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

2010
INTERIM REPORT

CONTENT

Corporate Information

DIRECTORS

Executive Directors

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

Independent non-executive Directors

WANG Wanxu
SHEN Kaijun
LI Zhihong

SHARE LISTING

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

AUDITORS

Ernst & Young
18th Floor, Two International Finance Centre
8 Finance Street, Central
Hong Kong

LEGAL ADVISERS AS TO HONG KONG LAW

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

PRINCIPAL PLACE OF BUSINESS IN THE PRC AND HEADQUARTERS

Pinghai Road, Jiaxing Port Area,
Zhejiang Province, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

40th Floor, Jardine House
1 Connaught Place, Hong Kong

REGISTERED OFFICE

Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 609
Grand Cayman KY1-1107
Cayman Islands

COMPANY SECRETARY

Yip Ngai Hang, HKICPA

COMPLIANCE ADVISER

Daiwa Capital Markets Hong Kong Limited

PRINCIPAL BANKER IN HONG KONG

Bank of Communications Co., Ltd.
Hong Kong Branch,
20 Pedder Street, Central,
Hong Kong

PRINCIPAL BANKERS IN THE PRC

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

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

Industrial and Commercial Bank of China
Pinghu City Branch
338 Yashan Road Central, Pinghu City
Zhejiang Province, PRC

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

China CITIC Bank
Jiaxing Branch
639 Zhongshan Road East, Jiaxing City
Zhejiang Province, PRC

China Construction Bank
Pinghu Zhapu Branch
1 Tianfei Road, Zhapu District
Pinghu City, Zhejiang Province, PRC

BRANCH SHARE REGISTRER AND TRANSFER OFFICE IN HONG KONG

Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

CORPORATE WEBSITE

www.jxsjchem.com

Management Discussion and Analysis

BUSINESS AND FINANCIAL REVIEW

Overview

The Group is principally engaged in the manufacturing and supplying of ethylene oxide and surfactants. The Group is also engaged in the provision of processing service for surfactants to customers and the production and supply of other chemical products such as ethylene glycol, polymer grade ethylene and industrial gases, namely oxygen, nitrogen and argon. Ethylene oxide is a key intermediary component for the production of ethylene derivative products such as ethylene glycol, ethanolamines and glycol ethers and a wide range of surfactants. Surfactants are widely applied in different industries as scouring agent, moisturising agent, emulsifier and solubiliser.

Revenue

Revenue for the six months ended 30 June 2010 ("Interim Period") was approximately RMB831.2 million, an increase of approximately 40.4%, as compared to revenue of approximately RMB592.1 million for the same period last year. The increase in revenue was primarily due to the increase in sales of ethylene oxide during the period.

The breakdown of revenue by products and sales volume and average selling price of our major products during the periods under review are set forth below:

	Six months ended 30 June 2010	**% of revenue**	Six months ended 30 June 2009	% of revenue
REVENUE (RMB'000)				
Ethylene oxide	**700,454**	**84%**	385,656	65%
Surfactants	**80,153**	**10%**	121,083	21%
Ethylene oxide processing services	**–**	**–**	53,580	9%
Surfactants processing services	**7,079**	**1%**	6,292	1%
Other	**43,554**	**5%**	25,479	4%
	831,240	**100%**	592,090	100%
SALES VOLUME (MT)				
Ethylene oxide	**67,587**		46,167	
Surfactants	**7,452**		14,064	
Ethylene oxide processing services	**–**		15,672	
Surfactants processing services	**16,240**		14,432	
AVERAGE SELLING PRICE (RMB)				
Ethylene oxide	**10,364**		8,353	
Surfactants	**10,756**		8,609	
Ethylene oxide processing services	**–**		3,419	
Surfactants processing services	**436**		436	

BUSINESS AND FINANCIAL REVIEW *(Continued)*

Revenue *(Continued)*

Ethylene oxide sales

Except for those ethylene oxide that are generally not traded on the market for the purpose of ethylene glycol production through integrated production system, the demand for and consumption of ethylene oxide in China is closely correlated with its downstream production activities, in particular, the production of non-ionic surfactants. In 2009, the production of non-ionic surfactants accounted for 60% of the total consumption of ethylene oxide (excluding the non-market-trading ethylene oxide) in China. The remaining 40% of the total consumption was occupied by the production of other downstream products, including ethanolamine, ethylene glycol ethers and other chemicals. It is expected that the market for non-ionic surfactants will continue to dominate the demand for ethylene oxide in China. Further, it is also expected that China's demand for ethylene oxide will remain strong, with a projected growth at a CAGR of 17% from 2009 to 2014, reaching 1,564,017 MT in volume, or a total value of US$2,813.6 million by 2014, which is primarily due to an expected growth in demand for ethylene oxide from the non-ionic surfactants downstream industries, and in particular, manufacturers of detergent and cleansing products.

During the period under review, the annual designed ethylene oxide production capacity as at both 30 June 2009 and 30 June 2010 was 120,000 MT/year. The sales volume of ethylene oxide for the six months ended 30 June 2010 increased by approximately 46.4% from 46,167 MT for the 6 months ended 30 June 2009 to 67,587 MT for the 6 months ended 30 June 2010 which is mainly due to the increase in market demand for ethylene oxide, primarily due to the recovery of the PRC economy from the financial crisis in 2009.

As ethylene oxide is a downstream product of ethylene, ethylene oxide is normally priced with reference to the price of ethylene. As such, fluctuation of ethylene price has direct effect on the prices of ethylene oxide. At the same time, since ethylene is one of the chemical products derived from crude oil, the price of ethylene is directly affected by crude oil price. As a result of the increase in crude oil price from the range of approximately US$39.2 to US$71.7 per barrel in the first half of 2009 to the range of approximately US$69.6 to US$88.8 per barrel in the first half of 2010, the average cost of ethylene increased from RMB5,007/MT to RMB8,723/MT during the same period. Accordingly, the average selling price of our ethylene oxide for the six months ended 30 June 2010 increased by 24.1% to RMB10,364/MT from RMB8,353/MT for the same period of 2009.

As a result of the increase in sales volume and average selling price, our sales of ethylene oxide increased by approximately 81.6% to approximately RMB700.5 million for the six months ended 30 June 2010 as compared with the same period of 2009.

Surfactants sales

For surfactants products, the Group focuses primarily on non-ionic surfactants, in particular, the AEO surfactants. According to SAI report (i.e. a report we commissioned with Strategic Analysis Inc. to analyse, among other things, the market conditions of ethylene oxide and non-ionic surfactant products, in particular AEO surfactants, in China), it is expected that the demand for AEO surfactants will experience growth at a CAGR of 5% from 2009 to 2014, reaching 529,500 MT in volume or US$1,077.6 million in value by 2014. The supply of AEO surfactants in China is mainly made up of domestic production, while any shortfall is imported from overseas. In 2009, domestically produced AEO surfactants accounted for approximately 68% of the total demand in China, while imports represented the remaining 32%. It is expected that the situation where total demand exceed domestic production in China will continue in the foreseeable future.

BUSINESS AND FINANCIAL REVIEW *(Continued)*

Revenue *(Continued)*

Surfactants sales (Continued)

The annual designed surfactants production capacities as at both 30 June 2009 and 30 June 2010 was 118,000 MT/year. During the period under review, the sales volume of surfactants for the six months ended 30 June 2010 was 7,452 MT which represents a decrease by 47.0% from 14,064 MT for the same period of 2009.

As a downstream product of ethylene oxide, the price of surfactant is affected by the price of ethylene oxide which is in turn affected by the price of ethylene as well as crude oil price. Therefore, the average selling price of our surfactants increased by 24.9% to RMB10,756/MT for the six months ended 30 June 2010 when comparing to the same period of 2009.

The decrease in surfactants sales by 33.8% for the six months ended 30 June 2010 when comparing to the same period of 2009 was mainly due to the fact that less ethylene oxide produced in-house was being allocated to the production of surfactants while at the same time we increased our surfactants processing services volume. In order to secure a steady stream of revenue for our newly expanded surfactant production capacities, we entered into a surfactants processing service contract with a major surfactant customer on a yearly basis. As such, more self-manufactured ethylene oxide was allocated to provide surfactants processing services. Furthermore, we increased our sales of ethylene oxide in 2010 which resulted in less ethylene oxide being allocated for surfactants sales thereby decreasing our sales volume of surfactants.

Income from provision of processing service

Sales of our processing services decreased by approximately 88.2% from approximately RMB59.9 million for the six months ended 30 June 2009 to approximately RMB7.1 million for the six months ended 30 June 2010. The decrease was primarily due to the fact that we provided ethylene oxide processing services during the six months ended 30 June 2009 generating approximately RMB53.6 million of sales in view of the uncertainty arising from the financial crisis whereas we did not engage in such processing services in 2010. The decrease in sales of our ethylene oxide processing services for the six months ended 30 June 2010 was partially offset by the increase in surfactants processing services as we secured a yearly surfactant processing contract for 2010. Our volume of surfactants processed increase by approximately 12.5% from 14,432 MT for the six months ended 30 June 2009 to 16,240 MT for the six months ended 30 June 2010.

Others

Others mainly represent sales of other chemical products such as ethylene glycol, polymer grade ethylene, industrial gases, namely oxygen, nitrogen and argon and rental income.

BUSINESS AND FINANCIAL REVIEW *(Continued)*

Gross profit and gross profit margin

Overall gross profit decreased to approximately RMB160.5 million for the six months ended 30 June 2010 (for the six months ended 30 June 2009: RMB198.0 million) and the overall gross profit margin decreased from 33.4% to 19.3% for the six months ended 30 June 2010. The primary factor that caused the decrease in gross profit margin was the decrease in gross profit margin of ethylene oxide.

