三江化工
SANJIANG CHEMICAL

中國三江精細化工有限公司
CHINA SANJIANG FINE CHEMICALS COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)
Stock Code : 2198

Annual Report
2010

CONTENTS

GUAN Jianzhong
Chairman

On behalf of the board of directors (the "Board") of China Sanjiang Fine Chemicals Company Limited (the "Company"), I am pleased to announce the annual results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2010.

2010 was definitely a milestone for our Group. The success of the listing (the "Listing") of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 16 September 2010 (the "Listing Date") has provided our Group with the financial platform to accelerate our Group's expansion in production capacities and sales network. Furthermore, the Listing also enhances our brand name, our corporate image and the transparency of corporate governance and allows our Group to share our success with our shareholders. The Board has recommended a final dividend of HK$9.5 cents (RMB8.0 cents) per share, representing a total payout of approximately RMB81.9 million and a dividend payout ratio of approximately 30.8% for the year ended 31 December 2010.

During the year under review, revenue of the Group reached approximately RMB1,582.5 million, representing an increase of approximately 23.1% as compared to revenue of approximately RMB1,285.5 million for 2009. Net profit attributable to equity holders of the parent increased by approximately 9.9% to approximately RMB266.1 million for the year ended 31 December 2010 as compared with last year.

MARKET REVIEW

The robust economy and urbanisation growth in the People's Republic of China ("PRC") have brought numerous business opportunities to us. The demand for both ethylene oxide and AEO surfactants, our major products, basically remained strong in 2010. The GDP of PRC grew at a rate of 10.3% in 2010 and it is expected the GDP growth momentum will be maintained at a similar level in the next 5 years. The urbanisation rate of PRC for 2010 is expected to be 48.0% as compared with 46.6% and 45.7% in 2009 and 2008 respectively. We believe the growth trend of urbanisation will continue as it is generally expected that PRC's urbanization rate may reach 65.0% by 2030. The rapid growth of the PRC economy and urbanisation have led to improving living standard which, in turn, created growing and sustainable demand for hygiene and cleansing products and cosmetic products and the demand of our ethylene oxide and AEO surfactants, being the core feedstocks for manufacturing these products, are directly benefited.

The application of our ethylene oxide has been extended to construction and cement industries in 2010. Apart from the demand from downstream manufacturers of detergent and cleansing products, the demands for our ethylene oxide from construction and cement industries are soaring and we expect it will be a significant source of our revenue in the next 5 years in view of increasing usage of superplasticizers (high range water reducer) in the construction and cement

industries. The main purpose of using superplasticizers in the construction and cement industries is to produce high-strength concrete and flowing concrete to be used in heavily reinforced structures and our ethylene oxide is the core feedstock of superplasticizers.

BUSINESS REVIEW

Our Group will continue to strengthen our leading market position in PRC through various well-formulated strategies such as expanding production capacity, expanding product coverage and functionality and improving product quality.

Our Group has various ongoing expansion plans and believes that our expansion plans will enable us to meet the growth in demand we anticipate for our products and will help us to capture a larger share of the markets in which we operate. We are now finalising the third phase construction of ethylene oxide production facilities at our production plant in Jiaxing City, Zhejiang Province, the PRC and expect the production line will be in a position for commercial operation by late March 2011 and subject to the approval of relevant authority, its commercial operation will commence. Upon completion of the third phase construction, our designed annual production capacity of ethylene oxide will be increased by 50% from the existing designed production capacity of 120,000 MT in 2010 to an aggregate designed production capacity of 180,000 MT. In connection with the expected commercial operation of the third phase ethylene oxide production line, by the end of January 2011, we have received letters of intent from various potential and existing customers expressing their intention to purchase for ethylene oxide with volume which exceeds the expected production volume of the third phase ethylene oxide production line in 2011.

In the meantime, we have commenced the construction of the first phase ethylene oxide production line of Sanjiang Honam, the sino-foreign joint venture company we established in 2010 with Honam Petrochemical Corp, an independent third party. The first phase ethylene oxide production facilities of Sanjiang Honam will have a designed annual production capacity of approximately 100,000 MT and we are entitled to purchase 50% of all ethylene oxide produced by Sanjiang Honam, at cost. We expect commercial operation of the production line will take place in late March 2012.

We will strengthen our research and development team and plan to spend an amount of not less than 3% of our annual revenue each year to expand our product coverage by developing new types of surfactants and to improve the quality of our existing products and production technologies including but not limited to increasing the reaction efficiency of catalyst.

FINANCIAL REVIEW

Through the Listing on the Stock Exchange on 16 September 2010, our Group raised net proceeds of approximately HK$831.6 million, which solidified our equity base and improved our interest-bearing debt to equity ratio significantly from approximately 2.9x as at 30 June 2010, the latest publicly available consolidated financial statements of the Group, to approximately 0.6x as at 31 December 2010.

During the year under review, our Group's overall gross profit margin decreased by 4.9% from 27.7% for the year ended 31 December 2009 to 22.8% for the year ended 31 December 2010 while our Group's overall gross profit margin for the second half of 2010 improved by 6.4% from 19.3% for the first half of 2010 to 25.7% for the second half of 2010. There are three major factors led to the decrease in overall gross profit margin on a YOY basis in 2010: 1) the inclusion of our revenue from ethylene oxide processing service in 2009; 2) the inclusion of 2% customs levy imposed on the imported ethylene by the General Administration of Customs of the PRC starting from 1 January 2010 which is an additional cost to our sales; and 3) downward price pressure during the first half of 2010 as a result of the significant increase in the market supply of ethylene oxide. In early 2009, in view of the uncertainty arising from the financial crisis, our Group aimed to lower the stock level and at the same time, maintain the normal production level of ethylene oxide. As such, our Group used part of our ethylene oxide production capacity to provide ethylene oxide processing services to a major customer, but we did not engage in such processing services in 2010. Our pricing of ethylene oxide processing services was on a cost-plus basis and with reference to the gross profit made from normal ethylene oxide sales. During the first half of 2010, the significant increase in market supply of ethylene oxide was primarily resulted from the launch of new production facilities of ethylene oxide by a number of manufacturers. The downward price pressure of ethylene oxide started to relax since July 2010 after the market has substantially absorbed the newly increased supply of ethylene oxide and the demand of ethylene oxide has returned to be strong since August 2010 which led to the increase in unit selling price of ethylene oxide and in turn, the improvement of overall gross profit margin in the second half of 2010.

We have put enormous efforts and implemented stringent measures on cost control this year. In the first half of 2010, ethylene, our principal feedstock, experienced significant price volatility as driven by multiple factors including but not limited to supply volatility of ethylene from Middle East, fluctuations in international crude oil prices and low global inventory level of ethylene. It is our Group's general strategy to minimise the effect of raw material price volatility through product price adjustment. However, the downward price pressure as mentioned above during the first half of 2010 limited the extent of product price adjustment and our gross profit margin in the first half of 2010 was adversely affected. In order to minimise the adverse impact of short term price volatility on ethylene, we commenced the construction of an additional ethylene storage tank with a total storage capacity of approximately 22,000 cubic metres at a parcel of land owned by us at Port of Zhapu, Jiaxing City, Zhejiang Province, the PRC during the second quarter of 2010 and expect the completion of the storage tank will take place in late July/early August 2011. With the new storage tank, we can build up an inventory buffer in total for a period of approximately 2 months before the commercial operation of the third phase ethylene oxide production facilities and approximately 1.5 months after the commercial operation of the third phase ethylene oxide production facilities, which will smooth the volatility of our ethylene costs as well as improve our gross profit margin in a large extent.

Apart from the aforesaid, we also implemented other cost control measures. We managed to lower our finance costs by approximately 41.9% or RMB13.8 million from approximately RMB32.9 million in 2009 to approximately RMB19.1 million in 2010 through refinancing bank borrowings with relatively high rates at the time when the market offered relatively favorable rates and entering into bank borrowings denominated in USD in view of the continuing appreciation of RMB against USD. The new fund our Group raised in the Listing also provided us with more flexibility during our negotiations with banks as to the terms of bank borrowings.

We are also dedicated to optimise our management structure and operational procedures and processes in order to raise our overall efficiency and save costs. We have set out a series of plans including but not limited to freezing headcount of certain departments and reallocating excess employees between departments aiming to reduce the headcount gradually up to 10% through among other things increasing automation in our monitoring process on ethylene oxide production and combining posts with similar responsibilities and functions. In 2011, we expect no additional employee is required for the operation of the third phase ethylene oxide production facilities.

PROSPECT

Looking forward, our Group will continue to be benefited from the macro environment such as the rapid growth of economy and urbanisation of PRC as well as the expansion of application of our major products and our well-formulated strategies such as expanding production capacity, expanding product coverage and functionality and improving product quality which will solidify our leading market position in PRC and enable us to outperform our competitors in terms of growth and profitability.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to take this opportunity to express my thanks to our shareholders, banks, customers and vendors for their support and trust as well as our management and all staffs for their hard workings and commitments during the year.

GUAN Jianzhong
Chairman

People's Republic of China, 21 March 2011

BUSINESS AND FINANCIAL REVIEW

Revenue

Revenue for the year under review was approximately RMB1,582.5 million, an increase of approximately 23.1%, compared to revenue of approximately RMB1,285.5 million for last year. The increase in revenue was primarily due to the increase in sale of ethylene oxide during the year.

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

	Full year 2010	% of revenue	Full year 2009	% of revenue
REVENUE (RMB'000)				
Ethylene oxide	1,318,168	83%	925,110	72%
Surfactants	156,211	10%	216,585	17%
Ethylene oxide processing services	–	–	53,580	4%
Surfactants processing services	17,127	1%	12,815	1%
Others	91,020	6%	77,443	6%
	1,582,526	100%	1,285,533	100%
SALES VOLUME (MT)				
Ethylene oxide	127,658		108,801	
Surfactants	14,008		24,276	
Ethylene oxide processing services	–		15,672	
Surfactants processing services	38,338		29,399	
AVERAGE SELLING PRICE (RMB)				
Ethylene oxide	10,326		8,503	
Surfactants	11,152		8,922	
Ethylene oxide processing services	–		3,419	
Surfactants processing services	447		436	

BUSINESS AND FINANCIAL REVIEW *(Continued)*

Revenue *(Continued)*

Ethylene oxide sales

The annual designed ethylene oxide production capacity as at both 31 December 2009 and 31 December 2010 was 120,000 MT/year. The sales volume of ethylene oxide (including ethylene oxide processing services) maintained at a similar level in 2010 as compared with 2009 (2010: 127,658MT; 2009: 124,473MT). In early 2009, in view of the uncertainty arising from the financial crisis, the Group aimed to lower the stock level and at the same time, maintain the normal production level of ethylene oxide and as such, used part of our ethylene oxide production capacity to provide ethylene oxide processing services to a major customer. The Group did not engage in such processing services in 2010.

During the year under review, the aggregate revenue from ethylene oxide sales and ethylene oxide processing services amounted to RMB1,318.2 million, which represents an increase of approximately 34.7% or RMB339.5 million when comparing to 2009. The increase in revenue was primarily due to: 1) the inclusion of our revenue from ethylene oxide processing service in 2009; and 2) increase in average selling price of ethylene oxide by approximately 21.4% to RMB10,326/MT in 2010 from RMB8,503/MT in 2009. Our pricing of ethylene oxide processing services was on a cost-plus basis and with reference to the gross profit made from normal ethylene oxide sales. The increase in average selling price of ethylene oxide by 21.4% in 2010 was mainly due to the strong demand from downstream manufacturers of hygiene and cleansing products and cosmetic products.

In 2010, the utilisation rate (measured as actual output divided by designed capacity) of our ethylene oxide production facilities reached 110% (2009: 117%), representing the fact that the Group's ethylene oxide production facilities were operated in a full capacity in 2010 and 2009. In order to capture the strong demand from downstream manufacturers of hygiene and cleansing products and cosmetic products and in turn, create revenue growth, the Group has developed various ongoing expansion plans and believes that our expansion plans will enable us to meet the growth in demand we anticipate for our products and will help us to capture a larger share of the markets in which we operate. Please refer to the section headed "Business Review" under Chairman's Statement for more details of the Group's expansion plan in 2011.

BUSINESS AND FINANCIAL REVIEW *(Continued)*

Revenue *(Continued)*

Surfactants sales

The annual designed surfactants production capacities as at 31 December 2010 and 31 December 2009 were 218,000 MT/year and 118,000 MT/year respectively. The increase in annual designed surfactants production capacity by 100,000 MT/year in 2010 was due to the completion of the second phase construction of the production facilities of surfactants in August 2010.

As a downstream product of ethylene oxide, the price of surfactant is affected by the price of ethylene oxide. Therefore, the average selling price of our surfactants increased by 25.0% to RMB11,152/MT in 2010 when comparing to 2009.

During the year under review, the sales volume of surfactants for the year ended 31 December 2010 was 14,008MT which represents a decrease by 42.3% from 24,276MT in 2009. The decrease in surfactants sales was mainly due to the fact that less ethylene oxide produced in-house was being allocated to the production of surfactants while at the same time we increased our surfactants processing services volume. As a result of the limited supply of ethylene oxide internally as mentioned above and the strong demand from the market, more ethylene oxide was allocated for direct sales instead of internal consumption. In order to secure a steady stream of revenue for our newly expanded surfactant production capacities, we entered into surfactants processing service contract with a major surfactant customer on a yearly basis. As such, more self-manufactured ethylene oxide was allocated to provide surfactants processing services.

