You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our consolidated financial statements and the related notes in Appendix I to this prospectus. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results and the timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors" and elsewhere in this prospectus.

OVERVIEW

We were the second largest BDO producer in China in terms of domestic sales volume in 2009 with a market share of approximately 16.0%, according to the Huajing Report prepared by Beijing Huajing, an independent economic information research institution. We also produce GBL and THF, which are immediate downstream derivative products of BDO. We ranked fifth in China in terms of total designed BDO production capacity in 2009, according to the Huajing Report.

In view of China's growing market for biodegradable materials and leveraging on our existing expertise in BDO production, we intend to expand downstream into BDO-based biodegradable PBS and PBS copolymers production and apply approximately 10% of the net proceeds from the Global Offering to construct the first phase of our PBS production facilities. Please refer to the paragraph headed "Our strategies" under the section headed "Business" in this prospectus for further details. PBS and PBS copolymers are relatively new materials in China and our Group has no historical track record in their production. While we are confident of our PBS expansion plan, there is no assurance that we will be able to produce PBS and PBS copolymers on a commercial scale or at all. (Please also refer to the section headed "Risk factors" in this prospectus).

BDO, our primary product, is an essential chemical intermediate used in the production of high performance polymers, solvents and fine chemicals, which are widely used in the automotive, electronics, construction and apparel industries. GBL has a wide range of applications, including cosmetics, hair sprays, germicides, tablet binders and process aids in beverage clarification. THF is mainly used as a precursor to polymers and is often used to produce PTMEG, which in turn is a reactant for making other polymers.

During the Track Record Period, we sold our BDO, GBL and THF products principally to PRC manufacturers of different industries such as chemicals, pharmaceutical and industrial electronics, which are primarily located in the Eastern region of China. We believe this direct sales model, compared to a distributorship sales model, allows us to obtain first-hand market information directly from these customers and helps us to build long-term and close customer relationships. During the Track Record Period, we did not sell our BDO, GBL and THF products to any manufacturer of PBS or PBS copolymers. Additionally, we have neither directly exported our products nor, to our knowledge, have we sold our products to customers who in turn re-sell and export our products without further processing.

We are the first among the current BDO producers in China to employ the DAVY Process, according to the Huajing Report. The DAVY Process, which uses maleic anhydride as the principal raw material, is more advanced and cost efficient than the traditional REPPE Process, which uses acetylene and formaldehyde as the principal raw material. The DAVY Process allows us to produce high-graded BDO with a higher purity level than the national standard generally adhered by BDO manufacturers adopting the REPPE Process. The DAVY Process also co-produces GBL and THF, two of our major products, and allows us to adjust the mix among our three products to enhance the flexibility in fulfilling the customers' orders.

Our current production facilities are located in Dongying, Shandong province, close to our raw material suppliers and most of our major customers. In particular, our current production facilities are adjacent to Sinopec Shengli Oilfield Branch Petrochemical Factory* (中國石化勝利油田分公司石油化工總廠) ("**Sinopec Shengli**"), China's second largest oil field complex, which supplies to us raw materials including hydrogen and n-butane through pipelines. Our proximity to and long-term relationship with Sinopec Shengli provide us with a convenient supply of principal raw materials and a cost advantage over many of our foreign and domestic competitors. For each of the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010, our purchases from Sinopec Shengli accounted for approximately 11.3%, 9.9%, 12.7% and 32.3% of our total purchases, respectively. As at the Latest Practicable Date, our Dongying BDO production facility had a designed BDO production capacity of approximately 35,000 tpa, a designed GBL production capacity of approximately 17,000 tpa and a designed THF production capacity of approximately 5,000 tpa.

We derive substantially all of our revenue from sales of BDO, GBL and THF. Our revenue was approximately RMB882.7 million, RMB883.3 million, RMB745.4 million and RMB383.9 million for each of the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010, respectively. Our net profit was approximately RMB146.1 million, RMB133.9 million, RMB172.1 million and RMB96.9 million for each of the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010, respectively.

Our current production facility is located in Dongying, Shandong province and as at the Latest Practicable Date, it had a designed BDO production capacity of approximately 35,000 tpa, a designed GBL production capacity of approximately 17,000 tpa and a designed THF production capacity of approximately 5,000 tpa.

Our principal business development strategy is to leverage our BDO production capabilities and expand into China's growing biodegradable materials market. Since 2008, we have devoted resources in exploring the market and the commercialization potential of BDO-based biodegradable PBS and PBS copolymer products. PBS and PBS copolymers are fully biodegradable macromolecular polymers that are synthesized from succinic acid/binary acid and BDO through a process of condensation polymerization. Due to the comparatively superior characteristics in mechanical properties, processability and heat resistance over other types of biodegradable polymers, PBS and PBS copolymers can be used in a wide range of applications, such as packaging materials, food containers, mulch film, packaging films, bags, disposable medical devices, hygiene products and textiles. In this connection, we entered into a letter of intent with IPCCAS in July 2009 for the licensing of its patented IPCCAS Direct Polycondensation Process to construct a 20,000 tpa PBS production facility, as well as setting up a joint research laboratory to research into new PBS formulations and potential applications. Subsequently in December 2009, we entered into a formal technology licensing agreement with IPCCAS (which was supplemented by a supplemental licensing agreement dated October 29, 2010), under which we were granted a non-exclusive license (which is one-off in nature with no time limit) to use the relevant PBS resin polymerization technologies in our PBS production facilities and a 500-liter PBS laboratory facility adopting the IPCCAS Direct Polycondensation Process. In May 2010, we further entered into a technology cooperation agreement with Sichuan University for an initial period of five years to collaborate into areas including (without limitation) PBS downstream product development, production technology support and research staff training. Since then, we have established a PBS research team in Zibo of Shandong province collaborating with IPCCAS and the Polymer Research Institute* (高分子研究所) and the State Key Laboratory of Polymer Materials Engineering* (高分子材料工程國家重點實驗室) of Sichuan University. We are close to completing the construction of a 500-liter PBS laboratory facility which would be used for testing formulations for and trial production of various types of PBS and PBS copolymer downstream products. The PBS laboratory facility is scheduled to be completed by end of November 2010 and put into operation by December 2010. We also commenced construction of two PBS production lines with designed production capacity of 5,000 tpa and 20,000 tpa, being the first phase of our three-phase PBS production capacity expansion plan, which is currently expected to be completed by June 2011 and September 2011, respectively. As at the Latest Practicable Date, we had entered into non-legally binding letters of intent, valid up to December 31, 2013, with several Independent Third Party PRC manufacturers of medical supplies, packaging and hygienic disposables for intended PBS and PBS copolymers orders totaling over 17,000 tons per annum.

To support our planned expansion into the production of PBS and PBS copolymers, which are currently in our product development pipeline, and to serve the growing demand for high-graded BDO and its derivative products in China, we plan to expand our BDO production capacity significantly by constructing a new, 55,000 tpa BDO production facility, to be housed alongside our planned PBS production facilities, in our new Zibo production base. This new BDO production facility, which is under construction and currently scheduled to be completed by June 2011, will employ the newest, fourth-generation DAVY Process with designed BDO, GBL and THF production capacity of approximately 46,800 tpa, 6,600 tpa and 1,600 tpa, respectively.

In addition to the above core production facilities, our Zibo production base will also house various ancillary facilities such as office buildings, staff canteen, warehouses and a waste water treatment facility.

We believe that our expanded BDO production capacity would enable us to enjoy greater flexibility in adjusting our production and sales mix to meet market demands, while controlling our costs through internal BDO consumption and external BDO sales. It is our intention that upon commencement of our PBS and PBS copolymers production, we will prioritize the use of our BDO produced by first satisfying our internal production requirement of PBS and PBS copolymers. According to our research and development progress to date, it is estimated that the consumption ratio of BDO in PBS production should be around 0.4-0.5 ton of BDO for each ton of PBS and/or PBS copolymers. On such basis, depending on the then prevailing demand for our PBS and PBS copolymer products, we expect our internal BDO consumption will increase as a percentage of our total BDO production as we expand our PBS production capacity in accordance with our expansion plan. (For purpose of illustration, if all three phases of our PBS production facilities are operating at full capacity, then based on the currently estimated consumption ratio of BDO to PBS, around half of the aggregate designed production capacity of our two BDO production facilities (inclusive of BDO, GBL and THF) will be utilized for producing internally consumed BDO, while the remaining production capacity will be utilized for producing BDO, GBL and THF for external sales to the market.) We also expect our revenue from PBS and PBS copolymer products will increase both in absolute terms and as a percentage of our total revenue in the future when our PBS expansion plan is successfully implemented.

KEY FACTORS THAT AFFECT OUR RESULTS OF OPERATIONS

Market demand for BDO and its derivative products

BDO is our primary product. Sales of BDO represented approximately 55.4%, 59.9%, 55.6% and 54.6% of our revenue for each of the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010, respectively. Demand for BDO is primarily driven by the demand for BDO derivative products and the development of new downstream products and applications. In the past few years, leveraged on the rapid development of downstream chemicals such as PBT, PU, PTMEG, THF and GBL, the BDO market has experienced a significant growth. During the Track Record Period, we estimate that about half of our BDO products were eventually used by the PU fiber industry with the rest by the electronic industry, pesticide industry and pharmaceutical industry and other industries. PU fiber is primarily used to produce elastic materials, which are widely used as raw materials of various types of shoes and apparel.

BDO is also a principal feedstock in the manufacture of PBS and PBS copolymers, which are used to produce various biodegradable plastic products. We expect to complete the construction of the two production lines of PBS by June 2011 and September 2011, respectively, each of which would have a production capacity of 5,000 tpa and 20,000 tpa. According to Freedonia, a majority of PBS is used to produce disposables in the foodservice industry with the remaining used to produce disposable packaging materials and other disposable products. Freedonia also expects that the use of PBS in medical products will start to grow from 2011.

According to the Huajing Report, the demand for and production of BDO in China increased at a CAGR of 15.6% and 42.5%, respectively, from 2005 to 2009. Despite the significant growth in BDO production in the past few years, domestically produced BDO still cannot fully satisfy the demand for BDO in China. With the substantial increase in domestic production of BDO, BDO imports gradually fell in the past few years from approximately 82,000 tons in 2005 to approximately 59,000 tons in 2009.

GBL is our second largest product in terms of revenue. Sales of GBL represented approximately 27.2%, 27.6%, 29.7% and 29.4% of our revenue for each of the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010, respectively. According to the Huajing Report, GBL is primarily used as an intermediary for the production of agrochemicals and pharmaceuticals. During the Track Record Period, we estimate that about one-third of our GBL were sold to the pharmaceutical industry and the rest to the PU industry, pesticide industry, electronics industry and other industries.

THF is our smallest product in terms of revenue. Sales of THF represented approximately 17.4%, 12.5%, 14.7% and 16.0% of our revenue for each of the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010, respectively. THF is mainly used as a precursor to produce other polymers. According to the Huajing Report, the production of THF accounted for approximately 41.2% of total BDO consumption in China in 2009, being the largest end use product of BDO.

Any adverse change in the market demand for BDO derivative products and the development of new downstream BDO derivative products or applications may have a material and adverse impact on the demand for BDO. Our results of operations have depended in the past and will continue to depend in the near future, on our sales of BDO and its derivative products such as GBL and THF and, in the long run, will be affected by our sales of PBS and PBS copolymers.

