中国旭光高新材料集团有限公司

China Lumena New Materials Corp.

(Incorporated in the Cayman Islands with limited liability)
Stock code : 67

ANNUAL REPORT
2010

Contents

Vision and Mission

Vision

To become the largest thenardite and polyphenylene sulfide producer in the World

Mission

To provide the highest quality thenardite and polyphenylene sulfide products to our customers and continue to expand product offerings and markets

Corporate Information

Board (the "Board") of directors (the "Directors" and each a "Director")

Executive Directors

Mr. Zhang Daming
Mr. Li Xudong
Mr. Yu Man Chiu Rudolf
(appointed with effect from 3 March 2010)
Ms. Deng Xianxue
(resigned with effect from 3 March 2010)

Non-Executive Directors

Mr. Suo Lang Duo Ji *(Chairman)*
Mr. Zhang Songyi
Mr. Wang Chun Lin

Independent Non-executive Directors

Mr. Koh Tiong Lu, John
Mr. Wong Chun Keung
Mr. Gao Zongze
(appointed with effect from 3 March 2010)
Mr. Xia Lichuan
(appointed with effect from 3 March 2010)
Mr. Patrick Logan Keen
(resigned with effect from 31 July 2010)

Company Secretary

Mr. Wong Kui Tong
(appointed with effect from 1 May 2010)
Mr. Zhu Ben Yu
(resigned with effect from 1 May 2010)

Members of the Audit Committee

Mr. Koh Tiong Lu, John
(appointed as the Chairman with effect from 31 July 2010) *(Chairman)*
Mr. Wong Chun Keung
Mr. Gao Zongze
(appointed as a member with effect from 31 July 2010)
Mr. Xia Lichuan
(appointed as a member with effect from 31 July 2010)
Mr. Patrick Logan Keen
(resigned as the Chairman and a member with effect from 31 July 2010)

Members of the Remuneration Committee

Mr. Wong Chun Keung *(Chairman)*
Mr. Suo Lang Duo Ji
Mr. Gao Zongze
(appointed as a member with effect from 1 May 2010)
Mr. Xia Lichuan
(appointed as a member with effect from 1 May 2010)
Mr. Patrick Logan Keen
(resigned as a member with effect from 31 July 2010)

Members of the Nomination Committee

Mr. Koh Tiong Lu, John *(Chairman)*
Mr. Wong Chun Keung
Mr. Wang Chun Lin

Compliance Adviser

Guotai Junan Capital Limited

Corporate Information

Legal Advisers

as to Hong Kong law:
Li & Partners

Independent Auditor

BDO Limited
(appointed with effect from 10 December 2010)
Grant Thornton Hong Kong
(resigned with effect from 10 December 2010)

Principal Bankers

Bank of China (Hong Kong) Limited
Bank of China Tower
1 Garden Road, Hong Kong
Agricultural Bank of China
1 Kehua Street, Kehua Bei Road
Chengdu, PRC
China Merchants Bank
91-95 Kehua Bei Road
Chengdu, PRC
Industrial and Commercial Bank of China Limited
81 Sansu Road
Meishan City, PRC

Hong Kong Share Registrar

Computershare Hong Kong Investor Services Limited
17M Floor
Hopewell Centre
183 Queen's Road East, Wanchai
Hong Kong

Principal Share Registrar and Transfer Office

Appleby Trust (Cayman) Limited
Clifton House, 75 Fort Street
P.O. Box 1350, Grand Cayman
KY1-1108, Cayman Islands

Headquarters and Principal Place of Business in Hong Kong

Units 7503B, 7504 and 7505 on
Level 75 of International Commerce Centre
1 Austin Road West, Kowloon
Hong Kong

Website

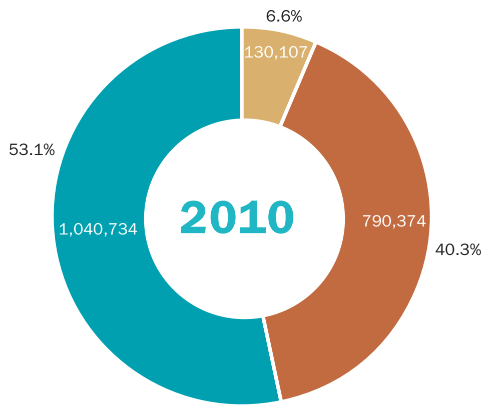
www.lumena.hk

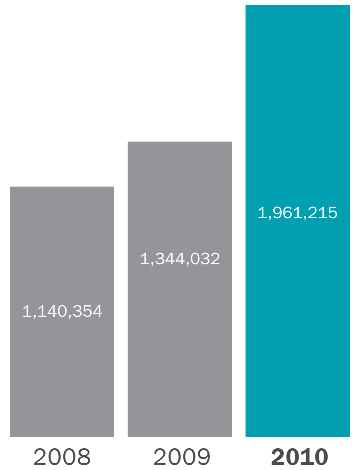
Financial Highlights

Revenue

RMB'000

- Powder Thenardite
- Medical Thenardite
- Specialty Thenardite

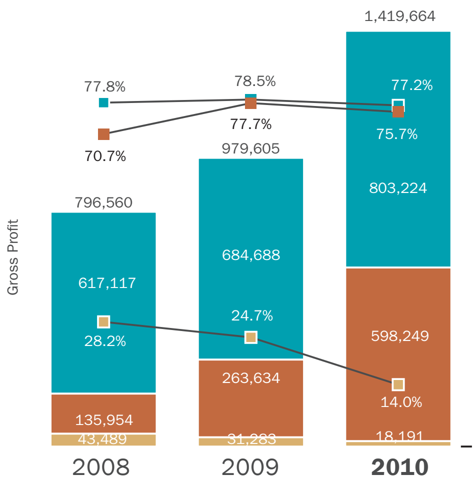




Gross profit

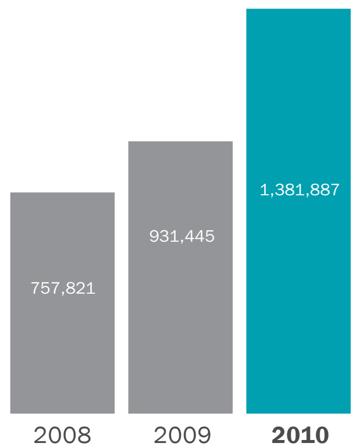
RMB'000

- Powder Thenardite
- Medical Thenardite
- Specialty Thenardite



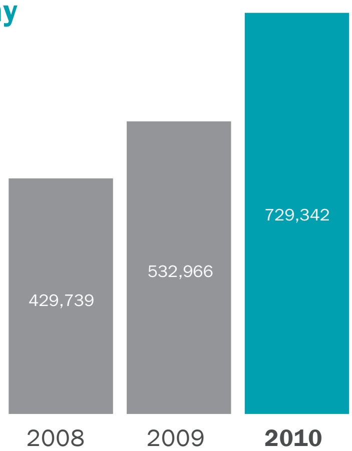
EBITDA

RMB'000



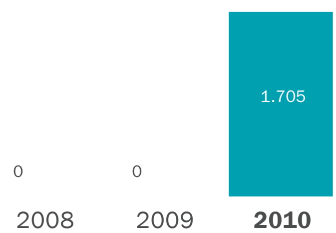
Profit for the year attributable to: Owners of the Company

RMB'000



Final Dividend

RMB Cents



Final dividend of HK1.94 cents per share
(equivalent to approximately RMB1.705 cents per share)

Chairman's Statement

Dear shareholders,

It is my pleasure to present to you the 2010 annual report of China Lumena New Materials Corp. (the "Company", together with its subsidiaries, the "Group", "we" or "us").

Market Review

Demand for thenardite in 2010 increased at a steady pace as global economy saw a gradual recovery after the financial crisis, with industrial development and economy returned to growth. China has huge demand for thenardite. Domestic sales of thenardite kept increasing in the same pace with the PRC economy in 2010. China's thenardite products have absolute competitive advantages in terms of quality and price over those supplied by other producing nations in Asia. The proximity to high growth Asian markets provides the Chinese thenardite producers with huge business opportunities, and therefore the export sales of thenardite posted a double-digit growth.

Operating Results

During the year, the operating environment improved further along with the global economic recovery. The Group grasped these opportunities to develop the high-end thenardite products with higher profit margin, thereby achieving a satisfactory growth in its overall operating results in 2010.

Driven by strong sales of its medical thenardite and specialty thenardite, the Group's revenue increased from RMB1,344.0 million in 2009 to RMB1,961.2 million for the year ended 31 December 2010, representing an increase of 45.9%. Among which, proportion of sales to major customers reached 22.6%. In 2010, gross profit of the Group was RMB1,419.7 million, representing an increase of 44.9% from RMB979.6 million in 2009. This was mainly attributable to the increase in the sales of the products with high profit margin, namely specialty thenardite and medical thenardite. Benefited from optimization of the Group's products portfolio, proportion of sales of products with high profit margin to total sales increased. The Group's overall gross profit margin was 72.4% in 2010, representing a decrease of 0.5% from 72.9% in 2009.

Chairman's Statement

Business Review

Capacity Expansion

In 2010, the Group focused on production and sales of high-end thenardite products, and made admirable achievements. After successful acquisition of the mining right over Yuegou mining area in Meishan city, the Company upgraded its original facilities to produce the specialty thenardite that could be used as an animal feed additive, and obtained the "Feed Additive Manufacturing Licence" issued by the Department of Agriculture of the People's Republic of China. The new production facility commenced its commercial operation in September 2010 with a capacity of 300,000 tonnes per annum ("tpa"). Meanwhile, the Group entered into a memorandum of understanding with Sichuan Yinglin Enterprises Group Company Limited ("Sichuan Yinglin") for the acquisition of its two thenardite mines in Meishan city together with the mining rights owned by Sichuan Yinglin, so as to further expand the Group's annual production capacity of thenardite.

Launching Downstream New Thenardite Products

The Group also endeavoured to expand the clinical application of medical thenardite in 2010. Currently, the Group has completed the preparatory work for the production and sales of thenardite medicines. It is expected that the thenardite medicines will be formally launched to retail market in April 2011. The thenardite medicines are purchased by retailers and hospitals for their efficacies of mild laxative, colon, anti-inflammation, swelling reduction and detoxification. With the launch of thenardite medicines, the Group will expand its operations into downstream businesses, thus completing vertical integration of its thenardite business.

Brand Recognition Enhancement

The Group's brand and thenardite products enjoy strong recognition among downstream industries in China. In March 2010, our anhydrous sodium sulphate marketed under the brand "Chuanmei" was recognized as a "Sichuan Famous Brand Product" by the People's Government of Sichuan Province for the 9th consecutive time in 18 years since 1993. Meanwhile, the registered trademark "Chuanmei" was recognized as a "China Well-known Trademark" by the State Administration for Industry and Commerce in March 2008. In 2010, the Company was also honoured as an "Outstanding Quality Control Enterprise", an "Outstanding Safety Production

Enterprise" and an "Advanced Enterprise with Excellent Performance in Quality Control", and passed the reassessment of the "Environmental Management System" and the "ISO9001: 2008 Quality Control System".

Research and Development

To maintain its competitive edge in the long run, the Group continued to make investments in research and development during the year, including development of new products and innovative applications, so as to expand its products portfolio and diversify its source of income. Following the successful development of specialty thenardite to be used as additives in cement and animal feed as well as the thenardite medicines to be taken directly by patients, the Company has submitted two patent applications for the Group's refined sodium sulphide which are applicable to the production of high-end PPS products. The Group is also developing natrii sulfas exsiccatus, another clinical product of medical thenardite. The purpose of the above measures is to widen the application of thenardite, to boost the demand for thenardite and to stimulate industrial growth. The Group also focuses in its research and development to optimize production efficiency and streamline production process, so as to reduce the costs of labour and raw materials and improve the economies of scale.

Acquisition of Sino Polymer and realization of vertical integration of high-end chemical operations

On 7 November 2010, the Company announced the acquisition of up to 95.00% but not less than 89.49% of the equity interest in Sino Polymer New Materials Co., Ltd. ("Sino Polymer"), with an aim to expand the Company's product portfolio to downstream thenardite products. Sino Polymer is one of the largest producers of polyphenylene sulfide ("PPS") resin in the world, mainly engaged in the production, development and sales of PPS resin, PPS compound and PPS fibre, and has two factories located respectively in Chengdu city and Deyang city, Sichuan province, China. PPS is a high performance thermoplastics widely used in the fields of electric appliances, electronic devices, vehicles, transportation, environmental dedusting, aerospace and paints. After the deoxidation process, the Group's pure thenardite can be directly used to produce sodium sulphide, one of two indispensable raw materials for production of PPS. With growing emphasis given to high-end high-performance specialty chemicals, the Company considered the acquisition an important step toward this direction, which signifies that the Group has implemented

Chairman's Statement

its strategic initiatives to expand downstream thenardite products. Through merger and acquisition, the Company will develop into an integrated chemical/new material conglomerate with a balanced products portfolio, and the Company will endeavour to become a leading chemical enterprise in international market in near future. On 8 December 2010, we changed our company name to "China Lumena New Materials Corp." On 14 January 2011, the Company formally completed acquisition of 94.1% of the equity interests in Sino Polymer, marking its entry into the PPS new materials market.

Future prospects

Following the completion of the acquisition of Sino Polymer in January 2011, the Group has become one of the world's leading manufacturers of high-end special new materials and a world leading enterprise in the thenardite and PPS industries. Thenardite and PPS products have a wide range of applications and are used in many fields with bright future prospects and huge potential for growth. To grasp business opportunities in the market, the Group will make greater efforts in developing its business and further enhance its competitive strength.

Grasping opportunities brought by the Twelfth Five-year Plan and vigorously developing PPS business

PPS is a crystalline and wholly aromatic polymer and a special thermo plastic with excellent performance characterized by outstanding heat resistance, dimensional stability, flame retardance chemical resistance as well as good mechanical and electrical properties which can be applied in many fields. Meanwhile, PPS, as a new material, has been listed in the catalogue of new materials that priority has been given by the State for focused cultivation and development in the Twelfth Five-year Plan. In January 2011, the scientific achievement of "The Development and Application of the Complete Set of Technologies Used in the Industrialization of PPS Fibre" made by Sichuan Deyang Special New Materials Co., Ltd. ("Deyang Materials") was awarded the second prize for National Scientific and Technological Progress. The Company will take advantage of this chance and grasp the huge opportunities brought about by the country's Twelfth Five-year Plan, put more efforts in the R&D of PPS and develop more applications for PPS products, expand its PPS production capacity to increase the sources of revenue for the Group.

Intensifying efforts in the R&D and promotion of high-end products to further increase profitability

In order to maintain its competitive strength in the long run, the Group will intensify its efforts in the R&D and promotion of high-end products with a view to increase the Group's profitability.

