:		
Current portion	4,240	2,104
Non-current portion	18,910	14,143

The maturity analysis of lease liabilities is disclosed in note 40 to the financial statements.

The Group has applied the practical expedient to all eligible rent concessions granted by the lessors for leases of certain plant and equipment during the year. The amendments did not have any impact on the financial position and performance of the Group.

(c) The amounts recognised in profit or loss in relation to leases are as follows:

	2021 RMB'000	2020 RMB'000
Interest on lease liabilities	892	750
Depreciation charge of right-of-use assets	17,227	12,205
Expense relating to short-term leases (included in administrative expenses)	818	979
Total amount recognised in profit or loss	18,937	13,934

(d) The total cash outflow for leases and future cash outflows relating to leases that have not yet commenced are disclosed in note 33(c) to the financial statements.

14. LEASES (continued)**The Group as a lessor**

The Group leases its property, plant and equipment (note 12) consisting of certain pipes in Mainland China under operating lease arrangements. The terms of the leases generally require the tenants to provide for periodic rent adjustments according to the then prevailing market conditions. Rental income recognised by the Group during the year was RMB21,558,000 (2020: RMB14,748,000), details of which are included in note 5 to the financial statements.

At 31 December 2021, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2021 RMB'000	2020 RMB'000
Within one year	15,270	11,917
After one year but within two years	12,642	11,529
After two years but within three years	11,747	10,380
After three years but within four years	10,823	7,469
After four years but within five years	9,824	6,862
After five years	32,632	23,174
	92,938	71,331

15. GOODWILL

	RMB'000
At 31 December 2020	
Cost	—
Accumulated impairment	—
Net carrying amount	—
Cost at 1 January 2021, net of accumulated impairment	—
Acquisition of a subsidiary (note 32)	108,434
Impairment during the year	—
Cost and net carrying amount at 31 December 2021	108,434
At 31 December 2021:	
Cost	108,434
Accumulated impairment	—
Net carrying amount	108,434

Notes to Financial Statements

31 December 2021

15. GOODWILL (continued)

Impairment testing of goodwill

Goodwill acquired through a business combination is allocated to the individual cash-generating unit, the PP cash-generating unit.

The recoverable amount of the cash-generating unit has been determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

	As at 31 December 2021 RMB'000
Budgeted gross margin (of revenue %)	4.91%
Long term growth rate used to extrapolate the cash flows of the unit beyond the five-year period ("Long term growth rate")	2.00%
Pre-tax discount rate	17.00%

Budgeted gross margins — The budgeted gross margins are based on the historical data, adjusted for management's forecast on the prices of raw materials and finished goods during the budget year, increased for expected efficiency improvements, and expected market development.

Pre-tax discount rate — The pre-tax discount rate reflects specific risks relating to the Group's cash-generating unit.

The values assigned to the key assumptions on market development of the cash-generating unit and discount rate are consistent with external information sources.

As at 31 December 2021, the recoverable amount of the cash-generating unit exceeded its carrying amount by RMB839,163,000.

In the opinion of the directors of the Company, if the gross profit margin decreased to 1.79%, or the pre-tax discount rate rose to 42.70% (with other assumptions remaining unchanged), the recoverable amount of the cash-generating unit would be decreased to the carrying amount of the cash-generating unit. Except for the above-mentioned possible changes, any reasonably possible changes in the other key assumptions used in the value-in-use assessment model would not affect management's view on impairment at 31 December 2021.

Based on the impairment assessment conducted by the Group utilising the above key assumptions, the recoverable amount of the cash-generating unit estimated from the cash flow forecast exceeded the carrying amount of goodwill and no impairment was considered necessary.

16. OTHER INTANGIBLE ASSETS

	Software RMB'000	Technology use rights RMB'000	Others RMB'000	Total RMB'000
31 December 2021				
Cost at 1 January 2021, net of accumulated amortisation	1,065	97,035	19,489	117,589
Additions	181	1,978	—	2,159
Acquisition of a subsidiary (note 32)	79	1,480	—	1,559
Amortisation provided during the year	(177)	(24,787)	(2,049)	(27,013)
At 31 December 2021	1,148	75,706	17,440	94,294
At 31 December 2021:				
Cost	2,222	288,352	35,371	325,945
Accumulated amortisation	(1,074)	(212,646)	(17,931)	(231,651)
Net carrying amount	1,148	75,706	17,440	94,294
31 December 2020				
Cost at 1 January 2020, net of accumulated amortisation	1,188	123,494	22,623	147,305
Additions	208	—	139	347
Amortisation provided during the year	(331)	(26,459)	(3,273)	(30,063)
At 31 December 2020	1,065	97,035	19,489	117,589
At 31 December 2020:				
Cost	1,962	284,894	35,371	322,227
Accumulated amortisation	(897)	(187,859)	(15,882)	(204,638)
Net carrying amount	1,065	97,035	19,489	117,589

Notes to Financial Statements

31 December 2021

17. FINANCIAL ASSETS/LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	2021	
	Assets RMB'000	Liabilities RMB'000
Unlisted investments, at fair value	258,117	157,958

	2020	
	Assets RMB'000	Liabilities RMB'000
Listed equity investments, at fair value	729	—
Unlisted investments, at fair value	500,448	—
	501,177	—

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 26). As at 31 December 2020, the Group's certain unlisted investments of RMB109,267,000 were pledged for bills payable (note 23).

18. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2021	2020
	RMB'000	RMB'000
Equity investments designated at fair value through other comprehensive income		
Unlisted equity investments, at fair value		
Jiaxing Port Antong Public Pipe Gallery Co., Ltd.	3,409	3,347

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 receive 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).