The following table set forth the approximate gross profit margins of our major products during the periods under review:

	Six months ended 30 June 2010	Six months ended 30 June 2009
Gross profit margin (%)		
Ethylene oxide	**19.5%**	36.6%
Surfactants	**16.2%**	19.0%

The decrease in gross profit margin of sales of ethylene oxide for the six months ended 30 June 2010 when comparing to the same period in 2009 is mainly due to the increase in average cost of ethylene (Jan-Jun 2009: RMB5,007/MT; Jan-Jun 2010: RMB8,723/MT) as a result of (i) the increase in crude oil price during the first half of 2010; (ii) the 2% additional customs levy imposed on imported ethylene implemented by the General Administration of Customs of the PRC starting from 1 January 2010; and (iii) the decrease in the supply of ethylene due to the suspension of production of ethylene by major overseas ethylene suppliers as they underwent periodic maintenance during the first half of 2010.

Other income and gains

For the period under review, other income and gains increased by approximately RMB5.7 million from approximately RMB4.9 million for the six months ended 30 June 2009 to approximately RMB10.7 million for the six months ended 30 June 2010 which was mainly due to increase in foreign exchange gains (Jan-Jun 2010: approximately RMB3.7 million; Jan-Jun 2009: approximately RMB33,000) as a result of appreciation of RMB against USD in 2010 and majority of our purchases are denominated in USD.

Administrative and other expenses

Administrative and other 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. The increase in administrative and other expenses for the six months ended 30 June 2010 was mainly due to the accrual of professional fees in relation to the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 16 September 2010 (the "Listing Date").

Finance costs

The Group borrows loans from banking institutions in the PRC for financing its working capital and its overseas procurement. The decrease in finance costs for the six months ended 30 June 2010 was mainly due to the lower effective interest rate of approximately 3.32% in 2010 when comparing to the same period of 2009 of approximately 5.99%.

BUSINESS AND FINANCIAL REVIEW *(Continued)*

Income tax

The Company had an overall income tax expense of approximately RMB29.3 million for the six months ended 30 June 2010, or 20.9% of pre-tax income as compared to the income tax expense of approximately RMB25.3 million for the six months ended 30 June 2009, or 14.9% of pre-tax income as Yongming Petrochemical commenced to pay its corporate income tax from 2010 onwards.

Profit for the period

The Group generated profit attributable to equity holders of the parent for the six months ended 30 June 2010 of approximately RMB110.7 million, as compared to profit attributable to equity holders of the parent of approximately RMB134.6 million for the same period last year.

Liquidity and financial resources

Net current liabilities

The net current liabilities position of our Group improved from approximately RMB663.6 million as at 31 December 2009 to approximately RMB581.3 million as at 30 June 2010. To the best knowledge and belief of the Directors and having confirmed with the principal bankers of our Group, it is a common practice in the PRC for the local banks to extend working capital loans to enterprises with maturity not more than 12 months. Although our Group recorded net current liabilities during the three financial years ended 31 December 2009 and the four months ended 30 April 2010 ("Trade Record Period"), we were able to repay and renew bank borrowings and had not recorded default on bank borrowings.

Financial Position and bank borrowings

The Group had cash and bank balances of approximately RMB151.4 million as at 30 June 2010 (31 December 2009: approximately RMB109.2 million), most of which were denominated in Renminbi. The Group had interest-bearing bank borrowings of approximately RMB911.6 million as at 30 June 2010 (31 December 2009: approximately RMB719.5 million). Please refer to note 22 to the consolidated financial statements for the details of borrowings and the respective charge of assets. The Group's net gearing, expressed as a percentage of total interest-bearing liabilities to total assets, was at 49.8% as at 30 June 2010 as compared to 44.0% as at 31 December 2009. The increase in the interest-bearing bank borrowings and gearing ratio was primarily attributable to the purchase of property, plant and equipment to expand the ethylene oxide production capacity of the Group.

Working Capital

Total inventories as at 30 June 2010 were approximately RMB64.8 million as compared to approximately RMB67.7 million as at 31 December 2009. The average inventory turnover days for the six months ended 30 June 2010 was 17.8 days (for the year ended 31 December 2009: 28.4 days). The decrease in average inventory turnover days was primarily attributable to the increase in revenue contribution from ethylene oxide which did not bear any inventory such that the average inventory of finished goods was reduced.

Average trade and notes receivables turnover days for the six months ended 30 June 2010 was 7.5 days (for the year ended 31 December 2009: 12.0 days). The decrease in trade and notes receivables turnover days was due to the fact that majority of our ethylene oxide customers are required to pay in advance before delivery in order to secure supply of our products.

Average trade and bills payables turnover days for the six months ended 30 June 2010 was 61.7 days (for the year ended 31 December 2009: 106.2 days). The decrease of trade and bills payable turnover days was attributable to the fact that the Group used more letters of credit with a maturity period of on average of 90 days to settle our trade payables and then financed the payments through the use of short-term bank borrowings.

BUSINESS AND FINANCIAL REVIEW *(Continued)*

Capital expenditure, Capital commitment and Human Resources

Please refer to the prospectus dated 3 September 2010 regarding the Listing of the Company for the latest status of the captioned items.

Capital expenditure and capital commitments

Capital expenditure for the six months ended 30 June 2010 amounted to approximately RMB137.7 million and capital commitments as at 30 June 2010 amounted to approximately RMB140.0 million. Both the capital expenditure and capital commitments were mainly related to the constructions of additional production capacities as well as investment in Sanjiang Honam Chemical Co., Ltd.. The Group planned to fund those commitments from listing proceeds, operating cash flow, bank borrowings and other sources of finance when appropriate.

Contingent liabilities

Contingent liabilities as at 30 June 2010 amounted to approximately RMB30 million. The contingent liabilities were mainly related to the guarantees given to banks in connection with loans granted to related parties and they were fully released on 20 July 2010.

Employees and remuneration policy

As at 30 June 2010, the Group employed a total of 462 full time employees. For the six months ended 30 June 2010, the employee benefit expense was approximately RMB12.6 million. The Group's employee benefits included housing subsidies, shift subsidies, bonuses, allowances, medical check-up, staff quarters, social insurance contributions and housing fund contributions. The remuneration committee of the Company reviews such packages annually, or when the occasion requires. The executive Directors, who are also employees of the Company, receive compensation in the form of salaries, bonuses and other allowances.

Material acquisition and disposals

Save as disclosed in the prospectus of the Company dated 3 September 2010, the Group had no material acquisition or disposals of subsidiaries and associated Companies during the six months ended 30 June 2010.

Foreign exchange risk

As the Group's business is located in the PRC and the Group's primary operating transactions are conducted in RMB. However, the Group's has insignificant transactional currency exposures principally arising from purchases of raw materials from overseas suppliers. The Group did not enter into any foreign exchange hedging instruments during the Interim Period.

Outlook

2010 has been a busy and constructive year for our Group. The listing ("Listing") of the shares of the Company on the Stock Exchange has provided our Group with the financial platform to accelerate our Group's expansion in production capacities and sales network. The Company issued 252,400,000 new Shares at the offer price of HK$3.38 per share and raised estimated net proceeds of approximately HK$789.6 million, excluding the exercise of over-allotment option and after deducting underwriting commissions, the incentive fee and other fees and expenses payable by the Company in connection with the Listing. Our Group will continue to follow the business strategies as stated in the prospectus of the Company dated 3 September 2010, including but not limited to, strengthening our leading market position in China through expansion of production capacity, expanding product coverage and functionality as well as improving product quality.

Looking into the second half of 2010, it is expected that the demand for our products will continue to grow as a result of the expected increase in domestic demand for household cleansing and cosmetic products benefiting from the continuous economic growth in the PRC as well as the consumption power of PRC citizens. However, our business will continue to be affected by the fluctuation in international crude oil price which in turn affect the ethylene price. In order to further minimize the adverse impact of short term price fluctuation of ethylene, we commenced the construction of an additional ethylene storage tank with a total storage capacity of approximately 22,000 cubic metres at a parcel of land owned by us at Port of Zhapu, Jiaxing City, Zhejiang Province, PRC in the second quarter of 2010. It is expected that the construction will be completed by the second quarter of 2011.

Other Information

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

The shares (the "Shares") of the Company were listed on the Stock Exchange on 16 September 2010. No disclosure of interests or short positions of any Directors and/or chief executives of the Company in the Shares, underlying Shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) were required to be made to the Company under the provisions of Divisions 7 and 8 of Part XV of the SFO as of 30 June 2010.

As at 16 September 2010, the interests and short positions of the Directors and/or chief executives of the Company in any Shares, underlying Shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have under such provisions of the SFO), or which are required, pursuant to Section 352 of Part XV of the SFO, to be entered in the register kept by the Company, or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors (the "Model Code") are as follows:

Interest in Shares of the Company

Name of Directors	Capacity/Nature of interest	Long/ Short position	Number of Shares	Approximate % of issued share capital
Guan Jianzhong ("Mr. Guan")	Interests of controlled corporation	Long position	459,375,000 (Note)	45.51%
Han Jianhong ("Ms. Han")	Interests of spouse	Long position	459,375,000 (Note)	45.51%

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

Interest in shares of the associated corporation of the Company

Mr. Guan and Ms. Han respectively owned approximately 84.71% (8,473 shares) and approximately 15.29% (1,529 shares) of the entire issued ordinary shares of Sure Capital, the beneficial owner of about 45.51% of the issued share capital of the Company.

Save as disclosed above, none of the Directors or 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 16 September 2010.