In terms of thenardite business, in order to support the reform of the State's medical and healthcare policies, the Group will vigorously promote the business of medical thenardite and develop thenardite medicines for therapeutic applications, which may generate additional profit for the Group under the same sales volume and production output. Meanwhile, the Group will produce special thenardite with different properties which are customized to meet the demand of different customers. This will help to boost the Group's overall gross profit margin.

Chairman's Statement

In terms of PPS business, the Group has a well-experienced sales and marketing team responsible for the sales and marketing of its PPS products, and to promote PPS products to existing and potential customers, conduct market research and analysis, implement the marketing and sales strategies and provide after-sales service to customers. The PPS R&D team of the Group has successfully produced low-chlorine PPS and a new film-grade PPS resin, developed PPS fibre which can be used in PPS filter cloth production and developed new applications of PPS compound for use in rail transportation. The demand for this application of PPS compound as insulators will increase as China is proceeding with the construction of large-scale subway and high speed rail systems in big cities. Moreover, the Group is currently involved in research and development projects relating to the application of PPS in solar panels and the application of PPS profiles in the areas of petroleum and chemical engineering. The Group believes that the extended scope of new applications for PPS will effectively increase the profitability of the PPS business.

Increasing market share through capacity expansion and mergers and acquisition

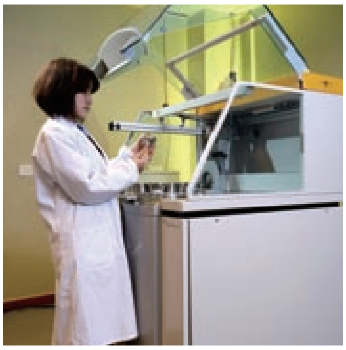
As regards our thenardite business, the Group entered into a memorandum of understanding with Sichuan Yinglin Enterprise Group Co., Ltd. in September 2010 for the acquisition of two thenardite mines in Meishan city together with the mining rights owned by Sichuan Yinglin. The acquisition is expected to be completed in the first half of 2011. Upon completion of the acquisition, the Group will upgrade and modify the thenardite production lines in the original mine areas. In this way, the Group will increase the annual production capacity by 600,000 tonnne, of which over 300,000 tonnes are special thenardite.

With respect to our PPS business, it is expected that PPS demand in China will continue to grow. In 2011, the Group plans to commence the construction of a PPS resin production line of 25,000 tonnes per annum ("tpa") and a PPS fibre production line of 15,000 tpa in order to increase production capacity to satisfy market demand and grasp business opportunities arising therefrom. It is expected that the 25,000 tonnes PPS resin production line will commerce operation in October 2012. Together with our existing PPS resin production capacity of 30,000 tpa, the Group's PPS resin production capacity in October 2012 will reach 55,000 tonnes. As for our PPS fibre production capacity, the 15,000 tpa PPS fibre production line is expected to commence operation in November 2012. Together with our existing PPS fibre production capacity of 5,000 tonnes per year, the Group's PPS fibre production capacity in November 2012 will reach 20,000 tonnes.

Appreciation

The various achievements made by the Group in 2010 were solely attributable to the dedication of all staff. I hereby wish to express my appreciation to the fellow members of the Board, senior executives and all staff for their devotion during the year. At the same time, I also wish to express my deepest gratitude to the long-term support of our shareholders, noteholders, customers and suppliers. The Group has great confidence in its future prospects. Under the leadership of our experienced management, we are sure that our Group will achieve more excellent results and bring considerable return to our investors.

Management Discussion and Analysis



Financial Review

Income

For the year ended 31 December 2010, our revenue increased to approximately RMB1,961.2 million (2009: RMB1,344.0 million), representing an increase of approximately 45.9% as compared to the previous year.

The increase in our revenue was attributable to the commencement of commercial operation of our new medical thenardite production facility in the Muma Mining Area with a capacity of 200,000 tpa in January 2010, the commencement of commercial operation of our new specialty thenardite for animal feed production facility in the Yuegou Mining Area with a capacity of 300,000 tpa in September 2010 and our focus on the production and sales of medical and specialty thenardite which have higher average price and more stable pricing. As a result, the sales of our medical and specialty thenardite increased and our aggregate sales grew during the year.

Gross profit and gross profit margin

We recorded a gross profit of RMB1,419.7 million for the year ended 31 December 2010 (2009: RMB979.6 million), representing an increase of approximately 44.9% as compared to the previous year. The increase in our gross profit was mainly attributable to the increase in the sales of our high end products, namely specialty thenardite and in particular medical thenardite.

Our overall gross profit margin was 72.4% for the year ended 31 December 2010 (2009: 72.9%), representing a decrease of approximately 0.5% as compared to the previous year. The decrease in our overall gross profit margin was due to the increases in utility costs, and depreciation expenses in machinery and equipment as a result of the commencement in commercial production of our medical thenardite facilities in the Muma Mining Area.

Earnings per share

For the year ended 31 December 2010, the basic earnings per share was RMB37.42 cents (2009: RMB30.49 cents).

Final dividend

At the meeting of the Board held on 31 March 2011, the Directors declared a final dividend of HK1.94 cents per ordinary share (equivalent to approximately RMB1.705 cents per ordinary share) for the year ended 31 December 2010 (2009: Nil) to the shareholders, whose names appear on the register of members on Tuesday, 26 April 2011. The proposed final dividend has not been reflected in the financial statements as at 31 December 2010.

Annual General Meeting

The forthcoming annual general meeting (the "AGM") of the Company will be held on Tuesday, 26 April 2011 and the notice of AGM was published and despatched to the shareholders on 23 March 2011.

Closure of Register of Members

The register of members will be closed from Monday, 18 April 2011 to Tuesday, 26 April 2011, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the final dividend and be eligible to attend and vote at the AGM, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 15 April 2011.

Liquidity and Financial Resources

Borrowings

The Group's bank borrowings and fixed rate senior notes were approximately RMB531.7 million (2009: RMB356.5 million) and RMB1,588.7 million (2009: RMB1,616.8 million) respectively as at 31 December 2010. The Group's bank borrowings are all secured bank loans. Details of interest rate structure and maturity profile of the bank borrowings and fixed rate senior notes are set out in notes 29 and 30 respectively to the financial statements.

Management Discussion and Analysis

Leverage

Gearing ratio defined as consolidated total debts divided by consolidated total assets as at 31 December 2010 was 43.1% (2009: 48.0%) and the net gearing ratio defined as consolidated net debts divided by consolidated total assets as at 31 December 2010 was 20.1% (2009: 25.4%).

Pledge on Group's Assets

Details of pledge of assets as at 31 December 2010 are shown in note 31 to the consolidated financial statements prepared in accordance with the International Financial Reporting Standards.

Contingent Liabilities

As at 31 December 2010, the Group did not have any material contingent liabilities (2009: Nil).

Capital Commitment

Details of capital commitment of the Group as at 31 December 2010 are shown in note 37 to the financial statements.

Foreign Exchange Exposure

During the year, we did not use any foreign currency derivative product to hedge our exposure to currency risk. However, the management managed and monitored our foreign currency exposure to ensure that appropriate measures were implemented on a timely and effective manner.

Market Review

China ranks first in the world in terms of the size of glauberite ($Na2So4 \bullet CaSo4$) reserves, and a majority of which is concentrated in Sichuan and Jiangsu provinces. China is also the biggest thenardite producer, consumer, and exporter in the world.

In the wake of industrialization and continuous economic expansion as a result of a gradual recovery of the global economy after the financial crisis, demand for thenardite is expected to increase. The thenardite products of China have absolute competitive advantages in terms of quality and price as compared to other thenardite products in the Asian market. The proximity to high growth Asian markets provides the Chinese thenardite producers with great potentials of business opportunities.

The thenardite market has been volatile in 2009 as with all non-ferrous commodities in China, but in 2010 we have witnessed gradual restoration of stability in the market. In addition, the niche high-end segment of the market has proved to be robust and unaffected by the volatilities in the commodities market.

Management Discussion and Analysis

Business Review

We are engaged in the mining, processing and manufacturing of natural thenardite products. According to Behre Dolbear & Company (USA) Inc. ("Behre Dolbear"), our independent market research consultant, we are the one of largest thenardite producer in the world in terms of production capacity as at 31 December 2010, and we have a single line production facility in the world.

We currently operate four captive underground glauberite mines located in the Dahongshan Mining Area, the Guangji Mining Area, the Muma Mining Area and the Yuegou Mining Area in Sichuan Province respectively from which we source all of our glauberite ore for the production of thenardite. According to John T. Boyd Company ("JT Boyd"), our independent mining and geological consultant, the above four mining areas have a total of approximately 59.1 million tonnes of proved and probable thenardite reserves pursuant to the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Resources (the "JORC Code"), and our reserves are higher than the average grade in China. Our production facilities in the Dahongshan Mining Area and the Muma Mining Area are the only production facilities in China with GMP certification and the Pharmaceutical Production Permit for medical thenardite, and we are the only approved and certified medical thenardite producer in China.

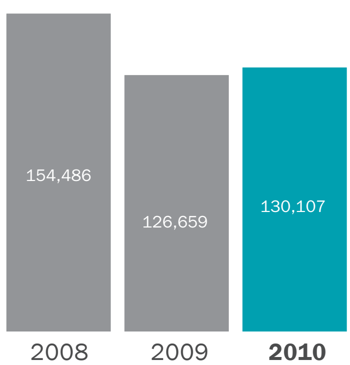
Products

We produce powder thenardite, specialty thenardite and medical thenardite. As a leading thenardite producer in China, we enjoy strong brand and product recognition among downstream industries in China. The brand "Chuanmei" has been successively recognized as a "Sichuan Famous Brand Product" since 1993 and the registered trademark "Chuanmei" was recognized as a "China Well-known Trademark" by the State Administration for Industry and Commerce of the PRC in March 2008.

Powder thenardite

Revenue

RMB'000

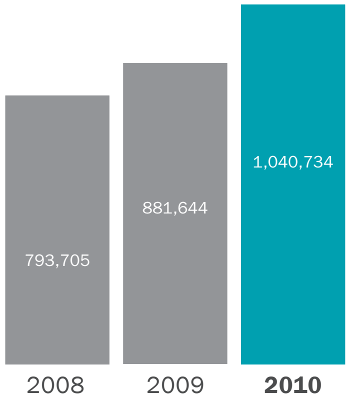


Management Discussion and Analysis

We sold approximately 511,576 tonnes of powder thenardite for the year ended 31 December 2010 (2009: 502,617 tonnes) with 1.8% year-on-year growth, and our revenue amounted to RMB130.1 million (2009: RMB126.7 million) with 2.7% year-on-year growth.

Specialty thenardite

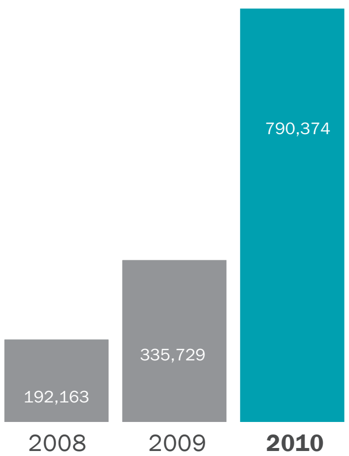
Revenue
RMB'000



We sold approximately 1,156,020 tonnes of specialty thenardite for the year ended 31 December 2010 (2009: 1,024,671 tonnes), and revenues derived from specialty thenardite sales amounted to RMB1,040.7 million (2009: RMB881.6 million), with 12.8% and 18.0% year-on-year growth respectively.

Medical thenardite

Revenue
RMB'000



Our medical thenardite product is primarily used as raw material in Chinese medicines as a mild laxative and an anti-inflammatory agent. Our production facilities of medical thenardite are located in the Dahongshan Mining Area and the Muma Mining Area. Our medical thenardite is sold under the National Pharmaceutical Batch Code (國藥准字) Z51022578 issued by the State Food and Drug Administration. Its quality is in compliance with the product specifications set out in the 2005 National Pharmaceutical Encyclopedia and is subject to the supervision of the Food and Drug Administration of Sichuan Province.

We sold approximately 299,816 tonnes of medical thenardite for the year ended 31 December 2010 (2009: 130,003 tonnes), and revenue derived from medical thenardite sales amounted to RMB790.4 million (2009: RMB335.7 million), with 130.6% and 135.4% year-on-year growth respectively.

Operation of Mining Areas and Production Capacity Review

Dahongshan Mining Area

Our mine in the Dahongshan Mining Area is a fully developed and operational underground mining and processing facility that produced approximately 600,014 tonnes of thenardite for the year ended 31 December 2010. As of the date of this report, our mining and production facilities in the Dahongshan Mining Area have a total production capacity of 0.6 million tpa. The production capacity of this mining area is used to produce powder thenardite and medical thenardite as to 80% to 85% and 15% to 20% respectively. According to the calculation of JORC Code, JT Boyd estimates that Dahongshan Mining Areas, has a total of 17.9 million tonnes of proved and probable thenardite reserves.

Guangji Mining Area

Our Guangji Mining Area is approximately 3.9 km^2 and produced approximately 1,099,440 tonnes of thenardite for the year ended 31 December 2010. The production capacity of our mining and production facilities in the Guangji Mining Area increased from 1.0 million tpa in 2009 to 1.1 million tpa in 2010. According to the calculation of the JORC Code, JT Boyd estimates that the Guangji Mining Area has a total of 19.0 million tonnes of proved and probable thenardite reserves.

Management Discussion and Analysis

Muma Mining Area

Our new production facility for medical thenardite of a total production capacity 200,000 tpa in Muma Mining Area began trial production in November 2009, successfully received GMP certification in December 2009 and commenced commercial operation in January 2010. Our Muma Mining Area produced approximately 199,020 tonnes of thenardite for the year ended 31 December 2010. According to the calculation of the JORC Code, JT Boyd estimates that the Muma Miniing Area has a total of 17.1 million tonnes of proved and probable thenardite reserves.

Yuegou Mining Area

Our new production facility for animal feed grade thenardite in the Yuegou Mining Area began trial production in August 2010 and commenced commercial operation in September 2010. As of the date of this report, our mining and production facilities in the Yuegou Mining Area have a total production capacity of 0.3 million tpa. The production capacity of this mining area is mainly used to produce specialty thenardite for animal feed. Our Yuegou Mining Area produced approximately 56,580 tonnes of thenardite for the year ended 31 December 2010. According to the calculation of the JORC Code, JT Boyd estimates that the Yuegou Mining Area has a total of 5.1 million tonnes of proved and probable thenardite reserves.

Future Prospect

Looking ahead, the areas of application of thenardite products will continue to expand and so thenardite will become applicable in more industries. The prospect and future growth potential of the thenardite industry is believed to be highly promising. In order to effectively capture the opportunities, we will consolidate our efforts in the development of the following five aspects so as to further enhance our competitive advantage in the market.