19. INVENTORIES

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

20. TRADE AND NOTES RECEIVABLES

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

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:

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

Notes to Financial Statements

31 December 2021

20. TRADE AND NOTES RECEIVABLES (continued)

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

	2021 RMB'000	2020 RMB'000
At beginning of year	11,038	11,671
Reversal of impairment losses, net (note 7)	(754)	(633)
At end of year	10,284	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

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

20. TRADE AND NOTES RECEIVABLES (continued)**As at 31 December 2020**

	Gross carrying amount RMB'000	Expected credit loss rate	Expected credit losses RMB'000
Trade receivables aged based on the invoice date:			
Less than 1 year	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 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.

Notes to Financial Statements

31 December 2021

20. TRADE AND NOTES RECEIVABLES (continued)

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.

21. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

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

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.

22. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2021 RMB'000	2020 RMB'000
Cash and bank balances	593,708	775,849
Time deposits and pledged deposits	2,022,821	767,338
	2,616,529	1,543,187
Less: Pledged time deposits:		
Pledged for bills payable (note 23)	888,993	298,736
Pledged for letters of credit (note 26)	140,050	—
Pledged for bank loans (note 26)	993,778	468,602
	2,022,821	767,338
Cash and cash equivalents	593,708	775,849
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	31	35
Cash and cash equivalents	593,708	775,849

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.

Notes to Financial Statements

31 December 2021

23. TRADE AND BILLS PAYABLES

	2021 RMB'000	2020 RMB'000
Trade payables	1,207,339	474,233
Bills payable	834,367	486,784
	2,041,706	961,017

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 RMB'000	2020 RMB'000
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	431	539
	2,041,706	961,017

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 22). 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 22) and the Group's certain unlisted investments with a carrying amount of RMB109,267,000 (note 17).

24. OTHER PAYABLES AND ACCRUALS

	2021 RMB'000	2020 RMB'000
Deferred income	28,000	10,000
Other payables	512,896	468,230
Taxes payable other than income tax	65,884	94,405
Contract liabilities (note 5)	224,141	166,073
Payroll payable	30,964	52,475
Interest payable	—	7,574
	861,885	798,757

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

25. DERIVATIVE FINANCIAL INSTRUMENTS

	2021	
	Assets RMB'000	Liabilities RMB'000
Forward silver contracts	10,838	—
Forward currency contracts	—	1,020
Options for silver	—	849
Options for foreign currency	—	146
Options for methanol	—	409
	10,838	2,424

	2020	
	Assets RMB'000	Liabilities RMB'000
Forward silver contracts	—	1,641
Forward currency contracts	—	2,651
Options for silver	—	4,086
	—	8,378

The forward contracts for silver are not designated for hedge purposes and are measured at fair value through profit or loss. Changes in the fair value gain of non-hedging derivative financial instruments amounting to RMB11,015,000 (2020: fair value loss RMB7,487,000) were charged to the statement of profit or loss during the year.

Notes to Financial Statements

31 December 2021

26. INTEREST-BEARING BANK BORROWINGS

	Effective interest rate (%)	Maturity	2021 RMB'000	2020 RMB'000
Current				
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
			1,549,598	1,699,591
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
			4,308,548	3,035,889
Non-current				
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
			1,941,000	1,162,000
			6,249,548	4,197,889

26. INTEREST-BEARING BANK BORROWINGS (continued)

	2021 RMB'000	2020 RMB'000
Analysed into:		
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
	6,249,548	4,197,889

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 (note 14 (a));
- (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 (note 12);
- (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 17);
- (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 22);
- (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 (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 (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.

Notes to Financial Statements

31 December 2021

27. DEFERRED TAX

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

Deferred tax liabilities

	Fair value change on derivative financial instruments RMB'000	Capitalised trial production gain RMB'000	Withholding tax on distributable profits RMB'000	Fair value adjustments arising from acquisition of a subsidiary RMB'000	Total RMB'000
At 31 December 2019 and 1 January 2020	134	1,866	17,933	—	19,933
Deferred tax realised during the year	—	—	(19,525)	—	(19,525)
Deferred tax (credited)/charged to the statement of profit or loss during the year (note 10)	(134)	(124)	28,960	—	28,702
At 31 December 2020 and 1 January 2021	—	1,742	27,368	—	29,110
Deferred tax realised during the year	—	—	(14,426)	—	(14,426)
Acquisition of a subsidiary (note 32)	—	—	—	16,174	16,174
Deferred tax (credited)/charged to the statement of profit or loss during the year (note 10)	1,230	(124)	9,762	(220)	10,648
Gross deferred tax liabilities at 31 December 2021	1,230	1,618	22,704	15,954	41,506

Deferred tax assets

	Fair value change on derivative financial instruments RMB'000	Impairment of financial assets RMB'000	Government grants RMB'000	Provision for inventories RMB'000	Capitalised trial production gain RMB'000	Total RMB'000
At 31 December 2019 and 1 January 2020	201	1,755	6,468	5,437	1,224	15,085
Deferred tax charged to the statement of profit or loss during the year (note 10)	(201)	(389)	(92)	(5,327)	(93)	(6,102)
At 31 December 2020 and 1 January 2021	—	1,366	6,376	110	1,131	8,983
Deferred tax credited/ (charged) to the statement of profit or loss during the year (note 10)	—	—	2,608	2,696	(92)	5,212
Gross deferred tax assets at 31 December 2021	—	1,366	8,984	2,806	1,039	14,195

27. DEFERRED TAX (continued)

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2021 RMB'000	2020 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	11,346	7,241
Net deferred tax liabilities recognised in the consolidated statement of financial position	38,657	27,368

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprise established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty/arrangement between Mainland China and the jurisdiction of the foreign investors and the foreign investors are the beneficial owners of the dividends. The Group is therefore liable to withholding taxes on dividends distributed by those foreign invested subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

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

Deferred tax liabilities are recognised based on 50% (2020: 50%) of the accumulated distributable earnings of the subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries established in Mainland China will distribute the remaining 50% (2020: 50%) of such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised was approximately RMB3,287,488,000 as at 31 December 2021 (2020: RMB3,092,251,000).

