You should read this section in conjunction with our audited consolidated financial statements, including notes thereto, as set out in "Appendix I – Accountants' Report". The financial statements have been prepared in accordance with HKFRS, Hong Kong Accounting Standards issued by HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements under Companies Ordinance.

The following discussion and analysis contains certain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcome and developments will meet our expectations and predictions depend on a number of risks and uncertainties over which we do not have control. Please refer to the section headed "Risk factors" in this prospectus.

OVERVIEW

We are a manufacturer and supplier of consumer chemicals and their ingredients, namely ethylene oxide and AEO surfactants which are the core components for household cleansing and cosmetic products. According to the SAI Report, we were the third largest manufacturer and the largest privately-owned manufacturer of ethylene oxide in China in terms of production volume for the three years ended 31 December 2009. We are also the second largest manufacturer and the largest privately-owned manufacturer of AEO surfactants in China in terms of production volume in 2009. Ethylene oxide is an ethylene derivative product and is mainly used for production of surfactants, ethylene glycol, ethanolamines and glycol ethers in China. Our AEO surfactants are mainly used in the manufacture of household cleansing agents such as liquid detergents, cosmetics and ointments products.

In addition to ethylene oxide and AEO surfactants, we also manufacture and supply other types of surfactants products. We also engage in the provision of processing services for ethylene oxide and surfactants to our customers as well as the production and supply of other chemical products such as ethylene glycol and industrial gases, namely oxygen, nitrogen and argon.

During the Track Record Period, our revenue was approximately RMB876.8 million, RMB952.8 million, RMB1,285.5 million and RMB567.5 million, respectively, while our net profit attributable to equity holders of the parent was approximately RMB147.4 million, RMB139.1 million, RMB242.1 million and RMB78.7 million, respectively. Between 2007 and 2009, our revenue grew at a CAGR of 21.1% and our net profit attributable to equity holders of the parent grew at a CAGR of 28.2%.

The following table sets forth our consolidated statements of income for each of the periods indicated, as derived from the Accountants' Report which are set out in Appendix I to this prospectus.

	Year ended 31 December			Four months ended 30 April	
	2007	2008	2009	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Revenue	876,774	952,847	1,285,533	368,423	567,483
Cost of Sales	(667,343)	(728,345)	(929,212)	(244,725)	(455,365)
Gross profit	209,431	224,502	356,321	123,698	112,118
Other income and gains	20,200	29,401	21,204	1,540	4,526
Selling and distribution cost	(757)	(3,005)	(2,966)	(739)	(523)
Administrative expenses	(22,696)	(30,827)	(37,473)	(9,420)	(10,774)
Other expenses	(1,291)	(2,000)	(336)	(70)	(370)
Finance costs	(34,360)	(36,736)	(32,915)	(12,673)	(5,898)
Profit before tax	170,527	181,335	303,835	102,336	99,079
Income tax expense	(839)	(19,500)	(43,673)	(15,765)	(20,383)
Profit for the year/period	169,688	161,835	260,162	86,571	78,696
Attributable to:					
Equity holders of the parent	147,358	139,081	242,075	81,525	78,668
Non-controlling interests	22,330	22,754	18,087	5,046	28
	169,688	161,835	260,162	86,571	78,696

FACTORS AFFECTING RESULTS OF OPERATION

Our business, financial conditions and results of operations have been and will continue to be affected by a number of factors, including those set forth in the section headed "Risk factors" in this prospectus, some of which may not be within our control. The principal factors affecting our results of operations are set out below.

Demand for cleansing products

Demand for our ethylene oxide depends primarily on the consumption of non-ionic surfactants, which in turn, are driven by the non-ionic surfactant downstream industries, in particular, detergent and cleansing products manufacturers. According to the SAI Report, non-ionic surfactants accounted for approximately 60% of ethylene oxide consumption in China. Among the non-ionic surfactants produced in China, AEO surfactants accounted for approximately 50% in terms of production volume. AEO surfactants are consumed directly in the production of household liquid detergents and cleansers.

China has experienced significant economic growth in recent years, achieving growth in GDP at a CAGR of 16% from 2005 to 2009. The rapid growth of the PRC economy has led to accelerated urbanisation and improving living standard. This, in turn, created growing demand for hygiene and cleansing products.

Our revenue increased from approximately RMB876.8 million in 2007 to approximately RMB1,285.5 million in 2009 at a CAGR of 21.1%. Comparing the four months ended 30 April 2009 with the same period in 2010, our revenue increased from approximately RMB368.4 million to approximately RMB567.5 million, representing a growth rate of 54.0%. According to the SAI report, the domestic demand for ethylene oxide is projected to grow at a CAGR of 17% from 2009 to 2014, reaching 1,564,017 MT or US$2.8 billion in value by the end of 2014. With respect to AEO surfactants demand in the PRC, it is estimated to grow at a CAGR of 5% reaching 529,500 MT or US$1.1 billion in value by 2014. Demand for ethylene oxide and surfactants is expected to remain strong as China becomes increasingly urbanised and industrialised.

Production capacity

Our results of operations are affected by our production capacity. In order to accommodate the growing demand for ethylene oxide and product diversification, we have expanded, and will continue to expand our scale of operations by constructing new production lines, purchasing additional equipment and forming joint ventures for ethylene oxide production. During the Track Record Period, we had expanded our ethylene oxide production capacities by completing the construction of our second phase ethylene oxide production facilities at Sanjiang Production Plants in 2008. Our designed annual production capacity of ethylene oxide doubled from 60,000 MT in 2007 to 120,000 MT as of the Latest Practicable Date and our designed annual production capacity of surfactants increased from 18,000 MT in 2007 to 218,000 MT as of the Latest Practicable Date.

As part of our expansion plan, we intend to further increase our designed annual production capacity of ethylene oxide by 60,000 MT to reach an aggregate designed annual production capacity of 180,000 MT by early 2011 through the construction of our third phase ethylene oxide production facilities.

In May 2010, pursuant to the joint venture agreement and supplemental agreement dated 4 May 2010, we established a sino-foreign joint venture company, Sanjiang Honam, with Honam Petrochemical Corp which is an Independent Third Party. It is intended that Sanjiang Honam will principally engage in the production of ethylene oxide with a designed annual production capacity of approximately 200,000 MT and we are entitled to purchase 50% of all ethylene oxide produced by Sanjiang Honam, at cost.

We believe that our expansion plan will enable us to meet the growth in demand we anticipate for our products and will help us to capture a larger share of the markets in which we operate.

Product mix

Change in the mix of products and services we offer will impact our results of operations.

It has been our Group's strategy to expand our production capacities in both ethylene oxide and surfactants as well as other related products. We believe that we are able to diversify our risks by not placing undue reliance on the sales of a single product. With our vertically integrated production, we are able to adjust our product mix in ethylene oxide and surfactants by responding to the changes in market condition in terms of product pricing and customers' demand in a timely manner by resiliently switching between selling ethylene oxide to our customers and utilising the ethylene oxide manufactured by us to manufacture surfactants.

During the Track Record Period, our gross profit margins were affected by our product mix.

According to the SAI Report, the demand for AEO surfactants exceeded domestic production volume in the PRC from 2007 to 2009 and it is estimated that the excess demand will continue to exist from 2010 to 2014. In view of the market potential and with an aim at reducing our reliance on single product, the Group began to develop the surfactant business during the Track Record Period.

Our revenue from the sales of surfactants increased at a CAGR of 164.8% from 2007 to 2009 while our revenue from sales of ethylene oxide increased at a CAGR of 7.9% for the same period. As a result of the increase in total revenue, the total gross profit of the Group also increased from 2007 to 2009.

Our overall gross profit margin increased in 2007 to 2009. This was mainly attributed by the increase in the gross profit margin of ethylene oxide from 23.1% in 2007 to 29.9% in 2009. Although the gross profit margin of ethylene oxide was higher than that of surfactants, the revenue growth of surfactants exceeded the revenue growth of ethylene oxide from 2007 to 2009.

During the four months ended 30 April 2010, after considering the market demand for ethylene oxide and surfactants, the Group increased the sales proportion of ethylene oxide in response to the increasing market demand and selling price of ethylene oxide. Comparing the four months ended 30 April 2009 with the same period in 2010, our sales of ethylene oxide increased from approximately RMB231.7 million to approximately RMB472.0 million, representing an increase of approximately 103.7%. Our sales of surfactants decreased from approximately RMB67.1 million to approximately RMB63.1 million, representing a decrease of approximately 6.0%. The proportion of sales of ethylene oxide increased and constituted approximately 83.2% of the total revenue for the four months ended 30 April 2010 as compared with 62.9% for the same period in 2009. The sales of ethylene oxide was a primary driver to the increase in total revenue for the four months ended 30 April 2010 as compared with the same period in 2009.

The overall gross profit margin of the Group decreased from approximately 33.6% for the four months ended 30 April 2009 to approximately 19.8% for the four months ended 30 April 2010, which was primarily due to the decrease in the gross profit margin of ethylene oxide from approximately 36.5% to 20.2% for the same period. The decrease in gross profit margin of ethylene oxide was primarily due to the increase in the average cost of ethylene as a result of the increase in average international crude oil prices during the four months ended 30 April 2010 as compared with the same period in 2009. Other supplementary factors contributing to the increase in ethylene prices was the 2% additional customs levy imposed on the imported ethylene by the General Administration of Customs of the PRC starting from 1 January 2010, and the decrease in the overall supply of ethylene from overseas into the PRC market. During the first four months of 2010, certain major overseas ethylene manufacturers suspended production of ethylene as they underwent maintenance for over one month, such suspension of ethylene production by those overseas ethylene manufacturers resulted in tighter overall ethylene supplies from overseas into the PRC market. As a result of the aforesaid, the market prices of ethylene increased during the four months ended 30 April 2010 as compared with that for the four months ended 30 April 2009 and our gross profit margin was adversely affected. While the increase in the selling price of ethylene oxide was less than the increase in ethylene price, our gross profit margin decreased accordingly. Generally, ethylene manufacturers in Japan carry out maintenance about once every one to four years. In order to mitigate the impact arising from the shortage in supply of ethylene, our Group has installed a storage tank for ethylene with a storage capacity of approximately 22,000 cubic metres of ethylene which was the largest ethylene storage tank in China in terms of storage capacity as of 30 April 2010 according to the

SAI Report. In the second quarter of 2010, we commenced the construction of an additional ethylene storage tank with a storage capacity of approximately 22,000 cubic metres. We anticipate that the construction will be completed by the second quarter of 2011. In addition, we also source ethylene supply from at least three suppliers so as to avoid placing undue reliance on a single supplier. We also enter into legally binding contracts with most of our suppliers on a yearly basis in order to secure a stable supply of ethylene. Accordingly, during the aforesaid suspension of ethylene production by certain major overseas ethylene manufacturers, our ethylene suppliers were still committed to supply agreed quantities of ethylene to our Group. As such, we were able to secure a stable supply of ethylene and did not experience any shortage of raw materials during the four months ended 30 April 2010. Although such suspension in production resulted in tighter overall ethylene supplies from overseas into the PRC market, the impact on the sales volume of our ethylene oxide was minimal.

The gross profit margin of surfactants increased from 11.2% for the four months ended 30 April 2009 to 15.2% for the four months ended 30 April 2010, primarily due to the fact that the increase in selling prices of surfactants was greater than the increase in costs. Despite the increase in gross profit margin of surfactants during the four months ended 30 April 2010, taking into account the fact that ethylene oxide had a higher gross profit margin than that of surfactants, our Group, amid the growth of market demand for ethylene oxide, decided to increase the proportion of sales of ethylene oxide to satisfy customers' orders.

Pricing of our products

The prices of ethylene oxide and surfactants are agreed between our customers and us with reference to the prevailing market prices of ethylene oxide and surfactants respectively. Our surfactant processing fees are agreed between our customers and us with reference to our costs of auxiliary raw materials, energy, utilities and labour plus a profit margin. In light of the highly combustible and inflammable nature rendering the transportation of ethylene oxide highly difficult, all our sales are made domestically in the PRC. Accordingly, our profitability is affected by the prevailing market prices of ethylene oxide in the PRC and price volatility of raw materials. During the Track Record Period, the average selling price of our ethylene oxide was approximately RMB12,218.8 per MT, RMB12,827.3 per MT, RMB8,502.8 per MT and RMB10,357.8 per MT, respectively while the average selling price of our surfactants was RMB10,776.7 per MT, RMB13,482.2 per MT, RMB8,921.7 per MT and RMB10,477.8 per MT, respectively. Our surfactants processing services were charged at an average fee of approximately RMB435.9 per MT and our ethylene oxide processing services were charged at an average fee of approximately RMB3,419.0 per MT during the Track Record Period.

Ethylene prices and crude oil prices

Our major source of revenue is generated from the sales of ethylene oxide and surfactants as well as provision of surfactants processing services. The principal raw material for the production of ethylene oxide is ethylene, and ethylene oxide is in turn one of the major raw materials for surfactant production. Since ethylene is one of the chemical products derived from crude oil, the price of ethylene is directly affected by crude oil prices.

We principally source and purchase ethylene from suppliers in Japan. The price of ethylene is agreed between our suppliers and us with reference to the CFR price quoted by ICIS at the time the purchase orders are placed. The price quotations from ICIS are based on information gathered from a wide cross-section of the relevant markets, comprising consumers, producers, traders and distributors. Accordingly, our purchase price of ethylene is subject to the fluctuations of international crude oil prices instead of the crude oil prices in the PRC.