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

As the Shares were listed on the Stock Exchange on 16 September 2010, no disclosure of interests or short positions in any Shares or underlying Shares of the Company were required to be made to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as of 30 June 2010.

As at 16 September 2010, so far as is known to the Directors, the following persons (other than the Directors or chief executive of the Company), who have interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company in accordance with the provision of Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein, are as follows:

Name	Capacity/Nature of interest	Long/ Short position	Number of Shares	Approximate % of issued share capital
Sure Capital	Beneficial owner	Long position	459,375,000 (note 1)	45.51%
Bank of Communications Co., Ltd. ("Bank of Communications")	Interests of controlled corporation	Long position	81,960,000 (note 4)	8.12%
	Interests of controlled corporation	Short position	37,860,000 (note 2)	3.75%
BOCOM International Holdings Company Limited ("BOCOM Holdings")	Beneficial owner	Long position	44,100,000	
	Interests of controlled corporation	Long position	37,860,000 (note 3)	
			81,960,000 (note 4)	8.12%
	Interests of controlled corporation	Short position	37,860,000 (note 2)	3.75%
BOCOM International Securities Limited ("BOCOM Securities")	Beneficial owner	Long position	83,645,000	8.29%
	Beneficial owner	Short position	37,860,000 (note 2)	3.75%

Notes:

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

2. BOCOM Securities was a wholly owned subsidiary of BOCOM Holdings and which in turn was a wholly owned subsidiary of Bank of Communications. The short position of BOCOM Securities in 37,860,000 Shares were in respect of physically settled derivatives and represent the same number of Shares that BOCOM Holdings and Bank of Communications were deemed under the SFO to be interested.

3. The long position of BOCOM Holdings in 37,860,000 Shares represents Shares lent to and held by BOCOM Securities.

4. The long position of Bank of Communications in 81,960,000 Shares were the same Shares interested or deemed to be interested by BOCOM Holdings under the SFO.

Save as disclosed above, no other interest or short position in the Shares and underlying Shares of the Company were recorded in the register required to be kept under section 336 of the SFO as at 16 September 2010.

SHARE OPTIONS

During the six months ended 30 June 2010, the Company has not adopted any share option scheme and no share option has been granted by the Company during the period.

The Company adopted a share option scheme (the "Scheme") on 24 August 2010 for the purpose of providing incentives and rewards to eligible participants who contribute to the growth of the Group. Eligible participants of the Scheme include, without limitation, employees and directors of the Company and its subsidiaries, and any other eligible persons as defined in the Scheme. From the date of the adoption of the Scheme and up to the date of this interim report, no share option has been granted by the Company.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2010.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2010 and up to the date of this interim report.

CORPORATE GOVERNANCE

During the six months ended 30 June 2010 when the shares of the Company have not yet been listed on the Main Board of the Stock Exchange, the Company has not yet adopted the Code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"). Since the date of the Listing on 16 September 2010 and up to the date of this interim report, the Company has adopted the code provisions of the CG Code and has complied with all the code provisions of the CG Code.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference as suggested under the CG Code set out in Appendix 14 to the Listing Rules.

Our audit committee has three members, namely Messrs. Shen Kaijun, Wang Wanxu and Li Zhihong, all of whom are independent non-executive Directors. The chairman of our audit committee is Mr. Shen Kaijun.

The primary responsibilities of our audit committee include, among others, reviewing and supervising the financial reporting process and internal control system of our Group, nominating and monitoring external auditors and providing advice and comments to our Directors.

This interim report has been reviewed by our audit committee.

REMUNERATION COMMITTEE

The Company established a remuneration committee with written terms of reference.

Our remuneration committee has three members, namely Messrs. Li Zhihong, Wang Wanxu and Guan Jianzhong, of whom Messrs. Li Zhihong and Wang Wanxu are independent non-executive Directors and Mr. Guan Jianzhong is our chairman and an executive Director. The chairman of our remuneration committee is Mr. Li Zhihong.

The primary responsibilities of our remuneration committee include, among others, evaluating the performance and making recommendation on the remuneration package of our Directors and senior management, and evaluating and making recommendation on our share option scheme.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 30 June 2010 when the shares of the Company have not yet been listed on the Main Board of the Stock Exchange, the Company has not adopted any model code for securities transactions by Directors (the "Model Code"). The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as its Model Code on 24 August 2010. Having made a specific enquiry, all the Directors confirmed that they have complied with the Model Code since the date of Listing and up to the date of this interim report.

Independent Auditors' Report

ERNST & YOUNG
安永會計師事務所

To the shareholders of China Sanjiang Fine Chemicals Company Limited
(Incorporated in Cayman Islands with limited liability)

We have audited the financial statements of China Sanjiang Fine Chemicals Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 14 to 64, which comprise the consolidated statements of financial position as at 30 June 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of the financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

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

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

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

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

To the shareholders of China Sanjiang Fine Chemicals Company Limited
(Incorporated in Cayman Islands with limited liability)

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 30 June 2010 and of the Group's profit and cash flows for the six months then ended in accordance with Hong Kong Financial Reporting Standards.

Ernst & Young
Certified Public Accountants
18the Floor
Two International Finance Centre
8 Finance Street, Central

Hong Kong
29 September 2010

Consolidated Income Statement

Six months ended 30 June 2010

		Six months ended 30 June	
	Notes	**2010** **RMB'000**	2009 RMB'000 (Unaudited)
REVENUE	6	**831,240**	592,090
Cost of sales		**(670,722)**	(394,088)
Gross profit		**160,518**	198,002
Other income and gains	6	**10,669**	4,932
Selling and distribution cost		**(911)**	(1,302)
Administrative expenses		**(20,851)**	(14,202)
Other expenses		**(621)**	(244)
Finance costs	7	**(8,739)**	(17,754)
PROFIT BEFORE TAX	8	**140,065**	169,432
Income tax expense	11	**(29,326)**	(25,322)
PROFIT FOR THE PERIOD		**110,739**	144,110
Attributable to:			
Equity holders of the parent		**110,695**	134,619
Non-controlling interests		**44**	9,491
		110,739	144,110
Earnings per share attributable to equity holders of the parent			
Basic and diluted (RMB)	12	**10.97 cents**	13.34 cents

Consolidated Statement of Comprehensive Income

Six months ended 30 June 2010

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
		(Unaudited)
PROFIT FOR THE PERIOD	**110,739**	144,110
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	**110,739**	144,110
Attributable to:		
Equity holders of the parent	**110,695**	134,619
Non-controlling interests	**44**	9,491
	110,739	144,110

Consolidated Statement of Financial Position

30 June 2010

	Notes	As at 30 June 2010 RMB'000	As at 31 December 2009 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**871,796**	897,322
Prepaid land lease payments	14	**45,957**	48,539
Intangible assets	15	**18,121**	19,654
Advance payments for property, plant and equipment		**175,210**	53,941
Deferred tax assets	23	**335**	627
Total non-current assets		**1,111,419**	1,020,083
CURRENT ASSETS			
Inventories	16	**64,755**	67,717
Trade and notes receivables	17	**30,307**	38,763
Prepayments, deposits and other receivables	18	**41,160**	22,260
Due from related parties	29	**–**	142,403
Pledged deposits	19	**429,065**	236,547
Cash and cash equivalents	19	**151,406**	109,205
Total current assets		**716,693**	616,895
CURRENT LIABILITIES			
Trade and bills payables	20	**205,462**	254,083
Other payables and accruals	21	**78,460**	136,764
Interest-bearing bank borrowings	22	**740,225**	629,986
Due to directors	29	**80**	1,564
Due to related parties	29	**4,376**	5,878
Due to the parent and ultimate holding company	29	**135,818**	68,282
Dividends payable		**113,068**	172,036
Tax payable		**20,473**	11,865
Total current liabilities		**1,297,962**	1,280,458
NET CURRENT LIABILITIES		**(581,269)**	(663,563)
TOTAL ASSETS LESS CURRENT LIABILITIES		**530,150**	356,520

Consolidated Statement of Financial Position *(continued)*

30 June 2010

	Notes	As at 30 June 2010 RMB'000	As at 31 December 2009 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	22	**171,370**	89,500
Deferred tax liabilities	23	**43,718**	32,822
Total non-current liabilities		**215,088**	122,322
Net assets		**315,062**	234,198
EQUITY			
Equity attributable to equity holders of the parent			
Share capital	24	**901**	901
Reserves	25	**(30,689)**	(51,379)
Retained profits		**342,955**	284,838
		313,167	234,360
Non-controlling interests		**1,895**	(162)
Total equity		**315,062**	234,198

Consolidated Statement of Changes in Equity

Six months ended 30 June 2010

	Attributable to equity holders of the parent							
	Share capital RMB'000	**Statutory surplus reserve* (note 25) RMB'000**	**Share premium* (note 25) RMB'000**	**Merger reserve* (note 25) RMB'000**	**Retained profits RMB'000**	**Total RMB'000**	**Non-controlling interests RMB'000**	**Total equity RMB'000**
At 1 January 2010	**901**	**56,331**	**493,934**	**(601,644)**	**284,838**	**234,360**	**(162)**	**234,198**
Profit for the period	**–**	**–**	**–**	**–**	**110,695**	**110,695**	**44**	**110,739**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**110,695**	**110,695**	**44**	**110,739**
Deemed distribution to equity holders	**–**	**–**	**–**	**8,052****	**–**	**8,052**	**2,013**	**10,065**
Dividends declared to ultimate holding company	**–**	**–**	**–**	**–**	**(39,940)**	**(39,940)**	**–**	**(39,940)**
Appropriation to statutory surplus reserve	**–**	**12,638**	**–**	**–**	**(12,638)**	**–**	**–**	**–**
At 30 June 2010	**901**	**68,969**	**493,934**	**(593,592)**	**342,955**	**313,167**	**1,895**	**315,062**

	Attributable to equity holders of the parent							
	Share capital RMB'000 (Unaudited)	Statutory surplus reserve* (note 25) RMB'000 (Unaudited)	Share premium* (note 25) RMB'000 (Unaudited)	Merger reserve* (note 25) RMB'000 (Unaudited)	Retained profits RMB'000 (Unaudited)	Total RMB'000 (Unaudited)	Non-controlling interests RMB'000 (Unaudited)	Total equity RMB'000 (Unaudited)
At 1 January 2009	–	29,570	–	36,489	235,791	301,850	36,391	338,241
Profit for the period	–	–	–	–	134,619	134,619	9,491	144,110
Total comprehensive income for the period	–	–	–	–	134,619	134,619	9,491	144,110
Appropriation to statutory surplus reserve	–	14,429	–	–	(14,429)	–	–	–
At 30 June 2009	–	43,999	–	36,489	355,981	436,469	45,882	482,351

* These reserve accounts comprise the consolidated reserves RMB(30,689,000) in the consolidated statement of financial position as at 30 June 2010 (30 June 2009: RMB80,488,000).