Pricing of our products

The selling prices for our BDO and its derivative products are primarily determined by prevailing market prices, which, in turn, are primarily determined by demand and supply in the global and domestic markets for our products, the prices set by our competitors and our ability to identify new markets for our products. For each of the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010, the average selling price for our BDO was RMB16,712 per ton, RMB15,085 per ton, RMB11,866 per ton and RMB14,387 per ton, respectively.

We generally are able to market our BDO products at prices higher than the prevailing industry average prices in the PRC, which our Directors believe is attributable to, among other factors, our ability to produce BDO by the DAVY Process at a higher purity level than the PRC national standard, in large volume with consistent quality and timely delivery. In determining prices for individual orders, we also take into account customer specifications, lead times, transportation costs and quantities ordered.

Some of our domestic competitors have increased, and some have announced plan to increase, their production capacities. The increases in domestic production capacities will increase the market supply of our products. If market supply of our products increases without a corresponding increase in demand, the market price of our products may decrease, reducing our profit margins. In the past, we also faced competition from imported products. In recent years, some producers from Saudi Arabia and Taiwan sold BDO at low prices to China which led to the decline in BDO average sales price in China. During the global financial crisis in late 2008 when the demand for BDO and its derivative products in the international market was low, we experienced increased competition from imported BDO and its derivative products from international market. The selling price of our products in China may continue to be affected by the changes in production capacities and pricing strategies of domestic competitors, export activities of alternative competitors in China as well as the measures taken by the PRC government, which may have an impact on our profitability and financial condition.

Pricing of our raw materials and other materials

Maleic anhydride, methanol and hydrogen are the principal raw materials used in the production of BDO and its derivative products. We also started to use n-butane as raw materials to produce maleic anhydride in 2009. Our cost of raw materials represents a substantial portion of our cost of sales. For each of the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010, the total cost of raw materials accounted for approximately 85.1%, 85.3%, 76.6% and 88.4% of our total cost of sales, respectively. Our cost of maleic anhydride represents a substantial portion of our cost of raw materials, which accounted for approximately 76.5%, 76.8%, 66.6% and 77.7% of our total cost of sales for the years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010, respectively.

Our average cost of raw materials generally correlates with the prevailing market price of maleic anhydride, as maleic anhydride is the principal raw material used in the production of our BDO and its derivative products. The market price for maleic anhydride has been highly volatile during the Track Record Period. Our average unit purchase price of maleic anhydride was RMB9,367.1 per ton for the year ended December 31, 2007. It decreased to RMB8,292.2 per ton for the year ended December 31, 2008 and further decreased to RMB4,811.5 per ton for the year ended December 31, 2009. Our average unit purchase price of maleic anhydride rebounded to RMB6,759 per ton for the five months ended May 31, 2010. The change in the market price for maleic anhydride was primarily affected by the domestic production capacity of maleic anhydride, the domestic and international demand of maleic anhydride, the market price of coal, which is one of the main raw materials of maleic anhydride, and the overall domestic and international economic conditions. During the global financial crisis, the domestic and international demand for maleic anhydride decreased substantially, causing the price of maleic anhydride to decrease substantially in 2009. The recovery of the economy from the global financial crisis starting from late 2009 caused the price of maleic anhydride to increase in 2010. For the year ended December 31, 2009, our gross profit margin increased despite a decrease in our average selling price of BDO mainly due to a more significant decrease in the average cost of maleic anhydride in the same period. In the event that our average selling price of BDO decreases to a greater extent than the average cost of maleic anhydride or when we are unable to pass a price increase of raw material and other materials on to our customers at all or in a timely manner, our profit margin may decrease.

In an effort to hedge the market price risk of maleic anhydride, to capture cost benefits and to ensure that we have a constant supply of high-quality maleic anhydride at competitive prices, we commenced in-house production of maleic anhydride in December 2009 by using n-butane, which is primarily derived from petroleum. As maleic anhydride is primarily made by benzene, which is derived from coal, prices of maleic anhydride in

China have been low and supplies have been abundant. Accordingly, we may not be able to capture cost benefits from producing maleic anhydride in-house currently. We currently source n-butane mainly from one supplier through pipelines connected to our production facility. If this supplier is unable to supply us with the quality and quantity of n-butane required for our production, we may incur additional costs to secure an alternative source. If we are unable to pass on those costs to our customers, our results of operations and financial condition may be adversely affected.

Our expertise and know-how in employing DAVY Process

We are the first among the current BDO producers in the PRC to employ DAVY Process in producing BDO, according to the Huajing Report. The DAVY Process is considered more advanced and cost efficient than the traditional REPPE Process, which to date is still widely used among China's BDO manufacturers. While we are aware that a few of our competitors have recently migrated to or constructed new BDO production facilities adopting the DAVY Process, we believe our accumulated expertise and know-how in employing the DAVY Process early on for our BDO production enable us to operate our BDO production facilities at high efficiency and produce BDO at a higher purity level than the PRC national standard, and gives us a competitive advantage over these competitors.

Expansion of our production capacity for BDO, GBL, THF, PBS and PBS copolymers

We are constructing a BDO production facility in Zibo, Shandong province, which is expected to increase our designed BDO, GBL and THF production capacity to approximately 81,800 tpa, 23,600 tpa and 6,600 tpa, respectively, upon its scheduled completion by June 2011. In addition, as it is our principal business development strategy to leverage our BDO production capabilities and expand into China's growing biodegradable materials market, we commenced construction of two PBS production lines with designed production capacity of 5,000 tpa and 20,000 tpa, being the first phase of our three-phase PBS production capacity expansion plan, which is currently expected to be completed by June 2011 and September 2011, respectively. According to our expansion plan, we intend to further expand our PBS production capacity by an aggregate of 100,000 tpa through the construction of two additional PBS production lines, each with a designed production capacity of 50,000 tpa, under two additional phases. We currently intend to commence construction of the first 50,000 tpa PBS production facility in or around early 2012 depending on the then market response to our PBS and PBS copolymer products from our first phase of PBS production facilities. According to our preliminary construction schedule, this 50,000 tpa second phase PBS production facility shall take around eight months to construct. Depending on the then utilization rates of our first and second phases of PBS production facilities, we may commence construction of a third phase PBS production facility with a designed production capacity of 50,000 tpa as early as 2013. As we expect our revenue from PBS and PBS copolymer products to increase both in absolute terms and as a percentage of our total revenue in the future, our results of operations will also depend on our ability to successfully produce and market our PBS and PBS copolymers, which in turn will depend on factors such as PRC government policies on biodegradable plastic materials and development of commercially viable PBS and PBS copolymer downstream products and applications.

CRITICAL ACCOUNTING POLICIES, ESTIMATES AND ASSUMPTIONS

We prepare our financial statements in conformity with IFRS, which requires us to make estimates and assumptions that affect our reporting of, among other things, assets and liabilities, contingent assets and liabilities, net revenue and expenses. We continually evaluate these estimates and assumptions based on the most recently available information, our own historical experiences and other factors that we believe to be relevant under the circumstances. Since our financial reporting process inherently relies on the use of estimates and assumptions, our actual results could differ from what we expect. This is especially true with some accounting policies that require higher degrees of judgment than others in their application. We consider the policies discussed below to be critical to an understanding of our audited consolidated financial statements because they involve the greatest reliance on our management's judgment.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of comprehensive income in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalized as an additional cost of that asset or as a replacement.

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

	Estimated useful lives	Residual values
• Buildings	30 years	0%
• Plant and machinery	12-20 years	5%
• Motor vehicles	10 years	5%
• Furniture, fixtures and office equipment	5 years	5%

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

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each statement of financial position date.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in the statement of comprehensive income in the year the asset is derecognized is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings and other assets under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction 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.

Revenue recognition

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

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

- 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.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

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

Inventories

Inventories are valued at the lower of cost and net realizable value. Costs incurred in bringing each product to its present location and conditions are accounted for as follows:

Raw materials/Parts and consumables	Purchase cost on the weighted average basis
Finished goods	Cost of direct materials and labour and an appropriate proportion of overheads

Net realizable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Provisions

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

When the effect of discounting is material, the amount recognized for a provision is the present value at the financial position date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of comprehensive income.

Estimation uncertainty

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

(1) Impairment of trade receivables

Impairment of trade receivables is made based on an assessment of the recoverability of trade receivables. The identification of doubtful debts requires management's judgment and estimates. Provision is made when there is objective evidence that the Group will not be able to collect the debts. Where the actual outcome or further expectation is different from the original estimate, such differences will impact the carrying value of the receivables, and the amount of doubtful debt expenses or write-back of provision trade receivables in the period in which such estimate has been changed.

(2) Impairment of property, plant and equipment

The carrying value of property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable in accordance with the accounting policy as disclosed before in the sub-paragraph headed "Impairment of non-financial assets other than goodwill" in this paragraph headed "Critical accounting policies, estimates and assumptions". The recoverable amount of an asset, or, where appropriate, the cash-generating unit to which it belongs, is calculated as the higher of its fair value less costs to sell and value in use. Estimating the value in use requires the Group to estimate future cash flows from the cash generating units and to choose a suitable discount rate in order to calculate the present value of those cash flows.

(3) Useful lives and residual values of items of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from previous estimation. Useful lives and residual values are reviewed at each financial year end date based on changes in circumstances.

(4) Net realizable value of inventories

Net realizable value of an inventory is the estimated selling price in the ordinary course of business, less estimated costs to be incurred to completion and disposal. These estimates are based on the current market condition and the historical experience of selling products of similar nature which could change significantly as a result of changes in customer taste or competitor actions in response to severe consumer product industry cycles. Management reassesses these estimates at each reporting date.

(5) Deferred tax assets

Deferred tax assets are recognized for all deductible temporary differences, and carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

(6) Income tax provisions

Significant judgment is required in determining the provision for corporate income tax. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provision in the period in which such determination is made.

SUMMARY OF RESULTS OF OPERATIONS

The following table sets out our consolidated statements of comprehensive income and other selected financial information for the periods indicated.