During the Track Record Period, international crude oil prices experienced significant volatility. In 2007, based on the Brent Crude Oil Price, crude oil prices in international markets increased from the range of approximately US$57.2 to US$68.4 per barrel in the first quarter of 2007 to the range of approximately US$90.3 to US$93.9 per barrel in the last quarter of 2007. In 2008, the crude oil prices continued to increase from the range of approximately US$92.6 to US$100.2 per barrel in the first quarter of 2008 and reached a peak-high range of approximately US$110.6 to US$139.3 per barrel in mid-2008. The crude oil prices then fell to the range of approximately US$41.8 to US$64.4 per barrel in the last quarter of 2008. The crude oil price started to rebound in 2009, increasing from the range of approximately US$44.9 to US$47.7 per barrel in the first quarter of 2009 to the range of approximately US$74.4 to US$77.2 per barrel in the last quarter of 2009. The crude oil prices in 2009, on average, maintained at a relatively low level as compared with that in 2008. In the first four months of 2010, the crude oil prices fluctuated within a range of approximately US$70.5 to US$86.0 per barrel. The fluctuations in crude oil prices, in turn, translated into volatility of the price of ethylene.

The fluctuation of ethylene price was closely correlated with the fluctuation of crude oil price. As a result, when the crude oil price increased, the cost of sales of our Company increased accordingly. However, in general, the extent of fluctuation of ethylene price was lesser with the change reflected in a one-to-two-month time lag as compared with the change of crude oil price. This was primarily due to the fact that apart from crude oil price, the prevailing market price of ethylene was also influenced by a number of other factors, including transportation cost, storage cost, supply and demand for ethylene and downstream products.

While ethylene oxide and surfactants are downstream products of ethylene, fluctuation of ethylene price has direct effect on the prices of ethylene oxide and surfactants. Accordingly, the prices of ethylene oxide and surfactants are closely correlated with the fluctuations of crude oil prices, but to a much lesser extent as compared with the impact on ethylene prices since the prices of ethylene oxide and surfactants are influenced by a number of product specific factors including PRC government policies, pricing of state-owned enterprises, supply and demand of downstream products, such as household and industrial detergent products.

During the Track Record Period, the cost of ethylene we consumed for sales amounted to approximately RMB525.9 million, RMB536.8 million, RMB577.4 million and RMB347.7 million respectively, representing approximately 78.8%, 73.7%, 62.1% and 76.4% of the cost of sales respectively. The average cost of ethylene we consumed for sales for the Track Record Period was RMB9,177.3 per MT, RMB9,477.4 per MT, RMB5,710.0 per MT and RMB8,734.2 per MT, respectively.

We do not engage in any hedging transactions to protect us against ethylene price fluctuations. We typically attempt to reflect increases in prices of ethylene and other raw materials in our product prices. However, to the extent that we cannot pass on these raw materials price increases to our customers, we strive to absorb the additional production costs by implementing cost control and other production measures. In the event that we cannot pass on any increase in raw material costs to our customers or offset such increase through various cost control measures, our results of operations may be negatively affected. Please refer to the sections headed "Risk factors – Risks relating to our business – Any shortage in supply of raw materials or fluctuation in the prices of our raw materials may adversely affect our profit margins and results of operation" and "Risk factors –Risks relating to our business — We experienced a decrease in gross profit margin for the four months ended 30 April 2010" in this prospectus for further details.

Demand for ethylene oxide and AEO Surfactants

According to the SAI Report, the demand for ethylene oxide and non-ionic surfactants, such as AEO surfactants remained strong in the PRC. The domestic demand for ethylene oxide consumed the entire production volume of ethylene oxide in the PRC, while the AEO surfactants demand well exceeded the domestic production volume of AEO surfactants in the PRC.

Our Group's revenue growth during the Track Record Period was mainly resulted from the increase in our Group's production capacity which was driven by the high demand for ethylene oxide in the market. Sales volume of our Group's ethylene oxide and surfactants grew by a CAGR of 29.3% and 191.0% respectively, from 2007 to 2009. In light of the fact that the demand for ethylene oxide and AEO surfactants in the PRC fully absorbed the domestic production volume, our Group expanded our production capacities in both ethylene oxide and surfactants during the Track Record Period in order to tap the markets.

Finance costs

A portion of our business and expansion projects is financed by short-term and long-term bank borrowings. The finance costs and the ranges of interest rates per annum on our bank borrowings during the Track Record Period are set forth below:

	Year ended 31 December			Four months ended 30 April	
	2007	2008	2009	2009	2010
				(unaudited)	
Finance costs (RMB'000)	34,360	36,736	32,915	12,673	5,898
Short-term bank borrowings interest rate (%)	5.060 – 8.019	3.663-7.743	1.184 – 8.127	N/A	0.282 - 5.045
Current portion of long-term bank borrowings (%)	–	5.387-8.033	7.371-8.127	N/A	–
Long-term bank borrowings interest rate (%)	7.749-8.033	7.749-8.694	7.371 – 8.280	N/A	4.860 - 6.831

Please refer to the section headed "Financial information – Indebtedness" in this prospectus for details.

In order to finance our future expansion plans, we may need to draw further bank facilities or to utilise other financing methods such as issuing capital market instruments. Accordingly, the total balance of bank borrowings, funds raised through other financing methods and any interest rate fluctuations will have an impact on our finance costs, which in turn could affect our results of operations and financial condition.

Taxation

We have not made any provision for Hong Kong profits tax as we had no taxable income in Hong Kong during the Track Record Period. Our subsidiaries operating in the PRC are subject to CIT on their taxable income in accordance with the relevant PRC tax laws and regulations.

Prior to 1 January 2008, PRC entities are, in general, subject to the statutory income tax rate of 33%, consisting of 30% state tax and 3% local tax, on their assessable profits. After the CIT Law became effective on 1 January 2008, the CIT rate was reduced from 33% to 25% which applied to both domestic and foreign enterprises. The financial impact on our Group as a result of the reduction of CIT rate was a saving of income tax of approximately RMB7.3 million, RMB5.5 million and RMB2.5 million for the years ended 31 December 2008 and 2009 and for the four months ended 30 April 2010 respectively.

Two of our subsidiaries, namely Sanjiang Chemical and Yongming Petrochemical, are entitled to a tax holiday of a two-year full exemption followed by a three-year 50% exemption commencing from their respective first profit-making year after off-setting accumulated tax losses, if any. The first profitable year of Sanjiang Chemical was 2006. Under the CIT Law, an enterprise would be deemed to trigger the tax holiday from 1 January 2008 notwithstanding that the enterprise concerned had made profit or not. Accordingly, although Yongming Petrochemical had not made profits in 2008, it started to enjoy its tax holiday in 2008. The other two subsidiaries, namely Sanjiang Trading and Guanlang, are subject to the CIT rate of 33% in 2007 and 25% since 2008. With respect to Hangzhou Sanjiang, it is subject to the CIT rate of 25% since its establishment in 2010.

The table below sets out the applicable CIT rate of our operating subsidiaries in the PRC:

Subsidiary	**Applicable tax rate (%)**			
	2007	**2008**	**2009**	**2010**
Sanjiang Chemical	– (Note 1)	12.5	12.5	12.5
Yongming Petrochemical	– (Note 2)	– (Note 1)	– (Note 1)	12.5
Guanlang	33	25	25	25
Sanjiang Trading	33	25	25	25
Hangzhou Sanjiang	– (Note 3)	– (Note 3)	– (Note 3)	25

Notes:

(1) Exempted from paying tax during the year.

(2) Yongming Petrochemical did not have assessable profit in 2007.

(3) Hangzhou Sanjiang was established in 2010. Accordingly, it is not subject to tax from 2007 to 2009.

During the Track Record Period, our income tax expenses were RMB0.8 million, RMB19.5 million, RMB43.7 million and RMB20.4 million, respectively and our effective tax rate was 0.5%, 10.8%, 14.4% and 20.6%, respectively. The application of PRC tax laws (including any termination or revision of the preferential tax treatments that we currently enjoy) has had and will continue to have an impact on our tax expenses, results of operations and financial conditions.

BASIS OF PRESENTATION

The consolidated financial statements of the Group in the Accountants' Report as set out in Appendix I to this prospectus have been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations) issued by HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirement of the Companies Ordinance.

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. Since Mr. Guan and Ms. Han 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 Guidelines 5 "Merger Accounting for Common Control Combinations" issued by HKICPA.

As part of the Reorganisation, on 1 April 2010, the Group acquired, among other things, the ethylene oxide trading and surfactant manufacturing and sale business (the "**Acquired Business**") from Hangzhou Haoming (the "**Hangzhou Haoming Business Acquisition**"). Under the terms of the agreements, the Group also acquired the production facilities, inventories and other assets and liabilities relating to the Acquired Business (the "**Net Assets Acquired**"). The land use right, buildings and motor vehicles relating to the Acquired Business (the "**Assets Retained**") and other assets and liabilities unrelated to the Acquired Business have been retained by Hangzhou Haoming. As the Assets Retained were related to the Acquired Business, the financial information combined the Net Assets Acquired, the Assets Retained and the results of operations relating to the Acquired Business using merger accounting as Hangzhou Haoming is under the common control and management of Mr. Guan and Ms. Han before and after the Reorganisation. Except for the assets and liabilities acquired by the Group, the Assets Retained which were leased by the Group have been reflected as a distribution to the equity holders in the consolidated statement of changes in equity on the acquisition date of Hangzhou Haoming Business Acquisition.

The financial information which is based on the audited consolidated financial statements of the companies now comprising the Group includes the consolidated statements of income, 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 Track Record Period, or since their respective dates of incorporation, whichever is the shorter period. All significant intragroup transactions and balances have been eliminated on consolidation.

CRITICAL ACCOUNTING POLICIES

Revenue recognition

Our 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 basis:

(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 services – 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.

Property, plant and equipment

Our 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 the purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Our construction in progress represents a property, plant and equipment 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.

Depreciation of our property, plant and equipment is calculated on a 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 depreciation rates for each category of property, plant and equipment are as follows:

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

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 statements of income in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

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 by 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 statements of income. The loss arising from impairment is recognised in other expenses in the statements of income.

Inventories

Inventories are stated at 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, cost 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.

PRINCIPAL COMPONENTS OF RESULTS OF OPERATIONS

Revenue

Our Group is mainly engaged in the manufacture and sale of ethylene oxide and surfactants. We also engage in the provision of ethylene oxide and surfactants processing services and supply of other chemical products such as ethylene glycol and industrial gases.

The following table sets forth a breakdown of our revenue during the Track Record Period:

	Year ended 31 December						Four months ended 30 April			
	2007		2008		2009		2009		2010	
	RMB million	*%*	*RMB million*	*%*	*RMB million*	*%*	*RMB million* (unaudited)	*%*	*RMB million*	*%*
Sales of ethylene oxide	795.2	90.7	829.3	87.0	925.1	72.0	231.7	62.9	472.0	83.2
Sales of surfactants	30.9	3.5	46.8	4.9	216.6	16.8	67.1	18.2	63.1	11.1
Processing services	3.4	0.4	9.7	1.0	66.4	5.2	54.2	14.7	5.2	0.9
Others(Note)	47.3	5.4	67.0	7.1	77.4	6.0	15.4	4.2	27.2	4.8
Total	876.8	100.0	952.8	100.0	1,285.5	100.0	368.4	100.0	567.5	100.0

Note: Others mainly comprised of sales from ethylene glycol, ethylene, nitrogen, oxygen and argon.

During the Track Record Period, ethylene oxide and surfactants maintained as our major products. Following the expansion of our ethylene oxide production capacity in 2008, we had diversified to produce more surfactants. Our reliance on sales of ethylene oxide was reduced and the proportion of sales of ethylene oxide to our total revenue decreased from 90.7% in 2007 to 72.0% in 2009. While sales of surfactants commanded a smaller proportion of revenue from 2007 to 2009, its share over our total revenue increased from 3.5% in 2007 to 16.8% in 2009. After considering the market demand for ethylene oxide and surfactants, we increased the proportion of sales of ethylene oxide from 72.0% in 2009 to 83.2% for the four months ended 30 April 2010 whereas the proportion of sales of surfactants decreased from 16.8% to 11.1% for the same period.

We also provide ethylene oxide and surfactants processing services to our customers. During the Track Record Period, the proportion of revenue derived from processing services grew from 0.4% in 2007 to 5.2% in 2009, then decreased to 0.9% for the four months ended 30 April 2010. In 2009, in view of the uncertainty arising from the financial crisis, we provided ethylene oxide processing services to a major customer, but we did not engage in such processing services in 2010. Accordingly, the proportion of revenue derived from total processing services decreased to 0.9% for the four months ended 30 April 2010.

With respect to the manufacture and processing services of surfactants, we manufacture all the required ethylene oxide, one of the principal raw materials for our surfactant production in-house and do not have to source ethylene oxide from external suppliers. During the Track Record Period, approximately 1,426.0 MT, 2,982.0 MT, 15,274.0 MT and 4,033.0 MT of ethylene oxide manufactured by us were utilised for production of surfactants (excluding surfactant processing services), representing approximately 2.2%, 4.4%, 10.9% and 8.2% of our total production volume of ethylene oxide respectively. The said ethylene oxide manufactured for self-consumption, based on production costs, amounted to approximately RMB13.4 million, RMB28.7 million, RMB91.1 million and RMB33.3 million respectively during the Track Record Period.

During the Track Record Period, our sales volume increased as the demand for our products increased. From 2007 to 2009, our aggregate volume of ethylene oxide sold and the volume of ethylene oxide processed increased by approximately 91.3% from 65,078.0 MT in 2007 to 124,473.0 MT in 2009 and comparing the four months ended 30 April 2009 with the same period in 2010, our aggregate volume of ethylene oxide sold and ethylene oxide processed increased by approximately 7.8% from 42,277.0 MT to 45,571.0 MT. Total volume of ethylene oxide processing services amounted to 15,672.0 MT in 2009. We did not engage in ethylene oxide processing services in 2007 and 2010 respectively.