Notes to Financial Statements

31 December 2021

27. DEFERRED TAX (continued)

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

Deferred tax assets have not been recognised in respect of tax losses of RMB941,693,000 (2020: RMB682,347,000) and deductible temporary differences of RMB42,949,000 (2020: RMB43,399,000) as it is uncertain that taxable profits will be available against which the tax losses and the temporary differences can be utilised.

The Group has tax losses arising in Mainland China of RMB928,131,000 (2020: RMB673,140,000) that will expire in one to five years for offsetting against future taxable profits.

The Group has tax losses arising in Hong Kong of RMB13,562,000 (2020: RMB9,207,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

28. SHARE CAPITAL

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

The issued capital of the Company is as follows:

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

29. SHARE AWARD PLAN

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

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

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

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

- (A) such shares as may be (i) transferred to the Trustee from any person (other than the Group) by way of gift, or (ii) purchased by the Trustee on the Stock Exchange by utilising the funds received by the Trustee from any person (other than the Group) by way of gift;
- (B) such shares as may be purchased by the Trustee on the Stock Exchange by utilising the funds allocated by the board out of the Company’s resources;
- (C) such shares as may be subscribed for at par value by the Trustee by utilising the funds allocated by the board out of the Company’s resources; and
- (D) such shares which remain unvested and reverted to the Trustee.

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

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

Notes to Financial Statements

31 December 2021

29. SHARE AWARD PLAN (continued)

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

Pursuant to share award notices issued on 7 June 2011 to those selected employees, an aggregate of 1,912,000 shares (the “2011 Awarded Shares”) of the Company of HK\$0.1 each were granted at nil consideration and the earliest vesting date of the 2011 Awarded Shares was 1 April 2016. There is no other performance target required except that the eligible participant remains as an employee of the Group during the vesting period. On 1 April 2016, 1,698,000 shares were vested.

Pursuant to share award notices issued on 1 December 2012 to those selected employees, an aggregate of 2,940,000 shares (the “2012 Awarded Shares”) of the Company of HK\$0.1 each were granted at nil consideration and the earliest vesting date of the 2012 Awarded Shares was 1 December 2017. There is no other performance target required except that the eligible participant remains as an employee of the Group during the vesting period. On 1 December 2017, 2,600,000 shares were vested.

Pursuant to share award notices issued on 1 December 2013 to those selected employees, an aggregate of 2,998,000 shares (the “2013 Awarded Shares”) of the Company of HK\$0.1 each were granted at nil consideration and the earliest vesting date of the 2013 Awarded Shares was 1 December 2018. There is no other performance target required except that the eligible participant remains as an employee of the Group during the vesting period. On 1 December 2018, 2,571,000 shares were vested.

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

	Number of shares purchased for the Share Award Plan	Number of awarded shares
At 1 January 2020	8,069,000	—
Purchased and withheld	9,553,000	—
At 31 December 2020	17,622,000	—
At 1 January 2021	17,622,000	—
Purchased and withheld	4,802,000	—
At 31 December 2021	22,424,000	—

No share award plan expense was charged to the consolidated statement of profit or loss during the year 2021 (2020: Nil).

30. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 10 and 11 of the financial statements.

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

31. DIVIDENDS

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

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

32. BUSINESS COMBINATION

On 26 April 2021, Sanjiang Chemical and Capitol International (the "Buyer", two wholly-owned subsidiaries of the Company), ICL ASIA Limited and ICL Investment Co., Ltd. (the "Seller") entered into a share purchase agreement, pursuant to which the Buyer had conditionally agreed to purchase the 100% equity interests of Zhebei Petrochemical (formerly known as Jiaying ICL Chemical Co., Ltd.) and the Seller had conditionally agreed to sell the 100% equity interests of Zhebei Petrochemical (the "Acquisition").

On 12 July 2021, the Acquisition was completed with all conditions fulfilled. Following the completion, Zhebei Petrochemical has become a subsidiary of the Group.

The Acquisition was made as part of the Group's strategy to expand its production capacity of PP in the PRC. The purchase consideration for the Acquisition was in the form of cash, with RMB61,158,000 paid on 8 May 2021, RMB21,842,000 paid on 10 May 2021, RMB44,850,000 paid on 9 July 2021 and the remaining RMB60,173,000 paid at the acquisition date.

Notes to Financial Statements

31 December 2021

32. BUSINESS COMBINATION (continued)

The fair values of the identifiable assets and liabilities of Zhebei Petrochemical as at the date of acquisition were as follows:

	Fair value recognised on acquisition RMB'000
Right-of-use assets (note 14 (a))	76,156
Other intangible assets (note 16)	1,559
Cash and bank balances	18,921
Other payables and accruals	(873)
Deferred tax liabilities (note 27)	(16,174)
Total identifiable net assets at fair value	79,589
Goodwill on acquisition (note 15)	108,434
Satisfied by cash	188,023

There were no trade receivables or other receivables of Zhebei Petrochemical as at the date of acquisition.

The Group incurred transaction costs of RMB15,000 for this acquisition. These transaction costs have been expensed off and are included in administrative expenses in the consolidated statement of profit or loss.

The goodwill of RMB108,434,000 recognised above comprises the value of expected synergies arising from the Acquisition. None of the goodwill recognised is expected to be deductible for income tax purposes.