Income from provision of surfactant processing service

Sales of our surfactant processing services increased by approximately 33.6% from approximately RMB12.8 million in 2009 to approximately RMB17.1 million in 2010. The increase was primarily due to the fact that we entered into a surfactants processing service contract with a major surfactant customer on a yearly basis.

Others

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

Gross profit and gross margin

Overall gross profit increased to approximately RMB360.2 million for the year ended 31 December 2010 (2009: RMB356.3 million) while the overall gross profit margin decreased from 27.7% for 2009 to 22.8% for 2010. The primary factor that caused the decrease in gross margin was the decrease in gross profit margin of ethylene oxide.

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

	2010		**2009**		**Change**	
Gross profit margin (%)	Ethylene oxide	Surfactants	Ethylene oxide	Surfactants	Ethylene oxide	Surfactants
1st half year	19.5%	16.2%	36.6%	19.0%	-17.1%	-2.8%
2nd half year	25.3%	22.4%	25.1%	17.0%	0.2%	5.4%
Full year	22.2%	19.2%	29.9%	18.1%	-7.7%	1.1%

BUSINESS AND FINANCIAL REVIEW *(Continued)*

Gross profit and gross margin *(Continued)*

The gross profit margin of ethylene oxide decreased by 7.7% from 29.9% for the year ended 31 December 2009 to 22.2% for the year ended 31 December 2010 while the gross profit margin for the second half of 2010 improved by 5.8% from 19.5% for the first half of 2010 to 25.3% of the second half of 2010. There are three major factors led to the decrease in the gross profit margin of ethylene oxide on a YOY basis in 2010: 1) the inclusion of our revenue from ethylene oxide processing service in 2009; 2) the inclusion of 2% customs levy imposed on the imported ethylene by the General Administration of Customs of the PRC starting from 1 January 2010 which is an additional cost to our sales; and 3) downward price pressure during the first half of 2010 as a result of the significant increase in the market supply of ethylene oxide. Please refer to the section headed "Financial Review" under Chairman's Statement for elaboration on the abovementioned three major factors as well as the rationale for the improvement on gross profit margin of ethylene oxide in the second half of 2010 when comparing to the first half of 2010.

The gross profit margin of surfactants moved basically in line with the movement of the gross profit margin of ethylene oxide as surfactants is the downstream product of ethylene oxide and both ethylene oxide and surfactants are subject to the similar sources of demand and supply.

Other income and gains

Other income and gains increased by approximately RMB29.0 million from approximately RMB21.2 million for the year ended 31 December 2009 to RMB50.2 million for the year ended 31 December 2010 which was mainly due to increase in foreign exchange gains (2010: approximately RMB16.1 million; 2009: approximately RMB0.9 million) and increase in bank interest income (2010: approximately RMB14.6 million; 2009: approximately RMB7.6 million) as a result of appreciation of RMB against USD in 2010 while majority of our purchases are denominated in USD and increase in the average balance of pledged deposits and cash and cash equivalents over the year.

Administrative and other expenses

Administrative and other expenses consist mainly of staff related costs, various local taxes and educational surcharge, depreciation, amortisation of land use rights, operating lease rental expenses, audit fee and miscellaneous expenses. The increase in administrative and other expenses for the year ended 31 December 2010 was mainly due to the increase in professional fees in relation to the listing of the Group on 16 September 2010 (2010: RMB18.8 million; 2009: 2.6 million) and increase in salaries, allowance and benefits in kind (2010: RMB19.1 million; 2009: RMB9.7 million).

Finance costs

The Group borrows loans from banking institutions in the PRC for financing its working capital and its overseas procurement. The decrease in finance costs for the year ended 31 December 2010 was mainly due to the lower effective interest rate of 2.52% in 2010 when comparing to 2009 of 4.37% as the Group managed to refinance bank borrowings with relatively high rates at the time when the market offered relatively favorable rates.

Income tax

The Group had an overall income tax expense of approximately RMB52.3 million for the year ended 31 December 2010, or 16.4% of pre-tax income compared to the income tax expense of approximately RMB43.7 million for 2009, or 14.4% of pre-tax income as Yongming Petrochemical commenced to pay its corporate income tax from 2010 onwards.

Profit for the year

The Group generated profit attributable to equity holders of the parent of approximately RMB266.1 million in 2010, compared to profit attributable to equity holders of the parent of approximately RMB242.1 million in 2009.

LIQUIDITY AND FINANCIAL RESOURCES

Financial position and bank borrowings

The Group had cash and bank balances of approximately RMB601.2 million (2009: approximately RMB109.2 million), most of which were denominated in Renminbi. The Group had interest-bearing bank borrowings of approximately RMB793.8 million as at 31 December 2010 (2009: approximately RMB719.5 million). Please refer to note 26 to the consolidated financial statements of this report for the details of borrowings and the respective charge of assets.

The Group's gearing, expressed as a percentage of total interest-bearing bank borrowings to total equity, was 0.6x as at 31 December 2010 as compared to 3.1x as at 31 December 2009. The significant improvement in the gearing was primarily attributable to the inclusion of net proceeds of HK$831.6 million that the Company raised in the Listing on the Stock Exchange on 16 September 2010.

Working capital

Total inventories as at 31 December 2010 were approximately RMB104.0 million as compared to approximately RMB67.7 million as at 31 December 2009. The average inventory turnover days was maintained at a similar level in 2010 (2010: 25.6 days; 2009: 28.4 days). The Group purchased more ethylene oxide in December 2010 in view of the expected upcoming price increase of ethylene oxide which led to the increase in inventory balance as at 31 December 2010 when comparing to last year.

Average trade and notes receivables turnover days was at 8.6 days (2009: 12.0 days). The decrease in trade and notes receivables turnover days was due to the fact that majority of our ethylene oxide customers are required to pay in advance before delivery in order to secure supply of our products and the sales composition of ethylene oxide as a percentage of total revenue increased to approximately 83.3% of 2010 from 72.0% of 2009.

Average trade and bills payables turnover days was at 68.2 days (2009: 106.2 days). The decrease of trade and bills payable turnover days was attributable to the fact that the Group used more letters of credit with a maturity period of average 90 days to settle our trade payables and then financed the payments through the use of short-term bank borrowings.

APPLICATION OF NET IPO PROCEEDS

Through the Listing on the Stock Exchange on 16 September 2010, the Company issued 265,400,000 new Shares (including the new shares issued under the exercise of the over-allotment options) at the offer price of HK$3.38 per share and raised estimated net proceeds of approximately HK$831.6 million, after deducting underwriting commissions, the incentive fee and other fees and expenses payable by the Company in connection with the Listing. The Group has been utilising the net proceeds from the IPO in the manner consistent with that mentioned in the prospectus of the Company dated 3 September 2010 under the section headed "Use of Proceeds". The net proceeds utilised for the year ended 31 December 2010 was as follows:

	Net IPO Proceeds (HK$ million)		
Use of Proceeds	**Available**	**Utilised**	**Unutilised**
3rd and 4th phase construction of production facilities of ethylene oxide	557.0	84.1	472.9
Potential acquisitions of existing surfactant manufacturing or related business in the PRC	124.0	–	124.0
Capital contribution & investment in the JV – Sanjiang Honam	99.8	34.6	65.2
Construction of ethylene storage tanks	49.8	42.7	7.1
General working capital	1.0	1.0	–
Total	**831.6**	**162.4**	**669.2**

The unutilised net proceeds have been placed as short term bank deposits or time deposits in licensed banks in Hong Kong or PRC as at 31 December 2010.

CAPITAL COMMITMENTS

As at 31 December 2010, the Group has capital commitments amounted to approximately RMB103.5 million which was primarily related to the procurement of plant and machinery for the constructions of additional production capacities.

CONTINGENT LIABILITIES

As at 31 December 2010, the Group had not provided any form of guarantee for any company outside the Group. The Group is not involved in any current material legal proceedings, nor is our Group aware of any pending or potential material legal proceedings involving the Group.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2010, the Group employed a total of 459 full time employees. For the year ended 31 December 2010, the employee benefit expense was approximately RMB33.2 million. The Group's employee benefits included housing subsidies, shift subsidies, bonuses, allowances, medical check-up, staff quarters, social insurance contributions and housing fund contributions. The remuneration committee of the Company reviews such packages annually, or when the occasion requires. The executive Directors, who are also employees of the Company, receive remuneration in the form of salaries, bonuses and other allowances.

OUTLOOK

The PRC economy is expected to maintain its growth momentum in the foreseeable future and the demand for our products is expected to continue to grow as a result of the expected increase in domestic demand for household cleansing and cosmetic products benefiting from the continuous economic growth in the PRC as well as the consumption power of PRC citizens. In 2011, the Group will continue to focus primarily on enhancing its production capacity, product variety and quality and operating efficiencies in order to not only capture this continued robust economy growth but also outperform competitors in terms of growth and profitability.

To enhance production capacity

The Group's production capacity on ethylene oxide will increase by 50% from the existing designed production capacity of 120,000 MT in 2010 to an aggregate designed production capacity of 180,000 MT starting from late March 2011 after the completion of the third phase construction. The Group expects the third phase production line will be in a position for commercial operation by late March 2011, subject to the approval of relevant authority. As a result of the strong demand for our ethylene oxide product, by the end of January 2011, the Group has received letters of intent from various potential and existing customers expressing their intention to purchase for ethylene oxide with volume which exceeds the expected production volume of the third phase ethylene oxide production line in 2011.

To enhance product variety and quality

The Group continues to enhance product variety and quality through strengthening research and development team, putting more resources on research and development and seeking collaboration with leading universities as to the enhancement of production processes and technologies. The Group is planning to spend an amount of not less than 3% of annual revenue each year to develop new types of surfactants and improve the quality of existing products and production technologies including but not limited to increasing the reaction efficiency of catalyst.

To enhance operating efficiencies

The Group has set out a series of plans to optimise the management structure and operational procedures and processes in order to raise the overall efficiency and save costs. The Group will, including but not limited to freeze headcount in certain departments and reallocate excess employees between departments aiming to reduce the headcount gradually up to 10% through among other things increasing automation in our monitoring process on ethylene oxide production and combining posts with similar responsibilities and functions.

Looking forward, the Group will continue to be benefited from the macro environment and our well-formulated strategies among other things enhancing production capacity, product variety and quality and operating efficiencies and is committed to continuously creating value for shareholders and investors.

BIOGRAPHIES OF DIRECTORS

GUAN Jianzhong (管建忠)

aged 42, has been an executive Director since 22 March 2010. Mr. Guan is also the Chairman of the Board and one of the founders of the Group. He is primarily responsible for the overall management and strategy of our Group. Mr. Guan is also a director of each of the subsidiaries of our Group and has over 25 years of experience in the chemical industry. Mr. Guan completed a training course in business administration at a management training centre of Zhejiang University (浙江大學) in 2007 and a corporate management training course at Tsinghua University (清華大學) in October 2009. Mr. Guan has been serving as the chairman of the board of directors of both Zhejiang Jiahua Group Co., Ltd.* (浙江嘉化集團股份有限公司) and Zhejiang Jiahua Industrial Park Investment and Development Co., Ltd.* (浙江嘉化工業園投資發展有限公司) since 2008. Zhejiang Jiahua Group Co., Ltd. and Zhejiang Jiahua Industrial Park Investment and Development Co., Ltd. are principally engaged in the manufacturing and supply of agrochemicals and desalinated water and steam in Zhejiang Province, the PRC and both companies are not in competition with the Group. Mr. Guan is the spouse of Ms. Han Jianhong, an executive Director, and the brother-in-law of Mr. Han Jianping, an executive Director. Mr. Guan is a director of Sure Capital Holdings Limited, which beneficially owns approximately 44.94% of the issued share capital of the Company.

HAN Jianhong (韓建紅)

aged 36, has been an executive Director since 22 March 2010. Ms. Han is also one of the founders of the Group. She is primarily responsible for the business planning, business structuring and restructuring, overseeing legal matters and investor relations of the Group. Ms. Han is also a director of various subsidiaries of the Group and has over 12 years of experience in the chemical industry. Ms. Han is the spouse of Mr. Guan Jianzhong, an executive Director, and the sister of Mr. Han Jianping, an executive Director. She is also a director of Sure Capital Holdings Limited, which beneficially owns approximately 44.94% of the issued share capital of the Company.

NIU Yingshan (牛瑛山)

aged 37, has been an executive Director since 24 August 2010. He is primarily responsible for the management of production, safety and environmental protection of the Group. Mr. Niu graduated with a bachelor's degree in computer science and application (distance learning course) from the Beijing University of Chemical Technology (北京化工大學) in 2002 and has over 18 years of experience in the chemical manufacturing industry. Mr. Niu joined the Group in 2004.

HAN Jianping (韓建平)

aged 39, has been an executive Director since 24 August 2010. He is primarily responsible for the sales, procurement, research and development of the Group. Mr. Han is also a director of certain subsidiaries of the Group and has over 19 years of experience in the chemical industry. Mr. Han is the brother of Ms. Han Jianhong, an executive Director, and the brother-in-law of Mr. Guan Jianzhong, an executive Director. Mr. Han joined the Group in 1998.