With respect to surfactants, from 2007 to 2009, our aggregate volume of surfactants sold and the volume of surfactants processed increased by approximately 405.6% from 10,615.7 MT to 53,675.0 MT and comparing the four months ended 30 April 2009 with the same period in 2010, our aggregate volume of surfactants sold and surfactants processed increased by approximately 2.3% from 17,498.0 MT to 17,905.4 MT. Total volume of surfactants processed for the provision of processing services, increased by approximately 279.4% from 7,749.0 MT in 2007 to 29,399.0 MT in 2009. Comparing the four months ended 30 April 2009 with the same period in 2010, the sales volume of surfactants processing services increased by approximately 27.1% from 9,349.0 MT to 11,886.0 MT.

The following table sets forth the sales volume and average selling price of our major products and services during the Track Record Period:

Sales volume	**Year ended 31 December**			**Four months ended 30 April**	
	2007	**2008**	**2009**	**2009**	**2010**
	MT	*MT*	*MT*	*MT*	*MT*
Ethylene oxide	65,078.0	64,649.0	108,801.0	29,198.0	45,571.0
Surfactants	2,866.7	3,470.0	24,276.0	8,149.0	6,019.4
Ethylene oxide processing services	–	939.0	15,672.0	13,079.0	–
Surfactants processing services	7,749.0	14,793.0	29,399.0	9,349.0	11,886.0

Average selling price	**Year ended 31 December**			**Four months ended 30 April**	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB/MT	*RMB/MT*	*RMB/MT*	*RMB/MT*	*RMB/MT*
Ethylene oxide	12,218.8	12,827.3	8,502.8	7,934.6	10,357.8
Surfactants	10,776.7	13,482.2	8,921.7	8,238.3	10,477.8
Ethylene oxide processing services	–	3,419.1	3,418.8	3,832.6	–
Surfactants processing services	435.9	435.9	435.9	435.9	435.9

Since the price of ethylene oxide is closely correlated with the price of ethylene, which is, in turn, affected by the fluctuations in international crude oil prices and the price of surfactants depends primarily on the price of ethylene oxide as well as the supply and demand of surfactants, the change in the average selling prices of ethylene oxide and surfactants were, in general, in line with the volatility of the international crude oil prices during the Track Record Period. Please refer to the subsection headed "Factors affecting results of operation – Ethylene prices and crude oil prices" in this section for further details. With respect to the ethylene oxide and surfactant processing services we provide, the processing fees we charge are relatively steady as compared with the average selling prices of ethylene oxide and surfactants. The processing fees are generally charged based on the costs of auxillary raw materials, amount of oxygen consumed and labour costs.

Cost of sales

Cost of sales included raw materials, utilities, direct labour and manufacturing overhead. During the Track Record Period, our cost of sales were approximately RMB667.3 million, RMB728.3 million, RMB929.2 million and RMB455.4 million respectively, representing approximately 76.1%, 76.4%, 72.3% and 80.2% of our revenues respectively.

The following table sets forth our cost of sales as an approximate percentage of the total cost of sales during the Track Record Period:

	Year ended 31 December			Four months ended 30 April	
	2007	**2008**	**2009**	**2009**	**2010**
	%	%	%	% (unaudited)	%
Raw materials	81.2	76.9	71.2	63.7	80.5
Utilities	10.4	13.6	17.8	22.3	11.8
Direct labour	0.3	0.4	0.8	1.2	0.7
Manufacturing overhead	3.7	3.5	3.2	3.7	2.0
Others	4.4	5.6	7.0	9.1	5.0
Total cost of sales	100.0	100.0	100.0	100.0	100.0

The major components in the cost of sales were raw material cost, principally, ethylene and cost in utilities, principally electricity. During the Track Record Period, the cost of ethylene commanded 78.8%, 73.7%, 62.1% and 76.4% of the total cost of sales, respectively. The electricity cost occupied approximately 8.3%, 10.3%, 12.4% and 8.3% of the total cost of sales, respectively. Others mainly included depreciation expenses.

Gross profit

The following table sets forth our Group's revenue, cost of sales and gross profit as well as the percentage of our total revenue during the Track Record Period:

	Year ended 31 December						Four months ended 30 April			
	2007	% of total revenue	2008	% o f total revenue	2009	% of total revenue	2009	% of total revenue	2010	% of total revenue
	RMB million		*RMB million*		*RMB million*		*RMB million* (unaudited)		*RMB million*	
Revenue	876.8	100.0%	952.8	100.0%	1,285.5	100.0%	368.4	100.0%	567.5	100.0%
Cost of sales	(667.3)	76.1%	(728.3)	76.4%	(929.2)	72.3%	(244.7)	66.4%	(455.4)	80.2%
Gross profit	209.5	23.9%	224.5	23.6%	356.3	27.7%	123.7	33.6%	112.1	19.8%

During the Track Record Period, as the cost of our principal raw material, ethylene, experienced significant price volatility as driven by the fluctuations in international crude oil prices, we were able to pass on a portion of the costs to our customers and reduce unit production fixed cost due to economies of scale when our production capacity was expanded. However, our gross profit margin was affected by the volatility in raw material price movement.

The following table sets forth the approximate gross profit margins of our major products during the Track Record Period:

	Year ended 31 December			Four months ended 30 April	
	2007	2008	2009	2009	2010
				(unaudited)	
Ethylene oxide	23.1%	25.0%	29.9%	36.5%	20.2%
Surfactants	27.5%	15.2%	18.1%	11.2%	15.2%

With respect to our ethylene oxide sales business, gross profit margin increased from 23.1% in 2007 to 29.9% in 2009. Although the average selling price decreased by approximately 30.4% from RMB12,218.8 per MT in 2007 to RMB8,502.8 per MT in 2009, the average cost of ethylene decreased to a larger extent as compared with the decrease in average selling price. The average cost of ethylene we consumed for sales decreased by approximately 37.8% from RMB9,177.3 per MT in 2007 to RMB5,710.0 per MT in 2009. The gross profit margin for our ethylene oxide decreased from 36.5% for the four months ended 30 April 2009 to 20.2% for the four months ended 30 April 2010. The average cost of ethylene increased by approximately 79.6% from RMB4,861.8 per MT for the four months ended 30 April 2009 to RMB8,734.2 per MT for the four months ended 30 April 2010, primarily due to the increase in international crude oil prices from the range of US$44.9 to US$49.1 per barrel for the first four months in 2009 to the range of US$70.5 to US$86.0 per barrel in the first four months of 2010. Other supplementary factors contributing to the increase in cost of ethylene were the additional 2% customs levy imposed on import of ethylene by the General Administration of Customs of the PRC starting from 1 January 2010, and the decrease in overall ethylene supply as certain major overseas ethylene manufacturers suspended production in order to carry out maintenance in the first four months of 2010. The regular maintenance carried out by certain major overseas ethylene manufacturers affected the overall supply of ethylene from overseas into the PRC market which, together with the increase in international crude oil prices, translated into an increase in the market prices of ethylene during the four months ended 30 April 2010 as compared with that for the four months ended 30 April 2009. Although the average ethylene price during the four months ended 30 April 2010 was higher than that for the same period in 2009, the ethylene price experienced a decrease in early 2010 followed by a rebound in early March 2010. With reference to the price chart on ethylene spot CFR price under the section headed "Industry overview – China's ethylene oxide market – Pricing of ethylene oxide and raw materials sourcing in China" in this prospectus, the ethylene spot CFR price decreased from January to March 2010 and then increased from March to April 2010. This was primarily due to the fact that movement in market prices of ethylene, in general, are correlated with the fluctuations of international crude oil prices with one to two months time lag. Accordingly, when the international crude oil prices decreased from November 2009 to January 2010 and then increased from January to April 2010, the corresponding decreasing effect on the ethylene prices reflected in early 2010. The rebound in ethylene price in early March 2010 was primarily due to the increase in the international crude oil prices and the effect of suspension of production of certain major overseas ethylene manufacturers as discussed above. Despite the aforesaid suspension, our Group had not experienced any shortage of ethylene during the period as we were able to secure a stable supply of ethylene by entering into legally binding contracts with most of our major suppliers on a yearly basis and by storing ethylene in order to avoid short-term shortage in ethylene supply. Therefore, only our gross profit margin was adversely affected. As a result of the above, the cost of sales of ethylene oxide increased by approximately 156.1% from RMB147.1 million for the four months ended 30 April 2009 to RMB376.7 million for the four months ended 30 April 2010 whereas the average selling price of our ethylene oxide increased by a lesser degree of approximately 30.5% from RMB7,934.6 per MT to RMB10,357.8 per MT for the same period. As a result, the gross profit margin of our ethylene oxide decreased from 36.5% to 20.2% for the same period.

With respect to our surfactants sales business, our gross profit margin for our surfactants decreased from 27.5% in 2007 to 15.2% in 2008 and increased to 18.1% in 2009. The decrease in gross profit margin in 2008 was primarily due to the increase in overheads such as depreciation expenses arising from our additional a new production line. The gross profit margin was subsequently improved in 2009 as the sales volume of surfactants increased substantially thereby reducing the average fixed costs per unit of surfactant. The gross profit margin for our surfactants increased from 11.2% for the four months ended 30 April 2009 to 15.2% for the four months ended 30 April 2010. During the four months ended 30 April 2010, the average selling price of surfactants increased by approximately 27.2% while the unit cost of surfactant increased by approximately 21.5%. Consequently, the gross profit margin of our surfactants increased to 15.2% for the four months ended 30 April 2010.

Other income and gains

Other income and gains mainly include interest income derived from time deposits with banks, government subsidies, foreign exchange gains and sales of raw materials.

Selling and distribution costs

Selling and distribution costs comprise primarily salary and staff benefits of the sales and marketing personnel and transportation expenses.

Administrative expenses

Administrative expenses mainly represent salary and staff benefits of administrative personnel, depreciation, bank commission charges, land use surcharges, entertainment expenses, traveling expenses, utilities and consumables.

Finance costs

Finance costs primarily include the interest expenses for interest bearing bank borrowings.

Tax

Our tax charges mainly represent the corporate income tax and deferred income tax.

ANALYSIS OF RESULTS OF OPERATIONS

Four months ended 30 April 2010 compared with the four months ended 30 April 2009

Revenue

Our revenue increased by approximately 54.0% from approximately RMB368.4 million for the four months ended 30 April 2009 to approximately RMB567.5 million for the four months ended 30 April 2010. The increase in revenue was mainly contributed by the increase in sales of ethylene oxide.

Sales of our ethylene oxide increased by approximately 103.7% from approximately RMB231.7 million for the four months ended 30 April 2009 to approximately RMB472.0 million for the four months ended 30 April 2010. The increase in revenue was mainly attributable to the increase in the market demand of ethylene oxide, primarily due to the recovery of the PRC economy from the financial crisis in 2009. Our sales volume of ethylene oxide increased by approximately 56.1% from 29,198.0 MT for the four months ended 30 April 2009 to 45,571.0 MT for the four months ended 30 April 2010 and the average selling prices of our ethylene oxide increased by approximately 30.5% from RMB7,934.6 per MT for the four months ended 30 April 2009 to RMB10,357.8 per MT for the four months ended 30 April 2010 which was in line with the increase in international crude oil prices.

Sales of our surfactants decreased by approximately 6.0% from approximately RMB67.1 million for the four months ended 30 April 2009 to approximately RMB63.1 million for the four months ended 30 April 2010. Such decrease was primarily 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 enter into 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. Our sales volume of surfactants decreased by approximately 26.1% from 8,149.0 MT for the four months ended 30 April 2009 to 6,019.4 MT for the four months ended 30 April 2010. The decrease in sales volume was partially offset by the increase in our average selling price of surfactants which increased by approximately 27.2% from RMB8,238.3 per MT for the four months ended 30 April 2009 to RMB10,477.8 per MT for the four months ended 30 April 2010.

Sales of our processing services decreased by approximately 90.4% from approximately RMB54.2 million for the four months ended 30 April 2009 to approximately RMB5.2 million for the four months ended 30 April 2010. The decrease was primarily due to the fact that we provided ethylene oxide processing services during the four months ended 30 April 2009 generating approximately RMB50.1 million of sales in view of the uncertainty arising from the financial crisis whereas we did not engage in such processing services in 2010. In late 2008, as a result of the financial crisis, we were uncertain about the development of the PRC ethylene oxide industry in 2009 as well as the demand for our products. Taking into account the increased annual production capacity of ethylene oxide by the end of 2008 and the uncertainty on our business in 2009, we decided to temporarily provide ethylene oxide processing services to one of our major ethylene oxide customers with a term of 3 months from 1 December 2008 to 28 February 2009 (which was renewed to a further 3 months to 31 May 2009) in order to secure revenue and the utilisation of our new production line. Pursuant to the ethylene oxide processing service agreement, our customer was responsible for the supply of ethylene and we charged our processing fee based on the cost of auxiliary raw materials, volume of oxygen consumed and labour costs per MT of ethylene oxide. In the second half of 2009, due to the gradual economic recovery, we are more optimistic about our business prospect and accordingly, we ceased to provide ethylene oxide processing services and redeployed our resources to our core business of sale of ethylene oxide and surfactants. The decrease in sales of our ethylene oxide processing services for the four months ended 30 April 2010 was partially offset by the increase in surfactants processing services which we secured certain major surfactant customers for the sales of our surfactants processing services in 2010. Our volume of surfactants processed increased by approximately 27.1% from 9,349.0 MT for the four months ended 30 April 2009 to 11,886.0 MT for the four months ended 30 April 2010.

Cost of sales

Cost of sales increased by approximately 86.1% from approximately RMB244.7 million for the four months ended 30 April 2009 to approximately RMB455.4 million for the four months ended 30 April 2010. The increase was primarily due to the increase in the average cost of ethylene which was predominantly resulted from the increase in international crude oil prices. Other supplementary factors included the decrease in overall supply of ethylene from overseas into the PRC market as certain major overseas ethylene suppliers suspended production for regular maintenance in the first four months of 2010 and the additional 2% levy imposed on import of ethylene by the General Administration of Customs of the PRC starting from 1 January 2010.

