OVERVIEW

We are engaged in the manufacture of advanced steel flow control products which are used in the continuous casting process to protect, control and regulate the flow of molten steel in its manufacturing process. Our products include Ladle Shrouds, Stoppers, Tundish Nozzles and Subentry Nozzles.

As at the Latest Practicable Date, many of our customers were members of major steel-producing groups in the PRC, including members of the Baosteel Group, Hebei Steel Group, Wuhan Steel Group and Shandong Steel Group. Since our Group was founded in 2005, we have enjoyed a rapid growth. Our turnover has grown from approximately RMB40.0 million for the year ended 31 December 2007 to approximately RMB156.9 million for the year ended 31 December 2009, representing a CAGR of approximately 98.1%. Our net profit has grown from approximately RMB13.4 million for the year ended 31 December 2007 to approximately RMB70.1 million for the year ended 31 December 2009, representing a CAGR of approximately 128.7%.

BASIS OF PREPARATION

We are a Cayman Islands holding company and conduct substantially all of our business through our principal subsidiary, Sinoref (Yixing), in China. During the periods presented in the financial information set forth in “Appendix I – Accountants’ Report” to this prospectus, we derived all of our revenue from sales of our advanced steel flow products.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The major factors affecting our results of operations and financial condition include the following:

Recent global economic downturn, economic growth and level of demand for steel flow control products in the PRC

We generated all of our turnover in the PRC during our Track Record Period. Our financial results have been, and we expect them to continue to be, affected by the levels of growth of steel manufacturing markets in the PRC. In 2007, 2008 and 2009, China’s annual production of crude steel amounted to approximately 489 Mt, 500 Mt and 568 Mt, respectively, representing about 36.3%, 37.6% and 46.6% of the world’s total production of crude steel.

Demand for our advanced steel flow control products is particularly sensitive to the levels of activities in the PRC infrastructure, transportation, machinery and equipment, and construction industries. Economic growth in China, particularly in areas in which we operate, has a direct impact on virtually all aspects of our operations, including the level of demand for our products, the availability and prices of our raw materials and costs of our other operating expenses.

In response to the global economic slowdown and market volatility, as described in "Risk factors – Risks relating to the industry – our industry is subject to global economic and market conditions," the PRC government has lowered interest rates and announced large fiscal stimulus packages to boost the domestic economy, which include RMB4.0 trillion investments in, among other things, airports, highways, railways, power grids and other infrastructure developments in China. These packages have caused our customers, who are the major suppliers of the steel products in the above-mentioned sectors to increase their expected purchases from us in 2009. The average monthly sales volume of our advanced steel flow control products increased from approximately 143 tonnes in 2008 to approximately 331 tonnes in 2009.

The fixed asset investments in China

Our results of operations are impacted by the development of fixed asset investments in China, which in turn, affects various industries, such as the construction industry where our customer's final steel products are mainly used. As indicated in the National Bureau of Statistics of China, the total amount of fixed asset investments in China increased from approximately RMB3,292 billion in 2000 to approximately RMB17,283 billion in 2008, representing a CAGR of 23.0%. According to the National Bureau of Statistics of China, the total investment in construction in China increased from approximately RMB10,213 billion in 2000 to approximately RMB49,844 billion in 2008, representing a CAGR of 21.9%.

Product mix

We produce four types of advanced steel flow control products including Ladle Shrouds, Stoppers, Tundish Nozzles and Subentry Nozzles. Our product mix with different specifications, affects our gross profit margins since different products have different levels of demand and corresponding selling prices in different markets. From time to time, we vary our product mix in order to meet market demand and customers' requirements, which could have an impact on our overall gross profit margins. We intend to continue to manage and optimise our product mix in response to market conditions in order to maintain and increase our gross profit margins.

Sales volume

Our results of operations are directly affected by our sales volume, which in turn is largely determined by the market demand for our advanced steel flow control products, and our ability to meet that demand. Our sales volume increased across our product mix from 2007 to 2009 primarily due to the increasing customer demand for our products, particularly our Subentry Nozzles, as a result of the growing reputation of our brand and our high-quality products. We sold approximately 1,027 tonnes, 1,713 tonnes and 3,972 tonnes of advanced steel flow control products in 2007, 2008 and 2009, respectively. With a production capacity of approximately 8,200 tonnes as at the Latest Practicable Date, we are operating at full production capacity. If we are successful in implementing our expansion plans, which include increasing our production capacity, we believe we could meet growing market demands.

Pricing of our products

Competition and demand significantly affect the pricing of our products. Although the PRC steel flow control product market is competitive, a majority of the steel flow control product manufacturers in China have small-scale operations that produce average steel flow control products with simple designs. We sell our products to customers on a "cost-plus" basis, under which we add our processing charges and a margin to the prevailing market price of the raw materials. The average selling price per unit of Subentry Nozzle for the three years ended 31 December 2009 was RMB1,511, RMB1,610 and RMB1,664 respectively. The average selling price per unit of Stopper for the three years ended 31 December 2009 was RMB1,098, RMB1,098 and RMB1,192 respectively. The average selling price per unit of Tundish Nozzle for the three years ended 31 December 2009 was RMB1,128, RMB1,328 and RMB1,361 respectively. The average selling price per unit of Ladle Shroud for the three years ended 31 December 2009 was RMB1,151, RMB1,187 and RMB1,174 respectively.

Cost of raw materials

Price fluctuations of raw materials we use in our production process affect our cost of sales and could adversely impact on our results of operations. The principal raw materials used in our production are fused alumina, calcined alumina, calcia stablised zirconia, graphite and resin binder. We obtain these materials from both domestic and overseas suppliers. Further, we develop our own moulds for our advanced steel flow control products. The principal raw material used in developing the moulds is a specialised resin which is purchased from the United States.

In 2007, 2008 and 2009, our cost of raw materials amounted to approximately RMB11.2 million, RMB19.8 million and RMB42.7 million, respectively, representing approximately 63.2%, 71.3% and 82.8% of our total cost of sales.

We typically purchase fused alumina, calcined alumina, calcia stablised zirconia, graphite and resin binder from suppliers based on the prevailing market prices during the month prior to the month we receive shipments from our suppliers. Prices of fused alumina, calcined alumina, calcia stablised zirconia, graphite and resin binder fluctuate over time, and the prevailing prices at the time of our purchase may not be equal to the prevailing prices at the time of our sale.

The following table sets forth the average price per ton of our major raw materials for their periods indicated:

	Year ended 31 December		
	2007	**2008**	**2009**
	RMB	*RMB*	*RMB*
Graphite	3,658	4,885	4,103
Fused alumina	3,712	5,255	4,231
Calcined alumina	5,897	6,033	5,620
Resin binder	16,195	16,018	11,120
Calcia stablised zirconia	30,029	25,703	25,409

FINANCIAL OVERVIEW

Revenue

We generated all of our revenue from the sales of our advanced steel flow control products during the Track Record Period. Our products include Ladle Shrouds, Stoppers, Tundish Nozzles and Subentry Nozzles.