WANG Wanxu (王萬緒)

aged 51, has been an independent non-executive Director since 24 August 2010. He is a member of both the audit committee and remuneration committee of the Company. Mr. Wang graduated with a bachelor's degree in science from Shanxi University (山西大學) in 1982 and completed a master's degree in business administration from Xi'an Jiaotong University (西安交通大學) in 2004. Mr. Wang has extensive experience as an engineer and about 28 years of experience in the chemical industry.

BIOGRAPHIES OF DIRECTORS *(Continued)*

SHEN Kaijun (沈凱軍)

aged 43, has been an independent non-executive Director since 24 August 2010. He is the chairman of the audit committee of the Company. Mr. Shen graduated with a bachelor's degree in accounting from Hangzhou Institute of Electronic Engineering (杭州電子工業學院) in 1995 and was admitted as a certified public accountant in China in December 1993. Mr. Shen was further awarded the qualifications as a licensed certified accountant to engage in securities-related businesses in July 1997 and a certified tax agent in June 2000. Mr. Shen has over 21 years of experience in accounting and corporate management.

LI Zhihong (李志宏)

aged 43, has been an independent non-executive Director since 24 August 2010. He is the chairman of the remuneration committee and a member of the audit committee of the Company. Mr. Li graduated with a bachelor's degree in law from Renmin University of China Law School (中國人民大學法學院) in 1990. Mr. Li has over 10 years of experience in the legal field, specialising in finance and securities law.

BIOGRAPHIES OF SENIOR MANAGEMENT

CHA Lixin (查立新)

aged 58, is the head of the production department of the Company. Mr. Cha is primarily responsible for the ethylene oxide production management of the Group. He joined the Group in 2004.

CHEN Xian (陳嫻)

aged 36, is the secretary of the Board and the chief accountant of the Company. Ms. Chen is primarily responsible for the financial management of the Group. Ms. Chen graduated with a diploma in accounting from the Hangzhou Institution of Commerce of Zhejiang Gongshang University (浙江工商大學杭州商學院) in 1996 and is currently completing a bachelor's degree in accounting from Renmin University of China (中國人民大學) through online distance learning. She joined the Group in 2009.

DE Xin (德新)

aged 48, is the head of the sales department of the Company. Mr. De is primarily responsible for the sales management of the Group. Mr. De graduated with a diploma in business management (distance learning course) from Northeast Normal University (東北師範大學) in July 1997 and completed a chief marketing officer training course in April 2009. He joined the Group in 2004.

HAN Zongqi (韓宗奇)

aged 47, is the head of the procurement department of the Company. Mr. Han is primarily responsible for the procurement management of the Group. Mr. Han graduated with a diploma in English at HuaZhong Normal University (華中師範大學) in 1984. He joined the Group in 2005.

YIP Ngai Hang (葉毅恆)

aged 33, is the financial controller and company secretary of the Group. Mr. Yip is primarily responsible for the overall planning, financial reporting and budgeting and implementing business strategies of the Group. Mr. Yip graduated with a bachelor's degree in Accounting with Honours from the University of Hertfordshire in the United Kingdom in 1999. He joined the Group in 2010.

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

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

The Company has adopted the code provisions in the Code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as its own code of corporate governance. The Board considers that since the listing of the shares of the Company on the Main Board of the Stock Exchange on 16 September 2010 (the "Listing Date") and up to the date of this annual report, the Company has complied with all the code provisions of the CG Code.

BOARD OF DIRECTORS

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

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

Mr. Guan Jianzhong ("Mr. Guan"), the Chairman of the Board and an executive Director, is the spouse of Ms. Han Jianhong ("Ms. Han"), one of the executive Directors. Mr. Han Jianping, an executive Director, is the brother and brother-in-law of Ms. Han and Mr. Guan respectively. Save as disclosed, there is no other relationship (whether financial, business, family or other material/relevant relationship) among members of the Board.

The Company has received from each of Mr. Wang Wanxu and Mr. Shen Kaijun, the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. As Mr. Li Zhihong has recently been staying in the hospital and it was not convenient for Mr. Li Zhihong to sign any documents, the Company has not received the annual confirmation of independence from Mr. Li Zhihong. However, since the Listing Date and up to the date of this annual report, the Company has not received from Mr. Li Zhihong any notification ("Notification") on change of circumstances which might affect his independence. Furthermore, to the best knowledge of the Company, Mr. Li Zhihong has not sent any Notification to the Stock Exchange as required under Rule 3.13 of the Listing Rules. In view of the above, the Company considers all the independent non-executive Directors meet the independence criteria set out in Rule 3.13 of the Listing Rules.

The Board has delegated various responsibilities to the Board committees including the audit committee (the "Audit Committee") and the remuneration committee (the "Remuneration Committee"). Further details of these committees are set out below.

BOARD MEETINGS

Upon the listing of the Company's shares on the Stock Exchange on 16 September 2010, the Company has adopted the practice of holding Board meetings regularly for at least four times in a period of 12 months at approximately quarterly intervals to discuss among other matters, the financial performance and the business operation and development of the Group. Ad-hoc meetings will also be held if necessary. Notice of Board meeting will be sent to all Directors at least 14 days prior to a regular Board meeting. Reasonable notice will be given to the Directors for ad-hoc Board meetings. Directors may participate either in person or through electronic means of communication.

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

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The Board is responsible for considering the suitability of a candidate to act as a Director, and approving and terminating the appointment of a Director. Thus during the year under review, the Board has not set up a nomination committee. The Board regularly reviews the plans for orderly succession for appointments to the Board and its structure, size and composition. The Chairman is mainly responsible for identifying suitable candidates when there is a vacancy or an additional director is considered necessary. The Chairman will propose the appointment of such candidates to the Board for consideration and the Board will review the qualifications of the relevant candidates for determining the suitability on the basis of his/her qualifications, experience, professional skills, personal qualities, availability to commit to the affairs of the Company and, in case of independent non-executive Director, the independence requirements as set out in the Listing Rules from time to time. External consultants may be engaged, if necessary, to access a wider range of potential candidate(s).

Each of the executive Directors has entered into a service contract with the Company for a period of three years commencing from 1 September 2010 and each of the independent non-executive Directors has been appointed for an initial term of two years commencing from 1 September 2010.

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

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

BOARD COMMITTEES

Audit Committee

The Audit Committee was established on 24 August 2010 with written terms of reference as suggested under the CG Code. The Audit Committee has three members, namely Messrs. Shen Kaijun, Wang Wanxu and Li Zhihong, all of whom are independent non-executive Directors. The chairman of the Audit Committee is Mr. Shen Kaijun. The primary responsibilities of the Audit Committee include, among others, reviewing and supervising the financial reporting process and internal control system of the Group, nominating and monitoring external auditors and providing advice and comments to the Board.

Since the Listing Date and up to the date of this annual report, two meetings were held by the Audit Committee. At the meetings, the Audit Committee reviewed the interim results of the Group for the six months ended 30 June 2010 and the annual results of the Group for the year ended 31 December 2010, including the accounting principles and practices adopted by the Group, and the Group's internal control functions.

Remuneration Committee

The Remuneration Committee was established on 24 August 2010 with written terms of reference as suggested under the CG Code. The Remuneration Committee has three members, namely Messrs. Li Zhihong, Wang Wanxu and Guan Jianzhong, of whom Messrs. Li Zhihong and Wang Wanxu are independent non-executive Directors and Mr. Guan is the Chairman of the Board and an executive Director. The chairman of the Remuneration Committee is Mr. Li Zhihong. The primary responsibilities of the Remuneration Committee include, among others, evaluating the performance and making recommendation on the remuneration package of the Directors and senior management.

Since the Listing Date and up to the date of this annual report, one meeting was held by the Remuneration Committee to review the remuneration packages of the Directors and senior management for the year ended 31 December 2010.

The attendance of individual members of the Board and other Board committees meetings since the Listing Date and up to the date of this annual report is set out below:

	Meetings attended/held		
	Board	Audit Committee	Remuneration Committee
Executive Directors			
Guan Jianzhong *(Chairman)*	3/3	N/A	1/1
Han Jianhong	3/3	N/A	N/A
Niu Yingshan	3/3	N/A	N/A
Han Jianping	3/3	N/A	N/A
Independent Non-Executive Directors			
Wang Wanxu	3/3	2/2	1/1
Shen Kaijun	3/3	2/2	N/A
Li Zhihong	2/3	1/2	0/1

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules as its model code for securities transactions by Directors and senior management on 24 August 2010. Having made specific enquiry, all the Directors confirmed that they have complied with the Model Code since the Listing Date and up to the date of this annual report.

FINANCIAL REPORTING AND INTERNAL CONTROL

Financial reporting

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

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

Independent auditors

During the year ended 31 December 2010, the professional fees paid or payable to the independent auditors, Ernst & Young, for services rendered are set out below:

	RMB'000
Statutory audit	
– 2010 interim results	900
– 2010 annual results	1,080
Non-audit services	
– Initial public offerings	1,050
Total	3,030

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

Internal controls

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

FINANCIAL REPORTING AND INTERNAL CONTROL *(Continued)*

Internal controls *(Continued)*

For the year under review, the Board has reviewed the effectiveness of the Group's internal control system. The Board considers that the internal control system is effective and adequate for the Group as a whole. The Board further considers that (i) there was no issue relating to the material controls, including financial, operational and compliance controls and risk management functions, of the Group; and (ii) that there were adequate staff with appropriate qualifications and experience, resources and budget of its accounting and financial reporting function, and adequate training programmes have been provided for during the year ended 31 December 2010.

DIRECTORS' RESPONSIBILITY ON THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2010, and confirm that the financial statements give a true and fair view of the results of the Company and the Group and are prepared in accordance with the applicable statutory requirements and accounting standards.

The statement made by the external auditors regarding their reporting responsibilities on the financial statements of the Group is set out in the Auditors' Report on page 31 of this annual report.

NON-COMPETITION UNDERTAKINGS

The Company has received declaration from Mr. Guan and Sure Capital Holdings Limited (the "Covenantors"), the controlling shareholder of the Company, of their compliance with the terms of the non-competition undertaking ("Undertaking") as disclosed in the paragraph headed "Non-Competition Undertaking" in the section headed "Relationship with controlling Shareholders" in the prospectus of the Company dated 3 September 2010. The Covenantors declared that they have fully complied with the Undertaking since the effective date of the Undertaking and up to the date of this report.

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

COMMUNICATION WITH SHAREHOLDERS

The Company endeavours to maintain an on-going dialogue with its shareholders and in particular, through annual general meetings or other general meetings to communicate with the shareholders and encourage their participation. The Chairman of the Board will make himself available at the forthcoming annual general meeting to be held on Monday, 9 May 2011 to answer any questions from shareholders.

The Group's website www.chinasanjiang.com contains an "Investor Relations" section which offers timely access to the Company's press releases, financial reports and announcements.

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

The board (the "Board") of directors (the "Directors") has pleasure in presenting their report and the audited consolidated financial statements of the Group for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Group are the manufacturing and supplying of ethylene oxide and surfactants and the provision of surfactants processing service. The principal activities and other particulars of the subsidiaries are set out in note 17 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2010 and the state of the Company's and the Group's affairs as at that date are set out in the consolidated financial statements on pages 33 to 97 of this annual report.

FOUR YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the latest four financial years is set out on pages 98 and 99 of this annual report.

DIVIDENDS

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

The Board recommends the payment of a final dividend of HK9.5 cents per ordinary share in respect of the year ended 31 December 2010.

Subject to the approval of the shareholders at the forthcoming annual general meeting (the "**AGM**"), the final dividend will be distributed on or about 31 May 2011 to the shareholders whose names appear on the register of members of the Company as at the close of business on 9 May 2011.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Tuesday, 3 May 2011 to Monday, 9 May 2011, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend and the right to attend and vote at the AGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4.30 p.m. on Friday, 29 April 2011.

* for identification purposes only

RESERVES

Profits attributable to equity shareholders, before dividends, of RMB266,126,000 (2009: RMB242,075,000) have been transferred to reserves. Other movements in reserves are set out in the Consolidated Statement of Changes in Equity.

NON-CURRENT ASSETS

Movements in non-current assets (including property, plant and equipment, prepaid land lease payments and intangible assets) during the financial year are set out in notes 14 to 16 to the consolidated financial statements.

BANK BORROWINGS

Particulars of the bank borrowings of the Company and of the Group as at 31 December 2010 are set out in note 26 to the consolidated financial statements.

SHARE CAPITAL

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

PRE-EMPTIVE RIGHTS

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

DIRECTORS

The Directors during the year ended 31 December 2010 and up to the date of this report were:

Executive Directors

GUAN Jianzhong *(Chairman)*	(appointed on 22 March 2010)
HAN Jianhong	(appointed on 22 March 2010)
NIU Yingshan	(appointed on 24 August 2010)
HAN Jianping	(appointed on 24 August 2010)

Independent Non-Executive Directors

WANG Wanxu	(appointed on 24 August 2010)
SHEN Kaijun	(appointed on 24 August 2010)
LI Zhihong	(appointed on 24 August 2010)

Details of the Directors' biographies are set out on pages 13 and 14 of this annual report.