An analysis of the cash flows in respect of the Acquisition is as follows:

	RMB'000
Cash consideration	(188,023)
Cash and bank balances acquired	18,921
Net outflow of cash and cash equivalents included in cash flows from investing activities	(169,102)
Transaction costs of the Acquisition included in cash flows from operating activities	(15)
included in cash flows from investing activities	(169,117)

Since the acquisition, Zhebei Petrochemical has not contributed any revenue to the Group and has caused losses of RMB3,872,000 to the consolidated profit for the year ended 31 December 2021.

Had the acquisition taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year would have been RMB9,793,624,000 and RMB325,260,000, respectively.

33. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS**(a) Major non-cash transactions**

As at 25 November 2020, the Group entered into an arrangement with Hangzhou Qiushi and Hangzhou Qiushi agreed to waive an amount due to Hangzhou Qiushi of RMB15,000,000.

During the year of 2021, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB11,191,000 (2020: RMB5,938,000) and RMB11,191,000 (2020: RMB5,938,000), respectively, in respect of lease arrangements for offices and motor vehicles.

**(b) Changes in liabilities arising from financing activities
2021**

	Bank loans RMB'000	Lease liabilities RMB'000	Interest payable RMB'000	Amounts due to related parties RMB'000
At 1 January 2021	4,197,889	16,247	7,574	711
Changes from financing cash flows	2,051,659	(5,180)	(138,014)	—
New leases	—	11,191	—	—
Interest expense	—	892	130,440	—
At 31 December 2021	6,249,548	23,150	—	711

2020

	Bank loans RMB'000	Lease liabilities RMB'000	Interest payable RMB'000	Amounts due to related parties RMB'000
At 1 January 2020	4,095,668	12,111	4,788	1,211
Changes from financing cash flows	102,221	(2,552)	(106,483)	(500)
New leases	—	5,938	—	—
Interest expense	—	750	109,269	—
At 31 December 2020	4,197,889	16,247	7,574	711

Notes to Financial Statements

31 December 2021

33. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2021 RMB'000	2020 RMB'000
Within operating activities	818	979
Within financing activities	5,180	2,552
	5,998	3,531

34. CONTINGENT LIABILITIES

A subsidiary of the Group is now engaged in an arbitration filed by Xinxing Energy Technology Co., Ltd. ("Xinxing Energy") due to the dispute on a proprietary technology contract. Xinxing Energy claimed that the subsidiary of the Group should pay it the contract price, penalty for the delayed payment and related legal costs amounting to RMB38,380,000. The subsidiary of the Group has filed counterclaims for arbitration, requesting Xinxing Energy to 1) compensate for the losses generated from the breach of the proprietary technology contract by Xinxing Energy, penalty and related legal costs amounting to RMB44,537,000, 2) return 123 tons of industrial catalyst worth of RMB24,969,000, and 3) terminate the related supplementary contract with Xinxing Energy. The directors believe that the subsidiary has a valid defense against the arbitration filed by Xinxing Energy and, accordingly, the Group has not provided for any claim arising from the arbitration, other than the related legal and other costs.

35. PLEDGE OF ASSETS

Details of the Group's assets pledged for the Group's bills payable and interest-bearing bank borrowings are included in notes 12, 14(a), 17, 22, 23 and 26 to these financial statements, respectively.

36. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	2021 RMB'000	2020 RMB'000
Contracted, but not provided for: Plant and machinery	2,632,261	3,862,557

37. RELATED PARTY TRANSACTIONS

Details of the Company's principal related parties are as follows:

Name	Relationship with the Company
Guan Jianzhong	Ultimate controlling shareholder
Han Jianhong	Director
Jiahua Group	An entity controlled by the ultimate controlling shareholder
Zhejiang Jiahua Energy Chemical Co., Ltd. ("Jiahua Energy")	An entity controlled by the ultimate controlling shareholder
Zhejiang Meifu Petrochemical Co., Ltd. ("Mei Fu Petrochemical")	An entity controlled by the ultimate controlling shareholder
Zhejiang Zhapu Meifu Port & Storage Co., Ltd. ("Mei Fu Port")	An entity controlled by the ultimate controlling shareholder
Grand Novel	An entity controlled by the ultimate controlling shareholder
Hangzhou Haoming Investment Co., Limited ("Hangzhou Haoming")	An entity controlled by the ultimate controlling shareholder
Jiaxing Xinggang Rewang Co., Ltd. ("Jiaxing Rewang")	An entity under significant influence of the ultimate controlling shareholder
Zhejiang Jiahua Import Export Co., Ltd. ("Jiahua Import Export")	An entity controlled by the ultimate controlling shareholder
Zhejiang Haoxing Energy Conservation Technology Co., Ltd. ("Haoxing Energy Conservation")	An entity controlled by the ultimate controlling shareholder
Zhejiang Gangan Intelligent Technology Co., Ltd. ("Gangan Intelligent") (note (i))	An entity controlled by the ultimate controlling shareholder
Jiaxing Jianghao Eco-agriculture Co., Ltd. ("Jianghao Eco-agriculture")	An entity controlled by the ultimate controlling shareholder
Sure Capital	Holding company and the ultimate holding company of the Company
Zhejiang Jiahua New Material Co., Ltd. ("Jiahua New Material")	An entity controlled by the ultimate controlling shareholder
Qixia Baohua Property Co., Ltd. ("Qixia Baohua Property")	An entity controlled by the ultimate controlling shareholder
Jiaxing Zhapu Construction Investment Co., Ltd. ("Zhapu Construction")	A non-controlling shareholder of the subsidiary
Jiaxing Hangzhouwan Petrochemical Logistics Co., Ltd. ("Hangzhouwan Petro")	An entity controlled by the ultimate controlling shareholder
Zhejiang Jiafu New Materials Technology Co., Ltd. ("Jiafu New Materials")	An entity controlled by the ultimate controlling shareholder
Hangzhou Guanshi	An entity controlled by the ultimate controlling shareholder
Hangzhou Qiushi	An entity controlled by the ultimate controlling shareholder