** As part of the Reorganisation, on 1 April 2010, the Group acquired the EO trading and surfactant manufacture and sales businesses (the "Acquired Businesses") from Hangzhou Haoming Investment Co., Limited (formerly known as Hangzhou Xiaoshan Sanjiang Fine Chemical Co., Limited and Xiaoshan City Sanjiang Fine Chemical Co., Limited) ("Hangzhou Haoming"). Except for the assets and liabilities acquired by the Group, the land use right, buildings and motor vehicles related to the Acquired Businesses retained by Hangzhou Haoming have been reflected as a distribution to the ultimate shareholder in the consolidated statement of changes in equity on the date of completion of the business acquisition.

Consolidated Statement of Cash Flows

Six months ended 30 June 2010

	Notes	Six months ended 30 June 2010 RMB'000	2009 RMB'000 (Unaudited)
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before tax		**140,065**	169,432
Adjustments for:			
Finance costs	7	**8,739**	17,754
Bank interest income	6	**(4,032)**	(3,506)
Foreign exchange differences, net	6	**(3,706)**	(33)
Depreciation	8	**34,528**	37,117
Loss on disposals of items of property, plant and equipment	8	**20**	–
Recognition of prepaid land lease payments	8	**550**	399
Amortisation of intangible assets	8	**1,533**	1,487
Impairment of other receivables	8	**–**	36
		177,697	222,686
Decrease in inventories		**2,962**	3,604
Decrease/(increase) in trade and notes receivables		**8,456**	(31,870)
Increase in prepayments, deposits and other receivables		**(19,022)**	(112,389)
Increase in amounts due from directors		**–**	(1,793)
Decrease/(increase) in amounts due from related parties		**102,910**	(60,507)
Decrease in trade and bills payables		**(54,381)**	(107,346)
(Decrease)/increase in other payables and accruals		**(48,306)**	630
Decrease in amounts due to directors		**(1,484)**	(49)
Increase in amounts due to related parties		**63,432**	10,041
Increase in amounts due to the parent and ultimate holding company		**67,536**	–
Cash generated from operations		**299,800**	(76,993)
Income tax paid		**(9,530)**	(4,280)
Net cash flows from/(used in) operating activities		**290,270**	(81,273)

Consolidated Statement of Cash Flows *(continued)*

Six months ended 30 June 2010

	Notes	2010 RMB'000	2009 RMB'000 (Unaudited)
		Six months ended 30 June	
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(137,745)**	(5,532)
Acquisition of businesses pursuant to the Group Reorganisation		**(5,481)**	–
Proceeds from disposals of items of property, plant and equipment		**329**	–
Interest received		**4,032**	3,506
Increase in pledged deposits		**(192,518)**	(113,462)
Net cash used in investing activities		**(331,383)**	(115,488)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**735,194**	592,446
Repayment of bank loans		**(543,085)**	(345,303)
Acquisition of subsidiaries pursuant to the Group Reorganisation		**(9,998)**	–
Interest paid		**(9,355)**	(17,754)
Dividend paid to the parent and the ultimate holding company		**(93,139)**	–
Dividend paid to non-controlling shareholders		**(9)**	–
Net cash flows from financing activities		**79,608**	229,389
NET INCREASE IN CASH AND CASH EQUIVALENTS		**38,495**	32,628
Cash and cash equivalents at beginning of year		**109,205**	65,365
Effect of foreign exchange rate changes, net		**3,706**	33
CASH AND CASH EQUIVALENTS AT END OF PERIOD	19	**151,406**	98,026

Notes to the Consolidated Financial Statements

1. CORPORATE INFORMATION

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

The Company is an investment holding company. The Company's subsidiaries are involved in the manufacture and supply of EO and surfactants, both of which are core chemical components for the production of household and industrial detergent products. The subsidiaries also involve in the provision of processing service for surfactants to its customers and the production and supply of other chemical products such as ethylene glycol, polymer grade ethylene and industrial gases, namely oxygen, nitrogen and argon in the People's Republic of China (the "PRC").

In the opinion of the directors of the Company, the ultimate holding company of the Company is Sure Capital Holdings Limited (the "Parent").

2. BASIS OF PRESENTATION

Pursuant to the Reorganisation, the Company became the holding company of the companies now comprising the Group on 1 September 2009 by acquiring the entire issued share capital of Capitol International Limited ("Capitol International"), a company incorporated in Hong Kong, which was the then holding company of the other subsidiaries comprising the Group. Since Guan Jianzhong and Han Jianhong (spouse of Guan Jianzhong) controlled the Group before and after the Reorganisation, the Reorganisation is accounted for as reorganisation under common control using the principles of merger accounting in accordance with the Accounting Guidance 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA.

As part of the Reorganisation, on 1 April 2010, the Group acquired the EO trading and surfactant manufacture and sales businesses (the "Acquired Businesses") from Hangzhou Haoming, an entity controlled by Guan Jianzhong (the "Hangzhou Haoming Business Acquisition"). Under the terms of the agreements, the Group acquired the production facilities, inventories, and other assets and liabilities related to the Acquired Businesses (the "Net Assets Acquired"). The land use right, buildings and motor vehicles related to the Acquired Businesses (the "Assets Retained") and other assets and liabilities unrelated to the Acquired Businesses have been retained by Hangzhou Haoming. The financial statements combined the Net Assets Acquired, the Assets Retained and the results of operations relating to the Acquired Businesses using merger accounting because the Acquired Businesses of Hangzhou Haoming are under the common control and management of Guan Jianzhong and Han Jianhong before and after the Reorganisation. At the acquisition date, the Assets Retained have been reflected as a distribution to equity holders in the consolidated statement of changes in equity and leased by the Group.

These financial statements includes the consolidated income statement, comprehensive income, changes in equity, cash flows and financial position of the companies now comprising the Group, as if the current group structure resulted from the Reorganisation had been in existence throughout the periods presented, or since their respective dates of incorporation, whichever is a shorter period. All significant intra-group transactions and balances have been eliminated on consolidation.

3.1 BASIS OF PREPARATION

The 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 HKICPA, accounting principles generally accepted in Hong Kong.

The financial statements have been prepared under the historical cost convention. The financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Going concern assumption

As at 30 June 2010, the Group's net current liabilities amounted to approximately RMB581 million, which comprised current assets of approximately RMB717 million and current liabilities of approximately RMB1,298 million. The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflows from operations and sufficient financing to meet its financial obligations as and when they fall due. In preparing the financial statements, the Directors of the Company have considered the Group's sources of liquidity and believe that adequate funding is available to fulfill the Group's debt obligations and capital expenditure requirements. Accordingly, the consolidated financial statements have been prepared on a basis that the Group will be able to continue as a going concern.

3.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised interpretations and amendments to HKFRSs for the first time for the current period's financial statements.

HKFRS 1 (Revised)	First-time Adoption of HKFRSs
HKFRS 1 Amendment	Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters
HKFRS 2 Amendments	Amendments to HKFRS 2 Share-based Payment – Group Cash-settled Share-base Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 Amendment	Amendments to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners
Amendments to HKFRS 5 included in Improvements to HKFRSs 2008	Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary
HK-Interpretation 4 Amendment (Revised In December 2009)	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases
HKFRSs (Amendments)	Improvements to HKFRSs 2009

The adoption of these new and revised HKFRSs has had no significant financial effect on the financial statements for the periods 30 June 2010 and 2009 and there have been no significant changes to the accounting policies applied in the financial statements.

3.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRS 1 Amendment	Amendments to HKFRS 1 *Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters* [2]
HKFRS 9	Financial Instruments [4]
HKAS 24 (Revised)	Related Party Disclosures [3]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* [1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement* [3]
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments [2]

Apart from the above, the HKICPA has issued the third batch of Improvements to HKFRSs in May 2010. Except for the amendments to HKFRS 3 and HKAS 27 which are effective for annual periods beginning on or after 1 July 2010, amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

1 Effective for annual periods beginning on or after 1 February 2010
2 Effective for annual periods beginning on or after 1 July 2010
3 Effective for annual periods beginning on or after 1 January 2011
4 Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised standards, amendments and interpretations upon initial application. So far, the Group considers that except for the adoption of HKFRS 9 which may result in changes in accounting policies, the other revised standards, amendments or interpretations are unlikely to have a significant impact on the Group's results of operations and financial position.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The financial statements comprise the financial statements of the Company and its subsidiaries for the six months ended 30 June 2010.