Gross profit

As a result of the foregoing, gross profit decreased by approximately 9.4% from approximately RMB123.7 million for the four months ended 30 April 2009 to approximately RMB112.1 million for the four months ended 30 April 2010. The gross profit margin decreased from 33.6% for the four months ended 30 April 2009 to 19.8% for the four months ended 30 April 2010.

The decrease in gross profit margin was mainly due to the fact that the extent of the increase in cost of sales was larger than the increase in average selling prices of ethylene oxide as well as the increase in sales volume of ethylene oxide.

Other income and gains

Other income and gains increased by approximately 200.0% from approximately RMB1.5 million for the four months ended 30 April 2009 to approximately RMB4.5 million for the four months ended 30 April 2010. The increase was primarily due to the rental income from the lease of tanker trucks to a major customer in 2010.

Selling and distribution costs

Selling and distribution costs decreased by approximately 28.6% from approximately RMB0.7 million for the four months ended 30 April 2009 to approximately RMB0.5 million for the four months ended 30 April 2010.

Administrative expenses

Our administrative expenses increased by approximately 14.9% from approximately RMB9.4 million for the four months ended 30 April 2009 to approximately RMB10.8 million for the four months ended 30 April 2010. The increase was primarily due to the accrual of professional fees in relation to the proposed listing of our Group in 2010.

Other expenses

Other expenses increased by approximately 300.0% from approximately RMB0.1 million for the four months ended 30 April 2009 to approximately RMB0.4 million for the four months ended 30 April 2010.

Finance costs

Our finance costs decreased by approximately 53.5% from approximately RMB12.7 million for the four months ended 30 April 2009 to approximately RMB5.9 million for the four months ended 30 April 2010. The decrease in finance costs was primarily due to the lower interest rate in 2010 as compared with that in 2009.

Income tax expense

Our income tax expense increased by approximately 29.1% from approximately RMB15.8 million for the four months ended 30 April 2009 to approximately RMB20.4 million for the four months ended 30 April 2010. The increase was primarily due to the fact that Yongming Petrochemical was exempted from paying tax in 2009 while it was subject to corporate income tax of 12.5% in 2010. Our effective tax rate was approximately 15.4% and approximately 20.6% for the four months ended 30 April 2009 and 30 April 2010 respectively.

Profit for the year

As a result of the foregoing, our profit decreased by approximately 9.1% from approximately RMB86.6 million for the four months ended 30 April 2009 to approximately RMB78.7 million for the four months ended 30 April 2010. Our net profit margin decreased from approximately 23.5% for the four months ended 30 April 2009 to approximately 13.9% for the four months ended 30 April 2010. The decrease in our net profit margin was primarily due to the decrease in gross profit margin of ethylene oxide as aforementioned and the increase in tax expenses when Yongmong Petrochemical commenced to pay its corporate income tax from 2010 onwards.

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

Revenue

Our revenue increased by approximately 34.9% from approximately RMB952.8 million in 2008 to approximately RMB1,285.5 million in 2009. The increase in revenue was mainly contributed by the increase in sales of ethylene oxide, surfactants and processing services.

Sales of our ethylene oxide increased by approximately 11.6% from approximately RMB829.3 million in 2008 to approximately RMB925.1 million in 2009. As the Chinese economy maintained a relatively fast growth rate in 2009, the demand for ethylene oxide remained strong. Our sales volume of ethylene oxide increased significantly by approximately 68.3% from 64,649 MT in 2008 to 108,801 MT in 2009. With the completion of the new ethylene oxide production line with designed annual production capacity of 60,000 MT at Jiaxing Production Plant in December 2008, the production capacity of ethylene oxide was doubled. Approximately 77.4% of the production volume of ethylene oxide was used for external sales for the year ended 31 December 2009. The increase in sales volume was partially offset by the decrease in average selling price of ethylene oxide which decreased by approximately 33.7% from RMB12,827.3 per MT in 2008 to RMB8,502.8 per MT in 2009. Since ethylene oxide is indirectly derived from crude oil, the selling price of ethylene oxide is correlated with the international crude oil price. In 2009, although the international crude oil price rebound from its lows in 2008, the average international crude oil price for the full year of 2009 still maintained at a relatively low level as compared with that for the full year of 2008.

Our surfactants sales recorded a remarkable growth in 2009. Sales of our surfactants increased significantly by approximately 362.8% from approximately RMB46.8 million in 2008 to approximately RMB216.6 million in 2009, which was mainly due to the recovery of demand for surfactants in 2009 from the financial crisis in 2008 and the result of our product diversification strategy adopted in 2008. Our Group diversified our product range and reduced our reliance on the revenue generated from ethylene oxide in 2008. We started to expand our surfactant production capacity in 2008 and processed more self-produced ethylene oxide in our Jiaxing Production Plant into surfactants. Accordingly, the sales volume of our surfactants increased by approximately 599.6% from 3,470 MT in 2008 to 24,276 MT in 2009. Such increase in sales volume was partially offset by the decrease in average selling price of our surfactants by 33.8% from RMB13,482.2 per MT in 2008 to RMB8,921.7 per MT in 2009 which was in line with the decrease in international crude oil prices.

Sales of our processing services increased significantly by approximately 584.5% from approximately RMB9.7 million in 2008 to approximately RMB66.4 million in 2009. The growth was attributable to our production capacity expansion in surfactants and our success in securing a major customer for the sales of our surfactant processing services in 2008. Our volume of surfactants processed increased by approximately 98.7% from 14,793.0 MT in 2008 to 29,399.0 MT in 2009 while our average surfactant processing service fees were around RMB435.9 per MT of surfactants processed in 2008 and 2009. In addition, in 2009, in view of the uncertainty arising from the financial crisis, we used part of our ethylene oxide production capacity to be engaged in ethylene oxide processing services at an average fee of RMB3,419 per MT with a total of 15,672 MT of ethylene oxide being processed.

Cost of sales

Cost of sales increased by approximately 27.6% from approximately RMB728.3 million in 2008 to approximately RMB929.2 million in 2009. The increase was substantially in line with the increase in revenue.

The cost of sales of ethylene oxide increased by approximately 4.3% from approximately RMB621.7 million in 2008 to approximately RMB648.8 million in 2009. This was primarily due to the increase in sales volume of ethylene oxide which was partially offset by the decrease in average cost of ethylene. The cost of sales of surfactants increased by approximately 346.9% from approximately RMB39.7 million to approximately RMB177.4 million. The growth was in line with the increase in sales volume.

Gross profit

As a result of the foregoing, gross profit increased by approximately 58.7% from approximately RMB224.5 million in 2008 to approximately RMB356.3 million in 2009. The gross profit margin increased from approximately 23.6% in 2008 to 27.7% in 2009.

The increase in gross profit margin was primarily contributed by (i) the decrease in the average cost of ethylene whereas the extent of such decrease was larger than the decrease in average selling price of ethylene oxide; and (ii) the efficiency brought about by our economies of scale when our production capacity was expanded.

Other income and gains

Other income and gains decreased by approximately 27.9% from approximately RMB29.4 million in 2008 to approximately RMB21.2 million in 2009. The decrease was primarily due to the decrease in foreign exchange gains arising from the purchase of fixed assets and raw materials which were settled in USD. RMB was strengthened against USD by approximately 6.4% in 2008 whereas the exchange rate of RMB against USD remained relatively stable in 2009. The decrease in other income and gains was partially offset by (i) the increase in government subsidies mainly arising from incentives provided by local government for our Group to operate in Jiaxing, Zhejiang Province of the PRC; and (ii) the increase in interest income which grew in line with the increase in interest-bearing pledged deposits at banks.

Selling and distribution costs

Selling and distribution costs remained steady and maintained at approximately RMB3.0 million in 2008 and in 2009.

Administrative expenses

Our administrative expenses increased by approximately 21.8% from approximately RMB30.8 million in 2008 to approximately RMB37.5 million in 2009. The increase was primarily due to (i) the increase in salary and staff benefits costs arising from the increase in headcount of our staff from 397 in 2008 to 455 in 2009 as our business expanded and the annual salary increment of the administrative staff in order to attract and retain qualified personnel; and (ii) the accrual of legal and consultancy fees.

Other expenses

Other expenses decreased by approximately 85% from approximately RMB2.0 million in 2008 to approximately RMB0.3 million in 2009. The decrease was primarily due to the loss on disposal of an analyser equipment in 2008.

Finance costs

Our finance costs decreased by approximately 10.4% from approximately RMB36.7 million in 2008 to approximately RMB32.9 million in 2009. The decrease was primarily due to the repayment of bank loans of RMB705.4 million during 2009.

Income tax expense

Our income tax expense increased by approximately 124.1% from approximately RMB19.5 million in 2008 to approximately RMB43.7 million in 2009. The increase in tax expenses was in line with the increase in profit. Our effective tax rate calculated from the tax charged to the Group over our profit before tax was approximately 10.8% and approximately 14.4% in 2008 and 2009 respectively.

Profit for the year

As a result of the foregoing, our profit for the year increased by approximately 60.8% from approximately RMB161.8 million in 2008 to approximately RMB260.2 million in 2009. Our net profit margin increased from approximately 17.0% in 2008 to approximately 20.2% in 2009. The increase in our net profit margin was primarily due to the increase in gross profit margin of ethylene oxide as aforementioned as well as the efficiency brought about by our increased economies of scale.

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

Revenue

Our revenue increased by approximately 8.7% from approximately RMB876.8 million in 2007 to approximately RMB952.8 million in 2008. The increase in revenue was primarily contributed by the increase in sales of our ethylene oxide, surfactants and processing services.

Sales of our ethylene oxide increased by approximately 4.3% from approximately RMB795.2 million in 2007 to approximately RMB829.3 million in 2008. Since our Group had diversified our product range and reduced our reliance on the revenue generated from ethylene oxide in 2008, more self-manufactured ethylene oxide was consumed for the production of surfactants. Our sales volume of ethylene oxide remained relatively stable at 64,649 MT in 2008, compared with 65,078 MT in 2007 while our designed annual production capacity remained at 60,000 MT. Approximately, 95.4% of the actual production capacity was used for external sales for the year ended 31 December 2008. The increase in sales of our ethylene oxide was primarily due to the increase in our average selling price of ethylene oxide which increased by approximately 5.0% from RMB12,218.8 per MT in 2007 to RMB12,827.3 per MT in 2008.

Sales of our surfactants increased by approximately 51.4% from approximately RMB30.9 million in 2007 to approximately RMB46.8 million in 2008, which was mainly due to the increase in surfactant production capacity. Our first surfactant production line at our Jiaxing Production Plant with a designed annual production capacity of 100,000 MT commenced production in February 2008 when our total designed annual production capacity of surfactants increased from 18,000 MT in 2007 to 118,000 MT in 2008. Our sales volume of surfactants increased by approximately 21.0% from 2,866.7 MT in 2007 to 3,470.0 MT in 2008.

Sales of our processing services increased by approximately 185.3% from approximately RMB3.4 million in 2007 to approximately RMB9.7 million in 2008. The increase was primarily due to that we were able to secure a major customer for the surfactants processing services. The volume of surfactants processed increased from 7,749 MT in 2007 to 14,793 MT in 2008.

Cost of sales

Cost of sales increased by approximately 9.1% from approximately RMB667.3 million in 2007 to approximately RMB728.3 million in 2008. The increase was substantially in line with the increase in our revenue.

Gross profit

As a result of the foregoing, gross profit increased by approximately 7.2% from approximately RMB209.4 million in 2007 to approximately RMB224.5 million in 2008. The gross profit margin remained stable at approximately 23.9% in 2007 and 23.6% in 2008. While the gross profit margin of our sales of ethylene oxide increased from 23.1% in 2007 to 25.0% in 2008 primarily due to the increase in average selling price of ethylene oxide over the increase in cost of sales, the gross profit margin of the sales of surfactants dropped from 27.5% to 15.2% which was mainly due to the additional depreciation charge and fixed costs arising from our expanded production line in surfactants.

Other income and gains

Other income and gains increased by approximately 45.5% from approximately RMB20.2 million in 2007 to approximately RMB29.4 million in 2008. The increase was primarily due to (i) the foreign exchange gains from the purchase of fixed assets and raw materials which were settled in USD while RMB strengthened against USD in 2008; and (ii) the increase in government subsidies arising from the incentives granted for loan withdrawn to finance capital expenditure and other incentives granted by local government for operations in Jiaxing, Zhejiang province, the PRC.

Selling and distribution costs

Selling and distribution costs increased by approximately 275.0% from approximately RMB0.8 million in 2007 to approximately RMB3.0 million in 2008. The increase was primarily due to the transportation expenses incurred for the sales of surfactants.

Administrative expenses

Our administrative expenses increased by approximately 35.7% from approximately RMB22.7 million in 2007 to approximately RMB30.8 million in 2008. The increase was primarily due to (i) the increased headcount of our staff from 369 in 2007 to 397 in 2008 as the scale of our operation grew; (ii) the annual salary increment in order to attract and retain qualified personnel; (iii) the additional depreciation charge in relation to a new air separation equipment, the construction of which was completed by the end of 2007 and was put into use in late 2008. The depreciation charge of the equipment before being put into use after construction completed was recorded in administrative expenses; and (iv) the increase in bank commission and administrative charges arising from more financing activities and more remittances and settlement charges due to increased sales and purchases in 2008.

Other expenses

Other expenses increased by approximately 53.8% from approximately RMB1.3 million in 2007 to approximately RMB2.0 million in 2008. The increase was primarily due to the loss on disposal of an analyser equipment in 2008.

Finance costs

Our finance costs increased by approximately 6.7% from approximately RMB34.4 million in 2007 to approximately RMB36.7 million in 2008. The increase was in line with the increase in bank borrowings for financing our expansion through constructing new production lines and fixed assets procurement.