Further vertical business integration by acquiring the biggest PPS manufacturer in the world to become one of the world's leading enterprises in the thenardite and PPS industries

Following the completion of the acquisition of Sino Polymer in January 2011, the Company has become one of the world's leading manufacturers of high-end special new materials with balanced product portfolios, and is well equipped to become one of the world's leading enterprises in the thenardite and PPS industries.

Sino Polymer enjoys benefits from scale economy, leading market presence and advanced technology, and has devoted itself to a focused business. The merger with Sino Polymer, which is in line with the Company's overall strategy and development direction, will enable the Company to achieve synergy benefits and to become one of the world's leading enterprises in the PPS and thenardite industries. Meanwhile, it will help to maximize the shareholder's return. We believe that the Company's market value will be further enhanced through producing more high-end and higher value-added thenardite and PPS products.

Management Discussion and Analysis

Grasping opportunities brought by the Twelfth Five-year Plan and vigorously developing PPS business

The year 2011 is the first year of the Twelfth Five-year Plan. According to the State's New Materials Development Strategy Plan, the new materials industry is listed as one of the seven major developing industries in China. PPS, classified as a type of new material which has been under the State's key research and development ("R&D"), is given priority for research and development under the Twelfth Five-year Plan.

Against a background of tightening environmental policies in China, more stringent emission standards regarding environmental protection is expected to be promulgated for the coming five years under the Twelfth Five-year Plan. At the same time, the use of new materials will be strongly encouraged to address relevant environmental issues. We believe that new environmental policies will significantly fuel the demand for PPS fibre in particular, and we will ultimately benefit from the support of such polices.

In January 2011, Sichuan Deyang Special New Materials Co., Ltd., a subsidiary of the Company after the Completion, won the second-class prize of National Scientific and Technological Progress Award for being the first enterprise achieving remarkable results of the "Development and Application of the Complete Set of Technologies Used for the Industrialization of PPS Fibre" under one of its research and development projects. This represents the State's recognition of the Group's contribution to the development of PPS industry. The Company will, by taking advantage of such recognition and capitalizing on the numerous opportunities brought about by the State's Twelfth Five-year Plan, put more efforts in the R&D of PPS to expand its PPS production capacity, constantly develop more PPS products and vigorously promote PPS applications, with an attempt to further strengthen the leading position of the Group in PPS industry and diversify sources of revenue of the Group.

Expansion of production capacity and industry consolidation through merger and acquisition

As to the expansion of production capacity, we successfully acquired the mining right at Yuegou, Dongpo District, Meishan, Sichuan Province, as our fourth mining area. We have completed the expansion and upgrade of a production facility with production capacity of 300,000 tpa in Yuegou Mining Area for animal feed grade thenardite and specialty thenardite. Commercial operation of the production facility commenced in September 2010. In addition, we will continue to look for suitable thenardite operators for merger and acquisition opportunities, so as to actively expand our production capacity and further capture market share in the industry, with the aim to consolidate the industry and improve our pricing power. In order to further increase its production capacity, the Group and Sichuan Yinglin has entered into a memorandum of understanding with respect to the acquisition of two thenardite mine areas in Meishan city and their mining rights in September 2010. The acquisition is targeted to be completed in the first half of 2011. Shall the acquisition complete, the Group will upgrade and reconstruct the thenardite production lines in the original mine areas which will increase the thenardite production capacity of 600,000 tonnes, of which 300,000 tonnes are speciality thenardite.

Management Discussion and Analysis

With respect to our PPS business, it is expected that PPS demand in China will continue to grow. In 2011, the Group plans to commence the construction of a PPS resin production line of 25,000 tpa and a PPS fibre production line of 15,000 tpa in order to increase production capacity to satisfy market demand and grasp business opportunities arising therefrom. It is expected that the PPS resin production line of 25,000 tpa will commerce operation in October 2012. Together with our existing PPS resin production capacity of 30,000 tpa, the Group's PPS resin production capacity in 2012 and 2013 will reach 36,250 tonnes and 55,000 tonnes respectively. As for our PPS fibre production capacity, the PPS fibre production line of 15,000 tpa is expected to commence operation in October 2012. Together with our existing PPS fibre production capacity of 5,000 tpa, the Group's PPS fibre production capacity in 2012 and 2013 will reach 7,500 tonnes and 20,000 tonnes respectively.

With expanding applications of thenardite and PPS products in more fields, we expect a bright future prospect and huge growth potential. The successful acquisition of Sino Polymer indicated a more explicit strategic policy of the Group which mainly focuses on the development of high-performance materials and chemicals as its long-term business strategy. As the largest PPS resin producer in the world in terms of production capacity after the acquisition of Sino Polymer, we will seize the business opportunities and further enhance our competitiveness under the leadership of our experienced management team, to continuously achieve remarkable results and bring considerable returns to the investors.

Focus on the development of medical thenardite in line with the State's medical reform and policies

The recent medical reform in China is favorable to the medical thenardite business of the Group. Due to the expansion of the scope of medical allowance granted by the PRC government to the public, the sales amount of the medical thenardite of the Group is driven by the increase in output of traditional Chinese health products, mild laxative and anti-inflammatory agent. The sales of the medical thenardite of the Group will also be benefited from the ongoing urbanization, fast-growing economic development and rising awareness on health in China. The Group expects that the demand for medical thenardite will continue to grow at a CAGR of low to mid teens in the future.

At the beginning of 2010, the Group particularly invested in the enhancement of mining facilities to increase the proportion of the production of medical thenardite. For the year ended 31 December 2010, the sales of the medical thenardite of the Group grew substantially by over 100% as compared to the same period in the previous year. Taking into account the fact that medical thenardite will become one of the major sources of income for the Group, the Group will continue to push ahead the expansion of medical thenardite business in the future. It is in expectancy that the sales of medical thenardite will eventually contribute for approximately 40% to 50% of the annual revenue of the Group.

Increase efforts in the research and development and promotion of high-end products to improve profitability

In order to maintain the competitive strength of the Group in the long run, we will continue to increase our efforts in the research and development to improve the Group's profitability.

In terms of thenardite business, in order to support the reform of the State's medical and healthcare policies, the Company will actively promote the business of medical thenardite and develop thenardite medicines for therapeutic applications, which will broaden the market segment and drive further sales and market share in segments.

In terms of PPS business, the PPS research and development team of the Group has successfully produced low-chlorine PPS and a new film-grade PPS resin, developed PPS fibre which can be used in PPS filter production and developed new applications of PPS compound for use as insulators in rail transportation and other components for high-speed rail. The demand for this application of PPS compound will increase as China is proceeding with the construction of large-scale subway and high-speed railway system in big cities. Based on our current technologies, the Group's PPS products are of over 100 kinds in 5 categories, including injection moulding grade PPS resin, fibre-grade PPS resin and coating-grade PPS resin, PPS fibre and PPS compounds, which have been in production and sales. PPS products are being chosen by a number of industries to replace metal and to be used in various fields.

Moreover, the Group is currently involved in research and development projects relating to the application of PPS in solar panels and the application of PPS profiles in the areas of petroleum and chemical engineering. We believe that new applications of PPS in more fields will effectively increase the profitability of PPS business.

Employees and Remuneration Policies

As at 31 December 2010, we had a total of 1,575 employees (2009: 1,795 employees). Total staff costs (including Directors' remuneration) for the year ended 31 December 2010 were approximately RMB88.4 million (2009: RMB81.2 million), representing 12.8% (2009: 17.2%) of our total operating expenses including cost of sales, selling and distribution expenses and other operating expenses. Employees were remunerated based on their performance, experience and industry practice. Bonuses are rewarded based on individual staff performance and in accordance with our overall remuneration policies. Our management reviewed the remuneration policies and packages on a regular basis.

We operate a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of our operations.

Management Discussion and Analysis

Research and Development

The Company believes that its research and development activities are critical to the competitiveness of the Company in the long-run. The Company devoted research and development resources principally on new product development, new application discovery, production efficiency and production process improvement. Our research and development efforts enable us to reduce costs of labour and raw materials, streamline our manufacturing process and increase economies of scale. One of our successful cases was our sale of specialty thenardite in the cement sector. The research and development department of the Group is continuously conducting research and development in new application areas for our thenardite products, including thenardite products for animal feed and medical thenardite for clinical application. Ongoing research and development will further expand the application areas of thenardite, especially specialty and medical thenardite, which will in turn drive the demand for thenardite products and stimulate the industry growth.

Profile of Directors and Senior Management

Executive Directors

ZHANG Daming (張大明), aged 61, is an executive Director and chief executive officer of the Company and its subsidiaries (the "Group"). Mr. Zhang Daming is a senior economist and holds a master degree in Integral Management from Tao University and a bachelor degree in Political Economics from Sichuan University (四川大學). Mr. Zhang Daming worked as the department head and the deputy secretary of Sichuan Provincial Economic System Reform Committee (四川省經濟體制改革委員會) and the general manager of Chuanmei Mirabilite. In addition, he was the general manager of Top Promise Resources Limited (the "Top Promise") and the executive director and general manager of Sichuan Chuanmei Special Glauber Salt Co., Ltd. ("Chuanmei Glauber Salt"), an indirect wholly-owned subsidiary of the Issuer. He was appointed as an executive Director and chief executive officer of the Group on 1 February 2008.

LI Xudong (李旭東), aged 48, is an executive Director and a senior engineer. He holds a master degree in Management Science and Engineering from University of Electronic Science and Technology of China (電子科技大學) and a high diploma in Management Engineering from Sichuan Light Chemical Industry College (四川輕化工學院) (now known as Sichuan University of Science & Engineering (四川理工學院)). Mr. Li Xudong worked as the deputy chief and the chief of the Issuer's equipment department, assistant to the general manager and the deputy general manager and director of Chuanmei Mirabilite. Mr. Li is currently the technical director of Top Promise. He was appointed as an executive Director on 1 February 2008.

YU Man Chiu Rudolf (余孟釗), aged 36, is an executive Director and the general manager of corporate development. He obtained a bachelor of science degree in Physics from Imperial College, London and a master of science degree in International Management from King's College, London. Mr. Yu previously worked as an Equity Capital Markets banker at both BNP Paribas Capital (Asia Pacific) Limited and Credit Suisse (Hong Kong) Limited. Mr. Yu joined the Group as the general manager of corporate development department of the Issuer in 2009. He was appointed as an executive Director on 3 March 2010.

DENG Xianxue (鄧憲雪), aged 37, was an executive Director. She holds a master degree in Business Administration from the University of Electronic Science and Technology of China (電子科技大學) and a high diploma in Accountancy from Guizhou College of Finance and Economics (貴州省財經學院). Ms. Deng Xianxue is a member of the Chinese Institute of Certified Public Accountants (中國註冊會計師協會)), a member of the Chinese Certified Tax Agents Association (中國註冊稅務師協會) and a member of the China Appraisal Society (中國資產評估協會). She also worked as the financial controller of Top Promise, Chuanmei Mirabilite and Chuanmei Glauber Salt. She was appointed as an executive Director on 1 February 2008 and resigned as an executive Director on 3 March 2010. She also resigned her positions with certain subsidiaries of the Company.

Profile of Directors and Senior Management

Non-Executive Directors

SUO LANG Duo Ji (索郎多吉), aged 48, is a non-executive Director. He is also the founder of the Sino Polymer New Materials Co., Ltd. (the "Sino Polymer") and its subsidiaries and a director of each of Sino Polymer, Haton Polymer & Fibre Limited (the "Sino Polymer BVI") and Haton Polymer Limited (the "Sino Polymer HK"). Mr. Suo Lang Duo Ji completed a postgraduate course in Enterprise Administration from Sichuan University (四川大學) in 2001 and a postgraduate course in Management Science and Engineering from University of Electronic Science and Technology of Sichuan (電子科技大學) in 2004. He is a senior engineer and senior economist. Mr. Suo Lang Duo Ji has been a part-time professor in the College of Economics and Management of Sichuan Normal University (四川師範大學) from 2006 and an adjunct professor in Sichuan Fine Arts Institute (四川美術學院) from 2005, respectively. Mr. Suo Lang Duo Ji is also the founder, chairman and a non-executive Director.

ZHANG Songyi (張頌義), aged 55, is a non-executive Director. He is also a director of each of Sino Polymer, Sino Polymer BVI and Sino Polymer HK. Mr. Zhang Songyi is experienced in corporate finance and mergers and acquisitions. Mr. Zhang Songyi served as a director of Suntech Power Holdings Co. Ltd., a company listed on the New York Stock Exchange, and currently serves in senior management and advisory capacities in several companies, including acting as the chairman of Mandra Capital, a senior advisor of Morgan Stanley Asia Limited, a director of SINA Corporation, a company listed on the Nasdaq Stock Market, an independent non-executive director of Hong Kong Energy (Holdings) Limited, a company listed on the Stock Exchange and an independent non-executive director of China Longyuan Power Group Corporation Limited, a company listed on the Stock Exchange. In addition, Mr. Zhang Songyi also served as a managing director of Asia Merger, Acquisition and Divestiture Group, and the co-head of Asia Resources and Infrastructure Group of Morgan Stanley Asia Limited, and a senior associate of Milbank, Tweed, Hadley & McCloy LLP. Mr. Zhang Songyi obtained a Juris Doctor degree from Yale University in 1985.

WANG Chun Lin (王春林), aged 59, is a non-executive Director. He is also a director of each of Sino Polymer, Sino Polymer BVI and Sino Polymer HK. Mr. Wang Chun Lin obtained a bachelor degree in Computer Science from Fudan University (復旦大學) in 1977. Mr. Wang Chun Lin served as the chairman and an executive director of Temujin International Investments Limited (formerly known as Everest International Investments Limited), a company listed on the Stock Exchange until January 2007.

Profile of Directors and Senior Management

Independent Non-Executive Directors

KOH Tiong Lu, John (許忠如), aged 55, is an independent non-executive Director. He was a managing director and a senior advisor to The Goldman Sachs Group. He is chairman of the audit committee of the board of directors of NSL Ltd (formerly known as Natsteel Ltd), a publicly traded Singapore conglomerate. Mr. Koh Tiong Lu, John holds a degree of Bachelor of Arts and a degree of Master of Arts from University of Cambridge and is a graduate of Harvard Law School. He was appointed as an independent non-executive Director on 25 May 2009.

WONG Chun Keung (王振強), aged 41, is an independent non-executive Director. Mr. Wong Chun Keung is a practicing barrister in Hong Kong. He obtained a degree of Bachelor of Science and a degree of Master of Business Administration from the University of Hong Kong in 1991 and 1998 respectively. He also holds a degree of Bachelor of Laws from the University of London and the Postgraduate Certificate in Laws from the University of Hong Kong. He was called to the Bar in Hong Kong in 2002 and was in private practice since 2003. He was appointed as an independent non-executive Director on 25 May 2009.