Acquisitions under common control which is treated as business combination under common control are accounted for using merger accounting principles. The merger method of accounting involves incorporating the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been consolidated from the date when the combining entities or businesses first came under the control of the controlling party. The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or the excess of the acquirers' interest in the net fair value of acquirees' identifiable assets, liabilities and contingent liabilities over the cost of investment at the time of common control combination. The consolidated income statement include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under common control, where this is a shorter period, regardless of the date of the common control combination.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies.

All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

The acquisition of subsidiaries during the period has been accounted for using the purchase methods of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Non-controlling interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. An acquisition of non-controlling interests is accounted for using the entity concept method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as an equity transaction.

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's interests in jointly-controlled entities are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's interests in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred.

Impairment of non-financial assets other than goodwill

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 to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

An assessment is made at the end of each reporting period as to whether there is any 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 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 consolidated income statement in the period in which it arises.

Related parties

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

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties *(Continued)*

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

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 consolidated income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for 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 depreciation.

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

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

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation methods are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and 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 consolidated income statement 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 a building under construction, which is stated at cost less any impairment losses, and is 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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets

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 as 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.

Operating leases

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

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

Investments and other financial assets

Initial recognition and measurements

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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.

The Group's financial assets include cash and bank balances and trade and other receivables.

3.4 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 fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in the income statement. These net fair value changes do not include any dividends on these financial assets, which are recognised in accordance with the policy set out for "Revenue recognition" below.

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

Loans and receivables

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

Impairment of financial assets

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

Financial assets carried at amortised cost

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

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

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

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 derecognised when:

- the rights to receive cash flows from the asset have expired and;

- 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, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. 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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial assets *(Continued)*

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.

Financial liabilities

Financial liabilities including trade, bills and other payables, amounts due to directors and related parties, financial guarantee contracts and interest-bearing bank borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "finance costs" in the consolidated income statement.

Gains and losses are recognised in the consolidated income statement when the liabilities are derecognised as well as through the amortisation process.

Financial guarantee contracts

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

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.

3.4 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 statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

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 to equity.

Current tax assets and liabilities for the current and prior periods 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 interpretation 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:

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

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

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

- where 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, 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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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 realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the consolidated income statement over the expected useful life of the relevant asset by equal annual installments.

Revenue recognition

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

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

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

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

(d) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Retirement benefits

The Group's subsidiaries which operate in Mainland China are required to provide certain staff pension benefits to their employees under existing regulations of the People's Republic of China ("PRC"). Pension scheme contributions are provided at rates stipulated by PRC regulations and are made to a pension fund managed by government agencies, which are responsible for administering the contributions for the subsidiaries' employees. The pension scheme is considered as defined contribution plan because the Group has no legal or constructive obligations for retirement benefits beyond the contribution made. Contributions to the defined contribution pension scheme are recognised as expenses in the income statement as incurred.

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

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

Foreign currencies

The financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of reporting period. All differences are taken to the consolidated income statement. 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 determined.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the financial statements require management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

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

Impairment of non-financial assets other than goodwill

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Other non-financial assets 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 to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Deferred tax assets

Deferred tax assets are recognised for pre-operating expense and other temporary differences to the extent that it is probable that taxable profit will be available against which the temporary tax differences can be utilised. Significant management judgment 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. Further details on deferred tax assets are disclosed in note 24 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 judgments based on currently enacted tax laws, regulations and other related policies are required in determining the provision of corporate income taxes. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact the corporate income tax and tax provisions in the period in which the differences are realised. Further details are disclosed in note 11 to the financial statements.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Estimation uncertainty *(Continued)*

Impairment of trade and other receivables

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

Useful lives and residual values of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, 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 residues 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.

5. SEGMENT INFORMATION

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

Entity-wide disclosures

Information about products

The following table sets forth the total revenue from external customers by product during the periods:

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
		(Unaudited)
Ethylene oxide	**700,454**	385,656
Surfactants	**80,153**	121,083
Other chemical products	**41,944**	24,220
Processing services	**7,079**	59,872
Others	**1,610**	1,259
	831,240	592,090

Geographical information

All external revenue of the Group during each of the periods are attributable to customers established in the PRC, the place of domicile of the Group's operating entities. Meanwhile, the Group's non-current assets are all located in the PRC. Therefore, no further geographical information is presented.

6. REVENUE, OTHER INCOME AND GAINS

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

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

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
		(Unaudited)
Revenue		
Sales of goods	**822,551**	530,959
Provision of services	**7,079**	59,872
Others	**1,610**	1,259
	831,240	592,090
Other income and gains		
Bank interest income	**4,032**	3,506
Government subsidies*	**53**	254
Foreign exchange gains, net	**3,706**	33
Other lease income	**2,272**	316
Others	**606**	823
	10,669	4,932

* Government subsidies mainly represented incentive provided by local government for the Group to operate in Jiaxing, Zhejiang Province, the PRC. There are no unfulfilled conditions or contingencies attached to these grants recognised.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
		(Unaudited)
Interest on bank loans wholly repayable within five years	**9,355**	17,754
Less: Amount capitalised in construction in progress	**(616)**	–
	8,739	17,754

8. PROFIT BEFORE TAX

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

		Six months ended 30 June	
		2010	2009
	Notes	**RMB'000**	RMB'000
			(Unaudited)
Cost of inventories sold		**669,903**	393,249
Others		**819**	839
		670,722	394,088
Depreciation	13	**34,528**	37,117
Recognition of prepaid land lease payments	14	**550**	399
Amortisation of intangible assets	15	**1,533**	1,487
Loss on disposal of property, plant and equipment		**20**	–
Impairment of other receivables		**–**	36
Employee benefit's expense (including directors' remuneration (note 9)):			
Wages and salaries		**9,774**	8,381
Pension scheme contribution		**2,062**	2,012
Staff welfare expenses		**773**	874
		12,609	11,267

9. DIRECTORS' REMUNERATION

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
		(Unaudited)
Salaries, allowances and benefits in kind	**757**	517
Pension scheme contribution	**12**	5
	769	522

	Fees RMB'000	**Salaries, allowances and benefits in kind RMB'000**	**Bonus RMB'000**	**Pension scheme contributions RMB'000**	**Total remuneration RMB'000**
Six months ended 30 June 2010					
Executive directors:					
Guan Jianzhong	–	**260**	–	**3**	**263**
Han Jianhong	–	**257**	–	**3**	**260**
Niu Yingshan	–	**168**	–	**1**	**169**
Han Jianping	–	**72**	–	**5**	**77**
	–	**757**	–	**12**	**769**

9. DIRECTORS' REMUNERATION *(Continued)*

	Fees RMB'000 (Unaudited)	Salaries, allowances and benefits in kind RMB'000 (Unaudited)	Bonus RMB'000 (Unaudited)	Pension scheme contributions RMB'000 (Unaudited)	Total remuneration RMB'000 (Unaudited)
Six months ended 30 June 2009					
Executive directors:					
Guan Jianzhong	–	153	–	2	155
Han Jianhong	–	185	–	1	186
Niu Yingshan	–	146	–	1	147
Han Jianping	–	33	–	1	34
	–	517	–	5	522

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

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees included three directors for the six months ended 30 June 2010 and 2009, whose remuneration details are set out in note 9 above. Details of the remuneration of the remaining highest paid employees for each of the periods are as follows:

	Six months ended 30 June	
	2010 RMB'000	2009 RMB'000 (Unaudited)
Salaries, allowances and benefits in kind	**303**	272
Pension scheme contribution	**5**	4
	308	276

The remuneration of the highest paid, non-director employees fell within the range of nil to RMB300,000.

11. INCOME TAX EXPENSE

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 periods are analysed as follows:

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
		(Unaudited)
Current – PRC		
Charge for the period	**18,138**	11,687
Deferred (note 23)	**11,188**	13,635
Total tax charge for the period	**29,326**	25,322

Pursuant to the relevant tax law of Hong Kong Special Administrative Region, Hong Kong profits tax is subject to tax rates of 16.5% for the six months ended 30 June 2010 and 2009 on the estimated assessable profits arising in Hong Kong during the periods. No provision of Hong Kong profits tax has been made as the Group had no taxable income derived from Hong Kong during the periods.

During the Fifth Session of the Tenth National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law (the "Corporate Income Tax Law") was approved and became effective on 1 January 2008. The Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rates for domestic-invested and foreign-invested enterprises at 25%. In this connection, Sanjiang Chemical Co., Limited ("Sanjiang Chemical"), Yongming Petrochemical Co., Limited ("Yongming Petrochemical"), Sanjiang Trading Co., Limited ("Sanjiang Trading") and Jiaxing Port Area Industrial Park Guanlang Co., Ltd. ("Guanlang") have been subject to corporate income tax ("CIT") at the rate of 25% since 2008.

Sanjiang Chemical was registered as a foreign-invested enterprise on 9 December 2003. Sanjiang Chemical was subject to CIT at the rate of 25% for the six months ended 30 June 2010. Pursuant to the approval of the tax bureau, Sanjiang Chemical was exempted from CIT for its first two profit-making years (after deducting losses incurred in previous years) and was entitled to a 50% tax reduction for the succeeding three years. The first profitable year of Sanjiang Chemical was 2006. Therefore, Sanjiang Chemical was subject to CIT at a reduced rate of 12.5% for the six months ended 30 June 2010 and 2009.