Tax

Our tax expenses increased from approximately RMB0.8 million in 2007 to approximately RMB19.5 million in 2008. Sanjiang Chemical was entitled to tax holidays in 2007 while it is subject to corporate income tax at a rate of 12.5% from 2008 to 2010. The increase in tax expenses was primarily due to the corporate income tax derived from the profit generated by Sanjiang Chemical. Our effective tax rate calculated from the tax charged to the Group over our profit before tax was 0.5% and approximately 10.8% in 2007 and 2008 respectively.

Profit for the year

As a result of the foregoing, our profit for the year was decreased by approximately 4.7% from approximately RMB169.7 million in 2007 to approximately RMB161.8 million in 2008. Our net profit margin decreased from approximately 19.4% in 2007 to approximately 17.0% in 2008. The decrease in our net profit margin was primarily due to the increased tax expenses as Sanjiang Chemical commenced to pay its corporate income tax in 2008.

ANALYSIS OF FINANCIAL POSITIONS

The following table sets forth the financial information in our consolidated statements of financial position as extracted from the Accountants' Report which are set out in Appendix I to this prospectus. You should read the entire financial statements included therein, including the notes thereto, for more details.

	As at 31 December			As at 30 April
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets				
Property, plant and equipment	703,757	895,821	897,322	877,782
Prepaid land lease payments	32,545	31,753	48,539	46,130
Intangible assets	25,131	22,582	19,654	18,632
Advance payments for property, plant and equipment	92,121	83,327	53,941	113,960
Deferred tax assets	2,671	1,207	627	431
Total non-current assets	856,225	1,034,690	1,020,083	1,056,935
Current assets				
Inventories	94,788	77,080	67,717	115,227
Trade and notes receivables	56,841	45,453	38,763	88,513
Prepayments, deposits and other receivables	103,111	62,837	22,260	24,875
Due from directors	14,858	16,539	–	–
Due from related parties	112,819	240,244	142,403	–
Pledged deposits	214,924	229,592	236,547	343,942
Cash and cash equivalents	115,321	65,365	109,205	143,919
Total current assets	712,662	737,110	616,895	716,476
Current liabilities				
Trade and bills payables	379,568	286,421	254,083	300,506
Other payables and accruals	180,672	152,037	136,764	91,264
Interest-bearing bank borrowings	568,287	647,963	629,986	682,809
Due to directors	121,454	124,580	1,564	80
Due to related parties	3,938	8,988	5,878	3,725
Due to the parent and ultimate holding company	–	–	68,282	136,525
Dividends payable	12,070	56,956	172,036	113,659
Tax payable	1,256	3,504	11,865	14,908
Total current liabilities	1,267,245	1,280,449	1,280,458	1,343,476
Net current liabilities	(554,583)	(543,339)	(663,563)	(627,000)
Non-current liabilities				
Interest-bearing bank borrowings	80,000	139,000	89,500	106,322
Deferred tax liabilities	341	14,110	32,822	40,594
Total non-current liabilities	80,341	153,110	122,322	146,916
Net assets	221,301	338,241	234,198	283,019
Equity				
Equity attributable to equity holders of the parent				
Share capital	–	–	901	901
Reserves	51,877	66,059	(51,379)	(34,610)
Retained profits	142,252	235,791	284,838	314,849
	194,129	301,850	234,360	281,140
Non-controlling interests	27,172	36,391	(162)	1,879
Total equity	221,301	338,241	234,198	283,019

Inventories

The following table sets forth a summary of our inventory balances at the end of each reporting period indicated as well as the turnover days of our inventory for the periods indicated.

	As at 31 December			As at 30 April
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	88,560	58,795	57,773	107,637
Finished goods	6,228	18,285	9,944	7,590
Total inventories	94,788	77,080	67,717	115,227

	Year ended 31 December			Four months ended 30 April
	2007	**2008**	**2009**	**2010**
Inventory turnover days	42.3	43.1	28.4	24.1

Our inventory consists of raw materials, mainly ethylene, and finished products. Our cross-department team, including members from production department, procurement department, finance department and quality control department, reviewed and monitored the inventory level on a periodical basis throughout the Track Record Period. This involved the maintenance of appropriate level of inventory and testing of the quality of the raw materials and finished goods as well as the assessment of any write-down or provision of inventory for obsolete and slow-moving items were required. During the Track Record Period, there was a write-down of inventories to net realisable value of RMB94,000 relating to chemical gases.

Inventory turnover days are derived by dividing the arithmetic mean of the beginning and ending balances of inventory for the relevant period by cost of sales and multiplying by 365 days. Our inventory turnover days were 42.3 days, 43.1 days, 28.4 days and 24.1 days, respectively, during the Track Record Period. The inventory turnover days remained steady in 2007 and 2008. The decrease in inventory turnover days in 2009 was primarily attributable to the increase in revenue contribution from ethylene oxide and surfactants processing which did not bear any inventory such that the average inventory of finished goods was reduced in 2009. The inventory turnover days decreased from 28.4 days in 2009 to 24.1 days for the four months ended 30 April 2010 while the inventories balance increased from approximately RMB 67.7 million as at 31 December 2009 to approximately RMB115.2 million as at 30 April 2010. This was primarily due to the fact that a bulk quantity of ethylene of approximately RMB34.8 million was purchased near the end of April 2010.

As at 31 July 2010, we used approximately 94.0% of the raw materials outstanding as at 30 April 2010 and sold all of the finished goods outstanding as at 30 April 2010.

Trade and notes receivables

Our trade and notes receivables represent receivables from the sales of ethylene oxide, surfactants and the provision of processing services. In 2007 and 2008, we generally delivered ethylene oxide to our customers after they have made full payment except for one of them being granted credit terms, but we ceased to trade with such customer since 2009. Commencing from 2009, majority of our ethylene oxide customers are required to make full payment before delivery of ethylene oxide. We generally offer credit terms of 15 to 30 days to our customers other than ethylene oxide customers. Accordingly, majority of our ethylene oxide customers are currently traded with us on cash basis whereas all other customers are traded with credit terms.

Our management has delegated a cross-department team, headed by a general manager, comprising staff members from sales department, finance department and legal department to assess and monitor the credit risks of the customers. In order to manage the credit risks associated with trade receivables effectively, each customer has a maximum credit limit and the credit limits are evaluated periodically. The credit limits are assessed with reference to the sales contracts entered into by each customer and the corresponding repayment progress is closely followed up by the sales department in order to ensure prompt action is taken to recover overdue debts.

The following table sets forth the turnover days of our trade and notes receivables at the end of each reporting period indicated.

	Year ended 31 December			Four months ended 30 April
	2007	2008	2009	2010
Turnover days of trade and notes receivables (days)	20.7	19.6	12.0	13.5

Turnover days of trade and notes receivables are derived by dividing the arithmetic mean of the opening and closing balances of net trade and notes receivables for the relevant period by revenue and multiplying by 365 days. The turnover days were in line with the normal credit terms of less than 30 days granted to the customers other than ethylene oxide customers. The decrease in the turnover days of trade and notes receivables from 20.7 days in 2007 to 19.6 days in 2008 was primarily due to the repayment received from a major ethylene oxide customer which traded with us on credit terms, but we ceased to trade with it starting from 2009. The turnover days were further reduced from 19.6 days in 2008 to 12.0 days in 2009, primarily due to the fact that in 2009, as a result of the high demand of our products, majority of our ethylene oxide customers are required to pay in advance before delivery in order to secure supply of our products. The turnover days of trade and notes receivables remained at a low level of 13.5 days in 2010.

The table below sets out the aging analysis of the trade and notes receivables at the end of the reporting period indicated, based on the invoice date.

	As at 31 December			As at 30 April
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
1 to 30 days	33,430	10,736	12,947	40,300
31 to 60 days	8,580	3,145	6,691	14,156
61 to 90 days	1,798	7,102	5,032	12,442
91 to 360 days	7,691	22,297	3,537	21,012
Over 360 days	6,317	2,439	10,822	603
Total	57,816	45,719	39,029	88,513

An amount of RMB10.7 million out of the total balance aged between 91 to 360 days in 2008 and an amount of RMB10.1 million aged over 360 days in 2009 was related to the receivable from a major customer. Due to our Group's restructuring, such major customer which formerly purchased products from Hangzhou Haoming has started to purchase products from Sanjiang Chemical in 2009. As a result of the change of suppliers, such customer settled the trading balance with Sanjiang Chemical, however, the overdue balance with Hangzhou Haoming remained unsettled due to the inadvertence of such customer which unilaterally believed that the amount due to Hangzhou Haoming should be paid to Sanjiang Chemical without realising that they are two separate entities. Sanjiang Chemical recorded the excess amount received from such major customer as advances from customers before delivery of ethylene oxide. The relevant balance was subsequently settled in full in 2010.

In 2008, another RMB5.2 million of receivables was aged between 91 to 360 days. This represented the notes receivable with a maturity period of 90 to 180 days.

In 2010, the increase in trade and notes receivable was primarily due to the repayment from a related party, Hangzhou Haoming by way of notes of approximately RMB59.1 million with a maturity period of 90 to 180 days. The amount of RMB59.1 million represented the trade related balances owed by such related party. Since Hangzhou Haoming is under the common control and management of Mr. Guan and Ms. Han, the results of the business acquired from Hangzhou Haoming have been reflected in our Group's results prior to 31 March 2010 by using merger accounting and the balance owed by Hangzhou Haoming was eliminated. However, as part of the Reorganisation, our Group acquired the ethylene oxide trading and surfactant manufacture and sale businesses of Hangzhou Haoming in April 2010. Such RMB59.1 million trade-related balance owed by Hangzhou Haoming was then reflected as amount due from related parties and Hangzhou Haoming used notes to settle the balance which, in turn, resulted in the increase in notes receivables as at 30 April 2010. As at the Latest Practicable Date, RMB59.1 million of the notes were fully settled.

As at 31 July 2010, approximately 85.8% of our trade and notes receivables outstanding as at 30 April 2010 were fully settled.

During the Track Record Period, the provision for impairment of trade receivables is set forth in the following table:

	As at 31 December			As at 30 April
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January	975	975	266	266
Amount written off as uncollectible	–	(709)	–	(266)
	975	266	266	–

The individually impaired trade receivables are long overdue and relate to customers which no longer have any transaction with the Group and none of the receivables are expected to be recovered. The Group did not hold any collateral or other credit enhancements over these balances. During the Track Record Period, our provision for impairment represented about 1.7%, 0.6%, 0.7% and 0%, respectively, over the total trade and notes receivables.

Prepayments, deposits and other receivables

	As at 31 December			As at 30 April
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Prepayments	9,611	5,831	10,515	17,041
Other receivables	93,442	56,988	11,402	6,997
Prepaid land lease payments	779	779	1,140	1,018
	103,832	63,598	23,057	25,056
Less: Impairment	(721)	(761)	(797)	(181)
Total	103,111	62,837	22,260	24,875

Our prepayment in 2007 mainly represented the prepayments of approximately RMB3.5 million to our import agent for the purchase of ethylene. The balance was cleared in 2008 and a deposit of RMB3.5 million was placed with the banks for issuance of letter of credit. Our prepayment in 2008 and 2009 principally consisted of (i) the prepayment of import value added tax to Zhapu Office of Jiaxing Customs and Excise Department (嘉興海關駐乍浦辨事處) for the purchase of ethylene; (ii) the prepayment regarding the loading fees for shipment at the wharf; and (iii) the prepayment in relation to the construction of chemical pipelines. The increase in prepayments in 2009 was in line with the increase in the import of ethylene which in turn commanded more prepayment in the import value added tax to Zhapu Office of Jiaxing Customs and Excise Department. Our prepayment in 2010 mainly represented the prepayment of import value added tax to Zhapu Office of Jiaxing Customs and Excise Department for the purchase of ethylene.

Other receivables mainly included (i) advances to Independent Third Parties; (ii) interest receivable derived from the placing of time deposits; (iii) deposits paid to a transportation service provider for the import of liquefied nitrogen equipment in 2007 and the deposit was released in 2008; and (iv) interest-free advances to employees for the purchase of their own houses being part of the staff fringe benefits. With respect to the advances to Independent Third Parties, some advances were interest-bearing with fixed payment terms whereas others were interest-free and repayable on demand. Our PRC Legal Advisers have advised that the advances to Independent Third Parties did not comply with the relevant PRC laws and regulations. As a result, the principal amount of the advances should be returned to the lender and the interest earned (if any) could be confiscated by the relevant authority. In addition, a fine equivalent to an amount between one time to five times of the interest earned (if any) may be imposed on the lender. Based on the interest earned from the advances made to Independent Third Parties, the maximum penalty of our Group would be approximately RMB24 million. However, our PRC Legal Advisers have advised that as the advances to Independent Third Parties have been fully settled, the risk of the relevant authority imposing penalty on our Group will be extremely remote. Pursuant to a deed of indemnity dated 2 September 2010 executed by Mr. Guan and Sure Capital in favour of our Group, Mr. Guan and Sure Capital, our controlling shareholders, have agreed to indemnify our Group, among others, against any payment obligations or penalties imposed by any relevant authorities in relation to such advances made to Independent Third Parties. Such interest-bearing advances reduced from RMB87.6 million in 2007 to RMB4.7 million in 2009. All advances have been fully settled as at 30 April 2010. The advances to Independent Third Parties were made out of commercial considerations by our Group having regard to the risks of non-recoverability and the interest earned (if applicable). Our Group will not make advances to any Independent Third Parties in the future.

Trade and bills payables

Our trade and bills payables represent amounts payable for purchases of raw materials from various suppliers. During the last quarter of every year, we start to negotiate with our suppliers regarding the quantity, price and delivery of raw materials in the coming year. The actual delivery of the raw materials will depend on the production needs and shipment schedule. Our suppliers typically offer us credit terms of 90 days, based on the invoice date. We settle our trade payables by means of bills and letters of credit.

The following table sets forth the turnover days of our trade and bills payables at the end of each reporting period indicated.