	Year ended December 31,			Five months ended May 31,	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
REVENUE	882,669	883,298	745,363	272,684	383,901
Cost of sales	(694,844)	(695,855)	(485,941)	(176,400)	(249,037)
Gross profit	187,825	187,443	259,422	96,284	134,864
Other income and gains	3,357	4,234	1,736	205	11,070
Selling and distribution costs	(13,440)	(15,237)	(15,870)	(6,340)	(6,361)
Administrative expenses	(8,423)	(13,910)	(12,595)	(1,886)	(6,380)
Other expense	–	–	–	–	(657)
Finance costs	(2,871)	(7,941)	(2,096)	–	(2,450)
PROFIT BEFORE TAX	166,448	154,589	230,597	88,263	130,086
Income tax expense	(20,332)	(20,681)	(58,515)	(22,233)	(33,155)
PROFIT FOR THE YEAR/PERIOD AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD	146,116	133,908	172,082	66,030	96,931
Profit for the year/period and total comprehensive income for the year/period attributable to:					
Equity holders of the Company	129,014	133,908	172,082	66,030	96,931
Non-controlling interests	17,102	–	–	–	–
	146,116	133,908	172,082	66,030	96,931

PRINCIPAL INCOME STATEMENT COMPONENTS

Revenue

The following table sets forth our revenue, the average selling price and the sales volume by product during the Track Record Period:

	Year ended December 31,												Five months ended May 31,							
	2007				2008				2009				2009				2010			
	Revenue		Sales Volume	Average Selling Price	Revenue		Sales Volume	Average Selling Price	Revenue		Sales Volume	Average Selling Price	Revenue		Sales Volume	Average Selling Price	Revenue		Sales Volume	Average Selling Price
	RMB'000	*%*	*tons*	*RMB/ton*	*RMB'000*	*%*	*tons*	*RMB/ton*	*RMB'000*	*%*	*tons*	*RMB/ton*	*RMB'000*	*%*	*tons*	*RMB/ton*	*RMB'000*	*%*	*tons*	*RMB/ton*
BDO	489,036	55.4	29,263	16,712	529,475	59.9	35,099	15,085	414,741	55.6	34,952	11,866	160,053	58.7	14,034	11,405	209,486	54.6	14,561	14,387
GBL	240,209	27.2	12,470	19,263	243,986	27.6	14,905	16,369	221,696	29.7	15,780	14,049	77,373	28.4	5,632	13,738	112,875	29.4	7,016	16,088
THF	153,424	17.4	6,581	23,313	109,837	12.5	5,431	20,224	108,926	14.7	6,716	16,219	35,258	12.9	2,139	16,483	61,540	16.0	3,435	17,916
Total	882,669	100.0	48,314		883,298	100.0	55,435		745,363	100.0	57,448		272,684	100.0	21,805	12,506	383,901	100.0	25,012	15,349

During the Track Record Period, our revenue represented the net invoiced value of goods sold to customers net of value-added tax and other sales taxes, after allowances for returns and discounts. During the Track Record Period, we derived all of our revenue from sales of BDO and its derivative products, GBL and THF. Our revenue for each of the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010 were approximately RMB882.7 million, RMB883.3 million, RMB745.4 million and RMB383.9 million, respectively.

Our total revenue fluctuated during the Track Record Period as a result of a combined effect of the changes in our sales volume, average selling price and our product mix. Our revenue increased slightly by approximately 0.1% from RMB882.7 million for the year ended December 31, 2007 to RMB883.3 million for the year ended December 31, 2008 primarily due to the increases in our sales volume of BDO and GBL to meet the increasing market demand, offset in part by decreases in our average selling prices of BDO, GBL and THF and the decrease in our sales volume of THF. Our revenue decreased by approximately 15.6% from RMB883.3 million for the year ended December 31, 2008 to RMB745.4 million for the year ended December 31, 2009, primarily due to decreases in average selling prices of BDO, GBL and THF as a result of global financial crisis in late 2008 and throughout 2009, partially offset by the increase in our overall sales volume. Our revenue increased by approximately 40.8% from RMB272.7 million for the five months ended May 31, 2009 to RMB383.9 million, primarily due to increases in average selling prices and sales volume of BDO, GBL and THF which the Directors consider were mainly driven by an increase in demand for BDO and its derivative products as a result of global economic recovery.

Cost of sales

The following table sets forth our cost of sales by item and as a percentage of our total cost of sales for the periods indicated:

	Year Ended December 31,						Five months ended May 31,			
	2007		2008		2009		2009		2010	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%
Raw materials										
– maleic anhydride[(1)]	531,718	76.5	534,101	76.8	323,753	66.6	114,799	65.1	193,545	77.7
– hydrogen	54,433	7.8	52,378	7.5	33,783	7.0	20,746	11.8	24,021	9.6
– methanol	5,873	0.8	6,998	1.0	14,775	3.0	2,219	1.3	2,507	1.1
	592,024	85.1	593,477	85.3	372,311	76.6	137,764	78.1	220,073	88.4
Other materials and utilities										
– catalysts	39,186	5.6	40,503	5.8	44,442	9.1	13,364	7.6	10,453	4.2
– steam	10,358	1.5	10,478	1.5	12,430	2.6	4,161	2.4	–	–
– electricity	16,639	2.4	16,085	2.3	19,291	4.0	6,227	3.5	7,189	2.9
– water	7,776	1.1	4,743	0.7	3,510	0.7	1,865	1.1	104	0.0
– others[(2)]	15,563	2.3	16,394	2.4	17,482	3.6	6,785	3.8	1,424	0.6
	89,522	12.9	88,203	12.7	97,155	20.0	32,402	18.4	19,170	7.7
Depreciation	9,958	1.4	10,377	1.5	11,962	2.5	4,503	2.6	8,574	3.4
Payroll	3,340	0.6	3,798	0.5	4,513	0.9	1,731	0.9	1,220	0.5
Cost of sales:	694,844	100.0	695,855	100.0	485,941	100.0	176,400	100.0	249,037	100.0

Notes:

(1) Cost of maleic anhydride included cost of n-butane, the principal raw material used in the production of maleic anhydride

(2) Others included nitrogen, chemical filters, spare parts and other consumables

During the Track Record Period, our cost of sales primarily consisted of cost of raw materials used in our production process, including maleic anhydride, methanol, hydrogen and n-butane. Our cost of sales also included expense for catalysts, steam, electricity, water and others, as well as depreciation and payroll for personnel directly involved in the production activities. Our total cost of sales amounted to approximately RMB694.8 million, RMB695.9 million, RMB485.9 million and RMB249.0 million for each of the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010, respectively, representing 78.7%, 78.8%, 65.2% and 64.9% of our revenue for each respective period.

Cost of maleic anhydride was the main component of our cost of sales, which accounted for approximately 76.5%, 76.8%, 66.6% and 77.7% at our total cost of sales for each of the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010, respectively. Other materials and utilities costs, such as the costs for catalysts, steam, electricity, water and others, were also a key component of our costs of sales, representing 12.9%, 12.7%, 20.0% and 7.7% of our total costs of sales for each of the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010, respectively.

Our cost of sales increased slightly from RMB694.8 million for the year ended December 31, 2007 to RMB695.9 million for the year ended December 31, 2008, primarily due to an increase in our sales volume, offset in part by a decrease in our average unit purchase price of maleic anhydride from RMB9,367.1 per ton for the year ended December 31, 2007 to RMB8,292.2 per ton for the year ended December 31, 2008. Our cost of sales decreased from RMB695.9 million for the year ended December 31, 2008 to RMB485.9 million for the year ended December 31, 2009, primarily due to a significant decrease in the average unit purchase price of maleic anhydride as a result of global financial crisis in late 2008 and 2009. Our cost of sales increased from RMB176.4 million for the five months ended May 31, 2009 to RMB249.0 million for the five months ended May 31, 2010, primarily due to an increase in sales volume of our products and an increase in average unit purchase price of maleic anhydride as a result of the global economic recovery. The average unit purchase price of maleic anhydride decreased significantly from RMB8,292.2 per ton for the year ended December 31, 2008 to RMB4,811.5 per ton for the year ended December 31, 2009 and rebounded to RMB6,759 per ton for the five months ended May 31, 2010 as a result of global economic recovery.

We expect our total cost of sales, including our raw material costs, to continue to increase as we expand our BDO production capacity and commence our PBS and PBS copolymer production, although such effect may be partially offset as we expect to achieve economy of scale and obtain volume discounts associated with larger volume of purchases of raw materials.

Gross profit and gross profit margin

The following table sets forth the gross profit and gross profit margins of our BDO, GBL and THF for the periods indicated:

	Year ended December 31,						**Five months ended May 31,**			
	2007		**2008**		**2009**		**2009**		**2010**	
	Gross profit	*Gross profit margin*	*Gross profit*	*Gross profit margin*	*Gross profit*	*Gross profit margin*	*Gross profit*	*Gross profit margin*	*Gross profit*	*Gross profit margin*
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
BDO	87,944	18.0	105,161	19.9	131,666	31.7	50,578	31.6	70,555	33.7
GBL	60,486	25.2	54,744	22.4	86,998	39.2	31,277	40.4	43,374	38.4
THF	39,395	25.7	27,538	25.1	40,758	37.4	14,428	40.9	20,935	34.0
Overall	187,825	21.3	187,443	21.2	259,422	34.8	96,283	35.3	134,864	35.1

For each of the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010, our gross profit was RMB187.8 million, RMB187.4 million, RMB259.4 million and RMB134.9 million, respectively, and our gross profit margin was 21.3%, 21.2%, 34.8% and 35.1%, respectively. Our gross profit decreased slightly from RMB187.8 million for the year ended December 31, 2007 to RMB187.4 million for the year ended December 31, 2008, primarily due to the decreases in our gross profit derived from THF and GBL by approximately 30.1% and 9.5%, respectively, the effect of which was substantially offset by an increase of 19.6% in our gross profit derived from BDO. Our gross profit increased from RMB187.4 million for the year ended December 31, 2008 to RMB259.4 million for the year ended December 31, 2009, primarily due to the decrease in the average unit purchase price of maleic anhydride, which outpaced the decrease in the average selling price of our products from the year ended December 31, 2008 to December 31, 2009.

Changes in our overall gross profit margin from period to period were primarily driven by the changes in the average selling price of our different products, the changes in the average purchase price of raw materials used in our products sold, and our product mix. Our overall gross profit margins for the years ended December 31, 2007 and 2008 were about the same, which were 21.3% and 21.2%, respectively. This is primarily because the average selling prices of our products decreased in line with the decrease of the average unit purchase prices of our raw materials. We enjoyed enhanced gross profit margins from the year ended December 31, 2008 to the year ended December 31, 2009 in large part due to a significant decrease in the average purchase price of maleic anhydride, (the principal raw material used in the production of our BDO and its derivative products), as a result of global financial crisis in late 2008 and throughout 2009, which outpaced the decrease in the average selling price of our products during the same period.

Generally, our GBL and THF were higher margin products compared with BDO. We had achieved an increasing trend on the gross profit margin of our BDO during the Track Record Period primarily because the average unit purchase price of maleic anhydride decreased more significantly than the decrease of the average selling price of BDO from 2007 to 2008 and from 2008 to 2009. The gross profit margins of both GBL and THF decreased slightly from 2007 to 2008 and increased in the year ended December 31, 2009, primarily because the average selling prices of our GBL and THF decreased more significantly than the decreases in the average unit purchase prices of maleic anhydride from 2007 to 2008 and they decreased less significantly from 2008 to 2009 as compared with the decrease in the average unit purchase prices of maleic anhydride.

We believe we achieved a relatively higher level of gross profit margin comparing to some of our competitors in the PRC primarily due to, among other factors, our early adoption of the more advanced and cost efficient DAVY Process which enabled us to accumulate substantial expertise and know-how to operate our BDO production facilities at high efficiency and produce BDO at a higher purity level than the PRC national standard, and price our BDO products at a premium to the prevailing industry average prices. In addition, the DAVY Process uses maleic anhydride as the principal raw material, which is cheaper and more readily available than the principal raw material used in the REPPE Process, which is still widely adopted in the PRC by BDO producers. As such, the average cost of raw materials for BDO produced through DAVY Process is generally lower than that produced through the traditional REPPE Process.

Other income and gains

Other income and gains accounted for 0.4%, 0.5% and 0.2% of our total revenue for each of the three years ended December 31, 2007, 2008 and 2009, respectively. Other income and gains accounted for 0.1% and 2.9% for each of the five months ended May 31, 2009 and 2010, respectively. Other income and gains consisted primarily of foreign currency exchange gains from our payables to the Previous Potential Investor in respect of its investment denominated in Hong Kong dollars, interest income from our bank deposits and government subsidy.