Yongming Petrochemical was registered as a foreign-invested enterprise on 9 December 2003 and subject to CIT at the rate of 25% for the six months ended 30 June 2010 and 2009. Pursuant to the approval of the tax bureau, Yongming Petrochemical was exempted from CIT for its first two profit-making years (after deducting losses incurred in previous years) and was entitled to a 50% tax reduction for the succeeding three years. In accordance with the Corporate Income Tax Law, a company would be deemed to trigger the tax holiday from 1 January 2008 even if it did not have taxable profits at that time. Although Yongming Petrochemical was under accumulative loss position as of 1 January 2008, its tax holiday was deemed to have started in 2008. Therefore, Yongming Petrochemical was subject to CIT rate of 12.5% for the six months ended 30 June 2010 and was exempted from CIT for the six months ended 30 June 2009.

11. INCOME TAX EXPENSE *(Continued)*

Guanlang was registered as a domestic-invested enterprise on 29 September 2005 and was subject to CIT at the rate of 25% for the six months ended 30 June 2010 and 2009.

Sanjiang Trading was registered as a domestic-invested enterprise on 29 October 2004 and was subject to CIT at a rate of 25% for the six months ended 30 June 2010 and 2009.

Hangzhou Textile Auxiliaries Co., Limited ("Hangzhou Sanjiang") was registered as a domestic-invested enterprise on 1 April 2010 and was subject to CIT at a rate of 25% for the six months ended 30 June 2010.

A reconciliation of the tax expense applicable to profit before tax using the statutory rates in Mainland China to the tax expense at the effective tax rates is as follows:

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
		(Unaudited)
Profit before tax	**140,065**	169,432
Tax at the statutory tax rates	**35,016**	42,358
Tax effect of tax concession and allowances	**(17,312)**	(30,291)
Tax losses not recognised	**202**	160
Expenses not deductible for tax	**615**	1,257
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries (note 23)	**10,896**	13,355
Tax losses utilized from previous years	**(91)**	(1,517)
Tax charge at the Group's effective rate	**29,326**	25,322

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

The calculation of basic earnings per share for the six months ended 30 June 2010 and 2009 is based on the following data:

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
		(Unaudited)
Profit for the period attributable to equity holders of the parent for the purpose of basic earnings per share	**110,695**	134,619
Number of ordinary shares for the purpose of basic earnings per share	**1,009,303,000**	1,009,303,000

The number of ordinary shares used to calculate the basic earnings per share for the six months ended 30 June 2010 and 2009 was based on the 1,009,303,000 ordinary shares, representing the number of shares of the Company immediately after the capitalisation issue, as if the shares had been in issue throughout the six months ended 30 June 2010 and 2009.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
30 June 2010						
At 1 January 2010:						
Cost	**205,695**	**817,637**	**3,267**	**11,536**	**32,803**	**1,070,938**
Accumulated depreciation	**(31,264)**	**(134,210)**	**(1,632)**	**(6,510)**	**–**	**(173,616)**
Net carrying amount	**174,431**	**683,427**	**1,635**	**5,026**	**32,803**	**897,322**
At 1 January 2010:						
Net of accumulated depreciation	**174,431**	**683,427**	**1,635**	**5,026**	**32,803**	**897,322**
Additions	**182**	**62**	**42**	**–**	**16,806**	**17,092**
Disposal	**–**	**–**	**–**	**(349)**	**–**	**(349)**
Deemed distribution to equity holders*	**(7,176)**	**–**	**–**	**(565)**	**–**	**(7,741)**
Depreciation provided during the year	**(4,773)**	**(28,814)**	**(232)**	**(709)**	**–**	**(34,528)**
Transfers	**614**	**–**	**–**	**–**	**(614)**	**–**
At 30 June 2010:						
Net of accumulated depreciation and impairment	**163,278**	**654,675**	**1,445**	**3,403**	**48,995**	**871,796**
At 30 June 2010:						
Cost	**197,383**	**817,699**	**3,309**	**7,438**	**48,995**	**1,074,824**
Accumulated depreciation	**(34,105)**	**(163,024)**	**(1,864)**	**(4,035)**	**–**	**(203,028)**
Net carrying amount	**163,278**	**654,675**	**1,445**	**3,403**	**48,995**	**871,796**

13. 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 2009						
At 1 January 2009:						
Cost	178,901	560,746	2,671	10,030	240,442	992,790
Accumulated depreciation	(21,779)	(69,296)	(1,185)	(4,709)	–	(96,969)
Net carrying amount	157,122	491,450	1,486	5,321	240,442	895,821
At 1 January 2009:						
Net of accumulated depreciation	157,122	491,450	1,486	5,321	240,442	895,821
Additions	–	21	666	728	76,946	78,361
Disposal	–	–	–	(7)	–	(7)
Disposal of a subsidiary	–	–	(48)	–	–	(48)
Depreciation provided during the year	(9,485)	(64,914)	(469)	(1,937)	–	(76,805)
Transfers	26,794	256,870	–	921	(284,585)	–
At 31 December 2009:						
Net of accumulated depreciation and impairment	174,431	683,427	1,635	5,026	32,803	897,322
At 31 December 2009:						
Cost	205,695	817,637	3,267	11,536	32,803	1,070,938
Accumulated depreciation	(31,264)	(134,210)	(1,632)	(6,510)	–	(173,616)
Net carrying amount	174,431	683,427	1,635	5,026	32,803	897,322

* It represented the buildings and motor vehicles not acquired by the Group upon the completion of the Reorganisation. The Group has entered into a lease agreement with Hangzhou Haoming and continued to use the land use right and building through operating lease arrangements with lease terms expire in 2016 and 2020 respectively. The average remaining useful life of the equipment located in the land and buildings under operating lease is 5 years which were shorter than the lease period.

As at 30 June 2010, certain of the Group's buildings and plant and machinery with aggregate net carrying values of RMB195,686,000 (31 December 2009: RMB201,896,000), were pledged to secure bank loan facilities granted to the Group (note 22).

As at 30 June 2010, the Group was unable to obtain the building ownership certificates for certain of the Group's buildings with aggregate net carrying values of RMB586,000 (31 December 2009: RMB589,000).

14. PREPAID LAND LEASE PAYMENTS

	As at 30 June 2010 RMB'000	As at 31 December 2009 RMB'000
Carrying amount at beginning of year	**49,679**	32,532
Additions	**–**	18,067
Deemed distribution to equity holders*	**(2,154)**	–
Recognised during the year/period	**(550)**	(920)
Carrying amount at end of year/period	**46,975**	49,679
Current portion included in prepayments, deposits and other receivables	**(1,018)**	(1,140)
Non-current portion	**45,957**	48,539

* It represented the land use right not acquired by the Group upon the completion of the Reorganisation. The Group has entered into a lease agreement with Hangzhou Haoming and continued to use the land use right and building through operating lease arrangement with lease terms expire in 2016 and 2020 respectively.

The Group's leasehold land is held under long-term leases and is situated in the PRC.

As at 30 June 2010, none of the Group's leasehold land (31 December 2009: RMB9,411,000), were pledged to secure bank loan facilities granted to the Group (note 22).

15. INTANGIBLE ASSETS

	Software RMB'000	Technology use right RMB'000	Others RMB'000	Total RMB'000
30 June 2010				
Cost at 1 January 2010, net of accumulated amortisation	**56**	**18,415**	**1,183**	**19,654**
Additions	**–**	**–**	**–**	**–**
Amortisation provided during the period	**(14)**	**(1,483)**	**(36)**	**(1,533)**
At 30 June 2010	**42**	**16,932**	**1,147**	**18,121**
Cost	**148**	**28,852**	**1,400**	**30,400**
Accumulated amortisation	**(106)**	**(11,920)**	**(253)**	**(12,279)**
Net carrying amount At 30 June 2010	**42**	**16,932**	**1,147**	**18,121**

	Software RMB'000	Technology use right RMB'000	Others RMB'000	Total RMB'000
31 December 2009				
Cost at 1 January 2009, net of accumulated amortisation	84	21,244	1,254	22,582
Additions	–	92	–	92
Amortisation provided during the year	(28)	(2,921)	(71)	(3,020)
At 31 December 2009	56	18,415	1,183	19,654
Cost	148	28,852	1,400	30,400
Accumulated amortisation	(92)	(10,437)	(217)	(10,746)
Net carrying amount At 31 December 2009	56	18,415	1,183	19,654

16. INVENTORIES

	As at 30 June 2010 RMB'000	As at 31 December 2009 RMB'000
Raw materials	**57,403**	57,773
Finished goods	**7,352**	9,944
	64,755	67,717

17. TRADE AND NOTES RECEIVABLES

	As at 30 June 2010 RMB'000	As at 31 December 2009 RMB'000
Trade receivables	**11,440**	17,827
Notes receivables	**18,867**	21,202
	30,307	39,029
Less: Impairment	**–**	(266)
	30,307	38,763

The Group's trading terms with its customers are mainly on credit. The credit period is generally 15 to 30 days, extending up to three months for major 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.

17. TRADE AND NOTES RECEIVABLES *(Continued)*

The movement in provision for impairment of trade receivables is as follows:

	As at 30 June 2010 RMB'000	As at 31 December 2009 RMB'000
At beginning of year	**266**	266
Amount written off as uncollectible	**(266)**	–
At end of year/period	**–**	266

As at 30 June 2010, the provision for individually impaired trade receivables is nil (31 December 2009: RMB266,000). The individually impaired trade receivables are long term and relate to customers that have no transaction with the Group anymore, and none of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

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

	As at 30 June 2010 RMB'000	As at 31 December 2009 RMB'000
1 to 30 days	**15,695**	12,947
31 to 60 days	**2,607**	6,691
61 to 90 days	**10,108**	5,032
91 to 360 days	**1,294**	3,537
Over 360 days	**603**	10,822
	30,307	39,029

17. TRADE AND NOTES RECEIVABLES *(Continued)*

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

	As at 30 June 2010 RMB'000	As at 31 December 2009 RMB'000
Neither past due nor impaired	**29,052**	23,207
Less than 30 days past due	**132**	3,449
31 to 60 days past due	**138**	739
61 to 90 days past due	**–**	103
91 to 360 days past due	**382**	709
Over 360 days	**603**	10,556
	30,307	38,763

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

Receivables that were past due but not impaired relate to an independent customer that has a good track record with the Group. Based on past experience, the Directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 30 June 2010 RMB'000	As at 31 December 2009 RMB'000
Other receivables	**8,356**	11,402
Prepayments	**31,967**	10,515
Prepaid land lease payments (note 14)	**1,018**	1,140
	41,341	23,057
Less: Impairment	**(181)**	(797)
	41,160	22,260

18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(Continued)*

Other receivables are non-interest bearing, unsecured and repayable on demand. The individually impaired prepayments relate to suppliers from whom the purchased materials were not received. Except for the impairment of prepayments mentioned above, none of the other above assets is either past due or impaired.