Pursuant to article 105 of the Articles of Association, one-third of the Directors shall retire from office by rotation at each annual general meeting of the Company. Mr. Guan Jianzhong, Ms. Han Jianhong and Mr. Niu Yingshan shall retire from office by rotation at the AGM and, being eligible, offer themselves for re-election as Directors at the AGM.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors namely, Mr. Guan Jianzhong, Ms. Han Jianhong, Mr. Niu Yingshan and Mr. Han Jianping, has entered into a service contract with the Company for a term of three years commencing from 1 September 2010 and is subject to termination by either party giving not less than three months' written notice.

Each of the independent non-executive Directors, namely Mr. Wang Wanxu, Mr. Shen Kaijun and Mr. Li Zhihong, has been appointed for a term of two years commencing from 1 September 2010 and is subject to termination by either party giving not less than three months' written notice.

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

DIRECTORS' REMUNERATION

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

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in the section headed "Continuing Connected Transactions" in this report and note 34 (Related Party Transactions) to the consolidated financial statements, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

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

As at 31 December 2010, the interests and short positions of the Directors and/or chief executives of the Company in any shares of the Company (the "**Shares**"), underlying Shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have under such provisions of the SFO), or which are required, pursuant to Section 352 of Part XV of the SFO, to be entered in the register kept by the Company, or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors (the "Model Code") are as follows:

Interest in shares of the Company

Name of Directors	Capacity/ Nature of interest	Long/Short position	Number of Shares	Approximate % of issued share capital
Guan Jianzhong ("**Mr. Guan**")	Interests in controlled corporation	Long position	459,375,000 (Note)	44.94%
Han Jianhong ("**Ms. Han**")	Interests of spouse	Long position	459,375,000 (Note)	44.94%

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

Interest in shares of associated corporation of the Company

Name of Directors	Name of associated corporation	Capacity/ Nature of interest	Long/ Short position	Number of shares	Approximate % of issued share capital
Mr. Guan	Sure Capital	Beneficial owner	Long position	8,471	84.71%
Ms. Han	Sure Capital	Beneficial owner	Long position	1,529	15.29%

Save as disclosed above, none of the Directors or chief executive of the Company was interested or had any short position in any Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as at 31 December 2010.

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

As at 31 December 2010, so far as is known to the Directors, the following persons (other than the Directors or chief executive of the Company), who have interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company in accordance with the provision of Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein, are as follows:

Name	Capacity/ Nature of interest	Long/Short position	Number of Shares	Approximate % of issued share capital
Sure Capital	Beneficial owner	Long position	459,375,000 (Note 1)	44.94%
Bank of Communications Co., Ltd. ("Bank of Communications")	Interests in controlled corporation	Long position	71,146,400 (Note 2)	6.96%
Bank of Communications (Nominee) Company Limited ("BOCOM Nominee")	Interests in controlled corporation	Long position	71,146,400 (Note 2)	6.96%
BOCOM International Holdings Company Limited ("BOCOM Holdings")	Beneficial owner	Long position	44,100,000	
	Security interests	Long position	27,046,400	
			71,146,400 (Note 2)	6.96%

Notes:

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

2. BOCOM Holdings was a subsidiary of BOCOM Nominee and which in turn was a subsidiary of Bank of Communications. The long position of BOCOM Holdings in 71,146,400 Shares were the same Shares deemed to be interested by BOCOM Nominee and Bank of Communications under the SFO.

Save as disclosed above, no other interest or short position in the shares and underlying shares of the Company were recorded in the register required to be kept under section 336 of the SFO as at 31 December 2010.

MAJOR CUSTOMERS AND SUPPLIERS

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

	2010	**2009**
As a percentage of the Group's total sales		
The largest customer	22.1%	18.5%
Five largest customers in aggregate	53.1%	39.8%
As a percentage of Group's total purchases		
The largest supplier	36.5%	40.3%
Five largest suppliers in aggregate	75.9%	68.9%

None of the Directors or any of their associates or any shareholders of the Company (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interest in the Group's major customers and suppliers during the year ended 31 December 2010.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "**Share Option Scheme**"), which was adopted on 24 August 2010 (the "**Adoption Date**"), for the purpose of providing incentives or rewards to selected eligible participants for their contribution to the Group. Unless otherwise cancelled or amended, the Share Option Scheme will remain in force for 10 years from the Adoption Date.

Eligible participants of the Share Option Scheme include the following:

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

(ii) any non-executive directors (including independent non-executive directors) of the Group or any Invested Entity;

(iii) any supplier of goods or services to any member of the Group or any Invested Entity;

(iv) any customer of the Group or any Invested Entity;

(v) any person or entity that provides research, development or other technological support to the Group or any Invested Entity;

(vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity;

(vii) any adviser (professional or otherwise) or consultant to any area of business or business development of the Group or any Invested Entity; and

(viii) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliances or other business arrangement to the development and growth of the Group.

As at the date of this annual report, the total number of Shares available for issue under the Share Option Scheme is 100,930,300, representing approximately 9.87% of the issued share capital of the Company as at the date of this annual report. The maximum number of Shares issuable upon exercise of the options which may be granted under the Share Option Scheme and any other share option scheme of the Group (including both exercised and outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being. Any further grant of share options in excess of this limit is subject to Shareholders' approval in a general meeting.

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

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

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

(i) the closing price of Shares as stated in the daily quotations sheet of the Stock Exchange on the date of the offer of the grant, which must be a business day;

(ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of the offer of grant; and

(iii) the nominal value of the Shares.

Since the Adoption Date and up to 31 December 2010, no share option has been granted by the Company.

CONTRACT OF SIGNIFICANCE

Save as disclosed in the section headed "Continuing Connected Transactions" in this report and note 33 (Related Party Transactions) to the consolidated financial statements, no contracts of significance in relation to the Company's business to which the Company, or its subsidiaries was a party and in which a Director has a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

No contract of significance had been entered into between the Company or any of its subsidiaries and the controlling shareholder (as defined in the Listing Rules) of the Company or any of its subsidiaries.

No contract of significance for the provision of services to the Company or any of its subsidiaries by the controlling shareholder of the Company or any of its subsidiaries was entered into.

MANAGEMENT CONTRACTS

No contracts of significance concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

CONTINUING CONNECTED TRANSACTIONS

The following related party transactions entered into during the year ended 31 December 2010 constitutes continuing connected transactions for the Company under the Listing Rules and are required to be disclosed in this report in accordance with Chapter 14A of the Listing Rules:

1. Water and Miscellaneous Materials Supply Agreement

Pursuant to a desalinated water and miscellaneous materials supply agreement entered into between Sanjiang Chemical Co., Ltd. ("Sanjiang Chemical") and Zhejiang Jiahua Industrial Park Investment and Development Co., Ltd. ("Jiahua Industrial Park Co") on 16 August 2010, Jiahua Industrial Park Co has agreed to supply desalinated water to Sanjiang Chemical at market price (which will be determined by reference to the price of coal and water for industrial use acquired by Jiahua Industrial Park Co) and miscellaneous materials such as sodium hydroxide and sodium hypochlorite at market price.

Sanjiang Chemical is a wholly-owned subsidiary of the Company. Jiahua Industrial Park Co is owned as to approximately 87.86% by Zhejiang Jiahua Group Co., Ltd., which is ultimately controlled by Mr. Guan and Ms. Han, the executive Directors. Jiahua Industrial Park Co is an associate of Mr. Guan and Ms. Han and is thus a connected person of our Company under Rule 14A.11(4) of the Listing Rules.

2. Low Pressure Steam Supply Agreement

Pursuant to a low pressure steam supply agreement entered into between Sanjiang Chemical and Jiahua Industrial Park Co on 16 August 2010, Jiahua Industrial Park Co agreed to supply low pressure steam to Sanjiang Chemical at a price arrived at by deducting RMB23.4 per ton (being bulk purchase discount) from the price of low pressure steam stipulated by Jiaxing Commodities Price Bureau.

3. High Pressure Steam Supply Agreement

Pursuant to a high pressure steam supply agreement entered into between Sanjiang Chemical and Jiahua Industrial Park Co on 16 August 2010, Jiahua Industrial Park Co agreed to supply high pressure steam to Sanjiang Chemical at market price calculated and adjusted monthly with reference to the market price of coal (purchased by Jiahua Industrial Park Co for production of high pressure steam in the previous month).

Each of the above-mentioned agreements is for a term commencing on 16 August 2010 and expiring on 31 December 2012. Relevant details of the agreements and the transactions contemplated thereunder are set out in the section headed "Connected transactions" in the prospectus dated 3 September 2010 of the Company in relation to global offering of its Shares.

The actual amount of the transactions and approved annual caps for the abovementioned continuing connected transactions during the year ended 31 December 2010 are as follows:

	Actual transaction amount RMB'000	**Annual cap amount** RMB'000
Water and Miscellaneous Materials Supply Agreement	609	686
Low Pressure Steam Supply Agreement	1,338	2,511
High Pressure Steam Supply Agreement	45,827	76,273

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

(a) in the ordinary and usual course of business of the Company;

(b) on normal commercial terms no less favourable to the Company than terms available to or from independent third parties; and

(c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditors of the Company also confirmed that the continuing connected transactions:–

1. had been approved by the Board;

2. (where applicable) were in accordance with the pricing policies of the Group;

3. had been entered into in accordance with the terms of the agreements relating to these transactions; and

4. the aggregate consideration paid in respect of the continuing connected transactions during the year ended 31 December 2010 had not exceeded the cap as disclosed in the Prospectus.

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

SUFFICIENCY OF PUBLIC FLOAT

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

RETIREMENT AND PENSION SCHEMES

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

CONFIRMATION OF INDEPENDENCE

The Company has received from each of Mr. Wang Wanxu and Mr. Shen Kaijun, the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. As Mr. Li Zhihong has recently been staying in the hospital and it was not convenient for Mr. Li Zhihong to sign any documents, the Company has not received the annual confirmation of independence from Mr. Li Zhihong. However, since the Listing Date and up to the date of this annual report, the Company has not received from Mr. Li Zhihong any notification ("Notification") on change of circumstances which might affect his independence. Furthermore, to the best knowledge of the Company, Mr. Li Zhihong has not sent any Notification to the Stock Exchange as required under Rule 3.13 of the Listing Rules. In view of the above, the Company considers all the independent non-executive Directors meet the independence criteria set out in Rule 3.13 of the Listing Rules.

AUDITORS

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

By order of the Board

GUAN Jianzhong
Chairman

People's Republic of China, 21 March 2011

ERNST & YOUNG
安 永 會 計 師 事 務 所

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

We have audited the consolidated financial statements of China Sanjiang Fine Chemicals Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 3 to 65, which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

21 March 2011

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
REVENUE	6	**1,582,526**	1,285,533
Cost of sales		**(1,222,362)**	(929,212)
Gross profit		**360,164**	356,321
Other income and gains	6	**50,187**	21,204
Selling and distribution cost		**(2,064)**	(2,966)
Administrative expenses		**(63,510)**	(37,473)
Other expenses		**(6,786)**	(336)
Finance costs	7	**(19,087)**	(32,915)
Share of loss of a jointly-controlled entity	18	**(330)**	–
PROFIT BEFORE TAX	8	**318,574**	303,835
Income tax expense	11	**(52,263)**	(43,673)
PROFIT FOR THE YEAR		**266,311**	260,162
Attributable to:			
Equity holders of the parent	12	**266,126**	242,075
Non-controlling interests		**185**	18,087
		266,311	260,162
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	13		
Basic		**RMB34.82 cents**	RMB37.43 cents

Details of the dividends payable and proposed for the year are disclosed in note 30 to the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2010

	Notes	31 December 2010 RMB'000	31 December 2009 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**1,051,112**	897,322
Prepaid land lease payments	15	**45,467**	48,539
Intangible assets	16	**17,339**	19,654
Advance payments for property, plant and equipment		**77,218**	53,941
Investment in a jointly-controlled entity	18	**29,103**	–
Available-for-sale investments	19	**50,000**	–
Deferred tax assets	27	**45**	627
Total non-current assets		**1,270,284**	1,020,083
CURRENT ASSETS			
Inventories	20	**103,952**	67,717
Trade and notes receivables	21	**35,662**	38,763
Prepayments, deposits and other receivables	22	**32,985**	22,260
Due from related parties	34	**–**	142,403
Pledged deposits	23	**492,910**	236,547
Cash and cash equivalents	23	**601,249**	109,205
Total current assets		**1,266,758**	616,895
CURRENT LIABILITIES			
Trade and bills payables	24	**202,433**	254,083
Other payables and accruals	25	**132,050**	136,764
Interest-bearing bank borrowings	26	**745,400**	629,986
Due to directors	34	**7,863**	1,564
Due to related parties	34	**5,218**	5,878
Due to the parent and ultimate holding company	34	**–**	68,282
Dividends payable		**–**	172,036
Tax payable		**27,996**	11,865
Total current liabilities		**1,120,960**	1,280,458
NET CURRENT ASSETS/(LIABILITIES)		**145,798**	(663,563)
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,416,082**	356,520

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2010

	Notes	31 December 2010 RMB'000	31 December 2009 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	26	48,360	89,500
Deferred tax liabilities	27	32,911	32,822
Total non-current liabilities		81,271	122,322
Net assets		1,334,811	234,198
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	28	88,419	901
Reserves	29	1,162,504	233,459
Proposed final dividend	30	81,852	–
		1,332,775	234,360
Non-controlling interests		2,036	(162)
Total equity		1,334,811	234,198