GAO Zongze (高宗澤), aged 71, is an independent non-executive Director. Mr. Gao is a practicing lawyer in the PRC and had been a National Committee member of the PRC's Chinese People's Political Consultative Conference (中華人民政治協商會議) and the president of the All China Lawyers' Association, the PRC (中華全國律師協會). Mr. Gao graduated from the Graduate School of the China Academy of Social Sciences, the People's Republic of China (中國社會科學院) in 1981. He was appointed as an independent non-executive Director on 3 March 2010.

XIA Lichuan (夏立傳), aged 47, is an independent non-executive Director, graduated from Anhui University (安徽大學) with a bachelor degree of economics, obtained a master degree of economics from Graduate School of the People's Bank of China (中國人民銀行總行金融研究所) and a master degree of business administration in finance from City University London, and eventually a doctoral degree of philosophy in finance from the Sir John Cass Business School under City University London. Mr. Xia is currently the chief economist of Cypress House Asset Management Company Limited and served as the project manager of the People's Bank of China and the senior manager of the institutional brokerage department of Guotai Junan Securities (Hong Kong) Company Limited. He was appointed as an independent non-executive Director on 3 March 2010.

KEEN Patrick Logan, aged 61, was an independent non-executive Director. He is a co-founder of ChinaVest Private Equity Group and has served as managing director/partner of five investment funds for Greater China. In this capacity, he has been a director of various ChinaVest portfolio companies. Prior to his career with the ChinaVest Group, Mr. Keen was the Chief Financial Officer of Dallas Pacific Limited and Vice President of First National Bank in Dallas. Mr. Keen obtained a Bachelor of Business Administration and Master of Business Administration from the University of Texas at Austin. He was appointed as an independent non-executive Director on 25 May 2009 and he resigned as an independent non-executive Director, a member of the remuneration committee and the chairman and a member of the audit committee of the Company with effect from 31 July 2010.

Profile of Directors and Senior Management

Senior Management

WONG Kui Tong (黃鉅棠), aged 30, is the company secretary of the Company and finance manager of the Group. Mr. Wong joined the Group in March 2009 as the accounting manager of Top Promise. Mr. Wong has over 8 years of experience in auditing, accounting and financial management, and is a member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. Prior to joining the Group, Mr. Wong worked in PricewaterhouseCoopers for 5 years. Mr. Wong obtained a bachelor's degree of Arts in Accountancy from The Hong Kong Polytechnic University.

LIANG Ping (梁平), aged 47, joined the Group in June 2010 as the chief financial officer of the Group. Mr. Liang Pin has over 20 years of experience in auditing, accounting and financial management, and is a Certified Accountant and Certified tax consultant in the PRC. Mr. Liang Ping obtained a bachelor's degree of Arts in Accountancy from Southwestern University of Finance and Economics and a master degree in Economics from Communist China Sichuan College.

ZHU Jimin (祝季敏), aged 57, is the mining director of the Group. He is a senior economist and holds a high diploma in Economic Management from the Communist Party Institute of the Sichuan Province (中國共產黨四川省委黨校函授學院). Mr. Zhu Jimin worked as Chuanmei Mirabilite's deputy mining facilities chief, mining facilities chief, and the deputy chief of business information department, the chief supervisor of mining of Chuanmei Mirabilite and the chairman of the board of directors of Chuanmei Mirabilite. Mr. Zhu Jimin is responsible for the overall management and supervision of the mining and operation of the Group.

LI Chunxian (李春先), aged 65, is the chief engineer of the Group. He is a senior engineer and holds a bachelor degree in Non-metallic Mining from Beijing Architecture & Construction Industry College (北京建築工業學院). Mr. Li Chunxian was the president of Zigong Light Industry Design and Research Institute and worked as the technical advisor and the chief engineer of Chuanmei Mirabilite. Mr. Li is currently the chief engineer of Top Promise.

GOU Xingwu (苟興無), aged 44, is the human resources and purchase director of the Group. He is an engineer and holds a high diploma in Chemical Industrial Mechanics from Sichuan Luzhou Chemical Industry College (四川省瀘州化工學院). Mr. Gou Xingwu worked as the deputy head of the production department, deputy factory director, factory director, assistant to general manager and the deputy general manager of Chuanmei Mirabilite and the deputy general manager of Chuanmei Glauber Salt. Currently, he is an executive director of Chuanmei Mirabilite and Chuanmei Glauber Salt.

Profile of Directors and Senior Management

LI Hongqing (李洪清), aged 39, is the production director of the Group. He is an engineer. He holds a bachelor degree in Business Administration from South Western University of Finance and Economics (西南財經大學) and a high diploma in Chemistry Technology and Engineering from Sichuan United University (四川聯合大學) (now known as Sichuan University (四川大學)). Mr. Li Hongqing worked as an operator, a controller, the deputy director of the production factory, the director of the production factory, the manager and the deputy general manager of production department of Chuanmei Mirabilite. He is currently the general manager of Chuanmei Mirabilite and the general manager of Chuanmei Glauber Salt.

LIU Qiru (劉啟儒), aged 56, is the deputy chief engineer of the Group. He is a senior engineer and holds a high diploma in Mining from Kunming Industrial College (昆明工學院) (now known as Kunming University of Science and Technology (昆明理工大學)). Mr. Liu Qiru worked as the deputy mining chief, mining chief, the head and manager of the production and technology department, the chief engineer of Chuanmei Mirabilite and project manager for the construction of the Guangji production facility. Currently, he is the chief engineer of Chuanmei Mirabilite and Chuanmei Glauber Salt.

CAO Bin (**曹斌**), aged 42, is the deputy general manager of Chuanmei Mirabilite and Chuanmei Glauber Salt. He holds a bachelor degree of International Economic and Trading from Sichuan United University (四川聯合大學) (now known as Sichuan University (四川大學)). Mr. Cao Bin worked as the deputy manager of its sales department, the deputy general manager of the sales and marketing department of Chuanmei Mirabilite.

ZHU Ben Yu (**朱本宇**), aged 38, was the chief financial officer and company secretary of the Company. Mr. Zhu Ben Yu has over 10 years of experience in accounting, asset management and corporate finance, and is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Prior to joining our Company, Mr. Zhu Ben Yu worked in Ernst & Young for five years, and served as the financial controller and company secretary and qualified accountant for Topsearch International (Holdings) Limited and Hua Han Bio-Pharmaceutical Holdings Limited afterwards respectively, both of which are listed on the Stock Exchange. Mr. Zhu Ben Yu obtained a bachelor degree of Business Administration from the Chinese University of Hong Kong. He resigned as a company secretary of the Company with effect from 1 May 2010 and resigned his other positions of the Company and with certain subsidiaries of the Company with effect from 4 June 2010.

Report of the Directors

The Directors herein present their annual report and the audited financial statements of the Company and the Group for the year ended 31 December 2010.

Principal Activities

The Company's principal activity is investment holding. The Group's principal activities have not changed during the year ended 31 December 2010 and are principally engaged in processing and sale of powder thenardite, specialty thenardite and medical thenardite.

Results and Dividends

The Group's profit for the year ended 31 December 2010 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 54 to 134.

An interim dividend of HK5.2 cents per share (equivalent to approximately RMB4.589 cents per share) amounting to RMB89,227,000 in total was paid to the shareholders during the year.

At the meeting of the Board held on 31 March 2011, the Directors declared an final dividend of HK1.94 cents per ordinary share (equivalent to approximately RMB1.705 cents per ordinary share) for the year ended 31 December 2010 (2009: Nil).

Interim and final dividends represent 25% of the profit for the year attributable to owners of the Company.

Financial Summary

This summary does not form part of the audited financial statements. A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 135 to 136 of this report.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2010 are set out in note 16 to the financial statements.

Fixed Rate Senior Notes

Details of fixed rate of 12.0% senior notes due 2014 (the "Senior Notes") with aggregate principal amount of US$250,000,000 are set out in note 30 to the financial statements.

Bank Borrowings

Particulars of bank borrowings of the Group as at 31 December 2010 are set out in note 29 to the financial statements.

Share Capital

Details of movements in the share capital of the Group during the year ended 31 December 2010 are set out in note 33 to the financial statements.

Reserves

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2010 are set out in note 34 to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable Reserves

At 31 December 2010, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Cap. 22. (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to approximately RMB200,913,000. The amount of RMB762,890,000 (as set out in note 34 to the financial statements) standing to the credit of the share premium account of the Company may be distributed, provided that the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

Major Customers and Suppliers

For the year ended 31 December 2010, purchases attributable to the Group's largest supplier, excluding purchases of land, amounted to approximately 14.4% of the Group's total purchases and the percentage of turnover attributable to the Group's largest customer amounted to approximately 22.6% of the Group's total turnover.

For the year ended 31 December 2010, the percentage of purchases attributable to the Group's five largest suppliers combined was less than 51.0% of the Group's total purchases and the percentage of turnover attributable to the Group's five largest customers combined was less than 33.9% of the Group's total turnover.

None of the Directors, their associates or any shareholders of the Company (who or which to the knowledge of the Directors owns more than 5% of the Company's share capital) has any interest in any of the Group's five largest suppliers or customers.

Report of the Directors

Directors

The Directors who were in office during the year ended 31 December 2010 and those as at the date of this report are as follows:

Executive Directors:

Mr. Zhang Daming *(Chief Executive Officer)*	
Mr. Li Xudong	
Mr. Yu Man Chiu Rudolf	(appointed with effect from 3 March 2010)
Ms. Deng Xianxue	(resigned with effect from 3 March 2010)

Non-executive Directors:

Mr. Suo Lang Duo Ji *(Chairman)*
Mr. Zhang Songyi
Mr. Wang Chun Lin

Independent non-executive Directors:

Mr. Koh Tiong Lu, John	
Mr. Wong Chun Keung	
Mr. Gao Zongze	(appointed with effect from 3 March 2010)
Mr. Xia Lichuan	(appointed with effect from 3 March 2010)
Mr. Patrick Logan Keen	(resigned with effect from 31 July 2010)

In accordance with article 108 of the Company's articles of association (the "Articles of Association"), Mr. Koh Tiong Lu, John, Mr. Wong Chun Keung, Mr. Zhang Daming and Mr. Xia Lichuan will retire from office by rotation at the forthcoming annual general meeting of the Company (the "Annual General Meeting") and, being eligible, offer themselves for re-election as Directors at the Annual General Meeting.

Directors' Service Contracts

Each of the executive Directors has entered into a service contract with the Company for an initial term of three years (commencement date: Mr. Zhang Daming and Mr. Li Xudong and Ms. Deng Xianxue (resigned and her service contract was terminated on 31 March 2010) from 16 June 2009; Mr. Yu Man Chiu Rudolf from 3 March 2010), which may be terminated by not less than three months' notice in writing served by either party on the other.

Each of the non-executive Directors has entered into a service contract with the Company for an initial term of three years (commencement date: Mr. Suo Lang Duo Ji, Mr. Zhang Songyi and Mr. Wang Chun Lin from 16 June 2009), which may be terminated by not less than three months' notice in writing served by either party on the other.

Each of the independent non-executive Directors has signed a letter of appointment with the Company for an initial term of three years (commencement date: Mr. Patrick Logan Keen (resigned and his letter of appointment was terminated with effect from 31 July 2010) and Mr. Koh Tiong Lu, John and Mr. Wong Chun Keung from 16 June 2009; Mr. Gao Zongze and Mr. Xia Lichuan from 3 March 2010), which may be terminated by not less than three months' notice in writing served by either party on the other.

No Director proposed for re-election at the Annual General Meeting 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 Board has the general power of determining the Directors' remuneration, subject to the authorization of the shareholders of the Company given at the annual general meeting of the Company each year.

The remuneration of the executive Directors are subject to the review of the Company's remuneration committee. As for the non-executive Directors, their remuneration is determined by the Board, upon recommendation of the Company's remuneration committee, with reference to the Directors' qualifications, experience, duties, responsibilities and performance and results of the Group.

Directors' Interests in Contracts

Apart from those disclosed in note 38 the 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 or any of its subsidiaries was a party during the year ended 31 December 2010.

Report of the Directors

Directors' Interests in Competing Businesses

During the year ended 31 December 2010 and up to the date of this report, no director of the Company are considered to have interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group pursuant to the Listing Rules.

Directors' Rights to Acquire Shares or Debentures

At no time during the year ended 31 December 2010 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 spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in the Company.

Interests and Short Position of Directors in the Shares, Underlying Shares and Debentures of the Company and its Associated Corporations

As at 31 December 2010, the interests or short positions of the Directors in the shares, underlying shares and debentures of the Company or its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (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 or short positions which they were taken or deemed to have under such provisions of the SFO), or which are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies set out in Appendix 10 to the Listing Rules (the "Model Code") are listed as follows:

Long positions and short positions in the shares and underlying shares of the Company

Name of Director	Nature of interest	Number of Shares	Approximate percentage of shareholding
Mr. Suo Lang Duo Ji (Note 1)	Interest of a controlled corporation	1,998,249,529 (Long position) 52,476,000 (Short position)	100.83(L)% 2.65(S)%
Mr. Zhang Songyi (Note 2)	Interest of a controlled corporation	502,849,001	25.37%
Mr. Wang Chun Lin (Note 3)	Interest of a controlled corporation	153,811,309	7.76%

Report of the Directors

Notes:

(1) Upon the completion of the acquisition of Sino Polymer, new Shares would be issued to Mr. Suo Lang Duo Ji and Nice Ace as consideration under the Sale and Purchase Agreement (the "Sale and Purchase Agreement") dated 19 October 2010. Under the provisions of the SFO, Mr. Suo Lang Duo Ji is deemed to have an interest in 1,998,649,529 Shares of which 1,997,845,208 Shares are Shares held by Ascend Concept Technology Limited ("Ascend"), a company incorporated in the BVI, Nice Ace Technology Limited ("Nice Ace"), a company incorporated in the British Virgin Islands (the "BVI") and himself and 804,321 are share options held by Mr. Suo Lang Duo Ji.

Pursuant to the (i) the investor A warrant instrument and (ii) the investor B warrant instrument, both dated 29 July 2010 and entered into between Nice Ace and Mr. Suo Lang Duo Ji relating to warrants issued by Nice Ace, the warrant holders have a right to exercise warrants for a total of up to 52,476,000 Shares held by Nice Ace.

(2) Under the provisions of the SFO, Mr. Zhang Songyi is deemed to have an interest in 507,449,001 Shares of which 498,249,001 Shares are Shares held by Mandra Esop Limited ("Mandra Esop"), a company incorporated in the BVI and Mandra Materials Limited, ("Mandra Materials"), a company incorporated in the BVI respectively, and 4,600,000 are share options held by Mr. Zhang Songyi.

(3) Under the provisions of the SFO, Mr. Wang Chun Lin is deemed to have an interest in 156,311,309 Shares of which 151,311,309 Shares are Shares held by Triple A Investments Limited ("Triple A Investments"), a company incorporated in the BVI, and AAA Mining Limited, a company incorporated in the BVI, and 2,500,000 are share options held by Mr. Wang Chun Lin.