The financial assets included in the above balances relate to receivables for which there was no recent history of default.

The movements in provision for impairment of prepayment are as follows:

	As at 30 June 2010 RMB'000	As at 31 December 2009 RMB'000
At beginning of year	**797**	761
Impairment losses recognised	**–**	36
Amount written off as uncollectible	**(616)**	–
At end of year/period	**181**	797

19. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	As at 30 June 2010 RMB'000	As at 31 December 2009 RMB'000
Cash and bank balances	**151,406**	109,205
Time deposits	**429,065**	236,547
	580,471	345,752
Less: Pledged time deposits:		
Pledged for bank loans (Note22(iii))	**387,310**	221,150
Pledged for bills payables	**41,755**	15,397
Cash and cash equivalents	**151,406**	109,205

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

20. TRADE AND BILLS PAYABLES

	As at 30 June 2010 RMB'000	As at 31 December 2009 RMB'000
Trade payables	**205,159**	159,157
Bills payables	**303**	94,926
	205,462	254,083

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

	As at 30 June 2010 RMB'000	As at 31 December 2009 RMB'000
Within 3 months	**154,881**	189,799
3 to 6 months	**49,049**	62,172
6 to 12 months	**756**	259
12 to 24 months	**240**	1,095
24 to 36 months	**160**	89
Over 36 months	**376**	669
	205,462	254,083

The trade and bills payables are non-interest-bearing and have an average credit term of three to six months.

21. OTHER PAYABLES AND ACCRUALS

	As at 30 June 2010 RMB'000	As at 31 December 2009 RMB'000
Other payables	**49,845**	55,812
Taxes other than income tax	**4,585**	9,602
Advances from customers	**9,651**	53,376
Payroll payable	**7,046**	7,736
Other accrued liabilities	**7,333**	10,238
	78,460	136,764

Other payables and advances from customers are non-interest-bearing and have an average credit term of three months.

22. INTEREST-BEARING BANK BORROWINGS

	Effective Interest rate (%)	Maturity	**As at 30 June 2010 RMB'000**	As at 31 December 2009 RMB'000
Current				
Bank loans – secured *	1.184-8.127	Within 1 year	**–**	551,986
Bank loans – secured *	0.240-4.253	Within 1 year	**740,225**	–
			740,225	551,986
Current portion of long term bank loans – secured *	7.371-8.127		**–**	28,000
Discounted bank acceptances *	0.185-4.440		**–**	50,000
			740,225	629,986
Non-current				
Bank loans – secured *	7.371-8.280	2011.11.15-2013.4.26	**–**	89,500
	4.860-6.831	2011.7.15-2015.4.12	**171,370**	–
			171,370	89,500
			911,595	719,486
Repayable:				
Within one year or on demand			**740,225**	629,986
In the second year			**115,000**	42,000
In the third to fifth years, inclusive			**56,370**	47,500
			911,595	719,486

* The Group's bank borrowings are secured by:

(i) Mortgages over the Group's buildings and plant and machinery situated in the PRC with aggregate net book values of RMB195,686,000 as at 30 June 2010 (31 December 2009: RMB201,896,000) (note 13).

(ii) No mortgages over the Group's leasehold land situated in the PRC as at 30 June 2010 (31 December 2009: RMB9,411,000) (note 14).

(iii) Pledge of certain of the Group's time deposit amounting to RMB387,310,000 as at 30 June 2010 (31 December 2009: RMB221,150,000) (note 19).

23. DEFERRED TAX

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

Deferred tax liabilities

	Withholding tax on the Distributable profits RMB'000
At 1 January 2009	14,110
Deferred tax charged to the income statement during the year (note 11)	18,712
At 31 December 2009 and 1 January 2010	32,822
Deferred tax charged to the income statement during the period (note 11)	10,896
At 30 June 2010	43,718

Deferred tax assets

	Impairment of assets RMB'000	**Pre-operating expense** RMB'000	**Unrealized profit attributable to intra-group transactions** RMB'000	**Total** RMB'000
At 1 January 2009	36	1,158	13	1,207
Deferred tax credited/(charged) to the income statement during the year (note 11)	9	(579)	(10)	(580)
At 31 December 2009 and 1 January 2010	45	579	3	627
Deferred tax charged to the income statement during the period (note11)	–	(289)	(3)	(292)
At 30 June 2010	45	290	–	335

23. DEFERRED TAX *(Continued)*

Pursuant to the PRC CIT 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 arrangement between China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable to withholding taxes on dividend distributed by foreign invested subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. The Group recognised deferred tax liabilities in respect of accumulated distributable earnings from its foreign invested subsidiaries established in Mainland China since 1 January 2008, no matter whether such earnings have been declared or not by the foreign invested subsidiaries at the reporting date.

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 the losses of Yongming Petrochemical, Sanjiang Trading, Hangzhou Sanjiang and Guanlang as it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Deferred tax assets have not been recognised in respect of the following items:

	As at 30 June 2010 RMB'000	As at 31 December 2009 RMB'000
Tax losses of Sanjiang Trading	**56**	14
Tax losses of Hangzhou Sanjiang	**160**	–
Tax losses of Guanlang	**16**	107
	232	121

Tax losses are available for five years to offset against future taxable profits at the companies in which the losses arose.

24. SHARE CAPITAL

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

	Notes	Number of shares	Amount RMB'000
Authorised ordinary shares of USD1 each:			
At 31 December 2009	(i)	132,000	901
Issued and fully paid ordinary shares of USD1 each:			
At 30 January 2009, date of incorporation	(i)	1	–
Issue of shares on 4 August 2009	(ii)	9,999	68
Issue of shares on 28 September 2009	(iii)	114,080	779
Issue of shares on 8 December 2009	(iv)	7,920	54
At 31 December 2009 and 30 June 2010		132,000	901

(i) As at the date of incorporation, the authorised ordinary share capital of the Company was USD1 and was fully paid at par. The share was subsequently transferred to Sure Capital International Ltd. ("Sure Capital") on 4 August 2009.

(ii) On 4 August 2009, 9,999 ordinary shares were issued to Sure Capital for a consideration of USD9,999 (equivalent to approximately RMB68,000).

(iii) On 28 September 2009, the Company acquired 10,000 shares of HK$1 each in Capitol International from Guan Jianzhong and Han Jianhong in consideration of and in exchange for which the Company allotted and issued 114,080 shares to Sure Capital at the direction of Guan Jianzhong and Han Jianhong.

(iv) On 8 December 2009, 7,920 ordinary shares were issued to CITIC International Assets Management Limited, Creation One International Limited, Chemwin Limited, Rich Honour Holdings Limited and BOCOM International Holdings Company Limited for a total cash consideration of USD10,000,000 (equivalent to approximately RMB68,282,000). After the issuance, these new investors held 6% of the paid-in capital of the Company.

25. RESERVES

	As at 30 June 2010 RMB'000	As at 31 December 2009 RMB'000
Share premium	**493,934**	493,934
Merger reserve	**(593,592)**	(601,644)
Statutory surplus reserve	**68,969**	56,331
	(30,689)	(51,379)

Share premium

On 1 September 2009, the Company acquired 990,000 shares of HK$1 each in Capitol International in consideration of cash amounting to HK$990,000, and on 28 September 2009, the Company acquired other 10,000 shares of HK$1 each in Capitol International from Guan Jianzhong and Han Jianhong in consideration of and in exchange for which the Company allotted and issued 114,080 Shares to Sure Capital at the direction of Guan Jianzhong and Han Jianhong. The value of net assets over the consideration of cash and shares equivalent approximately to RMB425,706,000 was recognised as share premium.

On 8 December 2009, 7,920 shares with a par value of US$1 were issued for a total cash consideration of US$10,000,000 (equivalent approximately to RMB68,282,000).

Merger reserve

The merger reserve of the Group represents the reserve arose pursuant to the Reorganisation as mentioned in note 2 to the financial statements.

Statutory surplus reserves

Pursuant to the PRC Company Law and the respective 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 fund until such reserve fund reaches 50% of the share capital of these entities. The statutory reserve fund can be utilised to offset prior years' losses or to increase capital. However, except for offsetting prior years' losses, such reserve fund must be maintained at a minimum of 25% of share capital after usage.

26. PLEDGE OF ASSETS

Details of the Group's bank borrowings which are secured by the assets of the Group, are included in note 13, note 14 and note 22 to the financial statements.

27. CONTINGENT LIABILITIES

The Group had the following contingent liabilities not provided for as at the respective reporting periods:

	As at 30 June 2010 RMB'000	As at 31 December 2009 RMB'000
Guarantees given to banks in connection with loans granted to:		
Related parties	**30,000***	50,000
Third parties	**–**	5,500
	30,000	55,500

* This guarantee contract was released on 20 July 2010.