The following table shows our revenue and average selling price by product type during the Track Record Period:

	Year ended 31 December								
	2007			**2008**			**2009**		
	RMB (million)	*%*	**Average selling price** *RMB*	*RMB (million)*	*%*	**Average selling price** *RMB*	*RMB (million)*	*%*	**Average selling price** *RMB*
Subentry Nozzles	16.3	40.8	1,511	28.3	42.1	1,610	69.0	44.0	1,664
Stoppers	11.6	29.0	1,098	19.1	28.4	1,098	45.7	29.1	1,192
Tundish Nozzles	6.3	15.8	1,128	14.1	21.0	1,328	33.0	21.0	1,361
Ladle Shrouds	5.8	14.4	1,151	5.7	8.5	1,187	9.2	5.9	1,174
Total	**40.0**	**100.0**		**67.2**	**100.0**		**156.9**	**100.0**	

Revenue of our products increased from approximately RMB40.0 million in 2007 to approximately RMB67.2 million in 2008 and to approximately RMB156.9 million in 2009, due to the increase in the overall sales volume of our advanced steel flow control products. Such increase was mainly attributable to our increased marketing effort to solicit new customers in 2008 and 2009 and the change in our sales and product mix. The source of the increase in demand for our products came from both recurring and new customers. Our number of customer increased from 7 in 2007 to 11 in 2008 and 18 in 2009. The number of recurring customers in 2008 and 2009 was 7 and 11 respectively, while the number of recurring customers as at the Latest Practicable Date was 18.

We sell our products directly to steel manufacturing companies, with whom we typically enter into written framework contracts on a one-year term. In 2007, 2008 and 2009, turnover from our five largest customers accounted in aggregate for approximately 95.5%, 74.2% and 48.0% respectively, of our turnover. We generally bill our customers upon delivery, with credit terms of up to 90 days from the day of delivery. A portion of our customers make payments by bank bills. Historically, we have not experienced any losses on trade receivables or bills receivables.

Cost of sales

Our cost of sales consists of the cost associated with the manufacture of our products, which primarily consists of raw materials consumed, depreciation of property, plant and equipment, labour costs and other direct manufacturing overhead.

The following table sets forth a breakdown of our cost of sales for the period indicated:

	Year ended 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Raw materials consumed	11,220	19,822	42,651
Depreciation of property, plant and equipment	3,569	3,663	3,660
Labour costs	1,520	2,024	1,930
Others[(1)]	1,430	2,306	3,267
	17,739	27,815	51,508

Note:

(1) Others mainly consists of utilities and natural gas.

The increase in raw materials consumed from approximately RMB19.8 million in 2008 to approximately RMB42.7 million in 2009 and other direct manufacturing overhead from approximately RMB2.3 million to approximately RMB3.3 million were mainly attributable to the increase in the overall sales volume of our advanced steel flow control products. The decrease in labour costs from approximately RMB2.0 million in 2008 to approximately RMB1.9 million 2009 was mainly a result of the departure of 3 experienced technicians during 2009, whose responsibilities were taken up by their successors with lower staff cost.

Gross profit and gross profit margin

Gross profit is equal to revenue less cost of sales. Gross profit margin is equal to gross profit divided by revenue. Gross profit and gross profit margin should be taken into consideration together with net profit and net profit margin, with net profit being the remainder of gross profit after deducting selling and distribution costs, administrative expenses, other expenses, finance costs and taxation; and net profit margin equal to net profit divided by revenue. Our gross profit increased from approximately RMB22.3 million in 2007 to approximately RMB39.4 million in 2008 and to approximately RMB105.4 million in 2009. In 2007, 2008 and 2009, our gross profit margin was approximately 55.7%, 58.6% and 67.2% respectively. Our gross profit margin increased is primarily attributable to economies of scale resulted from the increase in our overall sales volume and change in our product mix.

The following table shows our gross profit margin by product type during the Track Record Period:

	Year ended 31 December					
	2007		**2008**		**2009**	
	Gross profit	**Gross profit margin**	**Gross profit**	**Gross profit margin**	**Gross profit**	**Gross profit margin**
	RMB (million)	*%*	*RMB (million)*	*%*	*RMB (million)*	*%*
Subentry Nozzle	10.0	60.5	17.5	61.8	48.1	69.6
Stopper	5.3	45.9	9.0	47.4	26.4	57.7
Tundish Nozzle	4.4	69.8	9.7	68.8	25.2	76.3
Ladle Shroud	2.6	46.0	3.2	55.1	5.7	62.5
Total	**22.3**	**55.7**	**39.4**	**58.6**	**105.4**	**67.2**

Other income

Other income comprises of bank interest income, exchange gains and gain on disposal of equipment.

Selling and distribution costs

Our selling and distribution costs primarily consist of expenses on commission, transportation and staff costs. Our selling and distribution costs amounted to approximately RMB3.9 million, RMB6.7 million, and RMB13.1 million in 2007, 2008 and 2009 respectively. Selling and distribution costs increased from 2007 to 2009 primarily attributable to the increase in commission paid to our salespersons and transportation costs resulted from the increase in the sales volume of our advanced steel flow control products.

The following table sets forth a breakdown of our selling and distribution costs for the periods indicated:

	Year ended 31 December		
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Commission	2,572	4,746	10,185
Transportation costs	488	893	1,532
Other staff costs	348	908	1,119
Others	507	107	273
	3,915	6,654	13,109

Administrative expenses

Our administrative expenses primarily consist of directors' remuneration, administrative staff costs, depreciation, office expenses, travelling expenses, entertainment, amortisation of prepaid land lease payments, professional fees and various tax expenses. In 2007, 2008 and 2009, our administrative expenses amounted to approximately RMB4.5 million, RMB5.6 million and RMB6.3 million, respectively.

The following table sets forth a breakdown of our administrative expenses for the periods indicated:

	Year ended 31 December		
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Directors' remuneration	625	666	766
Administrative staff costs	977	1,333	1,654
Depreciation	657	841	932
Entertainment	366	718	944
Amortisation of prepaid land lease payments	235	235	235
Travelling expenses	225	467	567
Tax expenses	414	398	419
Office expenses	224	194	245
Others	734	736	501
	4,457	5,588	6,263

Other expenses

Other expenses represent professional fees and other expenses in relation to the Global Offering. For the year ended 31 December 2009, our other expenses amounted to approximately RMB2.0 million.

Finance costs

Our finance costs consist of interests on bank borrowings and discounted bills with recourse wholly repayable within one year. Interest rates on our bank loans, all of which are granted by PRC commercial banks and denominated in RMB, are typically linked to benchmark rates published by the PBOC. In 2007, 2008 and 2009, our finance costs amounted to approximately RMB0.5 million, RMB1.1 million and RMB0.2 million respectively.

Taxation

Under the current laws of Cayman Islands, we are not subject to any income or capital gains tax.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New EIT Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC (國務院) issued Implementation Regulations of the New EIT Law (the "Implementation Regulations"). The New EIT Law and Implementation Regulations unify the Enterprise Income Tax rate for domestic and foreign enterprises at 25% from 1 January 2008. Pursuant to an approval document issued by the National Taxation Bureau of Yixing, the PRC dated 1 March 2010, Sinoref (Yixing) was entitled to the exemption from the PRC Enterprise Income Tax for the first two years commencing from the first profit-making year of operations, after offsetting all unexpired tax losses from previous years, and thereafter to a 50% relief from the PRC Enterprise Income Tax for the following three years. As a result, Sinoref (Yixing) was exempt from the PRC Enterprise Income Tax for the years ended 31 December 2007 and 2008 and was subject to the PRC Enterprise Income Tax rate of 12.5% for the year ended 31 December 2009.

According to a joint circular of the Ministry of Finance and State Administration of Taxation – Cai Shui [2008] No. 1, dividend distributed out of the profits generated since 1 January 2008 shall be subject to the PRC withholding tax which is withheld by the PRC entity. Deferred tax expense of approximately RMB1.2 million and RMB3.1 million charged on the undistributed earnings of Sinoref (Yixing) has been recognised in the combined statements of comprehensive income for the years ended 31 December 2008 and 2009 respectively.