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2010

	Attributable to equity holders of the parent								
	Issued capital RMB'000	Statutory surplus reserve* (note 29) RMB'000	Share premium* (note 29) RMB'000	Merger reserve* (note 29) RMB'000	Retained profits* RMB'000	Proposed final dividend RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2009	–	29,570	–	36,489	235,791	–	301,850	36,391	338,241
Profit for the year	–	–	–	–	242,075	–	242,075	18,087	260,162
Total comprehensive income for the year	–	–	–	–	242,075	–	242,075	18,087	260,162
Issue of share capital for the year pursuant to the Reorganisation and for cash (note 28)	901	–	68,228	–	–	–	69,129	–	69,129
Acquisition of subsidiaries pursuant to share swap as part of the Reorganisation	–	–	425,706	(425,706)	–	–	–	–	–
Acquisition of subsidiaries pursuant to the Reorganisation	–	–	–	(104,994)	–	–	(104,994)	–	(104,994)
Acquisition of non-controlling interests	–	–	–	–	–	–	–	(15,688)	(15,688)
Deemed distribution to equity holders	–	–	–	(107,433)	–	–	(107,433)	–	(107,433)
Dividends declared to non-controlling interests	–	–	–	–	–	–	–	(38,952)	(38,952)
Dividends declared to the parent and ultimate holding company	–	–	–	–	(166,267)	–	(166,267)	–	(166,267)
Appropriation to statutory surplus reserve	–	26,761	–	–	(26,761)	–	–	–	–
At 31 December 2009	901	56,331	493,934	(601,644)	284,838	–	234,360	(162)	234,198

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2010

	Attributable to equity holders of the parent								
	Issued capital RMB'000	Statutory surplus reserve* (note 29) RMB'000	Share premium* (note 29) RMB'000	Merger reserve* (note 29) RMB'000	Retained profits* RMB'000	Proposed final dividend RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2010	901	56,331	493,934	(601,644)	284,838	–	234,360	(162)	234,198
Profit for the year	–	–	–	–	266,126	–	266,126	185	266,311
Total comprehensive income for the year	–	–	–	–	266,126	–	266,126	185	266,311
Deemed distribution to equity holders	–	–	–	8,052**	–	–	8,052	2,013	10,065
Dividends declared to ultimate holding company	–	–	–	–	(39,940)	–	(39,940)	–	(39,940)
Issue of share capital for the year pursuant to the Group Reorgnisation and for cash (note 28)	152	–	134,379	–	–	–	134,531	–	134,531
Issue of share capital for initial public offering (note 28)	22,950	–	752,767	–	–	–	775,717	–	775,717
Share issue expenses	–	–	(46,071)	–	–	–	(46,071)	–	(46,071)
Capitalisation of share premium	64,416	–	(64,416)	–	–	–	–	–	–
Appropriation to statutory surplus reserve	–	30,006	–	–	(30,006)	–	–	–	–
Proposed final 2010 dividend	–	–	–	–	(81,852)	81,852	–	–	–
At 31 December 2010	88,419	86,337	1,270,593	(593,592)	399,166	81,852	1,332,775	2,036	1,334,811

* *These reserve accounts comprise the consolidated reserves of RMB1,162,504,000 in the consolidated statement of financial position as at 31 December 2010 (2009: RMB233,459,000).*

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**318,574**	303,835
Adjustments for:			
Finance costs	7	**19,087**	32,915
Share of loss of a jointly-controlled entity		**330**	–
Bank interest income	6	**(14,601)**	(7,573)
Foreign exchange differences, net	6	**(16,093)**	(942)
Depreciation	8	**69,088**	76,805
Loss on disposal of items of property, plant and equipment	8	**28**	7
Recognition of prepaid land lease payments	8	**1,040**	920
Amortisation of intangible assets	8	**3,031**	3,020
Write-down/(reversal) of inventories to net realisable value	8	**(7)**	94
Impairment of other receivables	8	**–**	36
		380,477	409,117
(Increase)/decrease in inventories		**(36,228)**	9,269
Decrease in trade and notes receivables		**3,101**	6,690
(Increase)/decrease in prepayments, deposits and other receivables		**(10,847)**	40,129
Decrease in amounts due from directors		**–**	16,539
Decrease/(increase) in amounts due from related parties		**102,910**	(9,592)
Decrease in trade and bills payables		**(57,410)**	(32,338)
Increase/(decrease) in other payables and accruals		**5,284**	(23,316)
Increase/(decrease) in amounts due to directors		**6,299**	(123,016)
Increase in amounts due to related parties		**64,274**	94,589
(Decrease)/increase in amounts due to the parent and ultimate holding company		**(68,282)**	68,282
Increase in development property		**–**	(145,628)
Cash generated from operations		**389,578**	310,725
Income tax paid		**(35,461)**	(16,020)
Net cash flows from operating activities		**354,117**	294,705

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(252,032)	(48,975)
Additions to prepaid land lease payments		–	(18,067)
Additions to intangible assets		(716)	(92)
Acquisition of businesses pursuant to the Reorganisation		(5,481)	–
Proceeds from disposal of items of property, plant and equipment		695	–
Proceeds from disposal of a subsidiary		–	47,641
Purchase of shareholding of a jointly-controlled entity		(29,433)	–
Purchase of available-for-sale investments		(50,000)	–
Interest received		14,601	7,573
Increase in pledged deposits		(256,363)	(6,955)
Net cash used in investing activities		(578,729)	(18,875)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		910,248	68,281
Share issue expense		(46,071)	–
New bank loans		1,086,989	637,916
Repayment of bank loans		(1,012,715)	(705,393)
Acquisition of subsidiaries pursuant to the Reorganisation		(9,998)	(110,673)
Interest paid		(21,674)	(32,915)
Dividend paid to the parent and the ultimate holding company		(206,207)	(31,360)
Dividend paid to non-controlling interests		(9)	(58,788)
Net cash flows from/(used in) financing activities		700,563	(232,932)
NET INCREASE IN CASH AND CASH EQUIVALENTS		475,951	42,898
Cash and cash equivalents at beginning of year		109,205	65,365
Effect of foreign exchange rate changes, net		16,093	942
CASH AND CASH EQUIVALENTS AT END OF YEAR	23	601,249	109,205

STATEMENT OF FINANCIAL POSITION

31 December 2010

	Notes	31 December 2010 RMB'000	31 December 2009 RMB'000
NON-CURRENT ASSETS			
Investments in subsidiaries, at cost	17	426,588	426,588
Total non-current assets		426,588	426,588
CURRENT ASSETS			
Prepayments, deposits and other receivables	22	7,194	1,844
Due from a subsidiary	34	572,561	301,806
Cash and cash equivalents		326,119	28
Total current assets		905,874	303,678
CURRENT LIABILITIES			
Due to directors	34	7,783	9
Due to a subsidiary	34	–	873
Due to the parent and ultimate holding company	34	–	68,282
Dividend payables		–	166,267
Total current liabilities		7,783	235,431
NET CURRENT ASSETS		898,091	68,247
TOTAL ASSETS LESS CURRENT LIABILITIES		1,324,679	494,835
EQUITY			
Issued capital	28	88,419	901
Reserves	29(b)	1,154,408	493,934
Proposed final dividend	30	81,852	–
Total equity		1,324,679	494,835

1. CORPORATE INFORMATION

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

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

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

2. BASIS OF PRESENTATION

Pursuant to the group reorganization (the "Reorganisation") as more fully described in the section headed "History and Reorganization" in the prospectus of the Company dated 3 September 2010, the Company became the holding company of the companies now comprising the Group on 1 September 2009 by acquiring the entire issued share capital of Capitol International Limited ("Capitol International"), a company incorporated in Hong Kong, which was the then holding company of the other subsidiaries comprising the Group. Since Guan Jianzhong and Han Jianhong (spouse of Guan Jianzhong) controlled the Group before and after the Reorganisation, the Reorganisation is accounted for as a reorganisation under common control using the principles of merger accounting in accordance with Accounting Guidance 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

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

2. BASIS OF PRESENTATION *(CONTINUED)*

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

3.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

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

Basis of consolidation

Basis of consolidation from 1 January 2010

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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

3.1 BASIS OF PREPARATION *(CONTINUED)*

Basis of consolidation *(continued)*

Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements have been applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the parent shareholders.

- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying amount of such investment at 1 January 2010 has not been restated.

3.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

HKFRS 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards*
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*
HKFRS 3 (Revised)	*Business Combinations*
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners*
HKFRS 5 Amendments included in *Improvements to HKFRSs* issued in October 2008	Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary*
Improvements to HKFRSs 2009	Amendments to a number of HKFRSs issued in May 2009
HK Interpretation 4 Amendment	Amendment to HK Interpretation 4 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases*
HK Interpretation 5	*Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*

The adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements.

3.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKFRS 1 Amendment	Amendment to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters [2]
HKFRS 7 Amendments	Amendments to HKFRS 7 Financial Instruments: Disclosures –Transfers of Financial Assets [4]
HKFRS 9	Financial Instruments [6]
HKAS 24 (Revised)	Related Party Disclosures [3]
HKAS 32 Amendment	Amendment to HKAS 32 Financial Instruments: Presentation – Classification of Rights Issues [1]
HK(IFRIC)-Int 14	Amendments to HK(IFRIC)-Int 14 Prepayments of a Minimum Funding Requirement [3]
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments [2]
HKAS 12 Amendments	*Amendments to HKAS 12 Income Taxes – Deferred Tax: Recovery of Underlying Assets* [4]
HKFRS 1 Amendments	Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters [5]

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2010* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 3 and HKAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

1 Effective for annual periods beginning on or after 1 February 2010
2 Effective for annual periods beginning on or after 1 July 2010
3 Effective for annual periods beginning on or after 1 January 2011
4 Effective for annual periods beginning on or after 1 July 2011
5 Effective for annual periods beginning on or after 1 January 2012
6 Effective for annual periods beginning on or after 1 January 2013

3.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(CONTINUED)*

Further information about those changes that are expected to significantly affect the Group is as follows:

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions"). The changes resulting from the Amendments only affect the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other requirements in HKAS 39 in respect of liabilities are carried forward into HKFRS 9. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of these additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting, derecognition and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2013.

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The Group expects to adopt HKAS 24 (Revised) from 1 January 2011 and the comparative related party disclosures will be amended accordingly.

Improvements to HKFRSs 2010 issued in May 2010 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2011. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

3.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(CONTINUED)*

(a) HKFRS 3 *Business Combinations:* Clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

In addition, the amendments limit the scope of the measurement choices of non-controlling interests at fair value or at the proportionate share of the acquiree's identifiable net assets to components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. Other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

The amendments also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

(b) HKAS 1 *Presentation of Financial Statements:* Clarifies that an analysis of other comprehensive income for each component of equity can be presented either in the statement of changes in equity or in the notes to the financial statements.

(c) HKAS 27 *Consolidated and Separate Financial Statements:* Clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

Joint ventures

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

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Joint ventures *(continued)*

A joint venture is treated as:

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

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

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

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

Jointly-controlled entities

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

The Group's investments in jointly-controlled entities are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Where the profit sharing ratio is different to the Group's equity interest, the share of post-acquisition results of the jointly-controlled entities is determined based on the agreed profit sharing ratio. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's investments in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of jointly-controlled entities is included as part of the Group's investments in jointly-controlled entities.

Impairment of non-financial assets

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

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Impairment of non-financial assets *(continued)*

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

Related parties

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

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

(b) the party is an associate;

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

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

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

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

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

Property, plant and equipment and depreciation

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

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Property, plant and equipment and depreciation *(continued)*

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

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

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

An item of property, plant and equipment and any significant part initially recognized 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 income statement 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 a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalized borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

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

Software

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

Technology use rights

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Operating leases

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

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

Investments and other financial assets

Initial recognition and measurements

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

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

The Group's financial assets include cash and bank balances, trade receivables, deposits and other receivables, amounts due from related parties, an investment in a jointly-controlled entity, and available-for-sale investments.

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Investments and other financial assets *(continued)*

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

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation.

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

Loans and receivables

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

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment valuation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of comprehensive income in other income, or until the investment is determined to be impaired, at which time the cumulative gain or loss is recognised in the statement of comprehensive income in other operating expenses and removed from the available-for-sale investment valuation reserve. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the statement of comprehensive income as other income in accordance with the policies set out for "Revenue recognition" below.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Investments and other financial assets *(continued)*

Available-for-sale financial investments *(continued)*

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

The Group evaluates its available-for-sale financial assets to assess whether the ability and intention to sell them in the near term are still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the entity has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of comprehensive income.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

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

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

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

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Impairment of financial assets *(continued)*

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of comprehensive income, is removed from other comprehensive income and recognised in the statement of comprehensive income.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of comprehensive income – is removed from other comprehensive income and recognised in the statement of comprehensive income. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of comprehensive income. Increases in the fair value after impairment are recognised directly in other comprehensive income.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

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

The Group's financial liabilities include trade and bills payables, other payables and accruals, amounts due to directors and related parties, amounts due to the parent and ultimate holding company, and interest-bearing bank loans and borrowings.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial liabilities *(continued)*

Subsequent measurement

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

Loans and borrowings

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

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

Financial guarantee contracts

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Inventories

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

Cash and cash equivalents

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

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

Income tax

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

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

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

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

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

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Income tax *(continued)*

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

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

- in respect of deductible temporary differences associated with investments in subsidiaries and a joint venture, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

Government grants

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Revenue recognition

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

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

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

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

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

Retirement benefits

The PRC subsidiaries of the Group participate in several defined contribution retirement benefit schemes (the "Schemes") organised by the PRC municipal and provincial government authorities whereby the Group is required to make contributions to the Schemes at the rates of 14% to 22% of the eligible employees' salaries. The local government authority is responsible for the entire pension obligations payable to retired employees. The Scheme is considered as a defined contribution plan because the Group has no legal or constructive obligations for retirement benefits beyond the contribution made. Contributions to the defined contribution pension scheme are recognised as expenses in the income statement as incurred.