Our other income and gains increased from RMB3.4 million for the year ended December 31, 2007 to RMB4.2 million for the year ended December 31, 2008. This increase was primarily due to an increase in our foreign currency exchange gains from approximately RMB2.7 million in 2007 to RMB3.5 million in 2008, in relation to certain other payables denominated in Hong Kong dollars due to the Previous Potential Investor as a result of the further appreciation of Renminbi against the Hong Kong dollar during the year ended December 31, 2008. Our other income and gains decreased from RMB4.2 million for the year ended December 31, 2008 to RMB1.7 million for the year ended December 31, 2009, primarily because the other payables due to the Previous Potential Investor were fully repaid during 2008, resulting in no exchange difference for the year ended December 31, 2009 and thus no foreign currency exchange gain was recorded. We derived steam from our production process of maleic anhydride and started to sell steam from December 2009, which contributed approximately RMB0.8 million and RMB9.3 million to our other income and gains for the year ended December 31, 2009 and the five months ended May 31, 2010, respectively.

Selling and distribution costs

Selling and distribution costs accounted for 1.5%, 1.7% and 2.1% of our total revenue for each of the three years ended December 31, 2007, 2008 and 2009, respectively. Our selling and distribution costs consisted primarily of freight charges, salary and benefits for our sales personnel and other miscellaneous items related to sales and distribution. We transport our products primarily by road as most of our customers are close to us geographically. Generally, we are responsible for delivery costs of our products. Our selling and distribution costs were RMB13.4 million, RMB15.2 million and RMB15.9 million during the three years ended December 31, 2007, 2008 and 2009, respectively. Our selling and distribution costs were RMB6.3 million and RMB6.4 million, accounting for 2.3% and 1.7% of our total revenue for each of the five months ended May 31, 2009 and 2010, respectively. Selling and distribution costs remained stable from the five months ended May 31, 2009 to the five months ended May 31, 2010 despite an increase in revenue and sales volume. This was primarily because there were less customers located relatively far away from us and we incurred less transportation expenses accordingly.

Administrative expenses

Administrative expenses accounted for 1.0%, 1.5% and 1.6% of our total revenue for each of the three years ended December 31, 2007 and 2008 and 2009, respectively. Administrative expenses accounted for 0.7% and 1.7% of our total revenue for each of five months ended May 31, 2009 and 2010. Administrative expenses consisted primarily of listing expenses and professional fee, audit fees, salary and benefits for our management and administrative personnel and social insurance. Administrative expenses also included office expenses, travelling and entertainment expenses and other administrative costs and expenses.

Our administrative expenses increased significantly from RMB8.4 million for the year ended December 31, 2007 to RMB13.9 million for the year ended December 31, 2008, primarily because our audit fee and other expenses incurred in connection with our preparation of the Listing increased during the year. Our administrative expenses decreased from RMB13.9 million for the year ended December 31, 2008 to RMB12.6 million for the year ended December 31, 2009. Our administrative expenses also increased significantly from RMB1.9 million for the five months ended May 31, 2009 to RMB6.4 million for the five months ended May 31, 2010, primarily because our audit fee and other expenses incurred in connection with our preparation of the Listing increased during the period.

As agreed with Mr. Zhang, no remuneration was paid to him during the Track Record Period as Mr. Zhang, being the founder and chairman of the Group and a Controlling Shareholder.

Other expenses

Other expenses primarily represented the amortization expense of the prepaid land lease payments recognised during the five months ended May 31, 2010, for the parcel of land in Zibo City, Shandong province held for future development of our Group.

Finance costs

Our finance costs primarily consisted of interest paid on bank loans, other payables to the Previous Potential Investor that are interest-bearing, and discounted bills. We had no bank loans for the years ended December 31, 2007 and 2008. Our finance costs increased significantly from RMB2.9 million for the year ended December 31, 2007 to RMB7.9 million for the year ended December 31, 2008 primarily due to the one-off interest paid in connection with the settlement of the other payables to the Previous Potential Investor in 2008. Our finance costs were RMB2.1 million for the year ended December 31, 2009 and RMB2.5 million for the five months ended May 31, 2010, which consisted primarily of interests on our new bank loan of RMB100 million obtained from Bank of Communications Co., Ltd., in August 2009. This bank borrowing was obtained for the purpose of financing our general working capital requirements. Pursuant to the request of Bank of Communications Co., Ltd. for a guarantee to be provided by an independent third party in respect of the RMB100 million loan, we approached and successfully procured Zhongkai Metal Products (Beijing) Co., Ltd.* (中凱金屬製品(北京)有限公司) to provide such guarantee in favour to us which then entered into a maximum guarantee contract with Bank of Communications Co., Ltd. To the best of our Directors' knowledge and after due enquiries, as at the Latest Practicable Date Zhongkai Metal Products (Beijing) Co., Ltd.* (中凱金屬製品(北京)有限公司) was owned as to 70% by an Independent Third Party and 30% by one of the Group's five largest customers during the Track Record Period (who is also an Independent Third Party). This guarantee was subsequently terminated and replaced by a guarantee provided by Full Win New Material on October 21, 2010.

Income Tax

Cayman Islands

Our Company was incorporated in the Cayman Islands. Under the current laws of the Cayman Islands, we are not subject to income or capital gains tax. In addition, dividend payments are not subject to withholding tax in the Cayman Islands.

British Virgin Islands

Under the current laws of the British Virgin Islands, we are not subject to any income tax.

Independent State of Samoa

Under the current laws of the Independent State of Samoa, we are not subject to any income tax.

Hong Kong

We did not have any assessable profits subject to the Hong Kong profits tax during the Track Record Period. We do not anticipate having any income subject to income tax in Hong Kong for the foreseeable future.

People's Republic of China

Dongying Shengli, our subsidiary operating in Mainland China, is located in Dongying City, an Open Coastal City in the PRC, and therefore enjoyed a preferential income tax rate of 24% before January 1, 2008. In accordance with the relevant income tax laws and regulations of the PRC for foreign-invested enterprise, Dongying Shengli is exempted from enterprise income tax ("**EIT**") for two years commencing on the first profitable year of its operations and is entitled to a 50% relief from EIT for the following three years. As 2004 was the first year Dongying Shengli recorded assessable profits, Dongying Shengli was entitled to an exemption from EIT for 2004 and 2005 and a 50% reduction in the applicable statutory rate, which is 12% for 2006 and 2007. The PRC EIT Law was approved and became effective on January 1, 2008, which introduces a wide range of changes including the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Pursuant to the Circular of the State Council on the Implementation of Transitional Preferential Policies for Enterprise Income Tax issued on December 28, 2007 (the "Tax Circular"), Dongying Shengli shall be levied at a rate of 12.5% in 2008 and 25% in 2009 and years thereafter.

Full Win New Material had not commenced production and had no taxable income during the Track Record Period. The applicable EIT rate for Full Win New Material is 25%.

The following table sets forth the applicable corporate income tax rates for our PRC subsidiaries for the periods indicated:

	Year ended December 31,			Five months ended May 31,	
	2007	**2008**	**2009**	**2009**	**2010**
Dongying Shengli	12%	12.5%	25%	25%	25%
Full Win New Material	N/A	25%	25%	25%	25%

Pursuant to the PRC EIT Law, a 10% withholding tax is levied on dividends declared to foreign investors by a foreign investment enterprise established in China. A lower withholding tax rate may be applied if there is a tax treaty between China and the jurisdiction of the foreign investors. We are liable to a 10% withholding tax on dividends distributed by our PRC subsidiaries to our offshore enterprise shareholders in respect of earnings generated from January 1, 2008.

During the Track Record Period, no deferred tax has been recognized for withholding tax which would be payable on the unremitted earnings as at December 31, 2007, 2008 and 2009 and the five months ended May 31, 2009 and 2010 that are subject to withholding tax of our PRC subsidiaries. In the opinion of the Directors, it is not probable that our PRC subsidiaries will distribute such earnings in the foreseeable future.

Our Group's effective tax rates were 12.2%, 13.4% and 25.4% for the three years ended December 31, 2007, 2008 and 2009. Our Group's effective tax rates were 25.2% and 25.5% for the five months ended May 31, 2009 and 2010, respectively. The fluctuation in effective tax rates during the Track Record Period was mainly due to the changes in the applicable tax rates of Dongying Shengli, based on the tax relief and the Tax Circular mentioned above which were 12%, 12.5%, 25% and 25% respectively for the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010, respectively for reasons disclosed above.

REVIEW OF HISTORICAL RESULTS OF OPERATIONS

Five months ended May 31, 2010 compared to five months ended May 31, 2009

Revenue. Our revenue increased by approximately 40.8% from RMB272.7 million for the five months ended May 31, 2009 to RMB383.9 million for the five months ended May 31, 2010, primarily due to increases in average selling prices and sales volume of BDO, GBL and THF as a result of the global economic recovery.

Cost of sales. Our cost of sales increased by approximately 41.2% from RMB176.4 million for the five months ended May 31, 2009 to RMB249.0 million for the five months ended May 31, 2010, primarily due to the increase in sales volume of our products and an increase in the average unit purchase price of maleic anhydride, the principal raw material used in our BDO production as a result of the global economic recovery, partially offset by a decrease in cost for other materials and utilities.

Gross profit and gross profit margin. Our gross profit increased by approximately 40.1% from RMB96.3 million for the five months ended May 31, 2009 to RMB134.9 million for the five months ended May 31, 2010 primarily due to the increase in our revenue. Our gross profit margins decreased slightly from 35.3% for the five months ended May 31, 2009 to 35.1% for the five months ended May 31, 2010 primarily due to the decrease of gross profit margin of THF from 40.9% for the five months ended May 31, 2009 to 34.0% for the five months ended May 31, 2010.

Other income and gains. Our other income and gains increased significantly by 53 times from RMB0.21 million for the five months ended May 31, 2009 to RMB11.1 million for the five months ended May 31, 2010, primarily because from December 2009, we started to sell steam derived from our production of maleic anhydride.

Selling and distribution costs. Our selling and distribution costs remained stable for the five months ended May 31, 2009 and 2010, which amounted to RMB6.3 million and RMB6.4 million, respectively, despite an increase in our revenue and sales volume of our products from May 31, 2009 to May 31, 2010. This was primarily because there were less customers located relatively far away from us and we incurred less transportation expenses accordingly.

Administrative expenses. Our administrative expenses increased significantly by approximately 238.3% from RMB1.9 million for the five months ended May 31, 2009 to RMB6.4 million for the five months ended May 31, 2010, primarily because our audit fee and other expenses incurred in connection with our preparation of the Listing increased during the period.

Other expenses. Our other expenses for the five months ended May 31, 2010 was RMB0.7 million, primarily representing the amortisation expense of the prepaid land lease payments recognised during the same period for the parcel of land in Zibo City held for future development.

Finance costs. Our finance costs for the five months ended May 31, 2009 and 2010 were nil and RMB2.5 million, respectively. Our finance costs for the five months ended May 31, 2010 primarily represented interest paid on the loan from Bank of Communications Co., Ltd.

Profit before tax. We generated profit before tax of RMB88.3 million for the five months ended May 31, 2009, which increased by approximately 47.4% to RMB130.1 million for the five months ended May 31, 2010, mainly due to the increase in our gross profit during the same period.

Income tax expenses. Our income tax expense was RMB22.2 million for the five months ended May 31, 2009 and RMB33.2 million for the five months ended May 31, 2010, representing an increase of 49.1%. This increase was primarily attributable to the increase in taxable income.