Long positions in share options of the Company

Under the pre-IPO share option scheme adopted pursuant to the written resolutions of the shareholders of the Company dated 30 April 2008 (the "Pre-IPO Share Option Scheme")

Name of Director	Date of grant	Number of Shares subject to the share options	Exercise price
Mr. Zhang Daming	30 April 2008	4,218,000	HK$2.00
Mr. Li Xudong	30 April 2008	1,596,000	HK$2.00

Under the share option scheme adopted pursuant to the written resolutions of the shareholders of the Company dated 26 May 2009 (the "Share Option Scheme")

Name of Director	Date of grant	Number of Shares subject to the share options	Exercise price
Mr. Suo Lang Duo Ji	28 July 2009	400,000	HK$3.59
Mr. Zhang Songyi	28 July 2009/23 April 2010	400,000/4,200,000	HK$3.59/HK$2.64
Mr. Wang Chun Lin	28 July 2009	2,500,000	HK$3.59
Mr. Zhang Daming	28 July 2009	2,500,000	HK$3.59
Mr. Li Xudong	28 July 2009	2,500,000	HK$3.59
Mr. Yu Man Chiu Rudolf	23 April 2010	5,000,000	HK$2.64

Report of the Directors

Save as disclosed above, at no time during the year ended 31 December 2010 was the Company or its associated corporation a party to any arrangement to enable the Directors (including their spouse and children under 18 years of age) to acquire benefits by an acquisition of shares or underlying shares in, or debentures of the Company or its associated corporation.

Substantial Shareholders' Interests in the Share Capital of the Company

As at 31 December 2010, so far as is known to any Director or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO and/or required to be entered in the register maintained by the Company pursuant to S336 of the SFO and/or were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at the general meetings of any other member of the Group:

Interests in the Company

(i) Long position

Name	Capacity and nature of interest	Number of Shares	Approximate percentage of shareholding
Mr. Suo Lang Duo Ji (Notes 1, 2)	Interest of a controlled corporation	1,998,249,529	100.83%
Mr. Wang Chun Lin (Notes 1, 3)	Interest of a controlled corporation	153,811,309	7.76%
Mr. Zhang Songyi (Notes 1, 4)	Interest of a controlled corporation	502,849,001	25.37%
Wan Keung (Notes 1, 5)	Interest of a controlled corporation	289,227,446	14.78%
Moonchu Foundation Limited ("Moonchu") (Notes 1, 6)	Interest of a controlled corporation	276,306,095	14.14%
Ascend	Beneficial owner	1,255,782,094	64.15%
Triple A Investments	Beneficial owner	151,311,309	7.73%
Mandra Materials	Beneficial owner	423,526,592	21.67%
Sky Success Investments Limited ("Sky Success")	Beneficial owner	289,227,446	14.80%
Nice Ace	Beneficial owner	742,063,114	37.91%

(ii) Short position

Name	Capacity and nature of interest	Number of shares	Approximate percentage of shareholding
Mr. Suo Lang Duo Ji (Note 7)	Interest of a controlled corporation	52,476,000	2.65%
Nice Ace	Beneficial owner	52,476,000	2.65%
Sky Success (Note 8)	Interest of a controlled corporation	116,341,683	5.95%

Notes:

(1) Upon the completion of the acquisition of Sino Polymer, new Shares will be issued to these entities as consideration under the Sale and Purchase Agreement.

(2) Under the provisions of the SFO, Mr. Suo Lang Duo Ji is deemed to have an interest in 1,998,649,529 Shares of which 1,997,845,208 Shares are Shares held by Ascend, Nice Ace and himself and 804,321 are share options held by Mr. Suo Lang Duo Ji.

(3) Under the provisions of the SFO, Mr. Wang Chun Lin is deemed to have an interest in 156,311,309 Shares of which 151,311,309 Shares are Shares held by Triple A Investments and AAA Mining Limited and 5,000,000 are share options held by Mr. Wang Chun Lin.

(4) Under the provisions of the SFO, Mr. Zhang Songyi is deemed to have an interest in 507,449,001 Shares of which 498,249,001 Shares are Shares held by Mandra Esop and Mandra Materials and 9,200,000 are share options held by Mr. Zhang Songyi.

(5) Wan Keung is deemed to have an interest in 289,227,446 Shares held by Sky Success under the provisions of the SFO.

(6) Moonchu is deemed to have an interest in 276,306,095 Shares held by Woo Foong Hong and Mandra Mirabilite under the provisions of the SFO.

(7) Pursuant to the Nice Ace Warrant Instruments, the Nice Ace Warrant Holders have a right to exercise warrants for a total of up to 52,476,000 Shares held by Nice Ace.

(8) Pursuant to the Sky Success Loans, the Sky Success Lenders have a right to acquire, upon the completion of the acquisition of Sino Polymer, from Sky Success a total of up to 116,341,683 Shares.

Save as aforesaid, as at 31 December 2010, so far as is known to any Director or chief executive of the Company, no other person (who is not a Director or chief executive of the Company) had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register kept by the Company under section 336 of the SFO or, who were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or held any option in respect of such capital.

Report of the Directors

Compliance with Non-Competition Undertaking

Mr. Suo Lang Duo Ji and Nice Ace

On 28 May 2009, Mr. Suo Lang Duo Ji (the ultimate controlling shareholder of the Company) and Nice Ace (the controlling shareholder of the Company which is wholly owned by Mr. Suo Lang Duo Ji) executed in favour of the Company, a deed of non-competition undertaking (the "Non-competition Undertaking").

Under the Non-competition Undertaking, each of Mr. Suo Lang Duo Ji and Nice Ace undertakes to the Company (for itself and for the benefit of its subsidiaries), among others, that he or it would not, and would procure that his or its affiliates (except any members of the Group) would not, during the validity of the Non-competition Undertaking, directly or indirectly, either on his or its own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be interested or engaged in, acquire or hold (in each case whether as a shareholder, partner, agent, employee or otherwise) any business which is or may be in competition with the business of any member of the Group from time to time. Pursuant to the annual declaration in relation to the compliance with the Non-competition Undertaking provided by Mr. Suo Lang Duo Ji and Nice Ace respectively, each of them confirms that all the relevant terms of the Non-competition Undertaking have been fully complied with in all material respects.

Share Options

The Company has adopted the Pre-IPO Share Option Scheme on 30 April 2008 and the Share Option Scheme on 26 May 2009.

A. Pre-IPO Share Option Scheme

The Pre-IPO Share Option Scheme was adopted by written resolutions of all the shareholders of the Company passed on 30 April 2008. The purpose of the Pre-IPO Share Option Scheme is to recognize the contribution to the Group by the executive Directors, senior management and employees of the Group and to retain those persons whose contributions are important to the long-term growth and profitability of the Group.

Upon the listing of the Company on 16 June 2009 (the "Listing Date"), the Pre-IPO Share Option Scheme was terminated but the share options granted but not yet exercised at the time of termination shall continue to be valid and exercisable in accordance with the terms of Pre-IPO Share Option Scheme.

As at 31 December 2010, details of the share options granted on 30 April 2008 under the Pre-IPO Share Option Scheme are as follows:

Name and title of grantee of the share options	Date of grant	Exercise price per share (HK$)	Exercise date (dd/mm/yy) (Note 1) (Note 2)	Number of shares to be issued upon full exercise of options	% of total issued share capital
(i) Director					
Mr. Zhang Daming	30 April 2008	2.00	08/07/09 – 16/06/16	4,218,000	0.22%
Mr. Li Xudong	30 April 2008	2.00	08/07/09 – 16/06/16	3,192,000	0.16%
(ii) Employees	30 April 2008	2.00	08/07/09 – 16/06/16	64,600,000	3.32%
(iii) Others (Note 3)	30 April 2008	2.00	08/07/09 – 16/06/16	3,990,000	0.21%
Total				76,000,000	

Note:

(1) The share options can only be exercised in the following manner:

For grantees of the share options who have joined the Company for at least one calendar year as of the Listing Date

Exercise Period	Maximum number of options exercisable
Any time from the 15th business day after the Listing Date until the 1st anniversary of the Listing Date	1st phase options, being up to half of the total number of options granted
Any time after the 1st anniversary of the Listing Date until the 2nd anniversary of the Listing Date	2nd phase options, being up to two-thirds of the total number of options granted less the number of options already exercised
Any time after the 2nd anniversary of the Listing Date until the 3rd anniversary of the Listing Date	3rd phase options, being up to five-sixths of the total number of options granted less the number of options already exercised
Any time after the 3rd anniversary of the Listing Date until expiry of the validity period of the relevant options	4th phase options, being such number of options granted less the number of options already exercised

Report of the Directors

(2) For grantees of the share options who have joined the Company for less than one calendar year as of the Listing Date

Exercise Period	Maximum number of options exercisable
Any time after the 1st anniversary of the Listing Date until the 2nd anniversary of the Listing Date	1st phase options, being up to half of the total number of options granted
Any time after the 2nd anniversary of the Listing Date until the 3rd anniversary of the Listing Date	2nd phase options, being up to two-thirds of the total number of options granted less the number of options already exercised
Any time after the 3rd anniversary of the Listing Date until the 4th anniversary of the Listing Date	3rd phase options, being up to five-sixths of the total number of options granted less the number of options already exercised
Any time after the 4th anniversary of the Listing Date until expiry of the validity period of the relevant options	4th phase options, being such number of options granted less the number of options already exercised

(3) The option granted to Ms. Deng Xianxue pursuant to the Pre-IPO Share Option Scheme lapsed upon her resignation as an executive Director with effect from 3 March 2010.

The expiry date of the exercise period of any such share options shall be set out more particularly in the relevant option offer letter provided that such exercise period must expire on the date falling on the 7th anniversary of the Listing Date.

B. Share Option Scheme

The Share Option Scheme was adopted by written resolutions of all the shareholders of the Company passed on 26 May 2009. The purpose of the Share Option Scheme is to provide the people and the parties working for the interests of the Group with an opportunity to obtain an equity interest in the Company, thus linking their interest with the interest of the Group and thereby providing them with an incentive to work better for the interest of the Group. The period within which the share options must be exercised shall be determined by the Directors at the time of grant and such period must expire no later than 10 years from the date the offer has been made to the grantee.

In addition, on 28 July 2009, according to the terms of the Share Option Scheme, the Company has granted 103,200,000 share options to certain eligible participants including certain Directors and employees at an exercise price with carrying value of HK$3.59 per share (43,200,000 share options of which were granted to the Directors) and the consideration for each of the grant was HK$1. The share options granted pursuant to the Share Option Scheme will be exercisable during three respective periods commencing from 2 October 2009, 1 January 2010 and 1 January 2011 respectively and expiring on 31 December 2009, 31 December 2010 and 31 December 2011 respectively. Particulars of the share options granted under the Share Option Scheme were set forth in the announcement of the Company dated 28 July 2009.

Report of the Directors

In addition, on 23 April 2010, according to the terms of the Share Option Scheme, the Company granted 60,000,000 share options to certain eligible participants including certain Directors and employees at an exercise price with carrying value of HK$2.64 per share (18,400,000 share options of which were granted to the Directors) and the consideration for each of the grant was HK$1. Such share options granted pursuant to the Share Option Scheme will be exercisable during three respective periods commencing from 23 April 2010 (save for the 5,000,000 share options granted to Mr. Yu Man Chiu Rudolf, an executive Director, which shall be exercisable commencing from 1 July 2010), 1 January 2011 and 1 January 2012 respectively and expiring on 31 December 2010, 31 December 2011 and 31 December 2012 respectively. Particulars of the share options granted under the Share Option Scheme were set forth in the announcement of the Company dated 23 April 2010.

Details of the share options outstanding as at 31 December 2010 under the Pre-IPO Share Option Scheme and the Share Option Scheme are as follows:

Name or category of grantees	Date of grant	Exercisable period	Exercise price (HK$)	Share options held on 1 January 2010	Share options granted during the year	Share options exercised during the year	Share options lapsed during the year	Share options held on 31 December 2010
Directors of the Company								
Mr. Zhang Daming	30 April 2008	16 June 2009 to 16 June 2016	2.00	2,109,000	–	–	–	2,109,000
	30 April 2008	16 June 2010 to 16 June 2016	2.00	703,000	–	–	–	703,000
	30 April 2008	16 June 2011 to 16 June 2016	2.00	703,000	–	–	–	703,000
	30 April 2008	16 June 2012 to 16 June 2016	2.00	703,000	–	–	–	703,000
				4,218,000	–	–	–	4,218,000
	28 July 2009	1 January 2010 to 31 December 2010	3.59	2,500,000	–	–	(2,500,000)	–
	28 July 2009	1 January 2011 to 31 December 2011	3.59	2,500,000	–	–	–	2,500,000
				5,000,000	–	–	(2,500,000)	2,500,000
Ms. Deng Xianxue	30 April 2008	16 June 2009 to 16 June 2016	2.00	1,000	–	–	(1,000)	–
	30 April 2008	16 June 2010 to 16 June 2016	2.00	665,000	–	–	(665,000)	–
	30 April 2008	16 June 2011 to 16 June 2016	2.00	665,000	–	–	(665,000)	–
	30 April 2008	16 June 2012 to 16 June 2016	2.00	665,000	–	–	(665,000)	–
				1,996,000	–	–	(1,996,000)	–
	28 July 2009	1 January 2010 to 31 December 2010	3.59	2,500,000	–	–	(2,500,000)	–
	28 July 2009	1 January 2011 to 31 December 2011	3.59	2,500,000	–	–	(2,500,000)	–
				5,000,000	–	–	(5,000,000)	–

Report of the Directors

Name or category of grantees	Date of grant	Exercisable period	Exercise price (HK$)	Share options held on 1 January 2010	Share options granted during the year	Share options exercised during the year	Share options lapsed during the year	Share options held on 31 December 2010
Mr. Yu Man Chiu, Rudolf	23 April 2010	1 July 2010 to 31 December 2010	2.64	–	5,000,000	(5,000,000)	–	–
	23 April 2010	1 January 2011 to 31 December 2011	2.64	–	2,500,000	–	–	2,500,000
	23 April 2010	1 January 2012 to 31 December 2012	2.64	–	2,500,000	–	–	2,500,000
				–	10,000,000	(5,000,000)	–	5,000,000
Mr. Li Xudong	30 April 2008	16 June 2010 to 16 June 2016	2.00	532,000	–	–	–	532,000
	30 April 2008	16 June 2011 to 16 June 2016	2.00	532,000	–	–	–	532,000
	30 April 2008	16 June 2012 to 16 June 2016	2.00	532,000	–	–	–	532,000
				1,596,000	–	–	–	1,596,000
	28 July 2009	1 January 2010 to 31 December 2010	3.59	2,500,000	–	–	(2,500,000)	–
	28 July 2009	1 January 2011 to 31 December 2011	3.59	2,500,000	–	–	–	2,500,000
				5,000,000	–	–	(2,500,000)	2,500,000
Mr. Suo Lang Duo Ji	28 July 2009	1 January 2010 to 31 December 2010	3.59	400,000	–	–	(400,000)	–
	28 July 2009	1 January 2011 to 31 December 2011	3.59	400,000	–	–	–	400,000
				800,000	–	–	(400,000)	400,000
Mr. Wang Chun Lin	28 July 2009	1 January 2010 to 31 December 2010	3.59	2,500,000	–	–	(2,500,000)	–
	28 July 2009	1 January 2011 to 31 December 2011	3.59	2,500,000	–	–	–	2,500,000
				5,000,000	–	–	(2,500,000)	2,500,000
Mr. Zhang Songyi	28 July 2009	1 January 2010 to 31 December 2010	3.59	400,000	–	–	(400,000)	–
	28 July 2009	1 January 2011 to 31 December 2011	3.59	400,000	–	–	–	400,000
				800,000	–	–	(400,000)	400,000
	23 April 2010	23 April 2010 to 31 December 2010	2.64	–	4,200,000	–	(4,200,000)	–
	23 April 2010	1 January 2011 to 31 December 2011	2.64	–	2,100,000	–	–	2,100,000
	23 April 2010	1 January 2012 to 31 December 2012	2.64	–	2,100,000	–	–	2,100,000
				–	8,400,000	–	(4,200,000)	4,200,000