The Group also operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Scheme Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the plan vest immediately.

Borrowing costs

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Dividends

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

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

Foreign currencies

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

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

Estimation uncertainty

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

Impairment of non-financial assets other than goodwill

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

Deferred tax assets

Deferred tax assets are recognised for temporary differences to the extent that it is probable that taxable profit will be available against which the temporary tax differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. Further details on deferred tax assets are disclosed in note 27 to these financial statements.

Income tax

The Group is subject to income taxes in various regions. As a result of the fact that certain matters relating to the income taxes have not been confirmed by the local tax bureau, objective estimates and judgements based on currently enacted tax laws, regulations and other related policies are required in determining the provision of corporate income tax. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact the corporate income tax and tax provisions in the period in which the differences are realised. Further details are disclosed in note 11 to these financial statements.

Impairment of available-for-sale financial assets

The Group classifies certain assets as available for sale and recognises movements in their fair values in equity. When the fair value declines, management makes assumptions about the declines in value to determine whether there is an impairment that should be recognised in the income statement. At 31 December 2010, no impairment loss has been recognised for available-for-sale assets (2009: Nil). The carrying amount of available-for-sale assets was RMB50,000,000 (2009: Nil).

Impairment of trade and other receivables

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

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

Estimation uncertainty *(continued)*

Useful lives and residual values of property, plant and equipment

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

5. SEGMENT INFORMATION

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

Entity-wide disclosures

Information about products and services

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

	2010 RMB'000	2009 RMB'000
EO	1,318,168	925,110
Surfactants	156,211	216,585
Other chemical products	87,516	74,969
Processing services	17,127	66,395
Others	3,504	2,474
	1,582,526	1,285,533

Geographical information

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

6. REVENUE, OTHER INCOME AND GAINS

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

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

	2010 RMB'000	2009 RMB'000
Revenue		
Sales of goods	1,561,895	1,216,664
Provision of services	17,127	66,395
Others	3,504	2,474
	1,582,526	1,285,533
Other income and gains		
Bank interest income	14,601	7,573
Government subsidies*	14,187	10,155
Foreign exchange gains, net	16,093	942
Other lease income	2,748	403
Others	2,558	2,131
	50,187	21,204

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

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2010 RMB'000	2009 RMB'000
Interest on bank loans wholly repayable within five years	21,674	32,915
Less: interest capitalised	(2,587)	–
	19,087	32,915

8. PROFIT BEFORE TAX

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

		2010 RMB'000	2009 RMB'000
Cost of inventories sold		**1,220,725**	927,554
Others		**1,637**	1,658
		1,222,362	929,212
Depreciation	14	**69,088**	76,805
Recognition of prepaid land lease payments	15	**1,040**	920
Amortisation of intangible assets	16	**3,031**	3,020
Loss on disposal of property, plant and equipment		**28**	7
(Reversal)/write-down of inventories to net realisable value		**(7)**	94
Impairment of other receivables		**–**	36
Employee benefit expense (including directors' remuneration (note 9)):			
Wages and salaries		**30,135**	19,135
Pension scheme contributions		**1,114**	1,145
Staff welfare expenses		**1,905**	2,630
		33,154	22,910

9. DIRECTORS' REMUNERATION

	2010 RMB'000	2009 RMB'000
Salaries, allowances and benefits in kind	**1,842**	1,363
Performance related bonus*	**7,576**	–
Pension scheme contributions	**19**	13
	9,437	1,376

* *Certain executive directors of the Company are entitled to bonus payments which are determined as a percentage of the profit after tax of the Group.*

9. DIRECTORS' REMUNERATION *(CONTINUED)*

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related Bonus RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2010					
Executive directors:					
Guan Jianzhong	–	562	5,578	5	6,145
Han Jianhong	–	558	1,998	5	2,561
Niu Yingshan	–	411	–	3	414
Han Jianping	–	209	–	6	215
Independent non-executive directors:					
Wang Wanxu	34	–	–	–	34
Shen Kaijun	34	–	–	–	34
Li Zhihong	34	–	–	–	34
	102	1,740	7,576	19	9,437

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Bonus RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2009					
Executive directors:					
Guan Jianzhong	–	444	–	5	449
Han Jianhong	–	488	–	4	492
Niu Yingshan	–	326	–	2	328
Han Jianping	–	105	–	2	107
Independent non-executive directors:					
Wang Wanxu	–	–	–	–	–
Shen Kaijun	–	–	–	–	–
Li Zhihong	–	–	–	–	–
	–	1,363	–	13	1,376

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

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees included three directors (2009: three), details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining two (2009: two) non-director, highest paid employees for the year are as follows:

	2010 RMB'000	2009 RMB'000
Salaries, allowances and benefits in kind	804	567
Pension scheme contributions	–	10
	804	577

The remuneration of the highest paid, non-director employees fell within the range of nil to RMB500,000.

11. INCOME TAX

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

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

	2010 RMB'000	2009 RMB'000
Current – PRC		
Charge for the year	51,592	24,381
Deferred (note 27)	671	19,292
Total tax charge for the year	52,263	43,673

Pursuant to the rules and regulations of the Cayman Islands, the Company is not subject to any income tax in the Cayman Islands.

Pursuant to the relevant tax law of the Hong Kong Special Administrative Region, Hong Kong profits tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. No provision of income tax has been made as the Group had no taxable income derived from Hong Kong during the year.

11. INCOME TAX *(CONTINUED)*

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

Sanjiang Chemical was registered as a foreign-invested enterprise on 9 December 2003. Sanjiang Chemical was subject to CIT at the rate of 25% for the year ended 31 December 2010 and 2009. Pursuant to the approval of the tax bureau, Sanjiang Chemical was exempted from CIT for its first two profit-making years (after deducting losses incurred in previous years) and was entitled to a 50% tax reduction for the succeeding three years. The first profitable year of Sanjiang Chemical was 2006. Therefore, Sanjiang Chemical was subject to CIT at a reduced rate of 12.5% for the year ended 31 December 2010 (2009: 12.5%).

Yongming Petrochemical was registered as a foreign-invested enterprise on 9 December 2003 and subject to CIT at the rate of 25% for the years ended 31 December 2010 and 2009. Pursuant to the approval of the tax bureau, Yongming Petrochemical was exempted from CIT for its first two profit-making years (after deducting losses incurred in previous years) and was entitled to a 50% tax reduction for the succeeding three years. In accordance with the Corporate Income Tax Law, the tax concession would be deemed to commence from 1 January 2008 even if the company did not have taxable profits at that time. Although Yongming Petrochemical was in an accumulative loss position as of 1 January 2008, its tax concession was deemed to have started in 2008. Therefore, Yongming Petrochemical was subject to CIT at the rate of 12.5% for the year ended 31 December 2010 (2009: 0%).

Guanlang was registered as a domestic-invested enterprise on 29 September 2005 and was subject to CIT at the rate of 25% for the year ended 31 December 2010 (2009: 25%).

Sanjiang Trading was registered as a domestic-invested enterprise on 29 October 2004 and was subject to CIT at a rate of 25% for the year ended 31 December 2010 (2009: 25%).

Hangzhou Sanjiang was registered as a domestic-invested enterprise on 1 April 2010 and was subject to CIT at a rate of 25% for the year ended 31 December 2010.

11. INCOME TAX *(CONTINUED)*

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

	2010 RMB'000	2009 RMB'000
Profit before tax	**318,574**	303,835
Tax at the statutory tax rates	**79,644**	75,959
Tax effect of tax concession and allowances	**(37,086)**	(52,754)
Tax losses not recognised	**910**	121
Expenses not deductible for tax	**734**	3,152
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries (note 27)	**8,088**	18,712
Tax losses utilised from previous years	**(27)**	(1,517)
Tax charge at the Group's effective rate	**52,263**	43,673

12. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2010 includes a loss of RMB34,333,000 (2009: Nil) which has been dealt with in the financial statements of the Company (note 29(b)).

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of 764,317,000 (2009: 646,800,000) in issue during the year.

The number of ordinary shares outstanding increases as a result of capitalisation. The calculation of basic earnings per share for all the periods presented had been adjusted retrospectively.

The calculation of basic earnings per share is based on:

	2010 RMB'000	2009 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent	**266,126**	242,075

	Number of shares	
	2010 '000	2009 '000
Shares		
Weighted average number of ordinary shares in issue during the year	**764,317**	646,800

13. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT *(CONTINUED)*

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2010 and 2009 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those years.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2010						
At 1 January 2010:						
Cost	205,695	817,637	3,267	11,536	32,803	1,070,938
Accumulated depreciation	(31,264)	(134,210)	(1,632)	(6,510)	–	(173,616)
Net carrying amount	174,431	683,427	1,635	5,026	32,803	897,322
At 1 January 2010:						
Net of accumulated depreciation	174,431	683,427	1,635	5,026	32,803	897,322
Additions	1,215	8,210	176	–	221,741	231,342
Disposal	–	–	–	(723)	–	(723)
Deemed distribution to equity holders*	(7,176)	–	–	(565)	–	(7,741)
Depreciation provided during the year	(9,360)	(58,069)	(471)	(1,188)	–	(69,088)
Transfers	5,087	21,396	–	503	(26,986)	–
At 31 December 2010:						
Net of accumulated depreciation	164,197	654,964	1,340	3,053	227,558	1,051,112
At 31 December 2010:						
Cost	202,889	847,243	3,443	10,750	227,558	1,291,883
Accumulated depreciation	(38,692)	(192,279)	(2,103)	(7,697)	–	(240,771)
Net carrying amount	164,197	654,964	1,340	3,053	227,558	1,051,112

14. PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

Group

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2009						
At 1 January 2009:						
Cost	178,901	560,746	2,671	10,030	240,442	992,790
Accumulated depreciation	(21,779)	(69,296)	(1,185)	(4,709)	–	(96,969)
Net carrying amount	157,122	491,450	1,486	5,321	240,442	895,821
At 1 January 2009:						
Net of accumulated depreciation	157,122	491,450	1,486	5,321	240,442	895,821
Additions	–	21	666	728	76,946	78,361
Disposal	–	–	–	(7)	–	(7)
Disposal of a subsidiary	–	–	(48)	–	–	(48)
Depreciation provided during the year	(9,485)	(64,914)	(469)	(1,937)	–	(76,805)
Transfers	26,794	256,870	–	921	(284,585)	–
At 31 December 2009:						
Net of accumulated depreciation	174,431	683,427	1,635	5,026	32,803	897,322
At 31 December 2009:						
Cost	205,695	817,637	3,267	11,536	32,803	1,070,938
Accumulated depreciation	(31,264)	(134,210)	(1,632)	(6,510)	–	(173,616)
Net carrying amount	174,431	683,427	1,635	5,026	32,803	897,322

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

As at 31 December 2010, none of the Group's buildings and plant and machinery (31 December 2009: RMB201,896,000) were pledged to secure bank loan facilities granted to the Group (note 26(i)).

As at 31 December 2010, the Group was unable to obtain the building ownership certificates for certain of the Group's buildings with an aggregate net carrying value of RMB577,000 (31 December 2009: RMB589,000).

15. PREPAID LAND LEASE PAYMENTS

Group

	2010 RMB'000	2009 RMB'000
Carrying amount at beginning of year	**49,679**	32,532
Additions	**–**	18,067
Deemed distribution to equity holders*	**(2,154)**	–
Recognised during the year	**(1,040)**	(920)
Carrying amount at end of year	**46,485**	49,679
Current portion included in prepayments, deposits and other receivables	**(1,018)**	(1,140)
Non-current portion	**45,467**	48,539

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

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

As at 31 December 2010, none of the Group's leasehold land (31 December 2009: RMB9,411,000) were pledged to secure bank loan facilities granted to the Group (note 26(ii)).