Total comprehensive income for the period and net profit margin. As a result of the foregoing, our total comprehensive income for the five months ended May 31, 2009 was RMB66.0 million, which increased by approximately 46.8% to RMB96.9 million for the five months ended May 31, 2010. We recorded a net profit margin of 24.2% for the five months ended May 31, 2009, which increased to 25.2% for the five months ended May 31, 2010, mainly due to the increased other income of our Group during 2010, as we started to sell steam from December 2009, which contributed approximately RMB9.3 million to our other income and gains for the five months ended May 31, 2010.

Year ended December 31, 2009 compared to year ended December 31, 2008

Revenue. Our revenue decreased by approximately 15.6% from RMB883.3 million for the year ended December 31, 2008 to RMB745.4 million for the year ended December 31, 2009, primarily due to the decrease in average selling prices of BDO, GBL and THF as a result of global financial crisis in late 2008 and throughout 2009, the impact of which was partially offset by the increase in our overall sales volume.

Cost of sales. Our cost of sales decreased by approximately 30.2% from RMB695.9 million for the year ended December 31, 2008 to RMB485.9 million for the year ended December 31, 2009, primarily due to a decrease in the average unit purchase price of maleic anhydride, the principal raw material used in our BDO production as a result of global financial crisis. The average unit purchase price of maleic anhydride decreased significantly from RMB8,292.2 per ton for the year ended December 31, 2008 to RMB4,811.5 per ton for the year ended December 31, 2009.

Gross profit and gross profit margin. Despite the decrease in our revenue, our gross profit increased by approximately 38.4% from RMB187.4 million for the year ended December 31, 2008 to RMB259.4 million for the year ended December 31, 2009. Our gross profit margins increased from 21.2% for the year ended December 31, 2008 to 34.8% for the year ended December 31, 2009. The increase in our gross profit and our gross profit margin were primarily because the average purchase price of maleic anhydride, the principal raw material used in our BDO and BDO derivative production, declined to a larger extent than the decrease of our average selling price of our products.

Other income and gains. Our other income and gains decreased by 59.0% from RMB4.2 million for the year ended December 31, 2008 to RMB1.7 million for the year ended December 31, 2009, primarily because we no longer had other payables denominated in Hong Kong dollars or other currencies other than RMB in 2009 as we settled these payables with the Previous Potential Investor during 2008 and thus no more foreign currency exchange gains was recorded in 2009. The investment made by the Previous Potential Investor in 2007 was denominated in Hong Kong dollars, but the functional currency of our Group was denominated in RMB. Due to the appreciation of RMB against the Hong Kong dollar during the Track Record Period, we recorded foreign exchange gains from our payables to the Previous Potential Investor in respect of its investment in 2008. This decrease was partially offset by an income of approximately RMB0.8 million from the sales of steam derived from our own production process of maleicanhydride commenced from December 2009 and a government grant of approximately RMB0.2 million as an encouragement for foreign enterprises in 2009.

Selling and distribution costs. Our selling and distribution costs increased by approximately 4.2% from RMB15.2 million for the year ended December 31, 2008 to RMB15.9 million for the year ended December 31, 2009, primarily due to the slight increase in freight charges as our sales volumes increased.

Administrative expenses. Our administrative expenses decreased by approximately 9.4% from RMB13.9 million for the year December 31, 2008 to RMB12.6 million for the year ended December 31, 2009.

Finance costs. Our finance costs for the years ended December 31, 2008 and 2009 were RMB7.9 million and RMB2.1 million, respectively. Our finance costs for the year ended December 31, 2008 primarily represents our interest on the other payables to the Previous Potential Investor, which we repaid in full in 2008. Our finance costs for the year ended December 31, 2009 primarily represented our interest on our bank loan of RMB100 million newly obtained from Bank of Communications Co., Ltd.

Profit before tax. We generated profit before tax of RMB154.6 million for the year ended December 31, 2008, which increased by approximately 49.2% to RMB230.6 million for the year ended December 31, 2009, mainly due to the increase in our gross profit during 2009.

Income tax expense. Our income tax expense was RMB20.7 million for the year ended December 31, 2008 and RMB58.5 million for the year ended December 31, 2009, representing an increase of 182.6%. This increase was primarily attributable to (i) the expiry of the tax holiday enjoyed by Dongying Shengli in 2009, resulting in the applicable tax rate of Dongying Shengli increasing from 12.5% in 2008 to 25% in 2009 and (ii) the increase in our taxable income in 2009.

Total comprehensive income for the year and net profit margin. As a result of the foregoing, our total comprehensive income for the year ended December 31, 2008 was RMB133.9 million, which increased by approximately 28.5% to RMB172.1 million for the year ended December 31, 2009. We recorded a net profit margin of 15.2% for the year ended December 31, 2008, which increased to 23.1% for the year ended December 31, 2009, mainly due to a higher increase in our gross profit margin in 2009 despite the increase in the applicable income tax rate of Dongying Shengli in 2009.

Year ended December 31, 2008 compared to year ended December 31, 2007

Revenue. Our revenue increased slightly by approximately 0.1% from RMB882.7 million for the year ended December 31, 2007 to RMB883.3 million for the year ended December 31, 2008 primarily due to the increases in our sales volume of our products to meet the increasing market demand in 2008, which was offset by the decrease in average selling price of our products in 2008.

Cost of sales. Our cost of sales increased slightly by approximately 0.1% from RMB694.8 million for the year ended December 31, 2007 to RMB695.9 million for the year ended December 31, 2008, primarily due to the increased volume of maleic anhydride used in our production and offset by the decrease of the average unit purchase price of maleic anhydride. The average unit purchase price of maleic anhydride decreased from RMB9,367.1 per ton for the year ended December 31, 2007 to RMB8,292.2 per ton for the year ended December 31, 2008.

Gross profit and gross profit margin. Our gross profit decreased slightly by approximately 0.2% from RMB187.8 million for the year ended December 31, 2007 to RMB187.4 million for the year ended December 31, 2008, primarily because our revenue and cost of sales remained at the same level in 2007 and 2008. Our overall gross profit margins for the two years ended December 31, 2007 and 2008 remained stable at approximately 21.3% and 21.2%, respectively, primarily because the average selling prices of our products decreased in line with the decrease of the average unit purchase prices of our raw materials.

Other income and gains. Our other income and gains increased by 23.5% from RMB3.4 million for the year ended December 31, 2007 to RMB4.2 million for the year ended December 31, 2008. This increase was primarily due to an increase in our foreign currency exchange gains mainly in relation to the amount of other payables to the Previous Potential Investor denominated in Hong Kong dollars as a result of the further appreciation of RMB against the Hong Kong dollar.

Selling and distribution costs. Our selling and distribution costs increased by approximately 13.4% from RMB13.4 million for the year ended December 31, 2007 to RMB15.2 million for the year ended December 31, 2008 primarily due to an increase in freight charges as our sales volumes increased.

Administrative expenses. Our administrative expenses increased significantly by approximately 65.4% from RMB8.4 million for the year ended December 31, 2007 to RMB13.9 million for the year ended December 31, 2008, primarily due to increases in our audit and other expenses incurred in connection with our preparation of the Listing.

Finance costs. Our finance costs for the years ended December 31, 2007 and 2008 were RMB2.9 million and RMB7.9 million, respectively. Our finance costs for the year ended December 31, 2008 were the interest on other payables to the Previous Potential Investor. Our finance costs for the year ended December 31, 2007 were interest on discounted bills.

Profit before tax. We generated profit before tax of RMB166.5 million for the year ended December 31, 2007, which decreased by approximately 7.1% to RMB154.6 million for the year ended December 31, 2008, primarily as a result of the increase in our administrative expenses and finance costs in 2008.

Income tax expense. Our income tax expense was RMB20.3 million for the year ended December 31, 2007 and RMB20.7 million for the year ended December 31, 2008, representing an increase of 2.0%. This increase was primarily attributable to an increase of our applicable corporate income tax rate of Dongying Shengli from 12% in 2007 to 12.5% in 2008.

Total comprehensive income for the year and net profit margin. As a result of the foregoing, our total comprehensive income for the year ended December 31, 2007 was RMB146.1 million, which decreased by approximately 8.4% to RMB133.9 million for the year ended December 31, 2008. We reported a net profit margin of 16.6% for the year ended December 31, 2007, which decreased to 15.2% for the year ended December 31, 2008, mainly due to the increased level of administrative expenses for the preparation of the Listing and finance costs payable to the Previous Potential Investor during 2008.

Non-controlling interests. Non-controlling interests for the year ended December 31, 2007 represented the 15% interests in Full Smart held by Smart Rise. Such interest in Full Smart was acquired by Mr. Zhang in September 2007, and Full Smart then became a wholly-owned subsidiary of our Group, resulting in the nil balance of non-controlling interests for the year ended December 31, 2008.

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of liquidity have historically been cash generated from our operations and advances from our Director, Controlling Shareholder and related companies. As at December 31, 2007, 2008 and 2009 and May 31, 2010, we had approximately RMB78.2 million, RMB107.3, RMB324.1 million and RMB666.5 million, respectively, in cash and cash deposits. Our cash and cash deposits generally consisted of cash and cash equivalents (such as short-term deposits) and pledged bank deposits. We require cash to fund our ongoing business needs, particularly to pay salary and benefits, purchase price of raw materials and equipment, selling and distribution costs and general and administrative expenses. We had no outstanding bank loans as at December 31, 2007 and 2008. We obtained a bank loan of RMB100 million which remained outstanding as at December 31, 2009 and May 31, 2010. We also had amount due to a director of RMB21.4 million, RMB89.9 million, RMB76.4 million and RMB80.8 million and amount due to the immediate holding company of nil, nil, RMB174.3 million and RMB283.2 million, as at December 31, 2007, 2008 and 2009 and May 31, 2010, respectively, primarily to support our capital expenditure required in the coming years for the new production base in Zibo City, Shandong Province.

We conduct all of our business through our operating subsidiaries established in China. We rely on dividends paid by our operating subsidiaries for the cash needs of the Company, including the funds necessary to pay any dividends and other cash distributions to our shareholders, to service any debt we may incur and to pay our operating expenses. The payment of dividends by entities established in China is subject to limitations. Any limitations on the ability of our PRC subsidiaries to transfer funds to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends and otherwise fund and conduct our business. See paragraph headed "Risk factors — Risks relating to our business–We rely on dividends paid out of the profits generated by our PRC subsidiaries for foreign currency needs of other non-PRC members of our Group after the Listing" in this prospectus.

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

	Year ended December 31,			Five months ended May 31,	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Net cash flows from operating activities	153,107	93,423	174,073	36,642	115,181
Net cash flows (used in)/from investing activities	(158,560)	(92,247)	(166,769)	46	64,574
Net cash flows from financing activities	35,879	27,919	209,574	204	162,614
Net increase in cash and cash equivalents	30,426	29,095	216,878	36,892	342,369
Cash and cash equivalents at beginning of year/period	47,740	78,166	107,261	107,261	324,139
Cash and cash equivalents at end of year/period	78,166	107,261	324,139	144,153	666,508

Operating Activities

Net cash generated from operating activities decreased from RMB153.1 million for the year ended December 31, 2007 to RMB93.4 million for the year ended December 31, 2008. This decrease of RMB59.7 million was primarily due to (i) the decrease in other payables and accruals primarily as a result of the settlement of our receipt in advance from a customer as the relevant order was fulfilled in 2008; and (ii) an increase in prepayments, deposits and other receivables because our prepayments for the purchase of raw materials increased in 2008. In order to secure a favorable price of maleic anhydride in 2008, we made the prepayments to our suppliers in respect of the purchase of maleic anhydride.