CRITICAL ACCOUNTING POLICIES

Critical accounting policies and estimates are those accounting policies and estimates that involve significant judgements and uncertainties and potentially yield materially different results under different assumptions and conditions. Our accounting policies have a significant impact on our operating results as shown in our combined financial statements included in this prospectus. Estimates and judgements are based on historical experience, prevailing market conditions and various other factors that we believe are reasonable under the circumstances. We review our estimates and underlying assumptions on an ongoing basis taking into account the changing environment and circumstances. The critical accounting policies adopted and estimates made in preparation of our financial statements are set out as follows:

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of sales tax. Revenue from sales of goods are recognised when goods are delivered and title has passed. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any. Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

Depreciation, amortisation and valuation of property, plant and equipment

The recorded values of property, plant and equipment are affected by a number of management estimates, including estimated useful lives, residual values and impairment losses. Our Directors assess the need for any impairment write-down on a regular basis and consider if there is any information indicating the impairment loss. Such information may include a significant decrease in the market value or a significant deterioration of market conditions such that the carrying value of property, plant and equipment is lower than the present value of the estimated future cash flows which are discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets.

Impairment of tangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted-average method.

Trade receivables and impairment of trade receivables

For certain categories of financial assets, such as trade and bills receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, observable changes in national or local economic conditions that correlate with default on receivables.

Taxation and deferred income tax

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the combined statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other periods, and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax is recognised on differences between the carrying amount of assets and liabilities in the combined financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary of difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

RESULTS OF OPERATIONS

The following table sets forth information from our combined statements of comprehensive income for the periods indicated:

	Year ended 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	40,006	67,206	156,896
Cost of sales	(17,739)	(27,815)	(51,508)
Gross profit	22,267	39,391	105,388
Other income	39	95	72
Selling and distribution costs	(3,915)	(6,654)	(13,109)
Administrative expenses	(4,457)	(5,588)	(6,263)
Other expenses	–	–	(2,000)
Finance costs	(529)	(1,062)	(195)
Profit before taxation	13,405	26,182	83,893
Taxation	–	(1,211)	(13,817)
Profit for the year and total comprehensive income for the year	13,405	24,971	70,076
Earnings per share			
Basic *(RMB) (Note)*	0.01	0.03	0.08

Note:

The calculations of the basic earnings per share for the three years ended 31 December 2009 are based on the profit for the three years ended 31 December 2009 and on the assumption that 900,000,000 ordinary shares were in issue throughout the three years ended 31 December 2009 comprising 2,000,000 ordinary shares in issue as at the date of this prospectus and 898,000,000 ordinary shares to be issued pursuant to the capitalisation issue as detailed in the paragraph headed "Resolutions in writing of all Shareholders passed on 7 June 2010" in Appendix VI to this prospectus.

Year ended 31 December 2009 compared with year ended 31 December 2008

Revenue

Our revenue increased by approximately 133.5% from approximately RMB67.2 million for the year ended 31 December 2008 to approximately RMB156.9 million for the year ended 31 December 2009. The increase was mainly attributable to the increase in the overall sales volume of our advanced steel flow control products. The sales volume of our advanced steel flow control products for the year ended 31 December 2009 was approximately 3,972 tonnes, representing an increase of approximately 131.9% as compared to approximately 1,713 tonnes for the year ended 31 December 2008. Such growth was a combined effect of (i) our acquisition of 7 new customers in the northern region of the PRC in 2009 who purchased approximately 894 tonnes from us during the year ended 31 December 2009 and contributed approximately RMB39.0 million or 24.9% to our total revenue in 2009; (ii) the increase in sales to our customers acquired in 2008 by approximately 239.2% from approximately 347 tonnes in 2008 to approximately 1,177 tonnes in 2009. As a result, our revenue contributed from our customers acquired in 2008 has significantly increased from approximately RMB15.6 million for the year ended 31 December 2008 to approximately RMB48.1 million for the year ended 31 December 2009.

Cost of sales

Our costs of sales increased by about 85.3% from approximately RMB27.8 million in 2008 to approximately RMB51.5 million in 2009 which was in line with the increase in the sales volume of our advanced steel flow control products as discussed under the paragraph headed “Revenue” above.

Gross profit and gross profit margin

Our gross profit increased by approximately 167.5% from approximately RMB39.4 million for the year ended 31 December 2008 to approximately RMB105.4 million for the year ended 31 December 2009. Our gross profit margin also increased from approximately 58.6% for the year ended 31 December 2008 to approximately 67.2% for the year ended 31 December 2009. The increase in our gross profit and gross profit margin were mainly attributable to the economies of scale resulted from the significant increases in our overall sales volume by approximately 131.2% from approximately 1,713 tonnes for the year ended 31 December 2008 to approximately 3,972 tonnes for the year ended 31 December 2009. Our sales and product mix remained relatively stable in the year ended 31 December 2009 as compared to 2008.

Other income

Other income comprises bank interest income and exchange gains.

Selling and distribution costs

Our selling and distribution costs increased by approximately 95.5% from approximately RMB6.7 million for the year ended 31 December 2008 to approximately RMB13.1 million for the year ended 31 December 2009. The increase was mainly attributable to (i) the increase in commission paid to our salespersons, who assisted to obtain successful sales orders, by approximately 117.0%

from approximately RMB4.7 million for the year ended 31 December 2008 to approximately RMB10.2 million for the year ended 31 December 2009 and (ii) the increase in transportation costs by approximately 66.7% from approximately RMB0.9 million in 2008 to approximately RMB1.5 million in 2009 as a result of increased delivery costs of our products in relation to the increased sales volume. As a percentage of revenue, our selling and distribution costs remained stable at approximately 9.9% and 8.4% for the years ended 31 December 2008 and 31 December 2009 respectively.

Administrative expenses

Our administrative expenses increased by approximately 12.5% from approximately RMB5.6 million for the year ended 31 December 2008 to approximately RMB6.3 million for the year ended 31 December 2009. The increase was primarily due to the combined effect of (i) the increase in staff costs (other than directors' remuneration) by approximately 30.8% from approximately RMB1.3 million for the year ended 31 December 2008 to approximately RMB1.7 million for the year ended 31 December 2009 as our headcount of administration staff increased from approximately 29 as at 31 December 2008 to 31 as at 31 December 2009; and (ii) the increase in travelling expenses and entertainment expenses by approximately 25.0% from approximately RMB1.2 million for the year ended 31 December 2008 to approximately RMB1.5 million for the year ended 31 December 2009 mainly attributable to the increased sales and marketing activities.

Finance costs

Our finance costs decreased by approximately 81.8% from approximately RMB1.1 million for the year ended 31 December 2008 to approximately RMB0.2 million for the year ended 31 December 2009 primarily due to the full repayment of our approximately RMB9.0 million bank borrowings in January 2009.

Taxation

Our tax charge increased by approximately 1050.0% from approximately RMB1.2 million for the year ended 31 December 2008 to approximately RMB13.8 million in 2009 primarily due to the increased income tax rate as a result of the expiration of the exemption from EIT for Sinoref (Yixing) beginning on 1 January 2009 and the increase in deferred tax charge on undistributed profit of Sinoref (Yixing) from approximately RMB1.2 million in 2008 to approximately RMB3.1 million in 2009. Sinoref (Yixing) was subject to a preferential EIT tax rate of 12.5% for the year ended 31 December 2009. As a result, our effective tax rates in 2008 and 2009 were approximately 4.6% and approximately 16.5% respectively.

Profit for the year

As a result of the foregoing, the Group's profit for the year increased by approximately 180.4% to approximately RMB70.1 million for the year ended 31 December 2009 from approximately RMB25.0 million for the year ended 31 December 2008 and its net profit margin increased to approximately 44.7% in 2009 from approximately 37.2% in 2008.