Report of the Directors

Name or category of grantees	Date of grant	Exercisable period	Exercise price (HK$)	Share options held on 1 January 2010	Share options granted during the year	Share options exercised during the year	Share options lapsed during the year	Share options held on 31 December 2010
Other eligible participants of the Group								
	30 April 2008	16 June 2009 to 16 June 2016	2.00	9,232,500	–	(4,986,332)	–	4,246,168
	30 April 2008	16 June 2010 to 16 June 2016	2.00	10,653,000	–	(7,713,832)	(740,334)	2,198,834
	30 April 2008	16 June 2011 to 16 June 2016	2.00	10,653,000	–	–	(871,500)	9,781,500
	30 April 2008	16 June 2012 to 16 June 2016	2.00	10,653,000	–	–	(871,500)	9,781,500
				41,191,500	–	(12,700,164)	(2,483,334)	26,008,002
	28 July 2009	1 January 2010 to 31 December 2010	3.59	14,500,000	–	–	(14,500,000)	–
	28 July 2009	1 January 2011 to 31 December 2011	3.59	14,500,000	–	–	(1,500,000)	13,000,000
				29,000,000	–	–	(16,000,000)	13,000,000
	23 April 2010	23 April 2010 to 31 December 2010	2.64	–	20,800,000	(20,800,000)	–	–
	23 April 2010	1 January 2011 to 31 December 2011	2.64	–	10,400,000	–	–	10,400,000
	23 April 2010	1 January 2012 to 31 December 2012	2.64	–	10,400,000	–	–	10,400,000
				–	41,600,000	(20,800,000)	–	20,800,000
Director and other eligible participants of the Group								
	30 April 2008	16 June 2009 to 16 June 2016	2.00	11,342,500	–	(4,986,332)	(1,000)	6,355,168
	30 April 2008	16 June 2010 to 16 June 2016	2.00	12,553,000	–	(7,713,832)	(1,405,334)	3,433,834
	30 April 2008	16 June 2011 to 16 June 2016	2.00	12,553,000	–	–	(1,536,500)	11,016,500
	30 April 2008	16 June 2012 to 16 June 2016	2.00	12,553,000	–	–	(1,536,500)	11,016,500
				49,001,500	–	(12,700,164)	(4,479,334)	31,882,002
	28 July 2009	1 January 2010 to 31 December 2010	3.59	25,300,000	–	–	(25,300,000)	–
	28 July 2009	1 January 2011 to 31 December 2011	3.59	25,300,000	–	–	(4,000,000)	21,300,000
				50,600,000	–	–	(29,300,000)	21,300,000
	23 April 2010	23 April 2010 to 31 December 2010	2.64	–	25,000,000	(20,800,000)	(4,200,000)	–
	23 April 2010	1 July 2010 to 31 December 2010	2.64	–	5,000,000	(5,000,000)	–	–
	23 April 2010	1 January 2011 to 31 December 2011	2.64	–	15,000,000	–	–	15,000,000
	23 April 2010	1 January 2012 to 31 December 2012	2.64	–	15,000,000	–	–	15,000,000
				–	60,000,000	(25,800,000)	(4,200,000)	30,000,000
				99,601,500	60,000,000	(38,500,164)	(37,979,334)	83,122,002

Report of the Directors

Connected Transactions

Pursuant to Chapter 14A of the Listing Rules, the following transaction constituted a non-exempt connected transaction of the Company and is subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules:

Acquisition of up to 95% interests in Sino Polymer

As disclosed in the announcement (the "Announcement") of the Company dated 7 November 2010, on 19 October 2010, the Company, (i) Ascend and Mr. Suo Lang Duo Ji; (ii) Mandra Esop Limited; (iii) Mandra Materials Limited; (iv) Woo Foong Hong Limited; (v) Triple A Investments Limited; (vi) MS China 10 Limited; (vii) Ying Mei Group Limited; (viii) Sky Success Investments Ltd.; and (ix) Other Vendors (as defined in the Announcement and collectively, the "Vendors") entered into a conditional sale and purchase agreement (the "Sale and Purchase Agreement"), pursuant to which the Company agreed to acquire up to 95.00% but not less than 89.49% of the equity interest in Sino Polymer (the "Acquisition"). Pursuant to the Sale and Purchase Agreement, the consideration payable to each of the Vendors is calculated on the basis of (i) the number of shares of Sino Polymer held by the relevant Vendor on completion of the Acquisition (the "Completion") as a percentage of the entire share capital of Sino Polymer in issue on Completion and (ii) a total consideration for 100% of the share capital of Sino Polymer in issue on Completion amounting to HKD11,634,750,000 which is the agreed HKD equivalent of USD1,500,000,000.

As the applicable percentage ratios under the rules (the "Listing Rules") governing the listing of securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in respect of the Acquisition, exceeded 100%, the Acquisition constituted a very substantial acquisition of the Company, and, as at the date of the Announcement, Mr. Suo Lang Duo Ji, a non-executive Director and a controlling Shareholder, was also, (i) through Ascend, ultimately beneficially interested in 37,739,405 shares of Sino Polymer (being approximately 37.78% of the total share capital of Sino Polymer); and (ii) directly interested in 104 shares of Sino Polymer (being less than 0.01% of the total issued share capital of Sino Polymer), Mr. Suo Lang Duo Ji was therefore the controlling shareholder of Sino Polymer. Accordingly, the Acquisition also constituted very substantial acquisition and a connected transaction for the Company under the Listing Rules.

As disclosed in the Company's announcement dated 14 January 2011, the Completion took place on the same date.

Continuing Connected Transactions

Prior to Completion, two subsidiaries of Sino Polymer, namely 四川得陽化學有限公司 (Sichuan Deyang Chemical Co., Ltd.) ("Deyang Chemical") and 四川得陽特種新材料有限公司 (Sichuan Deyang Special New Materials Co., Ltd.) ("Deyang Materials"), and Chuanmei Mirabilite, a wholly-owned subsidiary of the Company, entered into various continuing transactions with certain connected parties, namely, Sichuan Deyang Science & Technology Co., Ltd. (四川得陽科技股份有限公司) ("Deyang Technology"), Sichuan Huatuo Enterprise Co., Ltd. (四川省華拓實業發展股份有限公司) ("Sichuan Huatuo") and Sichuan Tengzhong Heavy Industrial Machinery Co., Ltd. (四川騰中重工機械有限公司) ("Sichuan Tengzhong") (together, "Connected Parties"), which include four tenancy agreements, a commission transportation agreement and a trademark licence agreement. Upon Completion, Sino Polymer has become a subsidiary of the Company and the Connected Parties have become connected persons of the Company, therefore, the continuing transactions with the Connected Parties have become continuing connected transactions for the Company upon Completion.

The details of the continuing connected transactions are set forth below:

1. Tenancy agreement between Deyang Chemical and Sichuan Tengzhong

On 1 January 2010, Deyang Chemical entered into a tenancy agreement with Sichuan Tengzhong for the lease of premises located at No.869 Second Konggang Road, Southwest Airport Economic Development Zone, Shuangliu County, Chengdu City, Sichuan Province, the PRC, from Deyang Chemical (as lessor) to Sichuan Tengzhong (as lessee) for three years commencing on 1 January 2010. The tenancy agreement was amended by two supplemental agreements dated 24 January 2010 and 12 October 2010, respectively.

Sichuan Tengzhong is a company incorporated in the PRC and its principle business activities are manufacturing of general and special machinery and plastic products, and sale of construction materials, machinery, hardware and electronic products.

Upon Completion, Sichuan Tengzhong has become a connected person of the Company and Deyang Chemical has become a subsidiary of the Company, therefore, the continuing transaction under the tenancy agreement constitutes a continuing connected transaction for the Company after Completion.

Deyang Chemical entered into the tenancy agreement with Sichuan Tengzhong taking into consideration the solid financial background of Sichuan Tengzhong and the fact that Sichuan Tengzhong has been able to make timely payment of rent. Pursuant to the tenancy agreement, the rent is RMB8,000,000 per year.

Report of the Directors

2. Tenancy agreement between Deyang Chemical and Sichuan Huatuo

On 1 January 2010, Deyang Chemical entered into a tenancy agreement with Sichuan Huatuo for the lease of premises located at Level 3 of Area D, No.9 Incubation Park High-tech Development Zone, Chengdu City, Sichuan Province, the PRC, from Sichuan Huatuo (as lessor) to Deyang Chemical (as lessee) for three years commencing on 1 January 2010. The tenancy agreement was amended by a supplemental agreement dated 12 October 2010.

Sichuan Huatuo is a company incorporated in the PRC and its principal business activities are research and development of engineering plastic products and project investment.

Upon Completion, Sichuan Huatuo has become a connected person of the Company and Deyang Chemical has become a subsidiary of the Company, therefore, the continuing transaction under the tenancy agreement constitutes a continuing connected transaction for the Company after Completion.

Deyang Chemical entered into the tenancy agreement with Sichuan Huatuo in order to use the relevant premises as an office for its operations. Pursuant to the tenancy agreement, the rent is RMB1,830,000 per year.

3. Tenancy agreement between Deyang Materials and Sichuan Huatuo

On 2 February 2010, Deyang Materials entered into a tenancy agreement with Sichuan Huatuo for the lease of premises located at Level 8 of Area E, No.9 Incubation Park High-tech Development Zone, Chengdu City, Sichuan Province, the PRC, from Sichuan Huatuo (as lessor) to Deyang Materials (as lessee) for a term from 1 February 2010 to 31 December 2012. The tenancy agreement was amended by a supplemental agreement dated 12 October 2010.

Upon Completion, Sichuan Huatuo has become a connected person of the Company and Deyang Materials has become a subsidiary of the Company, so the continuing transaction under the tenancy agreement constitutes a continuing connected transaction for the Company after Completion.

Deyang Materials entered into the tenancy agreement with Sichuan Huatuo in order to use the relevant premises as an office for its operations. Pursuant to the tenancy agreement, the rent RMB3,146,400 per year.

4. Tenancy agreement between Sichuan Chuanmei and Sichuan Huatuo

On 2 February 2010, Sichuan Chuanmei entered into a tenancy agreement with Sichuan Huatuo for the lease of premises located at Level 7 of Block E, No.9 Incubation Park High-tech Development Zone, Chengdu City, Sichuan Province, the PRC from Sichuan Huatuo (as lessor) to Sichuan Chuanmei (as lessee) for a term of one year commencing on 1 February 2010.

Upon Completion, Sichuan Huatuo has become a connected person of the Company and Sichuan Chuanmei has become a subsidiary of the Company, therefore the continuing transaction under the tenancy agreement constitutes a continuing connected transaction after Completion.

Sichuan Chuanmei entered into the tenancy agreement with Sichuan Huatuo in order to use the relevant premise for research, development and production of glauber salts and related products. Pursuant to the tenancy agreement, the rent is RMB3,556,800 per year.

5. Commission transportation agreement between Deyang Materials and Sichuan Tengzhong

On 8 January 2008, Deyang Materials entered into a commission transportation agreement with Sichuan Tengzhong for the provision of transportation services by Sichuan Tengzhong to Deyang Materials. The agreement expired on 31 December 2009 and was renewed by a supplemental agreement dated 10 January 2010 and was further amended by another supplemental agreement dated 12 October 2010. The term of the commission transportation agreement is three years commencing on 1 January 2010.

Upon Completion, Sichuan Tengzhong has become a connected person of the Company and Deyang Materials has become a subsidiary of the Company, therefore the continuing transaction under the commission transportation agreement constitutes a continuing connected transaction for the Company after Completion.

Deyang Materials believes that Sichuan Tengzhong has consistently been able to meet Deyang Materials' demands for timely transportation and Sichuan Tengzhong has been a reliable and co-operative service provider. The historical figure of the aggregate transportation fee payable by Deyang Materials to Sichuan Tengzhong for the year ended 31 December 2010 and the proposed annual caps for the years ending 31 December 2011 and 2012 are RMB1,863,504, RMB2,404,800 and RMB3,006,000 respectively.

6. Trademark licence agreement between Deyang Chemical and Deyang Technology

On 9 May 2006, Deyang Technology entered into the trademark licence agreement with Deyang Chemical and authorized Deyang Chemical to use the trademark from 10 July 2006 to 13 April 2018 on a royalty-free basis.

Deyang Technology is a company incorporated in the PRC and its principal business activities are production and sale of PPS resin and after-product, project investment, importing and exporting products (except for dangerous chemicals and monitored products), and sale of industrial chemical products (except for dangerous products).

Upon Completion, Deyang Technology has become a connected person of the Company and Deyang Chemical has become a subsidiary of the Company, therefore the continuing transaction under the trademark licence agreement constitutes a continuing connected transaction after Completion.

Report of the Directors

As the trademark licence was granted on a royalty-free basis and on normal commercial terms, the continuing transaction under the trademark licence agreement constitutes a de minimis transaction following Completion and is exempted from the reporting, annual review, announcement requirements and approval by the independent shareholders of the Company pursuant to Rule 14A.33(3) of the Listing Rules.

Further details of the above continuing connected transactions were set out in the announcement of the Company dated 16 January 2011.

Purchase, Sale or Redemption of Listed Securities of the Company

During the year ended 31 December 2010 and up to the date of this report, the Company repurchased a total of 7,436,000 shares of the Company on the Stock Exchange at an aggregate consideration (excluding expenses) of HK$14,576,440. All the repurchased shares were subsequently cancelled. Details of the repurchases are as follows:

Month of repurchases	Total number of shares repurchased	Highest price paid per share	Lowest price paid per share	Aggregate of consideration paid (excluding expenses)
		HK$	HK$	HK$
February 2010	7,436,000	1.99	1.90	14,576,440

The repurchases were made for the benefit of the equity holders to enhance the earnings per share of the Company. Save as disclosed above, the Company has not redeemed, and neither the Company nor any of its subsidiaries has purchased or sold, any of the shares of the Company during the year ended 31 December 2010 and up to the date of this report.