16. INTANGIBLE ASSETS

Group

	Software RMB'000	Technology use rights RMB'000	Others RMB'000	Total RMB'000
31 December 2010				
Cost at 1 January 2010, net of accumulated amortisation	56	18,415	1,183	19,654
Additions	–	–	716	716
Amortisation provided during the year	(27)	(2,922)	(82)	(3,031)
At 31 December 2010	29	15,493	1,817	17,339
Cost	148	28,852	2,116	31,116
Accumulated amortisation	(119)	(13,359)	(299)	(13,777)
Net carrying amount At 31 December 2010	29	15,493	1,817	17,339

Group

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

17. INVESTMENTS IN SUBSIDIARIES

Company

	2010 RMB'000	2009 RMB'000
Unlisted investments, at cost	**426,588**	426,588

Particulars of the principal subsidiaries are as follows:

Name	Place and date of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered paid-up capital	Percentage of equity interest attributable to the Group	Principal activities
Capitol International Limited ("Capitol International")*	Hong Kong 18 July 2003	HK$1,000,000	100% (direct)	Investment holding
Sanjiang Chemical* *(note (i))*	PRC 9 December 2003	US$64,950,000	100% (indirect)	Manufacture and sale of EO, surfactants, ethylene glycol, polymer grade ethylene, industrial gases and provision of surfactant processing services
Yongming Petrochemical* *(note (ii))*	PRC 9 December 2003	US$55,000,000	100% (indirect)	Manufacture and sale of EO, surfactants, ethylene glycol, polymer grade ethylene, industrial gases and provision of surfactant processing services
Guanlang *(note (ii))*	PRC 29 September 2005	RMB13,000,000	83.85% (indirect)	Construction and management of a pipe network at Jiaxing Port Chemical Industrial Park
Sanjiang Trading *(note (ii))*	PRC 29 October 2004	RMB5,000,000	100% (indirect)	Trading of ethylene, EO and other chemical products
Hangzhou Textile Auxiliaries Co., Limited ("Hangzhou Sanjiang") *(note (ii))*	PRC 1 April 2010	RMB5,000,000	100% (indirect)	Manufacture and sale of alcohol ethoxylate, nonylphenols, and textile auxiliaries

Note:

(i) The entity is a wholly owned foreign enterprise established in the PRC.
(ii) These entities are limited liability companies established in the PRC.

18. INVESTMENT IN A JOINTLY-CONTROLLED ENTITY

Group

	2010 RMB'000	2009 RMB'000
Share of net assets	**29,103**	–

Particulars of the jointly-controlled entity are as follows:

Name	Place and date of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered paid-up capital	Percentage of equity interest attributable to the Group	Principal activities
Sanjiang Honam Petrochemical Company Limited	PRC 11 May 2010	US$12,000,000	50	Manufacture of EO

The above investment in jointly-controlled entity is indirectly held by the Company.

The following table illustrates the summarised financial information of the Group's jointly-controlled entity:

	2010 RMB'000	2009 RMB'000
Share of the jointly-controlled entity's assets and liabilities:		
Current assets	**24,253**	–
Non-current assets	**4,850**	–
Current liabilities	**–**	–
Non-current liabilities	**–**	–
Net assets	**29,103**	–
Share of the jointly-controlled entity's results:		
Total expenses	**(330)**	–
Tax	**–**	–
Loss after tax	**(330)**	–

19. AVAILABLE FOR SALE INVESTMENTS

	2010 RMB'000	2009 RMB'000
Unlisted equity investments, at fair value	50,000	–

The above investments consist of investments in equity securities which have a fixed maturity of 18 months and no fixed coupon rate.

20. INVENTORIES

Group

	2010 RMB'000	2009 RMB'000
Raw materials	100,436	57,773
Finished goods	3,516	9,944
	103,952	67,717

21. TRADE AND NOTES RECEIVABLES

Group

	2010 RMB'000	2009 RMB'000
Trade receivables	13,023	17,827
Notes receivable	22,639	21,202
	35,662	39,029
Less: Impairment	–	(266)
	35,662	38,763

The Group's trading terms with its customers are mainly on credit. The credit period is generally 15 to 30 days, extending up to three months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

21. TRADE AND NOTES RECEIVABLES *(CONTINUED)*

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

	2010 RMB'000	2009 RMB'000
At beginning of year	**266**	266
Amount written off as uncollectible	**(266)**	–
At end of year	**–**	266

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

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

Group

	2010 RMB'000	2009 RMB'000
1 to 30 days	**33,111**	12,947
31 to 60 days	**342**	6,691
61 to 90 days	**86**	5,032
91 to 360 days	**1,511**	3,537
Over 360 days	**612**	10,822
	35,662	39,029

21. TRADE AND NOTES RECEIVABLES *(CONTINUED)*

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

	2010	2009
	RMB'000	RMB'000
Neither past due nor impaired	**33,792**	23,207
Less than 30 days past due	**292**	3,449
31 to 60 days past due	**86**	739
61 to 90 days past due	**636**	103
91 to 360 days past due	**558**	709
Over 360 days	**298**	10,556
	35,662	38,763

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

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

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Group

	2010	2009
	RMB'000	RMB'000
Other receivables	**19,122**	11,402
Prepayments	**13,026**	10,515
Prepaid land lease payments (note 15)	**1,018**	1,140
	33,166	23,057
Less: Impairment	**(181)**	(797)
	32,985	22,260

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

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(CONTINUED)*

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

Company

	2010 RMB'000	2009 RMB'000
Other receivables	7,194	1,844

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

The movements in provision for impairments of prepayments, deposits and other receivables are as follows:

Group

	2010 RMB'000	2009 RMB'000
At beginning of year	797	761
Impairment losses recognised	–	36
Amount written off as uncollectible	(616)	–
At end of year	181	797

23. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

Group

	2010 RMB'000	2009 RMB'000
Cash and bank balances	601,249	109,205
Time deposits	492,910	236,547
	1,094,159	345,752
Less: Pledged time deposits:		
Pledged for bank loans (note 26 (iii))	492,910	221,150
Pledged for bills payable	–	15,397
Cash and cash equivalents	601,249	109,205

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

24. TRADE AND BILLS PAYABLES

Group

	2010 RMB'000	2009 RMB'000
Trade payables	202,433	159,157
Bills payable	–	94,926
	202,433	254,083

24. TRADE AND BILLS PAYABLES *(CONTINUED)*

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

	2010 RMB'000	2009 RMB'000
Within 3 months	193,976	189,799
3 to 6 months	7,535	62,172
6 to 12 months	137	259
12 to 24 months	380	1,095
24 to 36 months	20	89
Over 36 months	385	669
	202,433	254,083

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

25. OTHER PAYABLES AND ACCRUALS

Group

	2010 RMB'000	2009 RMB'000
Other payables	56,648	55,812
Taxes other than income tax	19,956	9,602
Advances from customers	36,965	53,376
Payroll payable	6,564	7,736
Other accrued liabilities	11,917	10,238
	132,050	136,764

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

26. INTEREST-BEARING BANK BORROWINGS

Group

	Effective interest rate (%)		2010 RMB'000	2009 RMB'000
Current				
Bank loans – secured *	1.101-4.253	Within 1 year	618,182	–
	1.184-8.127	Within 1 year	–	551,986
Bank loans – unsecured	1.876-5.598	Within 1 year	106,218	–
Current portion of long term bank loans – secured *	7.371-8.127		–	28,000
Discounted bank acceptances *	3.641-4.430		21,000	–
	0.185-4.440		–	50,000
			745,400	629,986
Non-current				
Bank loans – secured *	7.371-8.280	2011.11.15-2013.4.26	–	89,500
	5.598	2012.12.20-2014.12.20	48,360	–
			48,360	89,500
			793,760	719,486
Repayable:				
Within one year or on demand			745,400	629,986
In the second year			28,360	42,000
In the third to fifth years, inclusive			20,000	47,500
			793,760	719,486

* *The Group's bank borrowings are secured by:*

(i) *the pledge of certain of the Group's time deposits amounting to RMB492,910,000 as at 31 December 2010 and RMB221,150,000 as at 31 December 2009 (note 23); and*

(ii) *the Group's leasehold land situated in the PRC as at 31 December 2009 of carrying value of RMB9,411,000 (note 15); and*

(iii) *the Group's buildings and plant and machinery situated in the PRC as at 31 December 2009 of carrying value of RMB201,896,000 (note 14);*

27. DEFERRED TAX

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

Deferred tax liabilities

Group

	Withholding tax on the distributable profits RMB'000
At 1 January 2009	14,110
Deferred tax charged to the statement of income during the year (note 11)	18,712
At 31 December 2009 and 1 January 2010	32,822
Deferred tax charged to the statement of income during the year (note 11)	8,088
Deferred tax realised during the year	(7,999)
At 31 December 2010	32,911

Deferred tax assets

Group

	Impairment of assets RMB'000	Pre-operating expense RMB'000	Unrealised profit attributable to intra-group transactions RMB'000	Total RMB'000
At 1 January 2009	36	1,158	13	1,207
Deferred tax credited/(charged) to the statement of income during the year (note 11)	9	(579)	(10)	(580)
At 31 December 2009 and 1 January 2010	45	579	3	627
Deferred tax charged to the statement of income during the year (note11)	–	(579)	(3)	(582)
At 31 December 2010	45	–	–	45

27. DEFERRED TAX *(CONTINUED)*

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

In the opinion of the directors, it is not probable that the Group's subsidiaries established in Mainland China will, in the foreseeable future, distribute earnings with an aggregate amount of RMB188,712,000, for with deferred tax liabilities have not been recognised for these timing differences associated with investments in these subsidiaries as at 31 December 2010 (2009: Nil).

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

Deferred tax assets have not been recognised in respect of the losses of Capitol International, Hangzhou Sanjiang, Sanjiang Trading and Guanlang as it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

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

	2010	2009
	RMB'000	RMB'000
Tax losses of Capitol International	**4,038**	–
Tax losses of Hangzhou Sanjiang	**601**	–
Tax losses of Sanjiang Trading	**374**	14
Tax losses of Guanlang	**–**	107
	5,013	121

The tax losses of Capitol International are available indefinitely for offsetting against future taxable profits of the entity and tax losses of others are available for five years to offset against future taxable profits at the companies in which the losses arose.

28. SHARE CAPITAL

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

	Notes	**Number of shares**	**Amount** RMB'000
Authorised ordinary shares of USD1 each:			
At 31 December 2009		132,000	901
Issued and fully paid ordinary shares of USD1 each:			
At 30 January 2009, date of incorporation	(i)	1	–
Issue of shares on 4 August 2009	(ii)	9,999	68
Issue of shares on 28 September 2009	(iii)	114,080	779
Issue of shares on 8 December 2009	(iv)	7,920	54
At 31 December 2009 and 1 January 2010		132,000	901
Issue of shares on 6 May 2010	(v)	4,470	31
Issue of shares on 15 September 2010	(vi)	18,000	121
Capitalisation issue of shares	(vii)	756,748,530	64,416
New issue of shares from initial public offering	(viii)	265,400,000	22,950
At 31 December 2010		1,022,303,000	88,419

Notes:

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

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

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

(iv) On 8 December 2009, 7,920 ordinary shares were issued to CITIC International Assets Management Limited, Creation One International Limited, Chemwin Limited, Rich Honour Holdings Limited and BOCOM International Holdings Company Limited for a total cash consideration of USD10,000,000 (equivalent to approximately RMB68,281,000). After the issuance, these new investors held 6% of the paid-in capital of the Company.

(v) On 6 May 2010, 4,470 ordinary shares were issued to Sure Capital for a total cash consideration of USD4,470 (equivalent to approximately RMB31,000).

(vi) On 15 September 2010, 18,000 ordinary shares were issued to BOCOM International Holdings Company Limited for a total cash consideration of USD 20,000,000 (equivalent to approximately RMB134,500,000), pursuant to the execution of transfer from the redeemable preference shares of Sure Capital.

(vii) On 16 September 2010, a total of 756,748,530 new ordinary shares of HK$0.1 each were further allotted and issued, credited as fully paid at par by the Company, by way of capitalisation of the sum of HK$ 75,674,853 (equivalent to approximately RMB64,416,000) from the share premium account, to the then existing shareholders of the Company in proportion to their respective share holdings.

(viii) On 16 September 2010, in connection with the Company's initial public offering, the Company issued 252,400,000 ordinary shares of HK$0.1 each at a price of HK$3.38 per share for a total cash consideration, before related issuance expenses, of HK$853,112,000 (equivalent to approximately RMB737,856,000).

On 8 October 2010, 13,000,000 ordinary shares of HK$0.1 each were allotted and issued upon the exercise of the over-allotment option at a price of HK$3.38 per share for a total cash consideration, before related issuance expenses, of HK$43,940,000 (equivalent to approximately RMB37,861,000).

29. RESERVES

(a) Group

Share premium

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

On 8 December 2009, 7,920 shares with a par value of US$1 were issued for a total cash consideration of US$10,000,000 (equivalent to approximately RMB 68,282,000).

On 15 September 2010, 18,000 ordinary shares were issued to BOCOM International Holdings Company Limited for a total cash consideration of USD 20,000,000 (equivalent to approximately RMB134,500,000), pursuant to the execution of transfer from the redeemable preference shares of Sure Capital.

On 16 September 2010, a total of 756,748,530 new ordinary shares of HK$0.1 each were further allotted and issued, credited as fully paid at par by the Company, by way of capitalisation of the sum of HK$75,674,853 (equivalent to approximately RMB64,416,000) from the share premium account, to the then existing shareholders of the Company in proportion to their respective shareholdings.

On 16 September 2010, in connection with the Company's global offering, the Company issued 252,400,000 ordinary shares of HK$0.1 each were issued at a price of HK$3.38 per share for a total cash consideration, before related issuance expenses, of HK$853,112,000 (equivalent to approximately RMB737,856,000).

On 8 October 2010, 13,000,000 ordinary shares of HK$0.1 each were allotted and issued upon the exercise of the over-allotment option at a price of HK$3.38 per share for a total cash consideration, before related issuance expenses, of HK$43,940,000 (equivalent to approximately RMB37,861,000).