Year ended 31 December 2008 compared with year ended 31 December 2007

Revenue

Our revenue increased by approximately 68.0% from approximately RMB40.0 million for the year ended 31 December 2007 to approximately RMB67.2 million for the year ended 31 December 2008. The increase was mainly attributable to the increase in the overall sales volume of our advanced steel flow control products. The sales volume of our advanced steel flow control products for the year ended 31 December 2008 was approximately 1,713 tonnes, representing an increase of approximately 66.8% as compared to approximately 1,027 tonnes for the year ended 31 December 2007. Such growth was primarily attributable to the acquisition of 4 new customers in 2008 who purchased approximately 347 tonnes from us during the year ended 31 December 2008 and contributed approximately RMB15.6 million or approximately 23.2% to our total revenue in 2008. In addition, the sales of our products to one of our customers in the eastern region of the PRC has increased by approximately 1376.9% from approximately 13 tonnes in 2007 to approximately 191 tonnes in 2008. As a result, our revenue generated from this customer has significantly increased from approximately RMB0.7 million for the year ended 31 December 2007 to approximately RMB11.1 million for the year ended 31 December 2008.

Cost of sales

Our cost of sales mainly includes costs of raw materials, labour costs, depreciation and utilities expenses. Among all these costs, the cost of direct materials account for approximately 63.2% and 71.3% of the total cost of sales of our Group in 2007 and 2008 respectively.

Our costs of sales increased by about 57.1% from approximately RMB17.7 million in 2007 to approximately RMB27.8 million in 2008 which was in line with the increase in the sales volume of our advanced steel flow control products as discussed under the paragraph headed "Revenue" above.

Gross profit and gross profit margin

Our gross profit increased by approximately 76.7% from approximately RMB22.3 million for the year ended 31 December 2007 to approximately RMB39.4 million for the year ended 31 December 2008. Our gross profit margin also increased from approximately 55.7% for the year ended 31 December 2007 to approximately 58.6% for the year ended 31 December 2008. The increase in our gross profit and gross profit margin were mainly attributable to (i) higher operating efficiencies achieved through economies of scale resulting from the significant increases in our overall sales volume by approximately 66.8% from approximately 1,027 tonnes for the year ended 31 December 2007 to approximately 1,713 tonnes for the year ended 31 December 2008; and (ii) the change in our sales and product mix in the year ended 31 December 2008 as compared to 2007. The percentage of our revenue generated from our Tundish Nozzles and Subentry Nozzles, which, in general, have higher gross profit margins relative to our Stoppers and Ladle Shrouds, increased from approximately 56.6% for the year ended 31 December 2007 to approximately 63.1% for the year ended 31 December 2008 and the revenue generated from our Tundish Nozzles and Subentry Nozzles has increased significantly by approximately 87.6% from approximately RMB22.6 million for the year ended 31 December 2007 to approximately RMB42.4 million for the year ended 31 December 2008.

Other income

Other income comprises bank interest income, exchange gain, and gain on disposal of property, plant and equipment.

Selling and distribution costs

Our selling and distribution costs mainly represent expenses on commissions, transportation, staff costs, consumables and travelling.

Our selling and distribution costs increased by approximately 71.8% from approximately RMB3.9 million for the year ended 31 December 2007 to approximately RMB6.7 million for the year ended 31 December 2008. The increase was mainly attributable to (i) the increase in commission paid to our salespersons, who assisted to obtain successful sales orders, by approximately 80.8% from approximately RMB2.6 million for the year ended 31 December 2007 to approximately RMB4.7 million for the year ended 31 December 2008 and (ii) the increase of transportation costs by approximately 80.0% from approximately RMB0.5 million in 2007 to approximately RMB0.9 million in 2008 as a result of increased delivery costs of our products in relation to the increased sales volume. As a percentage of revenue, our selling and distribution costs remained stable at approximately 9.8% and 9.9% for the year ended 31 December 2007 and 31 December 2008 respectively.

Administrative expenses

Our administrative expenses mainly represent administrative staff costs, directors' remuneration, depreciation expenses, office expenses, travelling expenses, entertainment, amortisation of prepaid land lease payments, professional fees and various tax expenses.

Our administrative expenses increased by approximately 24.4% from approximately RMB4.5 million for the year ended 31 December 2007 to approximately RMB5.6 million for the year ended 31 December 2008. The increase was primarily due to the combined effect of (i) the increase in staff costs (excluding directors' remuneration) by approximately 30.0% from approximately RMB1.0 million for the year ended 31 December 2007 to approximately RMB1.3 million for the year ended 31 December 2008 as our headcount of administrative staff increased from approximately 25 as at 31 December 2007 to 29 as at 31 December 2008; and (ii) the increase in travelling expenses by approximately 150.0% from approximately RMB0.2 million for the year ended 31 December 2007 to approximately RMB0.5 million for the year ended 31 December 2008, and the increase in entertainment expenses by approximately 75.0% from approximately RMB0.4 million in 2007 to approximately RMB0.7 million in 2008, mainly attributable to the increased sales and marketing activities.

Finance costs

Our finance costs represent interest expenses incurred for our bank loans and discounted bills.

Our finance costs increased by approximately 120.0% from approximately RMB0.5 million for the year ended 31 December 2007 to approximately RMB1.1 million for the year ended 31 December 2008 mainly attributable to the payment of approximately RMB0.4 million interest expenses for discounted bills in 2008 as a result of the increase in the gross amounts of bills discounted to banks from nil in 2007 to approximately RMB17.5 million in 2008. Interest expenses incurred for our bank loans amounted to approximately 0.5 million and 0.7 million for the years ended 31 December 2007 and 2008 respectively.

Taxation

Sinoref (Yixing) was entitled to the exemption from EIT for the years ended 31 December 2007 and 2008. Tax charge for the year ended 31 December 2008 represented deferred tax on undistributed profit of Sinoref (Yixing) for 2008.

Profit for the year

As a result of the foregoing, the Group's profit for the year increased by approximately 86.6% to approximately RMB25.0 million for the year ended 31 December 2008 from approximately RMB13.4 million for the year ended 31 December 2007 and its net profit margin increased to approximately 37.2% in 2008 from approximately 33.5% in 2007.

Impact of fluctuations in raw material prices and product selling prices on the Group's gross profit and gross profit margin

The following table sets forth the Group's gross profit and gross profit margin and fluctuations in raw material prices and product selling prices:

	2007	**2008**	**2009**
	(RMB)	*(RMB)*	*(RMB)*
Revenue *('000)*	40,006	67,206	156,896
Gross profit *('000)*	22,267	39,391	105,388
Gross profit margin	55.7%	58.6%	67.2%
Average product selling price per unit	1,251	1,334	1,402
Average cost of raw material per unit	351	393	381

Average procurement price/tonne of the Group's 5 major materials:

	RMB	*RMB*	*RMB*
Graphite	3,658	4,885	4,103
Fused alumina	3,712	5,255	4,231
Calcined alumina	5,897	6,033	5,620
Resin binder	16,195	16,018	11,120
Calcia stablised zirconia	30,029	25,703	25,409

From the above analysis, despite the average cost of raw material per unit increased by approximately 12.0% to approximately RMB393 per unit in 2008 from approximately RMB351 per unit in 2007, the gross profit margin increased by approximately 2.9% to approximately 58.6% in 2008 from approximately 55.7% in 2007 mainly attributable to the increase in average product selling price by approximately 6.6% to approximately RMB1,334 per unit in 2008 from approximately RMB1,251 per unit in 2007 and economies of scale resulted from the increase in our overall sales volume. The gross profit margin has further increased by approximately 8.6% to approximately 67.2% in 2009 from approximately 58.6% in 2008 primarily due to the increase in average product selling price by approximately 5.1% to approximately RMB1,402 per unit in 2009 from approximately RMB1,334 per unit in 2008 and economies of scale. Depreciation of property, plant and equipment, being the second major part of our cost of sales, remained stable at approximately RMB3.6 million for 2007, 2008 and 2009. As such, we consider the impact of price fluctuation of raw material is less significant on impacting our Group's gross profit margin than average product selling price and economies of scale.