Notes to Financial Statements

31 December 2021

37. RELATED PARTY TRANSACTIONS (continued)

- (a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	Notes	2021 RMB'000	2020 RMB'000
Sales of goods to:			
Jiahua Energy	(i)	30,528	4,603
Jiahua New Material	(i)	1,935	1,366
Gangan Intelligent	(i)	23	317
		32,486	6,286
Purchases of goods from:			
Jiahua Energy	(i)	497,663	440,348
Gangan Intelligent	(i)	19,977	26,470
Jiaxing Rewang	(i)	20,314	9,808
Haoxing Energy Conservation	(i)	3,740	3,234
Jianghao Eco-agriculture	(i)	967	1,190
Jiafu New Materials	(i)	717	332
Mei Fu Petrochemical	(i)	2,913	2,155
		546,291	483,537
Energy management fee to:			
Jiahua Energy	(i)	14,300	16,927
Service income from:			
Jiahua New Material	(ii)	113	113
Jiahua Energy	(ii)	608	94
		721	207
Storage income from :			
Jiahua Energy	(ii)	24,541	—
Loading and service provided by:			
Mei Fu Port	(ii)	74,445	79,327

37. RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

	Notes	2021 RMB'000	2020 RMB'000
Rental income from:			
Mei Fu Petrochemical	(ii)	2,318	2,539
Gangan Intelligent	(ii)	970	971
Jiahua Energy	(ii)	2,216	1,484
Jiafu New Materials	(ii)	709	298
Jiaxing Rewang	(ii)	838	838
Hangzhouwan Petro	(ii)	1,328	—
		8,379	6,130
Agency fee to:			
Jiahua Import Export	(ii)	664	1,777
Rental expense to:			
Hangzhou Haoming	(ii)	1,510	95
Royalty fee to:			
Jiahua Group	(ii)	—	1,014
Loans to:			
Mei Fu Petrochemical	(iii)	332,734	1,333,489
Interest income from:			
Mei Fu Petrochemical	(iii)	8,979	51,073
Management fees to:			
Grand Novel (note 8)		15,977	57,607
Mei Fu Petrochemical	(ii)	802	—
		16,779	57,607
Purchase of leasehold land from			
Mei Fu Petrochemical	(iv)	44,000	—

37. RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

Notes:

- (i) The sales and purchases of goods to and from the related parties were made according to the published prices and conditions offered by the related parties to their major customers and suppliers.
- (ii) The transactions were conducted at the prevailing market rates mutually agreed between the relevant parties.
- (iii) The Group made loans to Mei Fu Petrochemical amounting to RMB332,734,000(2020: RMB1,333,489,000) as working capital. An aggregate amount of RMB640,620,000(2020: RMB1,017,700,000) has been repaid during the year. These loans were unsecured, bore interest at 8% to 10% per annum(2020: 8% to 10% per annum). The interest income amounting to RMB8,979,000 (2020: RMB51,073,000) occurred during the year.
- (iv) On 20 January 2021, Sanjiang Chemical (an indirectly wholly-owned subsidiary of the Company) entered into a Land Use Right Transfer Agreement with Mei Fu Petrochemical pursuant to which, Mei Fu Petrochemical has agreed to transfer one land parcel at a consideration of RMB44,000,000 to Sanjiang Chemical. At the end of year 2021, the Group has not acquired the land use certificate.

(b) Other transactions with related parties

- (i) On 31 August 2020, the Group acquired the additional 9.5% of the equity interest of its partly-owned subsidiary, Xingxing New Energy, from Jiahua Group, an entity controlled by the Company's ultimate controlling shareholder, for a consideration of RMB72,200,000. The Group recognised the difference between the net assets and the consideration of transaction in special reserve. Subsequent to this transfer, the Group holds 87% shares of Xingxing New Energy.
- (ii) During the year ended 31 December 2020, the Group completed the acquisition of the 100% equity interests in Guan Da and its subsidiary, Wuyue, at a consideration of RMB10,000,000. Further details of the transaction are included in note 2.1 to the financial statements.

37. RELATED PARTY TRANSACTIONS (continued)

(c) Outstanding balances with related parties:

	2021 RMB'000	2020 RMB'000
Due from related parties:		
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
	281,881	595,138
Due to related parties:		
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
	63,242	67,203

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

Notes to Financial Statements

31 December 2021

37. RELATED PARTY TRANSACTIONS (continued)

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

	2021 RMB'000	2020 RMB'000
Short term employee benefits	20,869	62,854
Pension scheme contributions	93	137
Total compensation paid to key management personnel	20,962	62,991

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

The related party transactions in respect of the sales of goods to Jiahua Energy and Jiahua New Material, purchases of goods from Jiahua Energy, Gangan Intelligent, Jiaying Rewang, Haoxing Energy Conservation, and Mei Fu Petrochemical, an energy management fee to Jiahua Energy, storage income from Jiahua Energy, loading and service fee to Mei Fu Port, rental income from Jiahua Energy, loans to Mei Fu Petrochemical, and an interest income from Mei Fu Petrochemical, above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