Pre-Emptive Rights

There is no provision for pre-emptive rights under the Company's articles of association or the Companies Law of the Cayman Islands.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or in existence during the year ended 31 December 2010.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by public as at the date of this report.

Compliance with the Code on Corporate Governance Practices

In the opinion of the Directors, the Company has fully complied with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules throughout the accounting period covered by this report. Please refer to the Corporate Governance Report on pages 47 to 51 of this report.

Independence of Independent Non-Executive Directors

The Company has received from each of its independent non-executive Directors a written confirmation of his independence from the Group. Based on such confirmations, the Company considers that each of such Directors to be independent from the Group for the purpose of Rule 3.13 of the Listing Rules.

Audit Committee

The Company has established an audit committee (the "Audit Committee") with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C3 of the Code. The primary duties of the Audit Committee are to assist the Board to provide an independent review of the effectiveness of the financial reporting process, internal control and risk management system of the Group, to oversee the audit process and to perform other duties and responsibilities assigned by the Board.

The Audit Committee, currently comprising four members namely, Mr. Koh Tiong Lu, John (the Chairman of the Audit Committee and independent non-executive Director), Mr. Wong Chun Keung (independent non-executive Director), Mr. Gao Zongze (independent non-executive Director) and Mr. Xia Lichuan (independent non-executive Director) has reviewed the accounting principles and practices adopted by the Group. It has also discussed and reviewed the internal controls and financial reporting matters, including the review of the audited consolidated financial results of the Group for the year ended 31 December 2010, with the management of the Company. The Audit Committee is of the opinion that the financial results have complied with applicable accounting standards, the Listing Rules and the legal requirements and that adequate disclosures have been made.

Mr. Patrick Logan Keen resigned as the chairman and a member of the Audit Committee upon his resignation as an independent non-executive Director with effect from 31 July 2010. Mr. Koh Tiong Lu was appointed as the chairman of the Audit Committee on the same date.

Report of the Directors

Placing and Subscription of 340,000,000 Shares

As disclosed in the announcements of the Company dated 25 January 2011 and 7 February 2011, Nice Ace Technology Limited ("Nice Ace") entered into a Placing and Subscription Agreement with BOCI Asia Limited, BOCOM International Securities Limited and Morgan Stanley & Co. International PLC (the "Joint Placing Agents") and the Company. Pursuant to the Placing and Subscription Agreement, Nice Ace agreed to place, through the Joint Placing Agents, 340,000,000 existing shares of the Company (the "Shares") to not less than six placees, at a price of HK$2.81 per Share and Nice Ace conditionally agreed to subscribe for such number of Shares as is equal to the number of Shares sold by Nill Ace at a price of HK$2.81 per Share.

As disclosed in the announcement of the Company dated 7 February 2011, the said placing and the subscription was completed on 7 February 2011. An aggregate of 340,000,000 Shares were placed by the Joint Placing Agents to not less than six placees at the placing price of HK$2.81. An aggregate of 340,000,000 Shares were allotted and issued to Nice Ace and the number of Shares Nice Ace was interested in remains the same immediately before the placing and immediately after the subscription. The Company received net proceeds of approximately HK$923 million from the Subscription.

Post Balance Sheet Events

Save as disclosed in note 40 to the consolidated financial statements, there are no significant post balance sheet events of the Group after the balance sheet date and up to the date of this report.

Auditors

The financial statements in respect of the previous financial years were audited by Grant Thornton ("GTHK"), now known as JBPB & Co. Due to a merger of the businesses of GTHK and BDO Limited ("BDO") to practise in the name of BDO as announced on 26 November 2010, GTHK resigned and BDO was appointed as auditors of the Company effective from 10 December 2010. The financial statements for the year ended 31 December 2010 were audited by BDO.

A resolution will be proposed at the Annual General Meeting to re-appoint BDO as auditor of the Company.

There has been no other changes of auditors in the preceding three years.

By order of the Board
Suo Lang Duo Ji
Chairman

Hong Kong
31 March 2011

Corporate Governance Report

Corporate Governance Practices

The Board is committed to maintaining high standards of corporate governance and endeavours in following the code provisions (the "Code Provisions") of the "Code on Corporate Governance Practices" (the "Code") as set out in Appendix 14 to the Listing Rules.

The Board has set up the Audit Committee, the remuneration committee (the "Remuneration Committee") and the nomination committee (the "Nomination Committee") with written terms of reference prepared in accordance with the Code Provisions. Throughout the year ended 31 December 2010, the Company has complied with the Code Provisions.

Model Code for Securities Transactions

The Company has adopted a code of conduct regarding securities transactions by Directors and senior management of the Group on terms no less exacting than the required standard under the Model Code. Having made specific enquiry of all Directors and senior management of the Group, all Directors and senior management of the Group have complied with the required standard set out in the Model Code and the Company's code of conduct regarding securities transactions by Directors and senior management during the year ended 31 December 2010.

Board of Directors

The Board is currently composed of three executive Directors, namely Mr. Zhang Daming (the chief executive officer of the Group), Mr. Yu Man Chiu Rudolf and Mr. Li Xudong; three non-executive Directors, namely Mr. Suo Lang Duo Ji (the Chairman), Mr. Wang Chun Lin and Mr. Zhang Songyi; and four independent non-executive Directors, namely Mr. Koh Tiong Lu, John, Mr. Wong Chun Keung, Mr. Gao Zongze and Mr. Xia Lichuan. The biographical details of the Directors are set out on pages 21 to 25 of this report. All Directors are subject to retirement by rotation and may offer themselves for re-election at the annual general meeting of the Company in accordance with the provisions of the articles of association of the Company. Each of the executive Directors, non-executive Directors and independent non-executive Directors is appointed for a term of three years.

In compliance with Rule 3.10 of the Listing Rules, there are currently four independent non-executive Directors appointed by the Company, and each of the four independent non-executive Directors has confirmed his independence of the Company and the Company considers each of them to be independent in accordance with the guidelines of assessing independence as set out in Rule 3.13 of the Listing Rules.

Corporate Governance Report

The Board meets regularly to review and determine the corporate strategies and overall strategic policies. Apart from the regular Board meetings, the Board met on other occasions when a board level decision on a particular matter was required. Each of the members of the Board has full access to relevant information at the meetings. During the year ended 31 December 2010 and up to the date of this report, the Board has convened 16 board meetings and conducted the following activities:

(1) approved the interim and final results, interim and annual reports, and matters to be considered at annual general meeting of the Company; and

(2) discussed the future business plans and financing of the Group.

Details of the Directors' attendance records at the Board meetings during the year ended 31 December 2010 and up to the date of this report are as follows:

	Attendance
Executive Directors	
Mr. Zhang Daming	14/16
Mr. Li Xudong	5/16
Mr. Yu Man Chiu Rudolf (appointed with effect from 3 March 2010)	11/15
Ms. Deng Xianxue (resigned with effect from 3 March 2010)	0/1
Non-executive Directors	
Mr. Suo Lang Duo Ji	12/16
Mr. Wang Chun Lin	14/16
Mr. Zhang Songyi	10/16
Independent non-executive Directors	
Mr. Koh Tiong Lu, John	12/16
Mr. Wong Chun Keung	13/16
Mr. Gao Zongze (appointed with effect from 3 March 2010)	9/15
Mr. Xia Lichuan (appointed with effect from 3 March 2010)	10/15
Mr. Patrick Logan Keen (resigned with effect from 31 July 2010)	4/5

The executive Directors and senior management of the Company, as delegated by the Board, are responsible for implementing the determined strategies and policies and the day-to-day management of the Group's business.

The roles of the chairman of the Company and the chief executive officer of the Group are segregated and are not exercised by the same individual.

Nomination Committee

The Nomination Committee is currently composed of three members, comprising two independent non-executive Directors, namely Mr. Koh Tiong Lu, John (Chairman) and Mr. Wong Chun Keung, and one non-executive Director, Mr. Wang Chun Lin. It was established by the Board and its duties are clearly defined in its written terms of reference which have been prepared and adopted according to the Code Provisions.

The major responsibilities of the Nomination Committee include reviewing the structure and the composition of the Board, and making recommendation to the Board on matters relating to Directors' nomination, appointment or reappointment and succession on regular basis. The Nomination Committee met 3 times during the year ended 31 December 2010 and up to the date of this report.

Details of the Directors' attendance records at such meetings are as follows:

	Attendance
Non-executive Director	
Mr. Wang Chun Lin	3/3
Independent non-executive Directors	
Mr. Koh Tiong Lu, John	3/3
Mr. Wong Chun Keung	3/3

Remuneration Committee

The Remuneration Committee is currently composed of four members, comprising three independent non-executive Directors, namely Mr. Wong Chun Keung (Chairman), Mr. Gao Zongze (appointed as a member with effect from 31 July 2010) and Mr. Xia Lichuan (appointed as a member with effect from 31 July 2010) and one non-executive Director, Mr. Suo Lang Duo Ji. Mr. Patrick Logan Keen resigned as a member of the Remuneration Committee with effect from 31 July 2010. It was established by the Board and its duties are clearly defined in its written terms of reference which have been prepared and adopted according to the Code Provisions.

The Remuneration Committee meets annually to review the remuneration policies and packages for Directors and senior management of the Company. No Director takes part in any discussions about his own remuneration. During the year ended 31 December 2010 and up to the date of this report, it has convened six meetings and reviewed the remuneration packages for the newly appointed directors of the Company.

Corporate Governance Report

Details of attendance of each member of the Remuneration Committee during the year ended 31 December 2010 and up to the date of this report are as follows:

	Attendance
Non-executive Director	
Mr. Suo Lang Duo Ji	5/6
Independent non-executive Directors	
Mr. Wong Chun Keung	6/6
Mr. Gao Zongze	2/3
Mr. Xia Lichuan	3/3
Mr. Patrick Logan Keen (resigned with effect from 31 July 2010)	5/5

Generally, the employees of the Group (including the Directors) are remunerated based on their experience and qualifications, the Group's performance as well as market conditions.

Auditors' Remuneration

During the year, the auditors of the Company provided audit services to the Group at the fee of approximately RMB1,113,000.

Audit Committee

The Audit Committee currently comprises four independent non-executive Directors, namely Mr. Koh Tiong Lu, John (appointed as the Chairman with effect from 31 July 2010), Mr. Wong Chun Keung, Mr. Gao Zongze and Mr. Xia Lichuan. During the year, Mr. Patrick Logan Keen resigned as the chairman and a member of the Audit Committee with effect from 31 July 2010. The Audit Committee has adopted a written set of terms of reference in accordance with the Code Provisions.

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the group audit. It also reviews the annual and interim reports of the Company prior to their approval by the Board, the effectiveness of the external audit and of internal controls and risk evaluation.

During the year and up to the date of this report, the Audit Committee has convened five meetings and conducted the following activities:

(1) reviewed interim and annual results of the Company;

(2) reviewed the internal controls and financial matters of the Group in pursuance of the terms of reference;

(3) reviewed the audit plans and findings of the external auditors of the Company; and

(4) made recommendation to the Board on the re-appointment of the external auditors.

Details of attendance records of each member of the Audit Committee at the meetings of the Audit Committee during the year ended 31 December 2010 and up to the date of this report are as follows:

	Attendance
Independent non-executive Directors	
Mr. Koh Tiong Lu, John	5/5
Mr. Wong Chun Keung	5/5
Mr. Gao Zongze	1/4
Mr. Xia Lichuan	4/4
Mr. Patrick Logan Keen (resigned with effect from 31 July 2010)	1/1

There was no disagreement between the Board's and the Audit Committee's views on the selection and appointment of the external auditors.

Directors' and Auditors' Responsibilities for Financial Statements

The Directors are responsible for the preparation of financial statements for each financial period which give a true and fair view of the state of affairs of the Group. In preparing the financial statements for the year ended 31 December 2010, the Directors have selected appropriate accounting policies and applied them consistently, and have prepared the financial statements on a going concern basis.

The responsibilities of the external auditors are set out in the Independent Auditor's Report to the shareholders of the Company on pages 52 to 53 of this report.

Internal Control

The Board is responsible for maintaining a sound and effective system of internal control. During the year, the Board has reviewed the effectiveness of the internal control system of the Group through the Audit Committee and the Compliance Committee of the Company. The Compliance Committee of the Company confirmed that it has performed its duties diligently in accordance with its terms of reference during the year. There was no significant incidence of failure in connection with the financial, operational and compliance control during the year.