Net cash generated from operating activities increased from RMB93.4 million for the year ended December 31, 2008 to RMB174.1 million for the year ended December 31, 2009. This increase of RMB80.7 million was primarily due to our increased profit before tax during 2009 and an increase in other payables and accruals in 2009, which was primarily because our Hong Kong subsidiary obtained a Hong Kong dollar denominated advance for the expansion of our Hong Kong office. This advance was fully repaid in early 2010. The increase in net cash generated from operating activity was partially offset by (i) the decrease in prepayments, deposits and other receivables as we continued to make prepayments to secure favourable price of maleic anhydride in 2009; and (ii) an increase in income tax paid primarily due to the expiry of the preferential tax treatment applicable to Dongying Shengli in 2009 and the increase in our profit before tax from 2008 to 2009.

Net cash generated from operating activities increased from RMB36.6 million for the five months ended May 31, 2009 to RMB115.2 million for the five months ended May 31, 2010. This increase of RMB78.5 million was primarily due to (i) the increase in profit before tax as a result of the increase in average selling price of our products during 2010 and (ii) the decrease in prepayments, deposits and other receivables which was in turn primarily because we purchased less maleic anhydride from suppliers since we commenced producing maleic anhydride in December 2009 and made less prepayments to suppliers accordingly. The increase in net cash generated from operating activities was partially offset by an increase in income tax paid primarily due to the increase in profit before tax over the same period.

Investing Activities

Net cash used in investing activities amounted to RMB158.6 million, RMB92.2 million, RMB166.8 million for each of the three years ended December 31, 2007, 2008 and 2009. Net cash flow from investing activities amounted to RMB64.6 million for the five months ended May 31, 2010, respectively. Net cash used in investing activities reflected capital expenditures in connection with our purchases of property, plant and equipment. In 2007, our cash used in investing activities was primarily for the payment in part for purchase of property, plant and equipment for our maleic anhydride production facility. In 2008, our cash used in investing activities included RMB17.2 million for acquisition of property, plant and equipment for our hydrogen production facility and other facilities and RMB75.0 million for the payment as deposits for purchase of land use right for the piece of land where our new production facility in Zibo is located. In 2009, we used approximately RMB165.1 million to purchase construction materials for the expansion of our production facility in Zibo. We expect our net cash used in investing activities over the next several years to increase as we execute our expansion plan to construct new production facilities and further upgrade and improve our existing facilities.

Net cash generated from investing activities amounted to RMB46,000 and RMB64.6 million for each of the five months ended May 31, 2009 and 2010, and such increase was primarily due to a decrease in deposits paid for purchase of property, plant and equipment.

Financing Activities

Net cash generated from financing activities amounted to RMB35.9 million, RMB27.9 million, RMB209.6 million and RMB162.6 million for each of the three years ended December 31, 2007 and 2008 and 2009 and the five months ended May 31, 2010, respectively. The movement in net cash generated from financing activities primarily reflected the cash inflow from bank loans and loan from our Shareholders and the changes of the balances of our borrowings, amount due to and due from related parties and an acceptance note in the amount of RMB50 million we issued to a supplier for our purchase of construction materials for the expansion of our production facility in Zibo.

Net cash generated from financing activities decreased from RMB35.9 million in the year ended December 31, 2007 to RMB27.9 million in the year ended December 31, 2008 primarily due to a decrease in amounts due to our related companies and a decrease in other payables and accruals as a result of our repayment of other payables due to the Previous Potential Investor in 2008, partially offset by an increase in amount due to one of our Directors.

Net cash generated from financing activities increased from RMB27.9 million in the year ended December 31, 2008 to RMB209.6 million in the year ended December 31, 2009 primarily due to a bank loan we obtained to finance our general working capital requirement and an amount due to Apex Wide to finance our investing activities in connection with the expansion of our production facility in Zibo.

Net cash generated from financing activities increased from RMB0.2 million for the five months ended May 31, 2009 to RMB162.6 million for the five months ended May 31, 2010. The increase of RMB162.4 was primarily due to the shareholder's loan from Apex Wide, the increase in the loan from Mr. Zhang for the expansion of our production facility in Zibo and the decrease in our pledged deposit as a result of the settlement of the respective acceptance note issued to a supplier of construction materials.

Working Capital

Despite the slowdown in global economic conditions as a result of the financial crisis, we had sufficient working capital for the operation of our business during the Track Record period. Taking into account the financial resources available to us including our cash and cash equivalents in hand, internally generated funds, available banking facilities, and the net proceeds from the Global Offering, our Directors are of the opinion that we will have sufficient working capital to meet our present requirements and anticipated cash needs for at least twelve months after the date of this prospectus.

Indebtedness

The following table sets forth our indebtedness as at each of the balance sheet dates during the Track Record Period:

	Year ended December 31,			Five months ended May 31,
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing bank loan	–	–	100,000	100,000
Amount due to a director	21,377	89,470	76,412	80,804
Amount due to the immediate holding company	–	–	174,326	283,225
Amounts due to related companies	11,326	–	–	–
Other payables	5,981	–	7,043	–
	38,684	89,470	357,781	464,029

The RMB100 million interest-bearing bank loan represented a bank loan Dongying Shengli obtained from Bank of Communications Co., Ltd., in August 2009. This bank loan was obtained for the purpose of financing our general working capital requirements and was guaranteed by Zhongkai Metal Products (Beijing) Co., Ltd.* (中凱金屬製品(北京)有限公司) pursuant to a maximum guarantee contract entered into between it and Bank of Communications Co., Ltd. This guarantee contract was subsequently terminated and replaced by a maximum guarantee contract entered into between Full Win New Materials and Bank of Communications Co., Ltd. on October 21, 2010. To the best of our Directors' knowledge and after due enquiries, as at the Latest Practicable Date Zhongkai Metal Products (Beijing) Co., Ltd.* (中凱金屬製品(北京)有限公司) was owned as to 70% by an Independent Third Party and 30% by one of the Group's five largest customers during the Track Record Period (who is also an Independent Third Party).

Our indebtedness as at December 31, 2007 and 2008 primarily represented amounts we owed to Mr. Zhang, which were primarily used by us to finance our capital expenditures and repay the amount due to the Previous Potential Investor. The amounts due to related companies as of December 31, 2007 primarily represented borrowings from a related party, Shandong Jinpeng, in 2007, which was repaid by us in 2008. Our indebtedness as at December 31, 2009 and May 31, 2010 primarily represented (i) amounts we owed to Apex Wide, which was primarily used in connection with the expansion of our production facility in Zibo (ii) amounts due to Mr. Zhang, which was used by us primarily to finance our capital expenditures; and (iii) the RMB100 million loan from Bank of Communications Co., Ltd. Amounts due to Mr. Zhang and Apex Wide were fully repaid by the allotment and issue of 80 Shares by the Company on November 16, 2010 to Apex Wide, all credited as fully paid. Other than the RMB100 million interest-bearing bank loan guaranteed by a third party, our borrowings set forth in the table above are unsecured and interest free, and do not have a fixed repayment term.

As at September 30, 2010, being the latest practicable date for the purpose of this indebtedness statement in this prospectus, our total unaudited indebtedness amounted to approximately RMB476.1 million, consisting of interest-bearing bank loan of RMB100.0 million, amounts due to Mr. Zhang of approximately RMB80.2 million, and amounts due to Apex Wide of approximately RMB295.9 million. There has not been any material adverse change in our indebtedness since September 30, 2010.

Our Group's gearing ratio (total debts divided by total assets) was 13.7%, 14.1%, 34.9% and 35.2% as of December 31, 2007, 2008 and 2009 and as of May 31, 2010. The significant increase in the gearing ratio as at December 31, 2009 was primarily because we obtained an interest-bearing bank loan from Bank of Communications, Co., Ltd. of RMB100 million in August 2009. We did not have any unutilized banking facilities as at September 30, 2010.

Save as aforesaid and apart from intra-group liabilities, we did not have any mortgages, charges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees at the close of business on September 30, 2010.

Contingent Liabilities

On February 4, 2010, a writ of summons with an indorsement of claim was issued from the High Court of Hong Kong with plaintiff being the Previous Potential Investor, against Full Smart, Mr. Zhang and Dongying Shengli for an unspecified amount of damages and declaratory relief. Further details of the transaction between us and the Previous Potential Investor are set out in "Risk Factors – Mr. Zhang and certain members of our Group may be subject to potential legal proceeding which, if materializes, may result in a material and adverse impact on the assets and financial results attributable to our Company and our Shareholders." The writ has not been served on any of the alleged defendants, nor has the Previous Potential Investor served or put forward any statement of claim. The precise basis of the claim is unknown.

Based on the advice from Samoa legal adviser, the advice from the Counsel and the advice from the PRC legal adviser (in respect of their respective jurisdiction), the Directors are of the opinion that any claims against the Company or any subsidiaries of the Group are unfounded. Further, based on Notice of Equity Charge De-registration dated September 15, 2010 issued by Dongying AIC and the advice from our PRC legal adviser (in respect of PRC law only) advising that the charge on the equity interest of Dongying Shengli was released on September 15, 2010, and the advice from Samoa legal adviser (in respect of Samoa law only) advising that the security over the shares of Full Smart previously pledged to the Previous Potential Investor was released, the Directors are of the opinion that the possibility that the Group would lose control over Full Smart and/or Dongying Shengli is remote.

As at September 30, 2010, except as stated above, we had no material contingent liabilities. We are not involved in any current material legal or administrative proceedings, nor are we aware of any pending or potential material legal or administrative proceedings involving us.

Current Assets and Liabilities

Our current assets and liabilities as at the respective balance sheet dates indicated are as follows:

	As at December 31,			As at May 31,
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
CURRENT ASSETS				
Inventories	10,953	12,873	9,423	12,442
Trade receivables	7,618	17,534	24,437	18,396
Prepayments, deposits and other receivables	1,670	19,633	49,042	44,332
Amounts due from related companies	1,204	–	–	–
Pledged bank deposits	–	–	50,000	–
Cash and cash equivalents	78,166	107,261	324,139	666,508
Total current assets	99,611	157,301	457,041	741,678
CURRENT LIABILITIES				
Trade and bills payables	1,830	1,703	51,738	2,067
Other payables and accruals	57,485	8,317	16,471	14,455
Tax payable	5,106	4,567	17,419	12,700
Interest-bearing bank loan	–	–	100,000	100,000
Amount due to a director	21,407	89,860	76,412	80,804
Amount due to the immediate holding company	–	–	174,326	283,225
Amounts due to related companies	11,326	345	423	469
Total current liabilities	97,154	104,792	436,789	493,720
NET CURRENT ASSETS	2,457	52,509	20,252	247,958

Our net current assets increased by RMB227.7 million from RMB20.3 million as at December 31, 2009 to RMB248.0 million as at May 31, 2010, primarily due to (i) a significant increase in cash and cash equivalents of RMB342.4 million which was in turn primarily as a result of the investments of CIG and China Angel and the return from our suppliers of a part of our prepayment for purchase of construction materials due to certain changes in the construction plan for the new production facilities in Zibo; and (ii) a decrease in trade and bills payables of RMB49.7 million, which was in turn primarily because we purchased certain construction materials for the new production facilities in Zibo; and (iii) an increase in shareholder's loan from Apex Wide of RMB108.9 million.