38. FINANCIAL INSTRUMENTS BY CATEGORY

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

2021

Financial assets

	Financial assets at fair value through profit or loss		Financial assets at fair value through other comprehensive income		Total RMB'000
	Mandatorily designated as such	Debt investments	Equity investments	Financial assets at amortised cost	
	RMB'000	RMB'000	RMB'000	RMB'000	
Equity investments at fair value through other comprehensive income	—	—	3,409	—	3,409
Derivative financial instruments	10,838	—	—	—	10,838
Financial assets at fair value through profit or loss	258,117	—	—	—	258,117
Trade and notes receivables	—	309,861	—	35,829	345,690
Financial assets included in prepayments, other receivables and other assets	—	—	—	136,441	136,441
Due from related parties	—	—	—	281,881	281,881
Pledged deposits	—	—	—	2,022,821	2,022,821
Cash and cash equivalents	—	—	—	593,708	593,708
	268,955	309,861	3,409	3,070,680	3,652,905

Notes to Financial Statements

31 December 2021

38. FINANCIAL INSTRUMENTS BY CATEGORY

2021 (continued)

Financial liabilities

	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Total
	Mandatorily designated as such		
	RMB'000	RMB'000	RMB'000
Trade and bills payables	—	2,041,706	2,041,706
Derivative financial instruments	2,424	—	2,424
Financial assets at fair value through profit or loss	157,958	—	157,958
Financial liabilities included in other payables and accruals	—	512,896	512,896
Interest-bearing bank borrowings	—	6,249,548	6,249,548
Lease liabilities	—	23,150	23,150
Due to related parties	—	63,242	63,242
	160,382	8,890,542	9,050,924

38. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2020

Financial assets

	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income		Financial assets at amortised cost RMB'000	Total RMB'000
	Mandatorily designated as such RMB'000	Debt investments RMB'000	Equity investments RMB'000		
Equity investments at fair value through other comprehensive income	—	—	3,347	—	3,347
Financial assets at fair value through profit or loss	501,177	—	—	—	501,177
Trade and notes receivables	—	207,937	—	41,119	249,056
Financial assets included in prepayments, other receivables and other assets	—	—	—	136,524	136,524
Due from related parties	—	—	—	595,138	595,138
Pledged deposits	—	—	—	767,338	767,338
Cash and cash equivalents	—	—	—	775,849	775,849
	501,177	207,937	3,347	2,315,968	3,028,429

Notes to Financial Statements

31 December 2021

38. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2020 (continued)

Financial liabilities

	Financial liabilities at fair value through profit or loss Mandatorily designated as such RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and bills payables	—	961,017	961,017
Derivative financial instruments	8,378	—	8,378
Financial liabilities included in other payables and accruals	—	475,804	475,804
Interest-bearing bank borrowings	—	4,197,889	4,197,889
Lease liabilities	—	16,247	16,247
Due to related parties	—	67,203	67,203
	8,378	5,718,160	5,726,538

39. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

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

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

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

The fair values of long-term amounts due from a related party and the non-current portion of interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for long-term amounts due from a related party as at 31 December 2021 were assessed to be insignificant.

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

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

The fair values of the notes receivables classified as debt investments at fair value through other comprehensive income as at 31 December 2021 have been estimated by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks. In addition, the notes receivable will mature within one year, and thus their fair values approximate to their carrying values.

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with A credit ratings. Derivative financial instruments, including options for silver and methanol, forward contracts for silver, interest rate swaps and options for foreign currency are measured using valuation techniques, including the Black-Scholes option pricing model and net present value of the cash flows model. The models incorporate various market observable inputs including the risk-free interest rate, implied volatility of the exchange rate, spot prices and implied volatility of silver's prices. The carrying amounts of options for silver and methanol, forward contracts for silver, interest rate swaps and options for foreign currency are the same as their fair values.

Notes to Financial Statements

31 December 2021

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

As at 31 December 2021, the mark-to-market value of the derivative asset position is net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationship and other financial instruments recognised at fair value.

For the fair value of the unlisted equity investments at fair value through other comprehensive income, management has estimated the potential effect of using reasonably possible alternatives as inputs to the valuation model.

Set out below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2021 and 2020:

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Unlisted equity investments	Valuation multiples	Average P/E multiple of peers	2021: 10.3 to 31.0 (2020: 9.9 to 33.3)	5% (2020: 5%) increase/decrease in multiple would result in increase/decrease in fair value by RMB170,000 (2020: RMB167,000)
		Discount for lack of marketability	2021: 20% (2020: 20%)	5% (2020: 5%) increase/decrease in discount would result in decrease/increase in fair value by RMB43,000 (2020: RMB42,000)

39. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)**Fair value hierarchy**

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

Assets measured at fair value:

As at 31 December 2021

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Equity investments designated at fair value through other comprehensive income	—	—	3,409	3,409
Derivative financial instruments	—	10,838	—	10,838
Debt investments at fair value through other comprehensive income	—	309,861	—	309,861
Financial assets at fair value through profit or loss	—	258,117	—	258,117
	—	578,816	3,409	582,225

As at 31 December 2020

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Equity investments designated at fair value through other comprehensive income	—	—	3,347	3,347
Debt investments at fair value through other comprehensive income	—	207,937	—	207,937
Financial assets at fair value through profit or loss	729	500,448	—	501,177
	729	708,385	3,347	712,461

Notes to Financial Statements

31 December 2021

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

Fair value hierarchy (continued)

Assets measured at fair value: (continued)

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

	2021 RMB'000	2020 RMB'000
Equity investments at fair value through other comprehensive income		
At 1 January	3,347	4,177
Total gain/(losses) recognised in other comprehensive income	62	(830)
At 31 December	3,409	3,347

Liabilities measured at fair value:

As at 31 December 2021

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Derivative financial instruments	—	2,424	—	2,424
Financial liabilities at fair value through profit or loss	157,958	—	—	157,958
	157,958	2,424	—	160,382

As at 31 December 2020

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Derivative financial instruments	—	8,378	—	8,378

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2020: Nil).