Merger reserve

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

Statutory surplus reserves

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

29. RESERVES *(CONTINUED)*

(b) Company

	Notes	2010 RMB'000	2009 RMB'000
Share premium		**1,270,593**	493,934
Loss		**(34,333)**	–
Proposed final 2010 dividend	30	**(81,852)**	–
		1,154,408	493,934

30. DIVIDENDS

	2010 RMB'000	2009 RMB'000
Proposed final – HK9.5 cents (2009: Nil) per ordinary share	**81,852**	–

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

31. PLEDGE OF ASSETS

Details of the Group's bank borrowings which are secured by the assets of the Group, are included in note 14, note 15 and note 23 to these financial statements.

32. CONTINGENT LIABILITIES

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

	2010 RMB'000	2009 RMB'000
Guarantees given to banks in connection with loans granted to:		
Related parties	–	50,000
Third parties	–	5,500
	–	55,500

33. COMMITMENTS

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from six to ten years and the rental expenses will be renewed every three years. At 31 December 2010, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2010 RMB'000	2009 RMB'000
Operating lease commitments:		
Within one year	3,360	–
In the second to third years	2,400	–
In the third to fifth years	2,400	–
Beyond the fifth year	2,500	–
	10,660	–

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

	2010 RMB'000	2009 RMB'000
Contracted, but not provided for:		
Plant and machinery	103,499	26,381
Contracted, but not provided for:		
Capital contributions payable to a jointly-controlled entity	10,596	–
	114,095	26,381

34. RELATED PARTY TRANSACTIONS

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

Company	**Relationship**
Guan Jianzhong	Ultimate controlling shareholder
Han Jianhong	Ultimate controlling shareholder
Lai Youying	Close family member
Hangzhou Haoming	Fellow subsidiary
Jiaxing Xinggang Rewang Co., Ltd. ("Jiaxing Rewang")	Associate of a fellow subsidiary

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

Group

	Notes	2010 RMB'000	2009 RMB'000
Purchases from:			
Jiahua Industrial Park Co	(i)	47,790	50,474
Jiaxing Rewang	(i)	4,085	3,285
		51,875	53,759
Rental income:			
Jiaxing Rewang		746	702
Rental expense:			
Hangzhou Haoming		900	–

Note:

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

34. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(b) Outstanding balances with related parties:

Group

	2010 **RMB'000**	2009 RMB'000
Due from related parties:		
Jianghao Property	–	70,618
Equity holders	–	39,493
Jianghao Limited	–	32,292
	–	142,403

	2010 **RMB'000**	2009 RMB'000
Due to related parties:		
Jiahua Industrial Park Co	**(4,480)**	(4,587)
Lai Youying	–	(100)
Jiaxing Rewang	**(738)**	(1,191)
	(5,218)	(5,878)

	2010 **RMB'000**	2009 RMB'000
Group and Company		
Due to the parent and ultimate holding company	–	(68,282)
Company		
Due from a subsidiary:		
Capitol International	**572,561**	301,806
Due to a subsidiary:		
Capitol International	–	(873)

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

34. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(c) Outstanding balances with directors:

Group

	2010 **RMB'000**	2009 RMB'000
Due to directors:		
Executive directors:		
Han Jianhong	**(2,026)**	(1,475)
Guan Jianzhong	**(5,735)**	(89)
Non-executive directors:		
Wang Wanxu	**(34)**	–
Shen Kaijun	**(34)**	–
Li Zhihong	**(34)**	–
	(7,863)	(1,564)

Company

	2010 **RMB'000**	2009 RMB'000
Due to directors:		
Executive directors:		
Han Jianhong	**(2,026)**	(2)
Guan Jianzhong	**(5,655)**	(7)
Non-executive directors:		
Wang Wanxu	**(34)**	–
Shen Kaijun	**(34)**	–
Li Zhihong	**(34)**	–
	(7,783)	(9)

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

34. RELATED PARTY TRANSACTIONS *(CONTINUED)*

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

	2010 RMB'000	2009 RMB'000
Short term employee benefits	11,291	1,144
Pension scheme contributions	40	10
Total compensation paid to key management personnel	11,331	1,154

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

35. FINANCIAL INSTRUMENTS BY CATEGORY

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

Group

Financial assets

	2010			2009
	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000	Loans and receivables RMB'000
Available-for-sale investments (note 19)	–	50,000	50,000	–
Trade and notes receivables (note 21)	35,662	–	35,662	38,763
Financial assets included in prepayments, deposits and other receivables (note 22)	18,941	–	18,941	10,605
Due from related parties (note 34)	–	–	–	142,403
Pledged deposits (note 23)	492,910	–	492,910	236,547
Cash and cash equivalents (note 23)	601,249	–	601,249	109,205
	1,148,762	50,000	1,198,762	537,523

35. FINANCIAL INSTRUMENTS BY CATEGORY *(CONTINUED)*

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

Group *(continued)*

Financial liabilities

	2010 Financial liabilities at amortised cost RMB'000	2009 Financial liabilities at amortised cost RMB'000
Trade and bill payables (note 24)	202,433	254,083
Financial liabilities included in other payables and accruals (note 25)	63,212	63,548
Interest bearing bank borrowings (note 26)	793,760	719,486
Due to directors (note 34)	7,863	1,564
Due to related parties (note 34)	5,218	5,878
Due to the parent and ultimate holding company (note 34)	–	68,282
Dividend payables	–	172,036
	1,072,486	1,284,877

Company

Financial assets

	2010 Loans and receivables RMB'000	2009 Loans and receivables RMB'000
Financial assets included in other receivables (note 22)	7,194	1,844
Due from a subsidiary (note 34)	572,561	301,806
Cash and cash equivalents	326,119	28
	905,874	303,678

35. FINANCIAL INSTRUMENTS BY CATEGORY *(CONTINUED)*

Company *(continued)*

Financial liabilities

	2010 Financial liabilities at amortised cost RMB'000	2009 Financial liabilities at amortised cost RMB'000
Due to directors (note 34)	7,783	9
Due to a subsidiary (note 34)	–	873
Due to the parent and ultimate holding company (note 34)	–	68,282
Dividend payables	–	166,267
	7,783	235,431

The fair values of the Group's financial instruments are not materially different from their carrying amounts. Fair value estimates are made at a specific point in time and are based on relevant market information and information about the financial instruments. These estimates are subjective in nature, involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

Interest rate risk

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

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

Group

	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax** RMB'000
2010		
RMB	**50**	**(20)**
RMB	**(50)**	**20**
2009		
RMB	50	(35)
RMB	(50)	35

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. Approximately 53% (2009: 80%) of the Group's purchases for the year ended 31 December 2010 are denominated in currencies other than the functional currencies of the operating units making the sale, whilst almost 100% of sales for the periods are denominated in the units' functional currencies. At present, the Group does not intend to seek to hedge its exposure to foreign exchange fluctuations. However, management constantly monitors the economic situation and the Group's foreign exchange risk profile and will consider appropriate hedging measures in the future should the need arise.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

Foreign currency risk *(Continued)*

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

Group

	Increase/ (decrease) in foreign currency rate	**Increase/ (decrease) in profit before tax**
	%	RMB'000
2010		
If RMB weakens against United States dollar	**5**	**(11,251)**
If RMB strengthens against United States dollar	**(5)**	**11,251**
2009		
If RMB weakens against United States dollar	5	(32,303)
If RMB strengthens against United States dollar	(5)	32,303

Credit risk

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

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

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty. At 31 December 2010, the Group had certain concentrations of credit risk as 21% (2009: 26%) and 45% (2009: 36%) of the Group's trade receivables were due from the Group's largest customer and the five largest customers, respectively.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and notes receivables and prepayments, deposits and other receivables are disclosed in note 21 and note 22, respectively, to the financial statements.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

Liquidity risk

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

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

Group

	31 December 2010					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade and bills payables	8,457	193,976	–	–	–	202,433
Other payables and accruals	18,365	63,786	37,326	12,573	–	132,050
Interest-bearing bank borrowings	–	350,377	404,552	52,954	–	807,883
Due to related parties	5,218	–	–	–	–	5,218
Due to directors	7,863	–	–	–	–	7,863
	39,903	608,139	441,878	65,527	–	1,155,447

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

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

Liquidity risk *(Continued)*

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

Company

	31 December 2010					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Due to directors	7,783	–	–	–	–	7,783
	7,783	–	–	–	–	7,783

	31 December 2009					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Due to the parent and ultimate holding company	68,282	–	–	–	–	68,282
Due to a subsidiary	873	–	–	–	–	873
Due to directors	9	–	–	–	–	9
	69,164	–	–	–	–	69,164

Capital management

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

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the year.

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

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

Capital management *(Continued)*

	2010 RMB'000	2009 RMB'000
Trade and bills payables	202,433	254,083
Other payables and accruals	132,050	136,764
Interest-bearing bank borrowings	793,760	719,486
Due to directors	7,863	1,564
Due to related parties	5,218	5,878
Due to the parent and ultimate holding company	–	68,282
Dividends payable	–	172,036
Less: Cash and cash equivalents	(601,249)	(109,205)
Pledged deposits	(492,910)	(236,547)
Net debt	47,165	1,012,341
Equity attributable to equity holders	1,332,775	234,360
Capital and net debt	1,379,940	1,246,701
Gearing ratio	3%	81%

37. EVENTS AFTER THE REPORTING PERIOD

On 7 January 2011, Sanjiang Chemical, a wholly-owned subsidiary of the Company, entered into the Trust Agreement with ICBC and the Entrusted Loan Agreement with ICBC and Jiaxing Xinhu Zhongfang Zhiye Co., Limited ("Jiaxing Xinhu").

Pursuant to the Trust Agreement, Sanjiang Chemical entrusted an amount of RMB150,000,000 (the "Fund") to ICBC and which would arrange for the advancement of the Fund to entities as approved by Sanjiang Chemical. As arranged by ICBC, Sanjiang Chemical advanced the Fund of RMB150,000,000 to Jiaxing Xinhu as a short term loan pursuant to the Entrusted Loan Agreement.

38. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 21 March 2011.

FOUR YEAR FINANCIAL SUMMARY

	2010 RMB'000	2009 RMB'000	2008 RMB'000	2007 RMB'000
REVENUE	1,582,526	1,285,533	952,847	876,774
Gross profit	360,164	356,321	224,502	209,431
Other income – Bank interest income	14,601	7,573	6,923	5,796
Other income – Foreign exchange gains	16,093	942	18,185	12,418
Finance costs	19,087	32,915	36,736	34,360
PROFIT BEFORE TAX	318,574	303,835	181,335	170,527
Income tax expense	52,263	43,673	19,500	839
Net profit for the year	266,311	260,162	161,835	169,688
Profits attributable to equity holders of the parent	266,126	242,075	139,081	147,358
NON-CURRENT ASSETS	1,270,284	1,020,083	1,034,690	856,225
CURRENT ASSETS	1,266,758	616,895	737,110	712,662
Interest-bearing bank borrowings	793,760	719,486	786,963	648,287
CURRENT LIABILITIES	1,120,960	1,280,458	1,280,449	1,267,245
NET CURRENT ASSETS/(LIABILITIES)	145,798	(663,563)	(543,339)	(554,583)
NON-CURRENT LIABILITIES	81,271	122,322	153,110	80,341
Net assets/Total equity	1,334,811	234,198	338,241	221,301
Cash inflow from operating activities	354,117	294,705	69,711	221,914
Cash (outflow) from investing activities	(578,729)	(18,875)	(223,093)	(311,601)
Cash inflow/(outflow) from financing activities	700,563	(232,932)	85,241	101,112
	RMB cents	RMB cents	RMB cents	RMB cents
Earnings per share – Basic & Diluted	34.82	37.43	21.50	22.78
Net assets per share	174.64	36.21	52.29	34.21
	In %	In %	In %	In %
Gross profit margin	22.8	27.7	23.6	23.9
Profit before tax margin	20.1	23.6	19.0	19.4
Net profit margin	16.8	20.2	17.0	19.4
Effective tax rate	16.4	14.4	10.8	0.5
ROE				
– net profit for the year to total equity	20.0	111.1	47.8	76.7
Gearing				
– total interest-bearing bank borrowings to total equity	0.6x	3.1x	2.3x	2.9x

	2010 In days	2009 In days	2008 In days	2007 In days
Inventory turnover days – Average opening and closing inventories divided by cost of sales x 365 days	**25.6**	28.4	43.1	42.3
Trade and notes receivables turnover days – Average opening and closing trade and note receivables divided by revenue x 365 days	**8.6**	12.0	19.6	20.7
Trade and bills payables turnover days – Average opening and closing trade and bills payables divided by cost of sales x 365 days	**68.2**	106.2	166.9	198.0

CORPORATE INFORMATION

DIRECTORS

Executive Directors

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

Independent non-executive Directors

WANG Wanxu
SHEN Kaijun
LI Zhihong

SHARE LISTING

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

AUDITORS

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

LEGAL ADVISERS AS TO HONG KONG LAW

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PRINCIPAL PLACE OF BUSINESS IN THE PRC AND HEADQUARTERS

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Zhejiang Province, PRC

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Butterfield Fulcrum Group (Cayman) Limited
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Cayman Islands

COMPANY SECRETARY

Yip Ngai Hang, HKICPA

COMPLIANCE ADVISER

Daiwa Capital Markets Hong Kong Limited

PRINCIPAL BANKER IN HONG KONG

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

PRINCIPAL BANKERS IN THE PRC

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

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

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

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

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

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

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

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CORPORATE WEBSITE

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