Our net current assets decreased by RMB31.5 million from RMB52.5 million as at December 31, 2008 to RMB20.3 million as at December 31, 2009, primarily due to our increased short-term interest-bearing bank loan and amounts due to Apex Wide in 2009 while we used more cash in the construction of our production facility in Zibo, a portion of which has been capitalized as non-current assets, offset by an increase in current assets of approximately RMB299.7 million which was in turn primarily due to an increase in pledged deposits of RMB50.0 million and an increase in cash and cash equivalents of RMB292.4 million.

Our net current assets increased from RMB2.5 million as at December 31, 2007 to RMB52.5 million as at December 31, 2008. The increase of RMB50.0 million was primarily due to an increase in cash and cash equivalents, an increase in prepayments made to our maleic anhydride suppliers in an effort to secure favourable price of maleic anhydride, an increase in our trade receivables which was in turn mainly caused by deferred payment from some of our creditworthy customers with good credit history with us at the end of 2008 in response to the global financial crisis, a decrease in other payables and accruals as a result of our repayment to the Previous Potential Investor in March 2008 and a decrease in amounts due to a related party. The increase in net current assets from December 31, 2007 to December 2008 was partially offset by an increase in amounts due to Mr. Zhang of approximately RMB68.5 million.

As at September 30, 2010, we had net current assets of approximately RMB190.7 million. The key components of our current assets as at September 30, 2010 included inventories of RMB11.4 million, trade receivables of RMB19.7 million, prepayments, deposits and other receivables of RMB80.9 million and cash and cash equivalents of RMB606.7 million. The key components of our current liabilities as at September 30, 2010 included trade payables of RMB4.9 million, tax payable of RMB32.1 million, other payables and accruals of RMB14.4 million, amount due to a director of RMB80.2 million, amount due to Apex Wide of RMB295.9 million and the interest-bearing bank loan of RMB100.0 million.

The trade receivables as at December 31, 2007, 2008 and 2009 and May 31, 2010 are considered to be neither past due nor impaired. Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

There were no provisions for impairment of trade receivables as at December 31, 2007, 2008 and 2009 and May 31, 2010.

ANALYSIS OF SELECTED CONSOLIDATED STATEMENT OF FINANCIAL POSITION ITEMS

Property, Plant and Equipment

Property, plant and equipment consisted of buildings, furniture, fixtures and equipment, leasehold improvements, motor vehicles, plant and machinery and construction-in-progress. As at December 31, 2007, 2008 and 2009 and May 31, 2010, property, plant and equipment amounted to approximately RMB428.5 million, RMB439.8 million, RMB432.3 million and RMB420.5 million, respectively.

Deposits for Acquisitions of Property, Plant and Equipment

We recorded a deposit for the acquisitions of property, plant and equipment as at December 31, 2009 and May 31, 2010 in the amount of RMB215.5 million and RMB92.0 million, respectively. The deposit has been made to secure the purchase of certain construction materials from our suppliers in connection with the construction of our new BDO and PBS production facilities in Zibo, Shandong province. The decrease from December 31, 2009 to May 31, 2010 was primarily due to the return from our suppliers of a part of our prepayments for purchase of construction materials due to certain changes in the construction plan.

Inventories

Our inventories increased from RMB11.0 million as at December 31, 2007 to RMB12.9 million as at December 31, 2008, decreased to RMB9.4 million as at December 31, 2009. Our inventories increased slightly from December 31, 2007 to December 31, 2008 which was in line with the increase in our production volume from 2007 to 2008. Our inventories decreased to RMB9.4 million as at December 31, 2009, primarily because of the decrease in average unit purchase price of our raw materials (mainly maleic anhydride) during the global financial crisis. Our inventories rebounded to RMB12.4 million as at May 31, 2010, primarily due to the increase in average selling prices of our products for the five months ended May 31, 2010 as compared to those for 2009 as a result of global economic recovery. As of September 30, 2010, 100%, 100% and approximately 21% of raw materials, finished goods and parts and consumables respectively of inventories as at May 31, 2010 was sold or consumed.

The following table sets forth our inventory position as at the balance sheet dates indicated:

	As at December 31,			As at May 31,
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	2,267	4,700	3,339	4,722
Finished goods	3,032	3,933	2,026	3,878
Parts and consumables	5,654	4,240	4,058	3,842
Total	10,953	12,873	9,423	12,442

Average inventory turnover days is equal to the average of the beginning and ending inventory balances of the period divided by cost of sales of the period and multiplied by 365 days. Our average inventory turnover days were 12, 6, 8 and 7 days for each of the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010, respectively.

Trade receivables

Our trade receivables primarily related to our sales of BDO, GBL and THF to our customers. Our trade receivables amounted to RMB7.6 million, RMB17.5 million, RMB24.4 million and RMB18.4 million as at December 31, 2007, 2008 and 2009 and May 31, 2010, respectively. Our trade receivables as at December 31, 2008 were higher than that as at December 31, 2007, primarily due to the delay in settlement at the end of 2008 in response to the global financial crisis. The increase of our trade receivables from RMB17.5 million as at December 31, 2008 to RMB24.4 million as at December 31, 2009 was primarily due to the increase of orders placed by our major customers around the end of 2009. These customers subsequently paid up all our trade receivables. Our trade receivables as of May 31, 2010 decreased to RMB18.4 million from RMB24.4 million as of December 31, 2009 due to a decrease in the amount of orders placed by our major customers as compared to the end of 2009. As at September 30, 2010, 100% of trade receivables as at May 31, 2010 was settled.

The following table sets forth an aging analysis of our trade receivables as at the balance sheet dates indicated:

	As at December 31,			As at May 31,
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 month	6,625	17,534	24,437	18,396
1 to 3 months	993	–	–	–
Total	7,618	17,534	24,437	18,396

Average trade receivable turnover days is equal to the average of the starting and ending trade receivable balances of the period divided by revenue of the period and multiplied by 365 days. Our average trade receivable turnover days were 7, 5, 10 and 8 days for each of the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010, respectively.

We generally require our customers to make full payment upon delivery of products, except that for those long-term customers who place orders of substantial amounts and who have a good payment record, we normally accept deferred payment. We seek to maintain strict control over and closely monitor our outstanding receivables to minimize credit risk. Overdue balances are reviewed regularly by our senior management. Our credit risk maximum exposure in respect of trade receivables is equal to the carrying amount of the trade receivables.

Prepayments, deposits and other receivables

	As at December 31,			**As at May 31,**
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Prepayments	105	19,060	47,923	40,384
Deferred expenses	204	204	–	138
Deposits and other receivables	1,110	118	868	1,981
Current portion of land lease payments	251	251	251	1,829
	1,670	19,633	49,042	44,332

We recorded a significant increase in the balance of prepayments from approximately RMB19.6 million as at December 31, 2008 to approximately RMB47.9 million as at December 31, 2009. This increase was primarily due to the fact that we commenced making prepayments for the purchase of maleic anhydride, the principal raw material used in our production, as an effort to secure favorable pricing of the raw materials from the suppliers since 2008. Prepayments made as at May 31, 2010 decreased to RMB40.4 million from RMB47.9 million as at December 31, 2009, primarily because we purchased less maleic anhydride from suppliers since we commenced producing maleic anhydride in December 2009 and made less prepayments to suppliers accordingly.

Trade and bills payables

Our trade payables primarily arose from the purchases of raw materials, mainly maleic anhydride. We had trade payables of RMB1.8 million, RMB1.7 million, RMB51.7 million and RMB2.1 million as at December 31, 2007, 2008 and 2009 and May 31, 2010, respectively.

Bills payables as at December 31, 2009 amounted to RMB50.0 million, which were primarily related to the purchase of certain construction materials in connection with the new production facilities in Zibo, Shangdong province.

The following table sets forth an aging analysis of our trade and bills payables as at the balance sheet dates indicated:

	As at December 31,			As at May 31,
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables:				
Within 1 month	1,647	1,703	1,738	2,067
1 to 3 months	183	–	–	–
	1,830	1,703	1,738	2,067
Bills payables	–	–	50,000	–
	1,830	1,703	51,738	2,067

Average trade payable turnover days is equal to the average of the beginning and ending trade payable balances of the years divided by cost of sales and multiplied by 365 days. Our average payable turnover days were two, one, one and one day(s) for each of the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010, respectively.

Other payables and accruals

	As at December 31,			As at May 31,
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Receipt in advance from a customer	13,000	–	–	1,654
Other payables	38,468	3,534	9,683	3,088
Accruals	2,385	1,595	2,486	2,287
Payroll payable	357	403	392	488
Other tax payable	3,275	2,785	3,910	6,938
	57,485	8,317	16,471	14,455

Our other payables and accruals amounted to RMB57.5 million, RMB8.3 million, RMB16.5 million and RMB14.5 million as at December 31, 2007, 2008 and 2009 and May 31, 2010, respectively. The receipt in advance from a customer of RMB13.0 million as at December 31, 2007 was settled in 2008 as the relevant order was fulfilled in 2008. Other payables of RMB38.5 million as at December 31, 2007 primarily represented the outstanding amounts due to the Previous Potential Investor of approximately RMB27.9 million, which we had repaid together with the accrued interest in full in March 2008. Other payables increased from December 31, 2008 to December 31, 2009, primarily because IAM advanced approximately HK$8.0 million to us in 2009 to satisfy our short-term cash needs in Hong Kong dollars. This advance was fully repaid in early 2010. Our accruals primarily included social insurance payable, transportation expense payable, audit fees and other expenses incurred in connection with the Listing. Other tax payable increased to RMB6.9 million as at May 31, 2010 from RMB3.9 million as at December 31, 2009 primarily due to the increase in revenue as a result of global economic recovery.

CAPITAL EXPENDITURE

Our capital expenditures were incurred primarily in connection with purchases of property, plant and equipment and land use rights. Our capital expenditures, as represented by the cash used in and deposits paid for the purchase of property, plant and equipment and the deposits paid for purchase of land use rights, were RMB158.6 million, RMB92.2 million, RMB166.8 million for each of the three years ended December 31, 2007, 2008 and 2009, respectively. Our primary planned capital expenditures for 2010 are for construction of our new BDO and PBS production facilities in Zibo, Shandong province. We expect that our capital expenditures in 2010 and 2011 will amount to approximately RMB652.3 million and RMB167.1 million, respectively, in connection with both the construction of our production facilities and for maintenance and upkeeping of our existing facilities. We expect to fund these planned expenditures through cash generated from operations and from the proceeds to be received from the Global Offering.