LIQUIDITY AND CAPITAL RESOURCES

We have financed our operations primarily through cash flows from operations, short-term bank borrowings, discounted bills with recourse, amount due to a director, amounts due to related companies, and capital contributions from shareholders. We recorded net cash inflows of approximately RMB5.5 million, RMB14.2 million and RMB45.5 million in 2007, 2008 and 2009. We were able to repay our obligations, bank loans, amount due to a director and amounts due to related companies when they became due during the Track Record Period.

As of 31 December 2009, we had no outstanding bank loans. During the Track Record Period, we had not experienced any delay in renewing our existing banking facilities. We had no outstanding amount due to any director or amounts due to related companies as of 31 December 2009. See paragraph headed "Indebtedness."

Cash flows

The following table sets forth a summary of our net cash flows for the periods indicated:

	Year ended 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Net cash from operating activities	6,919	25,156	53,600
Net cash used in investing activities	(18,698)	(5,918)	(1,532)
Net cash from (used in) financing activities	17,239	(5,026)	6,573
Net increase in cash and cash equivalents	5,460	14,212	45,495

Net cash from operating activities

Our net cash from operating activities was approximately RMB53.6 million in 2009, which was derived from our profit before taxation of approximately RMB83.9 million, adjusted to reflect net increases relating to non-cash items and items of income or expense associated with investing or financing cash flows, and a net decrease relating to changes in operating assets and liabilities. The adjustments relating to non-cash items primarily comprised depreciation expenses of approximately RMB4.6 million and release of prepaid land lease payments of approximately RMB0.2 million. The adjustments relating to changes in operating assets and liabilities, which resulted in a net decrease of approximately RMB29.5 million, primarily comprised:

- an increase in inventories of approximately RMB2.5 million principally due to an increase in inventories of raw materials resulted from management expectation of growth in production and sales of our products in the first quarter of 2010;

- an increase in trade receivables of approximately RMB37.6 million and in bills receivable of approximately RMB4.7 million principally due to an increase in sales of our products in the forth quarter of 2009;

- a decrease in other receivables and prepayments of approximately RMB0.7 million principally due to the repayment from other debtors;

- an increase in trade payables of approximately RMB1.1 million principally due to an increase in purchase of raw materials resulted from management expectation of growth in production and sales of our products in the first quarter of 2010; and

- an increase in other payables and accruals of approximately RMB13.6 million principally due to an increase in other tax payables of approximately RMB4.7 million resulted from the increase in sales of our products in the fourth quarter of 2009 and an increase in accrued sales commission of approximately RMB6.5 million which payment was made following the year end of 2009;

Our net cash from operating activities was approximately RMB25.2 million in 2008, which was derived from our profit before taxation of approximately RMB26.2 million, adjusted to reflect net increases relating to non-cash items and items of income or expense associated with investing or financing cash flows, and a net decrease relating to changes in operating assets and liabilities. The adjustment relating to non-cash items primarily comprised depreciation expenses of approximately RMB4.5 million, interest expense of approximately RMB1.1 million, and release of prepaid land lease payments of approximately RMB0.2 million. The adjustments relating to changes in operating assets and liabilities, which resulted in a net decrease of approximately RMB6.8 million, primarily comprised:

- an increase in inventories of approximately RMB1.0 million principally due to increase in raw materials as a result of the unexpected decrease in the production of our products in the fourth quarter of 2008 due to the global financial crisis and economic downturn;

- a decrease of trade receivables of approximately RMB3.7 million was primarily a combined effect of (i) the unexpected decrease in the production and sales of our products in the fourth quarter of 2008 due to the global financial crisis; and (ii) the Group's acceptance of settlement by bills from our customers, resulting an increase in bills receivable of approximately RMB7.7 million;

- a decrease in other payables and accruals of approximately RMB1.7 million was principally due to a decrease in sales commission of approximately RMB2.3 million which payment was made before the year end of 2008.

Our net cash from operating activities was approximately RMB6.9 million in 2007, which was derived from our profit before taxation of approximately RMB13.4 million, adjusted to reflect net increases relating to non-cash items and items of income or expense associated with investing or financing cash flows, and a net decrease relating to changes in operating assets and liabilities. The adjustments relating to non-cash items were primarily comprised of depreciation expenses of approximately RMB4.2 million and release of prepaid land lease payments of approximately RMB0.2 million. The adjustments relating to changes in operating assets and liabilities, which resulted in a net decrease of approximately RMB11.4 million, primarily comprised:

- an increase in inventories of approximately RMB3.7 million principally due to an increase in purchase of raw materials resulted from management expectation of growth in production and sales of our products in the first quarter of 2008;

- an increase in trade receivables of approximately RMB12.6 million as a result of the commencement of our manufacturing and sales of our products in 2007;

- an increase in other payables and accruals of approximately RMB4.1 million principally a combined effect of (i) an increase in accrued sales commission of approximately RMB2.3 million which was fully paid after the year end of 2007; and (ii) an increase in other tax payables of approximately RMB1.5 million.

Net cash used in investing activities

Our net cash used in investing activities was approximately RMB1.5 million in 2009. This was primarily used for the payment of approximately RMB1.6 million for the purchase of property, plant and equipment and was offset by RMB0.1 million interest received.

Our net cash used in investing activities was approximately RMB5.9 million in 2008. This was primarily used for the payment of approximately RMB6.1 million for the purchase of property, plant and equipment and was offset by approximately RMB0.1 million proceeds received on disposal of property, plant and equipment and interest received.

Our net cash used in investing activities was approximately RMB18.7 million in 2007. This was primarily used for the payment of approximately RMB18.7 million purchase of property, plant and equipment.

Net cash from and used in financing activities

Our net cash used in financing activities was approximately RMB6.6 million in 2009. This was primarily used for interest payment of approximately RMB0.2 million, repayment of bank loan of approximately RMB9.0 million, and additions of discounted bills with recourse of approximately RMB2.6 million resulted from the increase in sales volume of our products in the fourth quarter.

Our net cash used in financing activities was approximately RMB5.0 million in 2008. This was primarily due to interest payment of approximately RMB1.1 million, repayment of an amount due to a director of approximately RMB10.0 million, repayments to related companies of approximately RMB7.2 million, additions of discounted bills with recourse of approximately RMB6.4 million and capital contributions from Sinoref International of approximately RMB6.9 million.

Our net cash from financing activities was approximately RMB17.2 million in 2007. This was primarily due to interest payment of approximately RMB0.5 million, advances from related companies of approximately RMB7.2 million, net bank loan increment of approximately RMB3.0 million and capital contributions from Sinoref International of approximately RMB7.6 million.