	Year ended 31 December 2007	2008	2009	Four months ended 30 April 2010
Turnover days of trade and bills payables (days)	198.0	166.9	106.2	73.1

Turnover days of trade and bills payables are derived by dividing the arithmetic mean of the beginning and ending balances of net trade and bills payables for the relevant period by cost of sales and multiplying by 365 days.

In general, we settled our purchases of raw materials through letters of credit with a maturity period of 90 days on average. We financed our payments with the bills issued by the banks which bore a maturity period of 180 days on average. Accordingly, the turnover days of trade and bills payables are around 180 days. Starting from 2008, we used more letters of credit with a maturity period of approximately 90 days to settle our trade payables and we financed the payments through the use of short-term bank borrowings. This resulted in the reduction of trade and bills payables turnover days from 198.0 days in 2007 to 106.2 days in 2009. The further decrease in trade and bills payables turnover days from 106.2 days in 2009 to 73.1 days in 2010 despite the increase in trade and bills payable balance in 2010 was primarily due to a bulk quantity of ethylene of approximately RMB34.8 million was purchased near the end of April 2010 and it was recorded in inventory as at 30 April 2010.

The table below sets out the aging analysis of the trade and bills payables at the end of the reporting period indicated, based on the invoice date.

	As at 31 December 2007	2008	2009	As at 30 April 2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 3 months	148,528	223,446	189,799	228,066
3 to 6 months	173,380	61,764	62,172	70,968
6 to 12 months	5,075	105	259	151
12 to 24 months	52,315	286	1,095	911
24 to 36 months	169	589	89	41
Over 36 months	101	231	669	369
Total	379,568	286,421	254,083	300,506

As at 31 July 2010, we had settled approximately 76.1% of the outstanding trade and bills payables as at 30 April 2010.

Other payables and accruals

	As at 31 December			As at 30 April
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Other payables	148,721	103,672	55,812	49,686
Taxes other than income tax	12,715	16,916	9,602	5,381
Advances from customers	5,605	19,153	53,376	24,467
Payroll payable	4,371	5,712	7,736	5,667
Other accrual liabilities	9,260	6,584	10,238	6,063
Total	180,672	152,037	136,764	91,264

Our other payables principally represented (i) the payables in relation to the construction of our new production line at Jiaxing Production Plant. Such payables will be settled upon the expiry of the warranty period which in general is one year from the completion of the construction. The payables for property, plant and equipment suppliers decreased from RMB126.3 million in 2007 to RMB35.4 million in 2009 and RMB35.2 million as at 30 April 2010; (ii) interest payable relating to bank borrowings; (iii) the amount of RMB10 million payable to Tengfei Gongmao in relation to the acquisition of 4.44% shares in Sanjiang Chemical by Capitol International in 2009. The amount had been fully settled as at 30 April 2010; (iv), an advance of RMB14.6 million from an Independent Third Party made in 2007 was fully settled in 2008; and (v) deposits for the use of water and gas pipelines.

Taxes other than income tax mainly included the value added tax payable which grew in line with the increase in sales. The decrease in the balance in 2009 and 2010 was primarily due to the set-off from the value added tax refund arising from the purchase of fixed assets. The decrease in taxes other than income tax from RMB9.6 million in 2009 to RMB5.4 million in 2010 was primarily due to the set-off of value added tax refund arising from the purchase of a bulk quantity of ethylene in April 2010.

It is our current policy to require our ethylene oxide customers to pay in advance before the delivery of ethylene oxide. Nevertheless, in 2007 and 2008, one major ethylene oxide customer which we ceased trading with it in 2009 was traded with credit terms instead of payment before delivery. Commencing from 2009, majority of our ethylene oxide customers were required to make advanced payment before delivery and consequently, the advances from customers increased significantly in 2009. The advances from customers are non-interest bearing. The decrease in advances from customers from RMB53.4 million as at 31 December 2009 to RMB24.5 million as at 30 April 2010 was primarily due to that more advances from customers were received for placing new orders in December 2009.

Our payroll payable mainly represented the accrual of pension, medical insurance and housing fund for the year. The increase was in line with the increase in headcount of staff.

Other accruals mainly included the accrual in electricity. The decrease in 2008 was mainly due to the decrease in accrued electricity fees as the local state grid authority changed the payment date and the accrual period decreased at the year end of 2008. In 2009, as our new ethylene oxide production lines were put into full-year operation, more electricity was consumed and accrued liabilities in electricity were increased accordingly. The decrease in 2010 was primarily due to the shorter accrual period in April 2010 as compared with that in December 2009. The accrual period of electricity depended on the payment date set by the local state grid authority from time to time.

Amount due from/to directors

	As at 31 December			As at 30 April
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amount due from directors	14,858	16,539	–	–
Amount due to directors	121,454	124,580	1,564	80

The balances with directors were non-trade in nature, unsecured, interest-free and had no fixed terms of repayment. All the balances with directors will be settled before Listing by means of our Group's cash flow from operations.

Due from/to related parties

	As at 31 December			As at 30 April
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amount due from related parties	112,819	240,244	142,403	–
Amount due to related parties	3,938	8,988	5,878	3,725

Amount due from/to related parties principally consisted of advances between the Group and related parties and the balance arose from combining the Acquired Business of the Hangzhou Haoming Business Acquisition into our Group where the Acquired Business commanded net liabilities prior to 31 March 2010 and upon application of merger accounting, the amount due from Hangzhou Haoming was resulted. The advances with related parties were unsecured, interest-free and repayable on demand. All balances with related parties will be settled before Listing by means of our Group's cash flow from operations.

Due to the ultimate holding company

	As at 31 December			As at 30 April
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Due to the parent and ultimate holding company	–	–	68,282	136,525

The balance in 2009 comprised RMB68.3 million representing the subscription monies in relation to the preference shares in Sure Capital subscribed by Preference Shares Investors which were subsequently injected into our Group as shareholders' loan by Sure Capital. The balance in 2010 comprised RMB136.5 million relating to the subscription monies of US$20 million preference shares in Sure Capital injected into our Group as shareholders' loan by Sure Capital, which will be fully settled prior to Listing by the allotment and issue of 18,000 Shares to the Preference Shares Investors.

Net current assets/liabilities

We had a net current liabilities of approximately RMB554.6 million, RMB543.3 million and RMB663.6 million as at 31 December 2007, 2008 and 2009 respectively, and RMB627.0 million as at 30 April 2010 and RMB558.9 million as at 31 July 2010, respectively. The following table sets out the composition of our unaudited current assets and liabilities as at 31 July 2010.

	As at 31 July 2010
	RMB'000 (unaudited)
Current assets	
Inventories	120,493
Trade and note receivables	55,145
Prepayments, deposits and other receivables	69,974
Pledged deposits	534,325
Cash and cash equivalents	50,229
Total current assets	830,166
Current liabilities	
Trade and bills payables	357,881
Other payables and accruals	93,535
Interest-bearing bank borrowings	774,342
Due to related parties	422
Due to the parent and ultimate holding company	135,500
Dividends payable	13,490
Tax payable	13,860
Total current liabilities	1,389,030
Net current liabilities	(558,864)

The net current liabilities position of our Group during the Track Record Period was mainly attributable to the high proportion of short term loans to total bank borrowings. To the best knowledge and belief of the Directors and having confirmed with principal banks of our Group during interviews, 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 Track Record Period, we were able to repay and renew bank borrowings and had not recorded default on bank borrowings.

The increase in net current liabilities as at 31 December 2009 was primarily due to (i) the amount due to ultimate holding company of RMB68.3 million which represented the subscription monies of RMB68.3 million for the preference shares in Sure Capital subscribed by Preference Shares Investors which were subsequently injected into our Group as shareholders' loan by Sure Capital; and (ii) dividends payable of RMB172.0 million, of which RMB166.3 million relating to the dividend payable to Sure Capital. As at 30 April 2010, we recorded dividends payable of RMB113.7 million which represented the dividend payable to Sure Capital. Besides, the balance of amount due to the parent and ultimate holding company increased to RMB136.5 million, relating to the subscription monies for the preference shares in Sure Capital subscribed by Preference Shares Investors which were subsequently injected into our Group as shareholders' loan by Sure Capital. The dividends payable to Sure Capital were fully settled as at the Latest Practicable Date.

Our net current liabilities decreased from approximately RMB627.0 million as at 30 April 2010 to approximately RMB558.9 million as at 31 July 2010. This was primarily due to the increase in pledged deposit by approximately RMB190.4 million from approximately RMB343.9 million as at 30 April 2010 to approximately RMB534.3 million as at 31 July 2010 and the dividend payment of approximately RMB100.2 million during the three months from May to July 2010. The increase in pledged deposit was primarily attributable to the placing of RMB deposit as collateral to secure letter of credit in USD for the purchase of ethylene and to borrow USD loan for dividend payment. The decrease in net current liabilities was partially offset by the increase in our bank borrowings of approximately RMB91.5 million as at 31 July 2010.

We historically financed our operations and capital expenditures mainly through cash from operating activities and bank borrowings, in particular short term loans. During the Track Record Period, our net cash inflows from operating activities were approximately RMB221.9 million, RMB69.7 million, RMB294.7 million and RMB255.9 million, respectively. We had raised new bank borrowings amounted to approximately RMB628.3 million, RMB707.0 million, RMB637.9 million and RMB450.6 million, respectively, while we repaid bank borrowings amounted to approximately RMB502.0 million, RMB568.3 million, RMB705.4 million and RMB380.9 million, respectively, during the Track Record Period.

We mainly used short term loans and trade finance facilities, which were renewed annually, to finance our operations and we primarily used cash from operating activities and long term bank borrowings to finance our capital expenditures during the Track Record Period. As at 31 December 2007, 2008 and 2009 and 30 April 2010, short term bank borrowings accounted for approximately 87.7%, 82.3%, 87.6% and 86.5% of the total bank borrowings, which contributed to the relatively high net current liabilities position of the Group.

A substantial part of our bank borrowings during the Track Record Period were short term loans, which to the best of the knowledge and belief of our Directors, 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. While we recorded net current liabilities during the Track Record Period and as at 31 July 2010, we had not experienced any difficulties in renewing our banking facilities upon maturity in the past, nor had we defaulted on any bank borrowings. Furthermore, we have obtained confirmations from our principal banks which granted us facilities on rolling over our banking facilities and we do not foresee any immediate repayment requirement for our bank borrowings or withdrawal or reduction in banking facilities on short notice. In addition, we expect that our net current liabilities position would be substantially improved following the completion of the Global Offering. As such, despite the net current liabilities position, we do not consider ourselves as being in a tight financial position.

In light of our consistently improving financial performance, our Directors believe that we will continue to utilise the existing cash-on-hand, cash generated from operating activities and to secure additional bank borrowings, if necessary, to finance our existing operations and meet the capital requirements for our committed or planned expansion.

It has been our strategy to achieve growth by expanding our production capacity. Our major expansion projects in the next few years will focus on expanding our ethylene oxide production capacity, namely the third and fourth phases construction of production facilities of ethylene oxide with designed annual production capacities of 60,000 MT and 100,000 MT respectively, and the establishment of the joint venture company, namely Sanjiang Honam which will be engaged in the production of ethylene oxide with a target designed annual production capacity of approximately 200,000 MT. During the Track Record Period, our ethylene oxide production facilities had been operated at over 100% utilisation rate and we had been able to successfully sell our ethylene oxide to our customers or use our ethylene oxide for manufacturing surfactants in-house. Based on the prevalent market condition and according to the SAI Report, we expect that the demand for ethylene oxide will continue to remain strong and we do not foresee any difficulty in fully utilising our ethylene oxide production capacity in the future.

The Directors believe that there is a growing demand for surfactants in the PRC. According to the SAI Report, it is expected that the demand for non-ionic surfactants, namely AEO products in the PRC, will increase in the coming five-year period until 2014. With an aim to capitalise on such growing demand for AEO surfactants and their downstream products, we have expended a portion of cash flows from operating activities and have obtained bank borrowings for construction of our surfactant production facilities during the Track Record Period. Following the completion of the construction of the second phase of surfactant production facilities with the designed annual production capacity of 100,000 MT at our Jiaxing Production Plant in August 2010, we do not have any plan to further increase our surfactant production capacity by constructing new production lines, instead, we will seek to increase our production capacity through mergers and acquisitions. Further, as part of our strategy to vertically integrate our production process of ethylene oxide and surfactants, notwithstanding the current low utilisation rate of our surfactant production facilities, our Directors are confident that the utilisation rate of our surfactant production facilities will increase as additional output of ethylene oxide from increasing production capacity as planned can be used toward surfactant production.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows

We have funded our operations and capital requirements principally from cash generated from our operations and bank borrowings. Our primary uses of cash have been spent on capital expenditures for our expansion of production lines in our Jiaxing Production Plant and increased working capital requirements of our operations.

The following table sets forth a condensed summary of our consolidated statements of cash flows for the periods indicated. Such summary of our consolidated statements of cash flows is extracted from the Accountants' Report included in Appendix I to this prospectus and you should read the entire financial statements included therein, including the notes thereto, for more details.

	Year ended 31 December			Four months ended 30 April	
	2007	2008	2009	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Net cash inflow from operating activities	221,914	69,711	294,705	327,640	255,895
Net cash outflow from investing activities	(311,601)	(223,093)	(18,875)	(12,951)	(181,701)
Net cash inflow (outflow) from financing activities	101,112	85,241	(232,932)	(207,034)	(38,808)
Cash and cash equivalents at the beginning of the year	91,478	115,321	65,365	65,365	109,205
Cash and cash equivalents at the end of the year	115,321	65,365	109,205	173,022	143,919

Operating activities

Our net cash inflow from operating activities for the four months ended 30 April 2010 was approximately RMB255.9 million. We generated profit before taxation of approximately RMB99.1 million primarily due to the increase in sales of ethylene oxide. Our amount due from related parties decreased by approximately RMB102.9 million primarily due to the repayment from the related parties. Our trade and bills payables increased by approximately RMB40.7 million primarily due to the bulk purchase of ethylene near the end of April 2010. Our increase in amount due to the parent and ultimate holding company represented the subscription monies of RMB68.2 million in relation to the preference shares in Sure Capital subscribed by Preference Shares Investors which were subsequently injected into our Group as shareholders' loan by Sure Capital. Our amounts due to related parties increased by approximately RMB62.2 million primarily due to the increase in trade-related transactions with Hangzhou Haoming. Such increase was partially offset by the increase of approximately RMB47.5 million in inventories primarily due to the bulk purchase of ethylene made near the end of April 2010, the increase of approximately RMB49.8 million in trade and notes receivable primarily due to the settlement of RMB59.1 million of amount due from related parties by way of notes receivables and the decrease of approximately RMB35.5 million in other payables and accruals primarily due to the fact that more advances from customers in respect of placing new orders were received in 2009.