28. COMMITMENTS

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from six to ten years and the rental expenses will be renewed every three years. At each of the reporting dates during the period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 30 June 2010 RMB'000	As at 31 December 2009 RMB'000
Operating lease commitments:		
Within one year	**300**	–
In the second to three years	**2,400**	–
In the third to five years	**2,400**	–
Beyond the fifth year	**3,400**	–
	8,500	–

28. COMMITMENTS *(Continued)*

The Group had the following capital commitments at each of the reporting dates during the periods:

	As at 30 June 2010 RMB'000	As at 31 December 2009 RMB'000
Contracted, but not provided for:		
Investment in Honam Chemical Co., Ltd. ("Sanjiang Honam")	**40,958**	–
Plant and machinery	**99,017**	26,381
	139,975	26,381

Jiaxing Sanjiang and Honam Petrochemical Company Limited entered into an agreement to establish a jointly-controlled enterprise in the PRC. The registered capital of Sanjiang Honam is US$12,000,000. Each of Sanjiang Chemical and Honam Petrochemical Corp. holds 50% of the shareholding interest in Sanjiang Honam.

29. RELATED PARTY TRANSACTIONS

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

Company	**Relationship**
Sure Capital	The parent and ultimate holding company
Guan Jianzhong	Ultimate controlling shareholder
Han Jianhong	Ultimate controlling shareholder
Han Jianping	Director of a subsidiary
Guan Songbiao	Close family member
Ge Zhiying	Close family member
Lai Youying	Close family member
Hangzhou Haoming	Fellow subsidiary
Zhejiang Jiahua Industrial Park Investment and Development Co., Ltd. ("Jiahua Industrial Park Co")	Fellow subsidiary
Jianghao Limited	Fellow subsidiary
Jianghao Property	Fellow subsidiary
Jianghao Investment	Fellow subsidiary
Jiaxing Xinggang Rewang Co., Ltd. ("Jiaxing Rewang")	Associate of fellow subsidiary

29. RELATED PARTY TRANSACTIONS *(Continued)*

(a) In addition to the transactions detailed elsewhere in the financial statements, the Group had the following material transactions with a related party during the periods.

		Six months ended 30 June	
	Notes	**2010** **RMB'000**	2009 RMB'000 (Unaudited)
Purchases from:			
Jiahua Industrial Park Co	(i)	**23,284**	25,744
Jiaxing Rewang	(i)	**1,912**	2,051
		25,196	27,795
Rental income:			
Jiaxing Rewang		**293**	249
Rental expense:			
Hangzhou Haoming		**300**	–

Note:

(i) The purchases from the related party were made according to the published prices and conditions offered by the related party to its major customers.

29. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Outstanding balances with related parties:

	As at 30 June 2010 RMB'000	As at 31 December 2009 RMB'000
Due from related parties:		
Jianghao Property	–	70,618
Equity holders	–	39,493
Jianghao Limited	–	32,292
	–	142,403

	As at 30 June 2010 RMB'000	As at 31 December 2009 RMB'000
Due to related parties:		
Jiahua Industrial Park Co	**3,910**	4,587
Lai Youying	–	100
Jiaxing Rewang	**466**	1,191
	4,376	5,878

	As at 30 June 2010 RMB'000	As at 31 December 2009 RMB'000
Due to the parent and ultimate holding company	**135,818**	68,282

The balances with related parties are non-interest-bearing, unsecured and have no fixed terms of repayment.

29. RELATED PARTY TRANSACTIONS *(Continued)*

(c) Outstanding balances with directors:

	As at 30 June 2010 RMB'000	As at 31 December 2009 RMB'000
Due to directors:		
Han Jianhong	**–**	1,475
Guan Jianzhong	**80**	89
	80	1,564

The balances with directors were non-trade in nature, unsecured, interest-free and had no fixed terms of repayment. The balances included net cash advances made between the Group and the directors and various payments made by the Group on behalf of the directors.

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

	Six months ended 30 June	
	2010 RMB'000	2009 RMB'000 (Unaudited)
Short term employee benefits	**799**	636
Pension scheme contributions	**14**	8
Total compensation paid to key management personnel	**813**	644

Further details of directors' remuneration are included in note 9 to the financial statements.

30. FINANCIAL INSTRUMENTS BY CATEGORY

Financial assets

All the Group's financial assets as at the end of the reporting period during the periods, including trade and notes receivables, deposits and other receivables, amounts due from directors and related parties, pledged deposits and cash and cash equivalents are categorised as loans and receivables.

Financial liabilities

All the Group's financial liabilities as at the end of the reporting period during the periods, including trade and bills payables, other payables, amounts due to directors and related parties and interest-bearing bank borrowings are categorised as financial liabilities at amortised cost.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The 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.

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 repayments of borrowings are disclosed in note 23 above.

The following table demonstrates the sensitivity to a reasonably possible change in RMB interest rate's, 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
Six months ended 30 June 2010		
RMB	50	(66)
RMB	(50)	66
Six months ended 30 June 2009		
RMB	50	(18)
RMB	(50)	18

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 53% (2009: 80%) of the Group's purchases for the six months ended 30 June 2010, are denominated in currencies other than the functional currencies of the operating units making the sale, whilst almost 100% of sales for the periods are denominated in the 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 arises.

The following table demonstrates the sensitivity at each of the reporting dates during the periods to a reasonably possible change in the United States dollar 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).

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Foreign currency risk *(Continued)*

	Increase/ (decrease) in foreign currency rate	Increase/ (decrease) in profit before tax
	%	RMB'000
Six months ended 30 June 2010		
If RMB weakens against United States dollar	5	(50,778)
If RMB strengthens against United States dollar	(5)	50,778
Six months ended 30 June 2009		
If RMB weakens against United States dollar	5	(16,152)
If RMB strengthens against United States dollar	(5)	16,152

Credit risk

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

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

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. At the end of 30 June 2010, the Group had certain concentrations of credit risk as 21% (2009: 26%) and 45% (2009: 36%) of the Group's trade receivables were due from the Group's largest customer and the five largest customers, respectively.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and notes receivables and prepayments, deposits and other receivables are disclosed in note 18 and note 19, respectively, to the financial statements.

Liquidity risk

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

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk *(Continued)*

The maturity profile of the Group's financial liabilities as at each of the reporting dates during the periods, based on the contractual undiscounted payments, was as follows:

	30 June 2010					
	On demand	**Less than 3 months**	**3 to less than 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Trade and bills payables	**1,593**	**49,496**	**154,373**	**–**	**–**	**205,462**
Other payables and accruals	**14,379**	**22,187**	**30,650**	**11,244**	**–**	**78,460**
Interest-bearing bank borrowings	**–**	**298,835**	**456,463**	**186,109**	**–**	**941,407**
Due to related parties	**4,376**	**–**	**–**	**–**	**–**	**4,376**
Due to directors	**80**	**–**	**–**	**–**	**–**	**80**
Due to the parent and ultimate holding company	**135,818**	**–**	**–**	**–**	**–**	**135,818**
Guarantees given to banks in connection with facilities granted to related parties	**–**	**–**	**–**	**30,000**	**–**	**30,000**
	156,246	**370,518**	**641,486**	**227,353**	**–**	**1,395,603**

	31 December 2009					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills payables	16,907	198,249	38,927	–	–	254,083
Other payables and accruals	16,730	80,233	29,182	10,619	–	136,764
Interest-bearing bank borrowings	–	138,563	499,353	101,758	–	739,674
Due to related parties	5,878	–	–	–	–	5,878
Due to directors	1,564	–	–	–	–	1,564
Due to the parent and ultimate holding company	68,282	–	–	–	–	68,282
Guarantees given to banks in connection with facilities granted to related parties	–	20,000	–	30,000	–	50,000
Guarantees given to banks in connection with facilities granted to third parties	–	5,500	–	–	–	5,500
	109,361	442,545	567,462	142,377	–	1,261,745

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

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 the 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. No changes were made in the objectives, policies or processes for managing capital during the periods.

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, amounts due to directors and related parties, trade, bills and other payables, accruals, less cash and cash equivalents and pledged deposits. Capital represents equity attributable to equity holder of the Company. The gearing ratios as at each of the reporting dates during the period/year were as follows:

	As at 30 June 2010 RMB'000	As at 31 December 2009 RMB'000
Trade and bills payables	**205,462**	254,083
Other payables and accruals	**78,460**	136,764
Interest-bearing bank borrowings	**911,595**	719,486
Due to directors	**80**	1,564
Due to related parties	**4,376**	5,878
Due to the parent and ultimate holding company	**135,818**	68,282
Dividend payable	**113,068**	172,036
Less: Cash and cash equivalents	**(151,406)**	(109,205)
pledged deposits	**(429,065)**	(236,547)
Net debt	**868,388**	1,012,341
Equity attributable to equity holders	**313,167**	234,360
Capital and net debt	**1,181,555**	1,246,701
Gearing ratio	**73%**	81%

32. EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

(i) On 24 August 2010, written resolutions of the directors and shareholders of the Company were passed to approve (i) an increase in the authorised share capital in amount of HK$500,000,000 shares, (ii) the issue of 136,470 shares to the then shareholders in proportion of one share for each share of US$1.00 held, (iii) the repurchase of the existing 136,470 shares of US$1.00 each at par and (iv) the diminution of the authorised but unissued share capital of the Company by the cancellation of 150,000 authorised but unissued shares of US$1.00 each.

(ii) On 16 September 2010, the Company issued 252,400,000 shares at an offer price of HK$3.38 per share, which raised total gross proceeds of approximately HK$853.1 million. Shares of the Company were listed on the Main Board of the Stock Exchange on 16 September 2010.

33. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 29 September 2010.