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise interest-bearing bank borrowings and cash and pledged deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and notes receivables and trade and bills payables, which arise directly from its operations.

The Group also enters into derivative transactions, including principally options for silver and methanol, forward contracts for silver, options for foreign currency, futures for methanol, futures for ethylene glycol and futures for polypropylene. The purpose is to manage the commodity price risk and foreign currency risk arising from the Group's operations and its sources of finance.

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

Interest rate risk

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

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

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
2021		
RMB	5	(4,726)
RMB	(5)	4,726
United States dollar	5	—
United States dollar	(5)	—
2020		
RMB	5	(3,786)
RMB	(5)	3,786
United States dollar	5	—
United States dollar	(5)	—

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**Foreign currency risk**

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. Approximately 26% (2020: 29%) of the Group's purchases for the year ended 31 December 2021 are denominated in currencies other than the functional currencies of the operating units making the purchase, whilst almost 100% (2020: 100%) of sales for the year are denominated in the respective operating units' functional currencies. At present, the Group does not intend to seek to hedge its exposure to foreign exchange fluctuations. However, management constantly monitors the economic situation and the Group's foreign exchange risk profile and will consider appropriate hedging measures in the future should the need arise.

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

	Increase/ (decrease) in foreign currency rate %	Increase/ (decrease) in profit before tax RMB'000
2021		
If RMB weakens against the United States dollar	5	(27,564)
If RMB strengthens against the United States dollar	(5)	27,564
If RMB weakens against the Hong Kong dollar	5	2,637
If RMB strengthens against the Hong Kong dollar	(5)	(2,637)
If RMB weakens against Euro	5	511
If RMB strengthens against Euro	(5)	(511)
2020		
If RMB weakens against the United States dollar	5	(36,174)
If RMB strengthens against the United States dollar	(5)	36,174
If RMB weakens against the Hong Kong dollar	5	6,716
If RMB strengthens against the Hong Kong dollar	(5)	(6,716)
If RMB weakens against Euro	5	2
If RMB strengthens against Euro	(5)	(2)

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**Credit risk**

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

Maximum exposure and year-end staging

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

As at 31 December 2021

	12-month ECLs		Lifetime ECLs		Total RMB'000
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	
Trade receivables*	—	—	—	46,113	46,113
Derivative financial instruments	10,838	—	—	—	10,838
Debt investments at fair value through other comprehensive income	309,861	—	—	—	309,861
Financial assets included in prepayments, other receivables and other assets					
— Normal**	136,441	—	—	—	136,441
Amounts due from related parties	281,881	—	—	—	281,881
Pledged deposits					
— Not yet past due	2,022,821	—	—	—	2,022,821
Cash and cash equivalents					
— Not yet past due	593,708	—	—	—	593,708
	3,355,550	—	—	46,113	3,401,663

Notes to Financial Statements

31 December 2021

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

As at 31 December 2020

	12-month	Lifetime ECLs			Simplified approach	Total
	ECLs	Stage 1	Stage 2	Stage 3		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables*	—	—	—	—	52,157	52,157
Debt investments at fair value through other comprehensive income	207,937	—	—	—	—	207,937
Financial assets included in prepayments, other receivables and other assets						
— Normal**	136,524	—	—	—	—	136,524
Amounts due from related parties	595,138	—	—	—	—	595,138
Pledged deposits						
— Not yet past due	767,338	—	—	—	—	767,338
Cash and cash equivalents						
— Not yet past due	775,849	—	—	—	—	775,849
	2,482,786	—	—	—	52,157	2,534,943

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 20 to the financial statements.

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

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

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

Liquidity risk

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

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**Liquidity risk (continued)**

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

	2021					Total RMB'000
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	
Trade and bills payables	616,815	750,524	674,367	—	—	2,041,706
Other payables	383,881	118,976	10,039	—	—	512,896
Lease liabilities	—	1,793	4,126	10,754	9,667	26,340
Derivative financial instruments	—	827	1,597	—	—	2,424
Financial liabilities at fair value through profit or loss	—	—	157,958	—	—	157,958
Interest-bearing bank borrowings	—	2,101,290	2,351,083	1,514,806	811,748	6,778,927
Due to related parties	63,242	—	—	—	—	63,242
Net carrying amount	1,063,938	2,973,410	3,199,170	1,525,560	821,415	9,583,493

	2020					Total RMB'000
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	
Trade and bills payables	266,542	209,280	485,195	—	—	961,017
Other payables	391,127	74,291	10,386	—	—	475,804
Lease liabilities	—	319	2,337	7,862	10,481	20,999
Derivative financial instruments	—	6,654	1,724	—	—	8,378
Interest-bearing bank borrowings	—	2,022,146	1,193,313	240,937	1,247,637	4,704,033
Due to related parties	67,203	—	—	—	—	67,203
Net carrying amount	724,872	2,312,690	1,692,955	248,799	1,258,118	6,237,434

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2021 and 2020.