Our net cash inflow from operating activities in 2009 was approximately RMB294.7 million. We generated profit before taxation of approximately RMB303.8 million primarily due to the significant increase in sales of ethylene oxide, surfactants and processing services. Our amount due to directors decreased by approximately RMB123.0 million primarily due to the repayment to the directors. The increase in development property of RMB145.6 million was primarily due to the construction of development property after the setup of the subsidiary, Jianghao Property, in June 2009. Our other payables and accruals decreased by approximately RMB23.3 million primarily due to the decrease of RMB59.0 million in payable to property, plant and equipment suppliers as the construction of our new production lines was completed in 2008. Such decrease was partly offset by the increase of approximately RMB68.3 million in amount due to the parent and ultimate holding company representing the subscription monies in relation to the preference shares in Sure Capital subscribed by Preference Shares Investors which were subsequently injected into our Group as shareholders' loan by Sure Capital, the decrease in the amount due from directors by approximately RMB16.5 million primarily due to repayment of advances by the directors in 2009 and decrease in our prepayments, deposits and other receivables by approximately RMB40.1 million primarily due to repayment of advances from Independent Third Parties.

Our net cash inflow from operating activities was approximately RMB69.7 million in 2008. We generated profit before taxation of approximately RMB181.3 million primarily due to the increase in sales of ethylene oxide, surfactants and processing services. Our prepayments, deposits and other receivables decreased by approximately RMB40.2 million primarily due to the repayment of advances by Independent Third Parties. Our amount due to related parties increased by approximately RMB5.0 million primarily due to the purchase of steam from a fellow subsidiary. The increase was partially offset by the increase in amount due from related parties by approximately RMB127.4 million primarily due to advances to a fellow subsidiary for the purchase of land use right and the decrease in trade and bills payable by approximately RMB93.1 million primarily due to the decrease in trade payables mainly arising from the drop in the cost of ethylene by the end of 2008.

Our net cash inflow from operating activities was approximately RMB221.9 million in 2007. We generated profit before taxation of approximately RMB170.5 million primarily due to the increase in sales. Our amount due from related parties increased by approximately RMB98.0 million primarily due to increase in advances to related parties. Our trade and bills payable also increased by approximately RMB35.0 million primarily due to the increase in purchases of raw materials in response to increase in sales. Our other payables and accruals increased by approximately RMB61.0 million primarily due to increased payables relating to the purchase of fixed assets. The increase was partially offset by the decrease in amount due to related parties by approximately RMB9.8 million primarily due to the repayment of advances by the Group to related parties and our inventories was built up by approximately RMB34.8 million in 2007 primarily due to the storage of more ethylene in anticipation of increasing cost in 2008.

Investing activities

Our net cash outflow from investing activities for the four months ended 30 April 2010 was approximately RMB181.7 million. Our expenditures for investing activities consisted mainly of the purchase of property, plant and equipment of approximately RMB71.5 million, the increase in pledged deposit of approximately RMB107.4 million and the asset purchase of Hangzhou Haoming by Hangzhou Sanjiang for a cash consideration of approximately RMB4.9 million.

Our net cash outflow from investing activities in 2009 was RMB18.9 million. Our expenditures for investing activities consisted mainly of the purchase of property, plant and equipment for production capacity expansion at Jiaxing Production Plant of approximately RMB49.0 million. The net cash outflow was partially offset by the proceeds of RMB47.6 million from the disposal of the subsidiary, Jianghao Property.

Our net cash outflow from investing activities in 2008 was approximately RMB223.1 million. Our expenditures for investing activities consisted mainly of the purchase of property, plant and equipment for production capacity expansion at Jiaxing Production Plant of approximately RMB216.0 million and the increase in pledged time deposit of approximately RMB14.7 million as more banking facilities were drawn.

Our net cash outflow from investing activities in 2007 was approximately RMB311.6 million. Our expenditures for investing activities consisted mainly of the purchase of property, plant and equipment for production capacity expansion at Jiaxing Production Plant of approximately RMB280.9 million and the increase in pledged time deposits of approximately RMB36.7 million as more banking facilities were drawn.

Financing activities

Our net cash outflow from financing activities for the four months ended 30 April 2010 was approximately RMB38.8 million. We raised new bank loans of approximately RMB450.6 million in 2010. This was partly offset by the repayment of bank loans of approximately RMB380.9 million, the acquisition of minority interests of 4.44% interest in Sanjiang Chemical by Capitol International for a cash consideration of approximately RMB10 million, and dividend payment to the parent and ultimate holding company of approximately RMB92.5 million.

Our net cash outflow from financing activities was approximately RMB232.9 million in 2009. New bank loans of approximately RMB637.9 million were raised and a capital injection of approximately RMB68.3 million was made in relation to the subscription of ordinary shares in Sanjiang Chemical by Ordinary Shares Investors. Our cash inflow from financing activities was partially offset by repayment of bank loans of approximately RMB705.4 million, the purchase of 41.81% shareholding interest in Sanjiang Chemical by Capitol International at a consideration of RMB94.1 million, the purchase of 3.51% shareholding interest in Yongming Petrochemical by Sanjiang Chemical at a consideration of RMB11.5 million and the purchase of 100% shareholding interest in Sanjiang Trading by Yongming Petrochemical at a consideration of RMB5.0 million, interest payment of approximately RMB32.9 million, dividend payment to the parent and ultimate holding company of approximately RMB31.4 million and dividend payment to non-controlling shareholders of approximately RMB58.8 million.

Our net cash inflow from financing activities was approximately RMB85.2 million in 2008. We raised new bank loans of approximately RMB707.0 million. This was partly offset by the repayment of bank loans of approximately RMB568.3 million and interest payment of approximately RMB53.4 million.

Our net cash inflow from financing activities was approximately RMB101.1 million in 2007. We raised new bank loans of approximately RMB628.3 million and a capital contribution of approximately RMB21.0 million was made by minority shareholders of Sanjiang Chemical and Yongming Petrochemical. This was partly offset by the repayment of bank loans of approximately RMB502.0 million, interest payment of approximately RMB40.3 million and dividend payment of approximately RMB5.9 million.

Capital expenditures

Our capital expenditures principally comprise expenditures for the expansion of our ethylene oxide and surfactant production lines in Jiaxing Production Plant. We historically financed our capital expenditure requirements through cash generated from our operations and bank borrowings. During the Track Record Period, our capital expenditures amounted to approximately RMB280.9 million, RMB216.0 million, RMB49.0 million and RMB71.5 million, respectively.

Our estimated capital expenditures for 2010 are expected to be financed by a combination of our internal cash resources, operating cash flows, net proceeds from the Global Offering and bank borrowings. We may adjust the timing and amounts of our capital expenditures based on various factors, including but not limited to, our cash flows, results of operations, progress of our projects, market conditions and regulatory environment.

Capital commitments

The following table sets forth our capital commitments as at the dates indicated:

	As at 31 December			As at 30 April	As at 31 July
	2007	**2008**	**2009**	**2010**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000 (unaudited)*
Contracted, but not provided for:					
Investment in Sanjiang Honam	–	–	–	40,958	32,829
Plant and machinery	167,173	36,045	26,381	91,628	83,143
	167,173	36,045	26,381	132,586	115,972

The capital commitments of approximately RMB41.0 million as at 30 April 2010 represented our capital contribution of US$6 million to the registered capital of Sanjiang Honam which was established in May 2010. As at the Latest Practicable Date, approximately RMB8.1 million and RMB17.2 million of the capital commitments for Sanjiang Honam and plant and machinery as at 30 April 2010 had been settled, respectively.

Contingent liabilities

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

	As at 31 December			As at 30 April	As at 31 July
	2007	2008	2009	2010	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (*unaudited*)
Guarantees given to banks in connection with loans granted to:					
Related parties	198,933	307,933	50,000	30,000	–
Third parties	115,200	128,440	5,500	–	–
Total	314,133	436,373	55,500	30,000	–

The guarantee provided by the Group in connection with the bank loans granted to fellow subsidiaries was released on 20 July 2010.

Off-balance sheet transactions

As at the Latest Practicable Date, we had not entered into any off-balance sheet transactions.

Working capital

We have historically financed our operations through cash from operating activities and bank borrowings. In the future, we expect to use funds from a combination of sources to fund our operations and expansion plan, including bank loans, internally generated cash flow and proceeds from the Global Offering.

Taking into account the financial resources available to us including internally generated funds, available banking facilities and the estimated net proceeds of the Global Offering, our Directors are of the opinion that we have sufficient working capital to meet our present requirements and at least for the period ending 12 months from the date of this prospectus.

INDEBTEDNESS

Bank borrowings

Our interest-bearing borrowings during the Track Record Period were as follows:

	As at 31 December			As at 30 April
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current				
Secured bank loans	433,287	527,963	551,986	682,809
Current portion of long-term secured bank loans	–	30,000	28,000	–
Discounted bank acceptances	135,000	90,000	50,000	–
Sub-total	568,287	647,963	629,986	682,809
Non-current				
Secured bank loans	80,000	139,000	89,500	106,322
Total bank borrowings	648,287	786,963	719,486	789,131

Our bank borrowings increased from approximately RMB648.3 million in 2007 to approximately RMB719.5 million in 2009 and RMB789.1 million as at 30 April 2010, primarily due to additional bank borrowings for general working capital of our operation and capital expenditures for the construction of our new production lines at Jiaxing Production Plant in order to expand our production capacity. During the Track Record Period, our Group repaid an aggregate sum of bank borrowings of approximately RMB502.0 million, RMB568.3 million, RMB705.4 million and RMB380.9 million, respectively.

The secured bank borrowings during the Track Record Period carried interest rates ranging from 5.060% to 8.033%, 3.663% to 8.694%, 1.184% to 8.280% and 0.282% to 6.831%, respectively, per annum and were secured by the following assets and guarantees:

	As at 31 December			As at 30 April
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Carrying amounts of assets:				
Buildings, plant and machinery	574,859	606,190	201,896	107,772
Leasehold land	11,128	10,884	9,411	–
Guarantees by related parties	274,000	316,000	–	–
Guarantees by third parties	200,000	50,000	–	–

As at 31 July 2010, being the latest practicable date for determining our indebtedness, we had total available banking facilities of approximately RMB1,311.0 million, of which approximately RMB954.2 million had been utilised. As at 31 July 2010, we had outstanding secured short-term interest-bearing bank borrowings of approximately RMB774.3 million and secured long-term interest-bearing bank borrowings of approximately RMB179.9 million. As at 31 July 2010, the carrying amounts of buildings, plant and machinery of RMB194.5 million were used as security and the increase was primarily due to the increased bank borrowings during the period from May to July 2010. We had no difficulties in renewing our banking facilities in the past. We have obtained confirmations from our principal banks which granted us facilities in respect of rolling over our banking facilities, if needed. Our Group currently does not have any plan to obtain any material debt financing in the foreseeable future.

Save as aforesaid or otherwise disclosed herein, and apart from intra-group liabilities, at the close of business on 31 July 2010, we did not have any debt securities issued and outstanding or agreed to be issued, bank overdrafts, borrowings or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, mortgages, charges, finance leases, hire purchase commitments, guarantees or other material contingent liabilities outstanding.

MARKET RISKS

Our Group is exposed to various types of market risks, including interest rate risk, foreign currency risk, credit risk and liquidity risk. Please refer to the Accountants' Report as set out in Appendix I to this prospectus for details.

Interest rate risk

We are exposed to fair value interest rate risk arising from our financial instrument, principally interest-bearing bank borrowings, pledged deposits, discounted bank acceptances and bank balances. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate with the changes in market interest rates.

The table below demonstrates the sensitivity analysis of the impact in our profit before tax when the interest rate varies within the range of 50 basis points during the Track Record Period:

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax
		RMB'000
Year ended 31 December 2007		
RMB	50	(14)
RMB	(50)	14
Year ended 31 December 2008		
RMB	50	(24)
RMB	(50)	24
Year ended 31 December 2009		
RMB	50	(35)
RMB	(50)	35
Four months ended 30 April 2010		
RMB	50	(44)
RMB	(50)	44

Foreign currency risk

Our businesses are located in the PRC and our primary operating transactions are conducted in RMB. Our Group has transactional currency exposures principally arising from purchases of raw materials from overseas suppliers. During the Track Record Period, approximately 50%, 92%, 80% and 74% of our Group's purchases are denominated in currencies other than RMB. We currently do not have a currency hedging policy. However, the management constantly monitors the foreign exchange exposure and will consider appropriate hedging measures when the need arises.

The following table details the sensitivity analysis of the impact in our profit before tax when a 5% change in the RMB against USD during the Track Record Period.