STATEMENTS OF FINANCIAL POSITION

The following table sets forth our current assets and current liabilities as of the dates indicated:

	As at 31 December			As at 30 April
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)
Current assets				
Inventories	5,133	6,133	8,604	9,768
Trade receivables	12,573	8,910	46,490	81,855
Bills receivable	200	7,890	12,625	19,497
Other receivables and prepayments	680	792	141	1,496
Prepaid land lease payment	235	235	235	235
Bank balances and cash	5,793	20,005	65,500	95,558
	24,614	43,965	133,595	208,409
Current liabilities				
Trade payables	426	525	1,602	7,117
Other payables and accruals	10,460	3,193	16,028	31,813
Amount due to a director	10,000	–	–	–
Amounts due to related companies	7,208	–	–	–
Secured bank borrowings				
– due within one year	9,000	9,000	–	–
Discounted bills with recourse	–	6,390	9,012	11,840
Tax liabilities	–	–	4,995	4,092
	37,094	19,108	31,637	54,862
Net current (liabilities) assets	(12,480)	24,857	101,958	153,547

The increase in current assets by approximately RMB74.8 million from approximately RMB133.6 million at 31 December 2009 to approximately RMB208.4 million at 30 April 2010 is mainly attributable to the increase in trade receivables by approximately RMB35.4 million and the increase in bank balances and cash by approximately RMB30.1 million. The increase in trade receivables is primarily due to the increased sales orders from existing customers and the new sales orders from 2 new customers during the four months period ended 30 April 2010. The outstanding trade receivables balance at 30 April 2010 is fully related to the sales to the customers during the four months period ended 30 April 2010. The increase in bank balances and cash is mainly attributable to the full settlement of trade receivables balance of approximately RMB46.5 million outstanding at 31 December 2009 and the increased operating cash inflow generated by the increase in sales volume of our products during the four months period ended 30 April 2010.

The increase in current liabilities by approximately RMB23.3 million from approximately RMB31.6 million at 31 December 2009 to approximately RMB54.9 million at 30 April 2010 is mainly attributable to the increase in trade payables by approximately RMB5.5 million and other payables and accruals by approximately RMB15.8 million. The increase in trade payables is primarily due to the increase in purchase of raw materials in order to satisfy the confirmed sales orders placed by our customers for the four months period ended 30 April 2010 while the increase in other payables is mainly attributable to the accrued professional fees of approximately RMB10 million in relation to the Global Offering for the four months period ended 30 April 2010.

We had net current liabilities of approximately RMB12.5 million as of 31 December 2007 with amount due to a director of approximately RMB10.0 million, amounts due to related companies of approximately RMB7.2 million and secured 1-year bank borrowings of approximately RMB9.0 million, part of which was used to finance the construction of our plant and our purchases of fixed assets. The Group fully repaid the advances due to a director and related companies in 2008 and all bank borrowings in 2009.

The following table sets forth a breakdown of other payables and accruals as of the dates indicated:

	As at 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Accrued sales commission [(1)]	2,320	–	6,450
Accrued staff costs	205	815	1,201
Other tax payables	1,533	1,198	5,944
Payables for acquisition of property, plant and equipment	6,363	815	92
Accrued professional fees	–	–	2,000
Other payables	39	365	341
	10,460	3,193	16,028

Note:

(1) Accrued sales commission represented sales commission payable to our salespersons. The accrued sales commission of approximately RMB6.5 million as at 31 December 2009 has been fully paid in January 2010.

Turnover days of trade and bills receivables, inventories and trade payables and gearing ratios

The following table sets forth the turnover days of our Group's trade and bills receivables, inventories and trade payables and gearing ratios as of the dates indicated:

	As at 31 December		
	2007	**2008**	**2009**
Turnover days of trade and bills receivables[(1)]	58.3	63.0	70.4
Turnover days of inventories[(2)]	67.7	73.9	52.2
Turnover days of trade payables[(3)]	5.9	8.3	8.6
Gearing ratios[(4)]	10.1%	14.8%	4.8%

Notes:

(1) Turnover days of trade and bills receivables for a period is derived by dividing the arithmetic mean of the opening and closing balances of trade and bills receivables by turnover during the Track Record Period and then multiplying the quotient by 365 days (for a year) as applicable. Bills discounted were excluded in the calculation of turnover days of trade and bills receivables.

(2) Turnover days of inventories for a period is derived by dividing the arithmetic mean of the opening and closing balances of inventory by cost of goods sold during the Track Record Period and then multiplying the quotient by 365 days (for a year), as applicable.

(3) Turnover days of trade payables for a period is derived by dividing the arithmetic mean of opening and closing balances of trade payables by purchases for the Track Record Period and then multiplying the quotient by 365 days (for a year) as applicable.

(4) Gearing ratio is derived by dividing bank borrowings and discounted bills with recourse by total assets.

Trade and bills receivables

During the Track Record Period, credit terms granted to our customers ranged from immediately due to 90 days. The credit terms granted to each customer vary, depending on its business relationship with us, its creditworthiness and settlement record. A majority of our customers settle their payments by cash or banker's notes (銀行承兑匯票). To ensure timely settlement of our accounts receivables, our finance team followed up closely with the relevant customers on the outstanding payments. During the Track Record Period, we did not have any bad debts or doubtful debts.

The increase in trade receivables balance from approximately RMB8.9 million as of 31 December 2008 to approximately RMB46.5 million as of 31 December 2009 was mainly due to the increase in our total revenue, which increased from approximately RMB67.2 million for the year ended 31 December 2008 to approximately RMB156.9 million for the year ended 31 December 2009. Increase in our revenue was mainly attributable to our acquisition of new customers bringing in additional revenue and the increase in the sales orders from our existing customers. The number of customers increased from 11 as of 31 December 2008 to 18 as of 31 December 2009 and the 7 new customers generated additional revenue of approximately RMB39.0 million in 2009. The sales to our existing customers (those 11 customers as of 31 December 2008) increased from approximately RMB67.2 million in 2008 to approximately RMB117.9 million in 2009.

Our sales and marketing team is in charge of periodic collection tasks, and our finance team periodically verifies collection status with our sales and marketing team, monitors the aging of trade receivables and prepares financial records. Stronger collection efforts will be made with respect to long outstanding trade debts. Trade and bills receivables turnover days increased from 58 days in 2007 to 63 days in 2008 and up to 70 days in 2009, primarily due to the sales of our products to the 7 new customers acquired in 2009, who normally settled the trade receivables in more than two months. These new customers contributed approximately RMB39.0 million sales in 2009 and the trade receivables due from them as of 31 December 2009 were approximately RMB15.1 million, or approximately 32.5% of our trade receivables as of 31 December 2009. As at the Latest Practicable Date, trade receivables of approximately RMB46.5 million as of 31 December 2009 were fully settled. Regarding the bill receivables of approximately RMB12.6 million as of 31 December 2009, approximately RMB12.6 million were settled as at the Latest Practicable Date.

The following table sets forth a summary of aging analysis of our trade receivables as of the dates indicated:

	As at 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
0 – 30 days	3,822	3,130	16,500
31 – 60 days	4,859	2,317	21,895
61 – 90 days	2,681	2,702	7,995
91 – 120 days	1,211	761	100
	12,573	8,910	46,490

Our trade receivables of 91 days to 120 days had decreased from approximately RMB1.2 million as of 31 December 2007 to approximately RMB0.8 million as of 31 December 2008 to approximately RMB0.1 million as of 31 December 2009 as management has allocated more resources to follow up outstanding payments during the Track Record Period.