Notes to Financial Statements

31 December 2021

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

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

	31 December 2021 RMB'000	31 December 2020 RMB'000
Interest-bearing bank borrowings	6,249,548	4,197,889
Lease liabilities	23,150	16,247
Trade and bills payables	2,041,706	961,017
Other payables and accruals	861,885	798,757
Due to related parties	63,242	67,203
Less: Cash and cash equivalents	(593,708)	(775,849)
Pledged short-term deposits	(686,446)	(207,338)
Net debt	7,959,377	5,057,926
Equity attributable to owners of the parent	4,666,020	4,712,687
Total capital and net debt	12,625,397	9,770,613
Gearing ratio	63.04%	51.77%

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2021 RMB'000	2020 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	426,588	426,588
CURRENT ASSETS		
Prepayments, other receivables and other assets	1,816	1,869
Due from a subsidiary	64,280	65,784
Cash and cash equivalents	8,928	11,158
Total current assets	75,024	78,811
CURRENT LIABILITIES		
Other payables and accruals	1,923	2,386
Due to a subsidiary	356,695	354,560
Total current liabilities	358,618	356,946
NET CURRENT LIABILITIES	(283,594)	(278,135)
TOTAL ASSETS LESS CURRENT LIABILITIES	142,994	148,453
Net assets	142,994	148,453
EQUITY		
Issued capital	102,662	102,662
Reserves (note)	40,332	45,791
Total equity	142,994	148,453

Notes to Financial Statements

31 December 2021

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the Company's reserves is as follows:

	Share premium RMB'000	Capital redemption reserve RMB'000	Shares repurchased for share award plan RMB'000	Share award plan reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2020	1,164,193	2,371	(13,891)	—	(724,018)	428,655
Total comprehensive loss for the year	—	—	—	—	(14,453)	(14,453)
Final 2019 dividend declared	—	—	—	—	(218,508)	(218,508)
Interim 2020 dividend	—	—	—	—	(132,090)	(132,090)
Repurchase of shares for the share award	—	—	(19,173)	—	—	(19,173)
Offset with dividends	—	—	1,360	—	—	1,360
At 31 December 2020 and 1 January 2021	1,164,193	2,371	(31,704)	—	(1,089,069)	45,791
Total comprehensive income for the year	—	—	—	—	421,881	421,881
Final 2020 dividend declared	—	—	—	—	(297,403)	(297,403)
Interim 2021 dividend	—	—	—	—	(123,459)	(123,459)
Repurchase of shares for the share award	—	—	(9,954)	—	—	(9,954)
Offset with dividends	—	—	3,476	—	—	3,476
At 31 December 2021	1,164,193	2,371	(38,182)	—	(1,088,050)	40,332

42. EVENTS AFTER THE REPORTING PERIOD

The existence of the Russia-Ukraine conflict in early 2022 has caused drastic increase in crude oil prices. It is inevitable that the conflict has a certain impact on the business operations of the Group, in particular, the drastic increase in price of raw materials. The Group will monitor the developments of the conflict situation closely, assess and react actively to its impacts on the financial position and operating results of the Group. Up to the date of the report, the assessment was still in progress. Given the dynamic nature of these circumstances, the related impact on the Group's consolidated results of operations, cash flows and financial condition could not be reasonably estimated at this stage and will be reflected in the Group's 2022 interim and annual financial statements.

43. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 28 March 2022.

Five Year Financial Summary

	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000
REVENUE	9,498,708	8,322,716	9,190,893	9,585,859	8,897,143
Gross profit	652,585	1,599,178	1,038,888	996,124	1,085,275
Finance costs	131,332	110,019	203,248	167,773	159,086
PROFIT BEFORE TAX	442,182	1,392,049	657,043	389,775	743,846
Income tax expense	66,029	177,852	81,096	88,583	120,709
Net profit for the year	376,153	1,214,197	575,947	301,192	623,137
Profits attributable to ordinary equity holders of the parent	380,611	1,122,931	548,724	398,915	690,793
NON-CURRENT ASSETS	10,760,640	8,079,597	5,912,055	5,979,722	6,216,427
CURRENT ASSETS	3,517,607	2,939,060	4,500,381	3,402,408	2,448,291
CURRENT LIABILITIES	7,539,114	5,023,455	6,327,799	5,774,605	4,536,028
NON-CURRENT LIABILITIES	1,998,567	1,203,511	28,502	13,150	612,033
Net assets/Total equity	4,740,566	4,791,691	4,056,135	3,594,375	3,516,657
Cash inflow from operating activities	1,628,387	1,740,281	1,238,734	918,243	965,307
Cash (outflow)/inflow from investing activities	(3,287,901)	(1,071,093)	(2,217,207)	(853,988)	576,777
Cash inflow/(outflow) from financing activities	1,481,125	(485,125)	1,116,305	113,333	(1,608,510)

	RMB fen	RMB fen	RMB fen	RMB fen	RMB fen
Earnings per share — Basic	32.36	95.10	46.43	38.89	67.30
Earnings per share — Diluted	32.36	95.10	46.43	38.87	67.19

	In %	In %	In %	In %	In %
Gross profit margin	6.9%	19.2	11.3	10.4	12.2
Gearing — total interest-bearing borrowings to total asset	45.7%	38.1	39.3	32.6	27.1

	2021 In days	2020 In days	2019 In days	2018 In days	2017 In days
Inventory turnover days					
— Average opening and closing inventories divided by cost of sales x 365 days	35.7	49.6	45.7	46.2	40.5
Trade and notes receivables turnover days					
— Average opening and closing trade and note receivables divided by revenue x 365 days	11.5	17.9	21.6	16.6	10.6
Trade and bills payables turnover days					
— Average opening and closing trade payables divided by cost of sales x 365 days	58.0	51.4	56.1	62.4	65.9

Corporate Information

DIRECTORS

Executive Directors

HAN Jianhong (*Chairlady*)
RAO Huotao
CHEN Xian
GUAN Siyi

Independent non-executive Directors

SHEN Kaijun
PEI Yu
KONG Liang

SHARE LISTING

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

AUDITORS

Ernst & Young
Certified Public Accountants and
Registered Public Interest Entity Auditor

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COMPANY SECRETARY

YIP Ngai Hang, Henry, FCPA FCCA

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Bank of China
Pinghu City Branch
40 Chengnan Road West, Pinghu City
Zhejiang Province, PRC

China CITIC Bank
Jiaxing Branch
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Zhejiang Province, PRC

Industrial and Commercial Bank of China
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