OPERATING LEASE ARRANGEMENT

We lease certain office properties and office equipment under operating lease arrangement for terms ranging from 2 to 15 years. As at December 31, 2007, 2008 and 2009 and May 31, 2010, we had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at December 31,			As at May 31,
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	408	420	349	3,224
Second to fifth years, inclusive	1,005	748	616	4,841
After five years	188	38	1,495	1,294
	1,601	1,206	2,460	9,359

COMMITMENTS

In addition to the above operating lease commitments, we had the following capital commitments as at the dates indicated below:

	As at December 31,			As at May 31,
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contracted, but not provided for:				
Plant and machinery	17,998	137,356	160,007	180,751
Technology transfer fee	–	–	12,000	12,000
	17,998	137,356	172,007	192,751
Authorized, but not contracted for:				
Plant and machinery	–	375,613	127,688	336,945
	17,998	512,969	299,695	529,696

Our capital commitments as at May 31, 2010 primarily related to purchase of plant and machinery in connection with the construction of our new production facilities at Zibo and technology transfer fee in connection with our technology cooperation with Sichuan University. We intend to fund our capital commitments as at May 31, 2010 by our internally generated funds and if necessary, by obtaining bank and other borrowings.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

We did not have any material outstanding off-balance sheet guarantees or interest rate swap transactions as at the Latest Practicable Date. We did not and currently do not plan to engage in trading activities involving non-exchange traded contracts in the immediate future. In our ongoing business, we currently do not plan to enter into transactions involving, or otherwise form relationships with, unconsolidated entities or financial partnerships that are established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Foreign Exchange Risk

All of our sales were and we expect will continue to be denominated in the Renminbi in the immediate future. Our costs and capital expenditures were and we expect will continue to be largely denominated in the Renminbi. Our businesses are located in China and most of the transactions were and will continue to be conducted in Renminbi. Most of our assets and liabilities were and will continue to be denominated in Renminbi. We currently do not expect that fluctuations of the exchange rates of Renminbi against foreign currencies will have significant effects on our results of operations in the immediate future. We have not hedged foreign exchange rate risk.

A change of 5% in the exchange rate between the Hong Kong dollar and Renminbi would have no material impact on our profit or loss during the Track Record Period and there would be no impact on our equity.

The Renminbi is both our functional currency and our reporting currency. Transactions denominated in other currencies are translated into Renminbi and any resulting foreign currency exchange gains and losses are recognized in our consolidated statements of comprehensive income on the dates of the transactions. We incurred net foreign currency exchange gains of approximately RMB2.7 million, RMB3.5 million, nil and RMB1.0 million for each of the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010, respectively, which are reported in our consolidated statements of comprehensive income.

Subsequent to the Global Offering, a depreciation of Renminbi would adversely affect the value of any dividends we pay to our offshore shareholders. We currently do not plan to enter into any hedging arrangements, such as forward exchange contracts and foreign currency option contracts, to reduce the effect of our foreign currency exchange risk exposure. In the event that we decide to enter into any such hedging activities in the future, we cannot assure you that we would be able to effectively manage our foreign currency exchange risk exposure.

Interest Rate Risk

We did not have significant exposure to interest rate changes as we did not have variable-rate borrowings during the Track Record Period.

Credit Risk

It is our policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

The credit risk of our other financial assets which comprise cash and cash equivalents, prepayments, deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

We generally required no collateral from our customers to secure their payment obligations. We did not have any significant concentration of credit risk during the Track Record Period.

Liquidity Risk

Liquidity risk is the risk that we will not be able to meet our financial obligations as they become due. We monitor our liquidity risk using a recurring liquidity planning tool by considering the maturity of our financial assets and cash flows from operations. We do not believe that we had any significant exposure to liquidity risk as we were in a net current asset position as at December 31, 2007, 2008 and 2009 and May 31, 2010.

Inflation

Inflation in China has not materially and adversely impacted our results of operations in recent years, although there has been a recent trend towards inflation which could affect our costs and our advantages as a China-based manufacturer. According to the China Statistics Bureau, consumer price inflation in China was 4.8%, 5.9% and -0.7% in 2007, 2008 and 2009, respectively.

RELATED PARTY TRANSACTIONS

With respect to the related party transactions described in note 29 to our financial statements as set forth in Appendix I to this prospectus, we confirm that those transactions were conducted on normal commercial terms and that such terms were no less favorable to us than terms available to Independent Third Parties and were fair and reasonable and in the interests of our Shareholders as a whole.

For further information on our related party transactions, see note 29 to our financial statements included in Appendix I to this prospectus.

DIVIDEND POLICY

After completion of the Global Offering, our Shareholders will be entitled to receive dividends we declare. Any amount of dividends we pay will be at our discretion and will depend upon our future operations and earnings, capital requirements and surplus, general financial conditions, contractual restrictions and other factors which we consider relevant.

PRC laws require that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ from generally accepted accounting principles in other jurisdictions, including IFRS. PRC laws also require foreign-invested enterprises, such as our subsidiaries in the PRC, to set aside part of their net profit as statutory reserves. These statutory reserves are not available for distribution as cash dividends. Under the applicable PRC law, each of our subsidiaries in the PRC may only distribute its after-tax profits after it has made allocations or allowances for (i) recovery of accumulated losses; (ii) allocations to the statutory reserves; and (iii) allocation to a discretionary common reserve fund as may be approved by its board of directors.

Subject to the factors above, we plan to distribute dividends regularly after the Listing. We intend to distribute approximately 35% of the distributable profits attributable to Shareholders of our Company as dividends for each full financial year subsequent to the Global Offering. Such intention does not amount to any guarantee or representation or indication that we must or will declare and pay dividend in such manner or declare and pay any dividend at all.

The Company and its subsidiaries did not pay nor declare any dividends during the Track Record Period. You should note that historical dividend distributions are not indicative of our future dividend policy.

DISTRIBUTABLE RESERVES

Our Company was incorporated in the Cayman Islands on August 27, 2009. As at May 31, 2010, there were no reserves available for distribution to our owners.

PROPERTY INTEREST AND PROPERTY VALUATION

Jones Lang LaSalle Sallmanns Limited, an independent property valuer, has valued our property interest (including our prepaid land lease payments and buildings only) as at August 31, 2010 and is of the opinion that the value of our property interests is an aggregate amount of RMB208,948,000. The full text of the letter, summary of valuation and valuation certificates with regard to the property interests are set out in Appendix IV to this prospectus.

Disclosure of the reconciliation of the property interests and the valuation of the property interests as required under Rule 5.07 of the Listing Rules is set out below:

	RMB'000
Net book value of property interests (including our prepaid land lease payments and buildings only) as at May 31, 2010	95,453
Add: Addition for the three months ended August 31, 2010	92,812
Less: Depreciation and amortization for the three months ended August 31, 2010	(875)
Net book value as at August 31, 2010	187,390
Add: Valuation surplus as at August 31, 2010	21,558
Valuation as at August 31, 2010 as per Appendix IV to this prospectus	208,948

The addition of property interest of approximately RMB92.8 million during the three months ended August 31, 2010 represented the acquisition of the land use rights of a parcel of land in Zibo.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the Latest Practicable Date, there has been no material adverse change in the financial or trading position or prospects of us since May 31, 2010 and there is no event since May 31, 2010 which would materially affect the information shown in the accountants' report set out in Appendix I to this prospectus.

PROFIT FORECAST FOR THE YEAR ENDING DECEMBER 31, 2010

Our Directors forecast that, on the bases and assumptions set out in Appendix III to this prospectus and in the absence of unforeseeable circumstances, the forecast consolidated profit attributable to the equity holders of our Company for the year ending December 31, 2010 will not be less than RMB201 million.

Forecasted consolidated profit attributable to equity holders of the Company(1)	not less than RMB201 million
Unaudited pro forma forecasted earnings per Share(2)	RMB0.17 (HK$0.20)

Notes:

(1) The bases on which the above profit forecast has been prepared are set out in Appendix III to this prospectus.

(2) The calculation of the unaudited pro forma forecast earnings per Share is based on the forecast consolidated profit attributable to equity holders of the Company for the year ending December 31, 2010, on the basis that 1,170,000,000 Shares were in issue, assuming that the Shares to be issued pursuant to the Capitalization Issue and the Global Offering had been in issue on January 1, 2010. It does not take into account of any Shares which may be issued upon exercise of the Over-allotment Option or upon exercise of any options which may be granted under the Share Option Scheme.

The following table sets forth a sensitivity analysis of the forecasted consolidated profit attributable to equity holders of the Company for the year ending December 31, 2010 with respect to the variation in the maleic anhydride cost (including purchase cost and self-production cost) for the three months ending December 31, 2010, on the assumption that all other forecasted variables remain constant:

Variation in the maleic anhydride cost for the three months ending December 31, 2010(1) *(%)*	**Corresponding variation in the forecasted consolidated profit attributable to equity holders of the Company for the year ending December 31, 2010** *RMB in million*	**Forecasted consolidated profit attributable to equity holders of the Company for the year ending December 31, 2010 (after taking into account variation in maleic anhydride cost for the three months ending December 31, 2010** *RMB in million*
(15)	15.9	216.9
(10)	10.6	211.6
(5)	5.3	206.3
–	–	201.0
5	(5.3)	195.7
10	(10.6)	190.4
15	(15.9)	185.1

Note:

(1) No variation in the maleic anhydride cost for the nine months ended September 30, 2010 was considered in the sensitivity analysis because we have actually incurred such cost.

The above sensitivity analysis is based on the bases set out in Appendix III to this prospectus.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following is an unaudited pro forma statement of our adjusted consolidated net tangible assets which is based on our consolidated net tangible assets attributable to the owners of our Company as at May 31, 2010 as shown in the Accountants' Report, the text of which is set out in Appendix I to this prospectus, adjusted as described below. The unaudited pro forma adjusted consolidated net tangible assets has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of our financial position.

	Consolidated net tangible assets of our Group as at May 31, 2010	Adjusted 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*	*HK$*
	(Note 1)	*(Note 2)*		*(Note 3)*	*(Note 4)*
Based on a minimum indicative Offer Price of HK$2.33 per Share	842,926	460,904	1,303,830	1.11	1.30
Based on a maximum indicative Offer Price of HK$3.33 per Share	842,926	710,839	1,553,765	1.33	1.55

Notes:

1. The consolidated net tangible assets attributable to the owners of our Company as at May 31, 2010 is approximately RMB842,926,000, which represents our net assets derived from the audited consolidated financial statements of the Group as set out in the Accountants' Report set out in Appendix I to this prospectus.

2. The adjusted estimated net proceeds from the Global Offering is based on the indicative Offer Price range of HK$2.33 and HK$3.33 per Share, after deduction of the estimated underwriting fees and related expenses we incurred and does not take into account of any Shares which may be issued upon exercise of the Over-allotment Option or upon exercise of any options which may be granted upon the Share Option Scheme.

3. The unaudited pro forma adjusted consolidated net tangible assets per Share has been arrived at after making the adjustments as described in note 2 above and on the basis of a total of 1,170,000,000 Shares in issue immediately following completion of the Global Offering and Capitalization Issue. It does not take into account of any Shares which may be issued upon exercise of the Over-allotment Option or upon exercise of any options which may be granted under the Share Option Scheme.

4. The unaudited pro forma adjusted net tangible assets per share amount in RMB are converted to HK$ with exchange rate at HK$1.1703 to RMB1.00. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

5. Our property interests (including our prepaid land lease payments and buildings only) as at August 31, 2010 have been valued by Jones Lang LaSalle Sallmanns Limited, an independent property valuer. By comparing the valuation of our property interests (including our prepaid land lease payments and buildings only) of approximately RMB208,948,000 as set out in Appendix IV of this prospectus and the unaudited carrying amounts of these properties (including prepaid land lease payments and buildings only) of approximately RMB187,390,000 as at August 31, 2010, the valuation surplus is approximately RMB21,558,000, which has not been included in our net tangible assets set forth above. The revaluation surplus will not be incorporated in our consolidated financial statements. If the revaluation surplus was recorded in our consolidated financial statements, our annual depreciation and amortization would be increased by approximately RMB447,000.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

The Directors have confirmed that there are no circumstances which, had we been required to comply with Rules 13.13 to 13.19 in Chapter 13 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.