Inventories

Our inventories comprise raw materials, work-in-progress and finished goods. The following table sets forth our ending inventory balances as of the dates indicated:

	As at 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Raw materials	3,103	4,513	3,447
Work-in-progress	1,321	1,355	2,345
Finished goods	709	265	2,812
	5,133	6,133	8,604

Our inventories increased from approximately RMB5.1 million as of 31 December 2007 to approximately RMB6.1 million as of 31 December 2008, primarily due to the increase in raw materials resulted from the decrease in the sales volume of our products caused by the global financial crisis and economic downturn in the last quarter of 2008. Inventories increased to approximately RMB8.6 million as of 31 December 2009 primarily due to the increase in work-in-progress resulted from the increase in production volume and confirmed sales orders of our products in the first quarter of 2010. In addition, more finished goods were ready for delivery as of the year end of 2009 to fulfill the growth in sales volume.

As one of our risk management policies, we always maintain a safety inventory level of raw materials of approximately 30 days' production volume to avoid disruption of production in case of any delays in delivery of raw materials by our suppliers. In addition, it is our policy to keep our inventory level at low level while keeping a safety inventory level of approximately 30 days' sales volume, and hence we rarely face the problem of obsolete stock. No provision for obsolete inventories was made during the Track Record Period. Nevertheless, stock control procedures have been implemented by us to keep the occurrence of obsolete stock to a minimum level.

Our inventory turnover days increased from 67.7 days as of 31 December 2007 to 73.9 days as of 31 December 2008 mainly attributable to the increase in inventory of raw materials as a result of an unexpected decrease in production caused by the global financial crisis and economic downturn in the last quarter of 2008. Inventory turnover day decreased to 52.2 days as of 31 December 2009 resulted from the increase in production and sales volume of our products due to the gradual economic recovery in 2009.

As at 30 April 2010, raw materials of approximately RMB2.8 million, work-in-progress of approximately RMB2.3 million and finished goods of approximately RMB2.8 million out of the respective year end balances were utilised.

Trade payables

Our trade payables primarily represent payables to our raw material suppliers. Payments to our suppliers are made by cash before delivery, by cash against delivery or are settled with a credit term of up to 30 days. Our trade payables as of 31 December 2007 amounted to approximately RMB0.4 million, compared to approximately RMB0.5 million as of 31 December 2008 and approximately RMB1.6 million as of 31 December 2009. The increase in our trade payables during the Track Record Period was primarily due to the increase in purchase of raw materials to satisfy the increased sales orders confirmed by our customers.

The trade payables turnover days increased from 8.3 days as of 31 December 2008 to 8.6 days as of 31 December 2009 mainly due to the increase in purchases from one of our major raw material suppliers who offers credit term of 30 days.

The following table sets forth a summary of aging analysis of our trade payables (by good receipt day) as of the dates indicated:

	As at 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
0 – 30 days	156	285	1,426
31 – 60 days	27	2	40
61 – 90 days	201	36	59
Over 90 days	42	202	77
	426	525	1,602

As at 30 April 2010, trade payables of approximately RMB1.5 million out of the total balances of approximately RMB1.6 million as at 31 December 2009 were settled.

Gearing ratios

Gearing ratio represents total bank borrowings and discounted bills with recourse as a percentage of total assets. Our gearing ratio was approximately 10.1%, 14.8%, and 4.8% as of 31 December 2007, 2008 and 2009, respectively. The increase in gearing ratio by approximately 4.7% as of 31 December 2008 compared to 31 December 2007 was primarily due to bills discounted to banks in 2008 but nil in 2007 and increase of bank balances and cash. The decrease in gearing ratio by approximately 10.0% as of 31 December 2009 compared to 31 December 2008 was mainly attributable to repayment of secured short term bank borrowings and the increase in bank balances and cash.

Summary of key financial ratios during the Track Record Period

Return on equity

The table below sets forth our return on equity ratios for the periods indicated:

	Year ended 31 December		
	2007	2008	2009
Return on equity[(1)]	32.5%	36.9%	59.1%

Note:

(1) Return on equity is calculated by profit for the year divided by the arithmetic mean of the opening and closing balances of shareholders' equity expressed during the relevant year as a percentage.

Liquidity ratios

The table below sets forth our liquidity ratios for the periods indicated:

	As at 31 December		
	2007	2008	2009
Current ratio[(1)]	66.4%	230.1%	422.3%
Quick ratio[(2)]	52.5%	198.0%	395.1%

Notes:

(1) Current ratio is calculated by dividing current assets by current liabilities.

(2) Quick ratio is calculated by dividing current assets less inventories by current liabilities.

Our current ratio increased from approximately 66.4% as of 31 December 2007 to approximately 230.1% as of 31 December 2008 whereas our quick ratio increased from approximately 52.5%, as of 31 December 2007 to approximately 198.0% as of 31 December 2008 primarily due to the net increase in bank balances and cash after the repayment of the amount due to a director and amounts due to related companies by the cash receipt from our expanded business.

Our quick ratio and current ratio increased from approximately 198.0% and 230.1%, respectively, as of 31 December 2008 to approximately 395.1% and 422.3%, respectively, as of 31 December 2009, primarily due to the increase in trade receivables and bank balances and cash as our business further expanded and our short term bank borrowings were fully repaid. This was partially off set by the increase in accrued sales commission and tax payables.

INDEBTEDNESS

We have financed our operations primarily through short-term bank borrowings, discounted bills with recourse, amount due to a director and amounts due to related companies. Short-term bank borrowings are in the form of interest bearing short-term loans, whereas amount due to a director and amounts due to related companies are non-interest bearing. As at 31 December 2009, except for the discounted bills with recourse amounted to approximately RMB9.0 million, the Group had no outstanding bank borrowing.

The following table sets forth the breakdown of our short-term indebtedness as at the dates indicated:

	As at 31 December			As at 30 April
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)
Amount due to a director	10,000	–	–	–
Amounts due to related companies	7,208	–	–	–
Secured bank borrowings				
– due within one year	9,000	9,000	–	–
Discounted bills with recourse	–	6,390	9,012	11,840
	26,208	15,390	9,012	11,840

All amount due to a director and amounts due to related companies were settled prior to the date of this prospectus.

As at 30 April 2010, the leasehold land of the Group is pledged against a loan facility of RMB8,000,000, which has not been drawn down by the Group.

Except as disclosed in this section of the prospectus, apart from intra-group liabilities, neither our Company nor any of our Company's subsidiaries had, as of 30 April 2010, mortgages, charges, debentures, bank overdrafts, loans, liabilities under acceptance, hire purchase commitments, debt securities or material amounts of quantifiable guarantees and contingent liabilities.

SUBSEQUENT CHANGES

The Directors have confirmed that there has not been any material changes in the indebtedness or contingent liabilities of our Group since 30 April 2010.

CAPITAL EXPENDITURES

Our capital expenditures consist of cash used in construction of our production facilities and purchase of machines and equipment. We have financed our capital expenditures through cash flows from operations, short-term bank borrowings, advances from a director and related companies and capital injection from shareholders. In 2007, 2008, and 2009, our capital expenditures amounted to approximately RMB5.2 million, RMB0.6 million and RMB0.9 million, respectively.

The following table sets forth our capital expenditures for the periods indicated:

	As at 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Property, plant and equipment	5,198	553	881

CAPITAL COMMITMENTS

As of 31 December 2007, 2008 and 2009 and the Latest Practicable Date, neither our Company nor any of our Company's subsidiaries had any material capital commitments.

WORKING CAPITAL CONFIRMATION

The Directors are of the opinion that, after taking into account the estimated net proceeds of the New Issue (see section headed "Future plans and use of proceeds from the Global Offering – Use of proceeds") and our internally generated funds, our Group has sufficient working capital to satisfy its requirements for at least the next 12 months following the date of this prospectus.