	Increase/ (decrease) in foreign currency rate	Increase/ (decrease) in profit before tax
	%	*RMB'000*
Year ended 31 December 2007		
If RMB weakens against United States dollar	5	(14,157)
If RMB strengthens against United States dollar	(5)	14,157
Year ended 31 December 2008		
If RMB weakens against United States dollar	5	(11,178)
If RMB strengthens against United States dollar	(5)	11,178
Year ended 31 December 2009		
If RMB weakens against United States dollar	5	(32,303)
If RMB strengthens against United States dollar	(5)	32,303
Four months ended 30 April 2010		
If RMB weakens against United States dollar	5	(20,540)
If RMB strengthens against United States dollar	(5)	20,540

Credit risk

We are exposed to credit risk in the event that our customers fail to perform their payment obligations. With respect to credit risk in connection with cash, short term deposits, amounts due from directors and related parties and other receivables, our maximum exposure is equal to the carrying amounts of those financial assets. In order to minimise credit risk, it is our Group's policy to trade only with recognised and creditworthy third parties and accordingly, we do not require collateral from our customers or counterparties. Further, receivable balances are monitored on an on-going basis and our exposure to bad debts is not significant. There are no significant concentrations of credit risk within the Group as our customer bases are widely dispersed.

Liquidity risk

We are potentially exposed to liquidity risk as we had net current liabilities as at 31 December 2007, 2008, 2009 and as at 30 April 2010. Our Group's policy is to strike a balance between continuous funding and flexibility through bank and other borrowings to meet our working capital requirements. We periodically review our liquidity position and evaluate the maturity of our financial instruments.

The table below sets forth the maturity profile of our financial liabilities as at the dates indicated, based on the contractual undiscounted payments.

	As at 31 December 2007					
	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	57,835	157,861	163,872	–	–	379,568
Other payables and accruals	118,205	49,343	2,334	10,790	–	180,672
Interest-bearing bank borrowings	–	244,006	337,802	75,200	28,491	685,499
Due to related parties	3,938	–	–	–	–	3,938
Due to directors	121,454	–	–	–	–	121,454
Guarantees given to banks in connection with facilities granted to related parties	–	–	–	198,933	–	198,933
Guarantees given to banks in connection with facilities granted to third parties	–	55,000	60,200	–	–	115,200
	301,432	506,210	564,208	284,923	28,491	1,685,264

	As at 31 December 2008					
	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	40,367	111,054	135,000	–	–	286,421
Other payables and accruals	16,889	36,349	67,354	31,433	12	152,037
Interest-bearing bank borrowings	–	380,282	277,463	171,445	–	829,190
Due to related parties	8,988	–	–	–	–	8,988
Due to directors	124,580	–	–	–	–	124,580
Guarantees given to banks in connection with facilities granted to related parties	–	40,000	214,000	53,933	–	307,933
Guarantees given to banks in connection with facilities granted to third parties	–	120,440	8,000	–	–	128,440
	190,824	688,125	701,817	256,811	12	1,837,589

	As at 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

	As at 30 April 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	216,945	70,639	11,605	1,317	–	300,506
Other payables and accruals	13,652	41,008	26,050	10,554	–	91,264
Interest-bearing bank borrowings	–	172,548	520,184	119,078	–	811,810
Due to related parties	3,725	–	–	–	–	3,725
Due to directors	80	–	–	–	–	80
Due to the parent and ultimate holding company	136,525	–	–	–	–	136,525
Guarantees given to banks in connection with facilities granted to related parties	–	–	–	30,000	–	30,000
	370,927	284,195	557,839	160,949	–	1,373,910

UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following unaudited pro forma adjusted net tangible assets of the Group which have been prepared in accordance with Rule 4.29 of the Listing Rules are set out below to illustrate the effect of the Global Offering on the Group's net tangible assets as at 30 April 2010 as if they had taken place on that date.

The unaudited pro forma adjusted net tangible assets have been prepared for illustrative purpose only and, because of their hypothetical nature, they may not give a true picture of the Group's net tangible assets had the Global Offering been completed as at 30 April 2010 or at any future date.

The unaudited pro forma adjusted net tangible assets are based on the audited consolidated net tangible assets of our Group as at 30 April 2010, as shown in the Accountants' Report, the text of which is set out in Appendix I to this prospectus, and adjusted as described below:

	Audited consolidated net tangible assets attributable to equity holders of the parent as at 30 April 2010	**Estimated net proceeds from the Global Offering**	**Unaudited pro forma adjusted consolidated net tangible assets**	**Unaudited pro forma adjusted consolidated net tangible assets per Share**
	RMB'000	*RMB'000*	*RMB'000*	*RMB*
Based on an Offer Price of HK$2.38 per Share	262,508	482,976	745,484	0.74
Based on an Offer Price of HK$3.38 per Share	262,508	695,137	957,645	0.95

Notes:

(1) The audited consolidated net tangible assets attributable to equity holders of the parent as at 30 April 2010 are extracted from the Accountants' Report set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of the Group attributable to equity holders of the parent as at 30 April 2010 of RMB281,140,000 with an adjustment for intangible assets as at 30 April 2010 of RMB18,632,000.

(2) The estimated net proceeds from the Global Offering are based on the Offer Price of HK$2.38 and HK$3.38 per Share, respectively, after the deduction of the forecast underwriting fees and other related fees and expenses, and do not take into account of any Shares that may be issued pursuant to the Over-allotment Option. If the Over-allotment Option is exercised, the unaudited pro forma adjusted net tangible assets attributable to equity holders of the parent and unaudited pro forma adjusted consolidated net tangible assets per Share will increase. The estimated net proceeds from the Global Offering are translated at the exchange rate of HK$1 = RMB0.8756.

(3) Details of valuation of the Group's properties as at 31 July 2010 are set out in Appendix IV to this prospectus. With reference to such valuation, there is a revaluation surplus of approximately RMB5,763,000 compared to the carrying values of the Group's properties as of 31 July 2010. The Group will not incorporate the revaluation surplus in the consolidated financial statements for the four months ended 30 April 2010 or the above unaudited pro forma adjusted consolidated net tangible assets because it is the Group's accounting policy to state the property interests, classified under the captions "Property, plant and equipment" and "Prepaid Land Lease Payments" in the Accountants' Report as set out in Appendix I to this prospectus, at cost less accumulated depreciation/amortisation and impairment rather than at revalued amounts.

(4) The unaudited pro forma adjusted consolidated net tangible assets per Share are determined after the adjustments as described in note 2 above and on the basis that 1,009,303,000 Shares are issued and outstanding as set out in the section headed "Share Capital" in this prospectus, and that the Over-allotment Option has not been exercised. The unaudited pro forma adjusted net tangible assets per Share are translated at the exchange rate of HK$1 = RMB0.8756.

PROFIT ESTIMATE FOR THE SIX MONTHS ENDED 30 JUNE 2010(Note 1)

Unaudited estimated consolidated net profit attributable to equity holders of the parent for the six months ended 30 June 2010 . . . . . . Not less than RMB109 million (equivalent to approximately HK$124 million)

Unaudited pro forma estimated earnings per Share(Note 2) . . . . Not less than RMB0.11 (equivalent to approximately HK$0.13)

Notes:

1. All statistics in this table are based on the assumption that the Over-allotment Option is not exercised.

2. The unaudited pro forma estimated earnings per Share is calculated based on the unaudited estimated consolidated net profit attributable to equity holders of the parent for the six months ended 30 June 2010 assuming that we had been listed since 1 January 2010 and a total of 1,009,303,000 Shares were issued and outstanding during the entire year. This calculation is based on the assumption of 252,400,000 Shares expected to be issued pursuant to the Global Offering. The unaudited estimated consolidated net profit attributable to equity holders of the parent for the six months ended 30 June 2010 is based on the audited consolidated financial statements for the four months ended 30 April 2010 and an estimate of the remaining two months ended 30 June 2010. The Directors have undertaken to the Stock Exchange that our interim report for the six months ended 30 June 2010 will be audited pursuant to Rule 11.18 of the Listing Rules. The unaudited estimated consolidated net profit attributable to equity holders of the parent and unaudited pro forma estimated earnings per Share is translated at the exchange rate of HK$1 = RMB0.8756.

PROPERTY INTERESTS

Details relating to our property interests are set out in Appendix IV to this prospectus. DTZ Debenham Tie Leung Limited, an independent property valuer, has valued the properties owned and leased by us as at 31 July 2010. The text of their letters, summaries of values and valuation certificates are set out in Appendix IV to this prospectus.

A reconciliation of the net book value of the relevant property interests as at 30 April 2010 to their fair value as stated in Appendix IV to this prospectus is as follows:

	RMB'000
Net book value of our Group's property interests as at 30 April 2010	211,788
Additions	182
Depreciation	(2,598)
Disposals	–
Net book value of our Group's property interests as at 31 July 2010	209,372
Property interests not included in Appendix IV *(Note)*	(62,435)
Valuation surplus	5,763
Valuation amount as at 31 July 2010	152,700

Note: Property interests not included in Appendix IV to this prospectus represented mainly the annexure and fixtures of building which were classified as buildings in the consolidated statements of financial position, but they were not revalued by the independent valuer, for instance, pipeline structural steel truss, enclosures of land and rain water sewage system.

DIVIDEND POLICY

After completion of the Global Offering, our Shareholders will be entitled to receive dividends declared by us. Dividend payments are discretionary and will be subject to the recommendation of our Board and approval of our Shareholders in general meetings or, in the case of interim dividends, subject to the approval of our Board in accordance with our Articles of Association. Our dividend payment amounts, if any, for a given year will be dependent upon our future results of operations, financial condition, capital requirements, legal and contractual restrictions and other factors that our Board may deem relevant. In addition, our controlling shareholder, subject to our Articles of Association, may influence our dividend policy.

Considering our financial position, we currently intend, in the absence of any circumstances that might reduce the amount of distributable profits whether by losses or otherwise, to distribute dividends for each of the financial years ending 31 December 2010 and 2011 that would amount in total to not less than 30% of the net profit available for distribution from ordinary activities attributable to equity holders of the parent for each of the relevant financial years. Such intention does not amount to any guarantee or representation or indication that our Company must or will declare and pay a dividend in such manner or declare and pay any dividend at all. After completion of the Global Offering, priority will be given to retained earnings in order to facilitate capital growth and expansion of our Group. Cash dividends on the shares, if any, will be paid in HK dollars.

We are a holding company incorporated in the Cayman Islands and conduct our core business operations through our operating subsidiaries in China. Therefore, our profits available for dividend distributions are dependent on the profits available for distribution from our PRC subsidiaries. The PRC laws permit payment of dividends only out of net income as determined in accordance with PRC accounting standards and regulations. Our PRC subsidiaries are required to set aside a portion of their net income each year (not less than 10% of the net profit) to fund designated statutory reserve to recover the possible loss during future operation and to support the development of the Company. When the accumulated statutory reserve funds reach 50% of the registered capital of the Company, the Company may cease to appropriate net profit to the statutory reserves. These reserves are not distributable as cash dividends. As a result, our primary source of funds for dividend payments is subject to these and other legal restrictions and uncertainties.

The CIT Law provides that dividends sourced from PRC payable to "non-resident enterprises" shall be subject to PRC CIT at a rate of 20%, which rate is reduced to 10% by the Rules for Implementation of Corporate Income Tax Law of the PRC. Such dividend withholding tax rate may be further reduced by applicable treaties. According to the Arrangement between the Mainland of China and Hong Kong for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income, the withholding tax rate on dividends paid by a PRC resident enterprise to a Hong Kong resident enterprise is further reduced to 5% if the Hong Kong resident enterprise holds at least 25% equity interests in the PRC resident enterprise, and in any other case, 10% will be levied on the gross dividends. As Capitol International is a Hong Kong company and owns 100% as to Sanjiang Chemical and 43.86% as to Yongming Petrochemical, according to the said arrangement, any dividend that Sanjiang Chemcial and/or Yongming Petrochemical paid are expected to be subject to a withholding tax at the rate of 5% if Capitol International is not considered as PRC resident enterprise for tax purposes under the CIT Law. On 27 October 2009, the State Administration of Taxation of the PRC issued the Notice on Interpretation and Determination of "Beneficial Owner" under Tax Treaties (Guo Shui Han [2009] No. 601) (關於如何理解和認定稅收協定中「受益所有人」的通知(國稅函)[2009]601號) ("**Circular 601**"). Circular 601 addresses which entities are treated as "beneficial owners" under any applicable tax treaty on dividends, interest and royalties entered into by the PRC. The PRC tax authorities must evaluate whether an applicant (income recipient) qualifies as a "beneficial owner" on a case-by-case basis based on the "substance over form" principle. There is no assurance that the PRC tax authorities would accept our application for the reduced withholding tax rate based on this principle. If our application for the reduced withholding tax rate is rejected by the PRC tax authorities, Capitol International would be subject to a withholding tax rate of 10% instead of 5%. The financial impact on our Group arising from the 10% withholding tax being imposed was RMB14.1 million, RMB22.5 million and RMB7.8 million for the year ended 31 December 2008, 2009 and for the four months ended 30 April 2010, respectively. The impact has been fully provided for in our Group's financial statements.

DISTRIBUTABLE AND STATUTORY RESERVES

Our Company was incorporated on 30 January 2009 and has not carried out any business since its date of incorporation except for transactions relating to the Reorganisation. Our Company did not have any reserve available for distribution to our Shareholders.

As aforementioned, our PRC subsidiaries are subject to the requirement on accruing statutory reserve in accordance with applicable laws and regulations in the PRC. According to relevant PRC laws, foreign owned companies in the PRC are required to appropriate at least 10% of their net profits after taxation as statutory reserves. The appropriation of the statutory reserves must be made before the distribution of dividends to equity owners. The reserve can be used to recover possible loss during future operation and to support the development of the Company. When the accumulated statutory reserve funds reach 50% of the registered capital of the Company, the Company may cease to appropriate net profit to the statutory reserves.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that there are no circumstances which, had we been required to comply with Rules 13.13 to 13.19 of the Listing Rules, would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there had been no material adverse change in the financial or trading position, indebtedness, mortgage, contingent liabilities, guarantees or prospects of our Group since 30 April 2010, the date to which the latest audited financial statements of our Group were made up, up to the Latest Practicable Date.