OFF-BALANCE SHEET ARRANGEMENTS AND CONTINGENCIES

As of 31 December 2007, 2008 and 2009 and the Latest Practicable Date, neither our Company nor any of our Company's subsidiaries had provided any guarantees to third parties and related companies. We have not entered into any derivative financial instruments, interest rate swap transactions or foreign currency forward contracts. We do not engage in speculative transactions involving derivatives.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Currency risk

Certain purchase transactions of the Group are denominated in foreign currencies, which expose the Group to foreign currency risk. The Group does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The financial assets and financial liabilities that are denominated in foreign currencies are insignificant as at 31 December 2007, 2008 and 2009.

Interest rate risk

The Group was exposed to fair value interest rate risk in relation to the fixed-rate secured bank borrowings and discounted bills with recourse. The Group's exposure to cash flow interest rate risk in relation to bank balances is considered as insignificant. The Group does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Inflation

In recent years, China has not experienced significant inflation and thus inflation has not materially impacted our results of operations. According to the National Bureau of Statistics of China, the change in the Consumer Price Index in China was 4.8%, 5.9% and -0.7% in 2007, 2008 and 2009, respectively. Based on the upward change of the Consumer Price Index in late 2007, the PRC government announced measures to restrict bank lending and investment in China in order to reduce inflationary pressures on China's economy. Such measures adopted by the PRC government may not be successful in reducing or slowing the rate of inflation in China, and sustained or increased inflation in China in the future may adversely affect our business and financial results.

RULES 13.13 TO 13.19 OF THE LISTING RULES

The Directors confirm that they are not aware of any circumstances which would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

PROPERTY INTERESTS AND VALUATION OF PROPERTIES

Our properties were revalued at RMB33,000,000 as at 31 March 2010 by Colliers International (Hong Kong) Limited. Details of the valuation are summarised in Appendix IV to this prospectus.

Disclosure of the reconciliation of the property interests and the valuation of such property interests as required under Rule 5.07 of the Listing Rules are set out below.

	RMB'000	*RMB'000*
Valuation of properties as of 31 March 2010 as set out in the Valuation Report included in Appendix IV		33,000
Carrying value of the following properties as at 31 December 2009 as set out in the Accountants' Report on the Group included in Appendix I		
– Buildings	16,949	
– Land use rights	10,801	
	27,750	
Less: Depreciation of buildings during the period from 31 December 2009 to 31 March 2010 (unaudited)	230	
Less: Amortisation of land use rights during the period from 31 December 2009 to 31 March 2010 (unaudited)	59	
Carrying value of properties as at 31 March 2010 subject to valuation as set out in the Valuation Report included in Appendix IV		27,461
Net valuation surplus		5,539

DIVIDEND POLICY

We intend to distribute at least 30% of the distributable profits attributable to shareholders of our Company for the financial year ending 31 December 2010 as dividends. Such intention does not amount to any guarantee or representation or indication that our Company must or will declare and pay dividend in such manner or declare and pay any dividend at all. We did not declare or pay any dividends during the Track Record Period.

Going forward, we may distribute dividends by way of cash or by other means that our Directors consider appropriate. A decision to distribute any interim dividend or recommend any final dividend will be at the discretion of our Board. In addition, any final dividend will be subject to Shareholders' approval. Our Board will review our Company's dividend policy from time to time in light of the following factors in determining whether dividends are to be declared and paid:

- financial results of our Company;
- shareholders' interests;
- general business conditions, strategies and future expansion needs;
- our Company's capital requirements;
- the payment by our subsidiaries of cash dividends to our Company;
- possible effects on liquidity and financial position of our Company; and
- other factors our Board may deem relevant.

DISTRIBUTABLE RESERVES

There had been no distributable reserves available for distribution to our Shareholders as of the Latest Practicable Date.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS STATEMENT

The following is an illustrative statement of unaudited pro forma adjusted net tangible assets of our Group, which has been prepared for the purpose of illustrating the effect of the Global Offering as if it had taken place on 31 December 2009:

	Audited combined net tangible assets of our Group attributable to owners of our Company as of 31 December 2009	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted net tangible assets attributable to owners of our Company	Unaudited pro forma adjusted net tangible assets per Share	
	RMB'000	*RMB'000*	*RMB'000*	*RMB*	*HK$*
	(Note 1)	*(Notes 2 and 4)*		*(Note 3)*	*(Note 4)*
Based on an Offer Price of HK$0.71 per share	153,577	159,710	313,287	0.26	0.30
Based on an Offer Price of HK$0.83 per share	153,577	189,867	343,444	0.29	0.33

Notes:

(1) The audited combined net tangible assets of the Group attributable to owners of our Company as of 31 December 2009 is based on the net assets attributable to owners of our Company extracted from the Accountants' Report set out in Appendix I to this prospectus.

(2) The estimated net proceeds from the Global Offering are based on an Offer Price of HK$0.71 and HK$0.83 per Share, respectively (after deducting the underwriting fees and other related expenses), and takes no account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option.

(3) The number of shares used for the calculation of unaudited pro forma adjusted net tangible assets attributable to owners of our Company per Share is based on 1,200,000,000 Shares in issue immediately after the Global Offering without taking into account any Share which may be issued upon the exercise of the Over-allotment Option.

(4) The amount stated in Renminbi has been converted into Hong Kong dollars at the rate of RMB1.00 to HK$1.14.

(5) With reference to the valuation of our Group's buildings and prepaid land lease payments as at 31 March 2010 as set out in Appendix IV to this prospectus, there was a valuation surplus of our Group's buildings and prepaid land lease payments of approximately RMB5,539,000. Our Group will not incorporate the valuation surplus in its future financial statements. If the valuation surplus were to be incorporated in our Group's financial statements, additional annual depreciation and amortisation charge of approximately RMB110,000 would have been charged against the combined statement of comprehensive income.

B. PROFIT FORECAST FOR THE SIX MONTHS ENDING 30 JUNE 2010

Forecast combined profit after taxation of our Group for the six months ending 30 June 2010[(1)]	Not less than RMB65.8 million (equivalent to approximately HK$75.0 million)[(3)]
Unaudited pro forma forecast basic earnings per Share for the six months ending 30 June 2010[(2)]	Not less than RMB0.05 (equivalent to approximately HK$0.06)[(3)]

Notes:

1. The bases and assumptions on which the forecast combined profit attributable to owners of our Company for the six months ending 30 June 2010 have been prepared and summarised on page III-1 of Appendix III to this prospectus.

   Our forecast combined profit after taxation for the six months ending 30 June 2010 prepared by our Directors is based on the unaudited management accounts of our Group for the four months ended 30 April 2010 and a forecast of the combined results of our Group for the remaining two months ending 30 June 2010. The Directors have undertaken to the Stock Exchange that our interim report for the six months ending 30 June 2010 will be audited pursuant to Rule 11.18 of the Listing Rules. The forecast has been prepared on the basis of the accounting policies consistent in all material respects with those currently adopted by our Group as summarised in the "Accountants' Report" as set out in Appendix I to this prospectus.

2. The calculation of the unaudited pro forma forecast basic earnings per Share for the six months ending 30 June 2010 is based on the forecast combined results of our Group for the six months ending 30 June 2010, assuming the Global Offering had been completed on 1 January 2010 and a total of 1,200,000,000 Shares were in issue during the entire period, taking no account of any additional income our Group may have earned from the estimated net proceeds from the Global Offering, or any Shares which may fall to be allotted and issued pursuant to the exercise of the Over-allotment Option.

3. The amount stated in Renminbi has been converted into Hong Kong dollars at the rate of RMB1.00 to HK$1.14.

NO MATERIAL ADVERSE CHANGE

The Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Company since 31 December 2009, being the last date of our latest audited financial results as set out in Appendix I "Accountants' Report" to this prospectus.