Independent Auditor's Report

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TO THE SHAREHOLDERS OF CHINA LUMENA NEW MATERIALS CORP.
(FORMERLY KNOWN AS LUMENA RESOURCES CORP.)
中國旭光高新材料集團有限公司（前稱旭光資源有限公司）
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Lumena New Materials Corp. ("the Company") and its subsidiaries (together "the Group") set out on pages 54 to 134, 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 International Financial Reporting Standards 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body in accordance with the terms of our engagement, 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 auditor’s judgment, 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 auditor considers internal control relevant to the entity’s preparation of the 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 management, 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 International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

BDO Limited
Certified Public Accountants
Chiu Wing Cheung Ringo
Practising Certificate no. P04434

Hong Kong, 31 March 2011

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
Revenue	7	**1,961,215**	1,344,032
Cost of sales		**(541,551)**	(364,427)
Gross profit		**1,419,664**	979,605
Other revenue and gains	8	**23,744**	5,766
Selling and distribution expenses		**(9,872)**	(6,709)
Other operating expenses		**(139,522)**	(101,283)
Finance costs	9	**(241,569)**	(105,913)
Profit before income tax	10	**1,052,445**	771,466
Income tax expense	11	**(323,103)**	(226,561)
Profit for the year		**729,342**	544,905
Other comprehensive income			
Exchange gain/(loss) on translation of financial statements of foreign operations		**23,294**	(828)
Other comprehensive income for the year, net of tax		**23,294**	(828)
Total comprehensive income for the year		**752,636**	544,077

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
Profit for the year attributable to:	12		
Owners of the Company		**729,342**	532,966
Non-controlling interests		**–**	11,939
		729,342	544,905
Total comprehensive income attributable to:			
Owners of the Company		**752,636**	532,138
Non-controlling interests		**–**	11,939
		752,636	544,077
		RMB cents	RMB cents
Earnings per share for profit attributable to owners of the Company during the year	13		
– Basic		**37.42**	30.49
– Diluted		**37.32**	30.17

Consolidated Statement of Financial Position

As at 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	16	**2,419,315**	1,607,383
Land use rights	17	**82,582**	57,084
Goodwill	18	**8,386**	8,386
Mining rights	19	**380,717**	390,850
Other intangible asset	20	**17,588**	17,588
Deposits	21	**5,651**	402,997
		2,914,239	2,484,288
Current assets			
Inventories	23	**8,035**	13,560
Trade and other receivables	24	**766,973**	515,338
Pledged deposits	26	**91,024**	170,646
Cash and cash equivalents	27	**1,134,564**	929,467
		2,000,596	1,629,011
Current liabilities			
Trade and other payables	28	**205,047**	305,197
Bank borrowings	29	**531,700**	236,500
Tax payable		**15,409**	15,989
		752,156	557,686
Net current assets		**1,248,440**	1,071,325
Total assets less current liabilities		**4,162,679**	3,555,613
Non-current liabilities			
Bank borrowings	29	**–**	120,000
Fixed rate senior notes	30	**1,588,669**	1,616,755
Deferred tax liability	32	**30,616**	30,616
		1,619,285	1,767,371
Net assets		**2,543,394**	1,788,242
EQUITY			
Share capital	33	**145**	143
Reserves	34	**2,543,249**	1,788,099
Total equity		**2,543,394**	1,788,242

On behalf of the Board

Director	**Director**

Statement of Financial Position

As at 31 December 2010

	Notes	**2010 RMB'000**	2009 RMB'000
ASSETS AND LIABILITIES			
Non-current asset			
Interests in subsidiaries	22	**725,759**	725,759
Current assets			
Other receivables	24	**24,185**	67,902
Loans to a subsidiary	25	**1,283,135**	1,190,843
Pledged deposits	26	**79,024**	170,646
Cash and cash equivalents	27	**54,772**	165,056
		1,441,116	1,594,447
Current liability			
Other payables	28	**40,366**	99,944
Net current assets		**1,400,750**	1,494,503
Total assets less current liabilities		**2,126,509**	2,220,262
Non-current liability			
Fixed rate senior notes	30	**1,588,669**	1,616,755
Net assets		**537,840**	603,507
EQUITY			
Share capital	33	**145**	143
Reserves	34	**537,695**	603,364
Total equity		**537,840**	603,507

On behalf of the Board

Director **Director**

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Attributable to owners of the Company												
	Share capital RMB'000	Share premium* RMB'000	Capital redemption reserve* RMB'000	Employee share-based compensation reserve* RMB'000	Capital contribution* RMB'000	General reserve* RMB'000	Statutory reserves* RMB'000	Translation reserve* RMB'000	Dividend reserve* RMB'000	Retained profits* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2009	113	27,836	-	13,800	103,539	-	118,459	67,596	-	453,957	785,300	40,242	825,542
Issue of new shares arising from listing (note 33(i))	28	712,628	-	-	-	-	-	-	-	-	712,656	-	712,656
Expenses of share issues	-	(114,987)	-	-	-	-	-	-	-	-	(114,987)	-	(114,987)
Exercise of share options	2	59,147	-	(12,160)	-	-	-	-	-	-	46,989	-	46,989
Recognition of share-based payments	-	-	-	37,965	-	-	-	-	-	-	37,965	-	37,965
Acquisition of non-controlling interests	-	-	-	-	-	(211,819)	-	-	-	-	(211,819)	(52,181)	(264,000)
Transactions with owners	30	656,788	-	25,805	-	(211,819)	-	-	-	-	470,804	(52,181)	418,623
Profit for the year	-	-	-	-	-	-	-	-	-	532,966	532,966	11,939	544,905
Other comprehensive income													
Exchange loss on translation of financial statements of foreign operations	-	-	-	-	-	-	-	(828)	-	-	(828)	-	(828)
Total comprehensive income for the year	-	-	-	-	-	-	-	(828)	-	532,966	532,138	11,939	544,077
Appropriations to statutory reserves	-	-	-	-	-	-	108,055	-	-	(108,055)	-	-	-
Lapse of share options	-	-	-	(6,164)	-	-	-	-	-	6,164	-	-	-
At 31 December 2009 and 1 January 2010	143	684,624	-	33,441	103,539	(211,819)	226,514	66,768	-	885,032	1,788,242	-	1,788,242
Exercise of share options	3	91,045	-	(9,635)	-	-	-	-	-	-	81,413	-	81,413
Recognition of share-based payments	-	-	-	23,110	-	-	-	-	-	-	23,110	-	23,110
Repurchase and cancellation of shares	(1)	(12,779)	1	-	-	-	-	-	-	(1)	(12,780)	-	(12,780)
Interim dividend paid (note 14)	-	-	-	-	-	-	-	-	-	(89,227)	(89,227)	-	(89,227)
Proposed final dividend (note 14)	-	-	-	-	-	-	-	-	93,000	(93,000)	-	-	-
Transactions with owners	2	78,266	1	13,475	-	-	-	-	93,000	(182,228)	2,516	-	2,516
Profit for the year	-	-	-	-	-	-	-	-	-	729,342	729,342	-	729,342
Other comprehensive income													
Exchange gain on translation of financial statements of foreign operations	-	-	-	-	-	-	-	23,294	-	-	23,294	-	23,294
Total comprehensive income for the year	-	-	-	-	-	-	-	23,294	-	729,342	752,636	-	752,636
Appropriations to statutory reserves	-	-	-	-	-	-	79,790	-	-	(79,790)	-	-	-
Lapse of share options	-	-	-	(13,674)	-	-	-	-	-	13,674	-	-	-
At 31 December 2010	**145**	**762,890**	**1**	**33,242**	**103,539**	**(211,819)**	**306,304**	**90,062**	**93,000**	**1,366,030**	**2,543,394**	**-**	**2,543,394**

* The total of these reserve accounts amount to approximately RMB2,543,249,000 (2009: RMB1,788,099,000).

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	2010 RMB'000	2009 RMB'000
Cash flows from operating activities		
Profit before income tax	**1,052,445**	771,466
Adjustments for:		
Interest income	**(8,654)**	(2,266)
Interest expense	**241,569**	105,913
Depreciation of property, plant and equipment	**82,461**	41,424
Amortisation of land use rights	**1,303**	1,288
Amortisation of mining rights	**12,763**	13,620
Write-off of property, plant and equipment	**–**	430
Equity-settled share-based payments	**23,110**	37,965
Foreign exchange differences	**(10,497)**	(830)
Operating profit before working capital changes	**1,394,500**	969,010
Increase in trade and other receivables	**(253,504)**	(257,040)
Decrease/(Increase) in inventories	**5,525**	(5,290)
Decrease in trade and other payables	**(95,265)**	(173,170)
Cash generated from operations	**1,051,256**	533,510
Income tax paid	**(323,682)**	(214,951)
Net cash generated from operating activities	**727,574**	318,559
Cash flows from investing activities		
Interest received	**8,654**	2,266
Decrease/(Increase) in pledged deposits	**74,972**	(138,252)
Purchases of property, plant and equipment	**(639,991)**	(843,023)
Deposits paid for acquisition of property, plant and equipment	**–**	(245,752)
Deposits paid for acquisition of mining rights	**–**	(115,982)
Deposits paid for acquisition of land use rights	**–**	(26,801)
Acquisition of non-controlling interests	**–**	(184,800)
Other deposits paid	**–**	(4,462)
Refund of deposits paid for acquisition of property, plant and equipment	**–**	299,741
Refund of deposits paid for acquisition of mining rights	**113,352**	–
Payment for purchase of land use rights	**–**	(663)
Net cash used in investing activities	**(443,013)**	(1,257,728)

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	2010 RMB'000	2009 RMB'000
Cash flows from financing activities		
Proceeds from issuance of share capital	**81,413**	759,645
Repurchase and cancellation of shares	**(12,780)**	–
Share issue expenses	**–**	(114,987)
Proceeds from new borrowings	**411,700**	1,311,207
Repayment of borrowings	**(236,500)**	(1,637,272)
Proceeds from fixed rate senior notes	**–**	1,614,319
Interest paid	**(227,357)**	(65,103)
Dividend paid	**(89,227)**	–
Net cash (used in)/generated from financing activities	**(72,751)**	1,867,809
Net increase in cash and cash equivalents	**211,810**	928,640
Cash and cash equivalents at 1 January	**929,467**	827
Effect of foreign exchange rate changes, on cash held	**(6,713)**	–
Cash and cash equivalents at 31 December	**1,134,564**	929,467

Notes to the Financial Statements

For the year ended 31 December 2010

1. General

China Lumena New Materials Corp. (formerly known as Lumena Resources Corp.) (the “Company”) is a limited liability company incorporated in the Cayman Islands. Its shares are listed on the Stock Exchange of Hong Kong Limited. The address of the its registered office is Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman KY1-1108, Cayman Islands and its principal place of business is situated at Unit 7503B, 7504 and 7505, Level 75, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong. The Company and its subsidiaries (collectively the “Group”) are principally engaged in processing and sale of powder thenardite, specialty thenardite and medical thenardite. There were no significant changes in the Group’s operations during the year. Details of the subsidiaries are set out in note 22.

Pursuant to a special resolution duly passed at the extraordinary general meeting of the Company held on 8 December 2010, together with the approval of the Registrar of Companies in the Cayman Islands on 8 December 2010 and the approval of the Registrar of Companies in Hong Kong on 12 January 2011, the name of the Company has been changed from “Lumena Resources Corp. 旭光資源有限公司” to “China Lumena New Materials Corp. 中國旭光高新材料集團有限公司” with effect from 8 December 2010.

The financial statements for the year ended 31 December 2010 were approved for issue by the board of directors on 31 March 2011.

2. Adoption of International Financial Reporting Standards (“IFRSs”)

2.1 Adoption of new/revised IFRSs – effective 1 January 2010

IFRSs (Amendments)	Improvements to IFRSs
IFRS 3 (Revised)	Business Combinations
IAS 27 (Revised)	Consolidated and Separate Financial Statements

Except as explained below, the adoption of these new/revised standards and interpretations has no significant impact on the Group’s financial statements.

Notes to the Financial Statements

For the year ended 31 December 2010

2. Adoption of International Financial Reporting Standards ("IFRSs") *(continued)*

2.1 Adoption of new/revised IFRSs – effective 1 January 2010 *(continued)*

IFRS 3 (Revised) – Business Combinations and IAS 27 (Revised) – Consolidated and Separate Financial Statements

The revised accounting policies are described in note 4.1 to the financial statements, which are effective prospectively for business combinations effected in financial periods beginning on or after 1 July 2009. Changes in IFRS 3 include the valuation of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes impact the amount of goodwill and the results in the period that an acquisition occurs and future results. The adoption of revised IFRS 3 has had no impact to the financial statements as there has been no business combination transaction during the year.

The revised IAS 27 requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners, accordingly, such transactions are recognised within equity. When control is lost and any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The adoption of revised IAS 27 has had no impact on the current year.

IAS 17 (Amendments) – Leases

As part of Improvements to IFRSs issued in 2009, IAS 17 has been amended in relation to the classification of leasehold land. Before the amendment to IAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the consolidated statement of financial position. The amendment to IAS 17 has removed such a requirement and requires that the classification of leasehold land should be based on the general principles set out in IAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee. The Group concluded that the classification of such leases as operating leases continues to be appropriate.

2. Adoption of International Financial Reporting Standards (“IFRSs”) *(continued)*

2.2 New/revised IFRSs that have been issued but are not yet effective

The following new/revised IFRSs, potentially relevant to the Group’s financial statements, have been issued, but are not yet effective and have not been early adopted by the Group.

IFRSs (Amendments)	Improvements to IFRSs 2010[2&3]
Amendments to IFRS 7	Financial Instruments: Disclosure[4]
IFRS 9	Financial Instruments – Classification and Measurement[5]
IAS 24 (Revised)	Related Party Disclosures[3]
Amendments to IAS 32	Financial Instruments: Presentation[1]

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 2013

The amendments to IFRS 7 improve the derecognition disclosure requirements for transfer transactions of financial assets and allow users of financial statements to better understand the possible effects of any risks that may remain with the entity on transferred assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

Under IFRS 9, financial assets are classified into financial assets measured at fair value or at amortised cost depending on the entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains or losses will be recognised in profit or loss except for those non-trade equity investments, which the entity will have a choice to recognise the gains and losses in other comprehensive income. IFRS 9 carries forward the recognition and measurement requirements for financial liabilities from IAS 39, except for financial liabilities that are designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of that liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, IFRS 9 retains the requirements in IAS 39 for derecognition of financial assets and financial liabilities.

Notes to the Financial Statements

For the year ended 31 December 2010

2. Adoption of International Financial Reporting Standards ("IFRSs") *(continued)*

2.2 New/revised IFRSs that have been issued but are not yet effective *(continued)*

IAS 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 is in the process of making an assessment of the potential impact of these new/revised IFRSs and the directors so far concluded that the application of these new/revised IFRSs will have no material impact on the Group's financial statements.

3. Basis of Preparation

3.1 Statement of compliance

The financial statements of the Group on pages 54 to 134 have been prepared in accordance with International Financial Reporting Standards, which collective term includes all applicable individual International Financial Reporting Standards and Interpretations approved by the International Accounting Standards Board ("IASB"), and all applicable individual International Accounting Standards and Interpretations as originated by the Board of the International Accounting Standards Committee and adopted by IASB. The financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

3. Basis of Preparation *(continued)*

3.2 Basis of measurement

The significant accounting policies that have been used in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated.

The financial statements have been prepared under historical cost convention. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 5.

3.3 Functional and presentation currency

The functional currency of the Company is Hong Kong dollars ("HKD"). The financial statements are presented in Renminbi ("RMB"), since the major subsidiaries of the Group are operating in a RMB environment and the functional currency of the major subsidiaries is RMB.

4. Summary of Significant Accounting Policies

4.1 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective dates of acquisition or up to the effective dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Notes to the Financial Statements

For the year ended 31 December 2010

4. Summary of Significant Accounting Policies *(continued)*

4.1 Basis of consolidation *(continued)*

Business combination from 1 January 2010

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs incurred are expensed.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

4. Summary of Significant Accounting Policies *(continued)*

4.1 Basis of consolidation *(continued)*

Business combination prior to 1 January 2010

On acquisition, the assets and liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connected with business combinations were capitalised as part of the cost of the acquisition.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

4.2 Subsidiaries

Subsidiaries are entities (including special purpose entity) over which the Company is able to exercise control. Control is achieved where the Company, directly or indirectly, has the power to govern the financial and operating polices of the entities so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity.

In the Company's statement of financial position, subsidiaries are carried at cost less any impairment losses unless the subsidiary is held for sale or included in a disposal group. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the reporting date. All dividends whether received out of the investee's pre or post-acquisition profits are recognised in the Company's profit or loss.

Notes to the Financial Statements

For the year ended 31 December 2010

4. Summary of Significant Accounting Policies *(continued)*

4.3 Goodwill

Goodwill is initially recognised at cost being the excess of the aggregate of consideration transferred and the amount recognised for non-controlling interests over the fair value of identifiable assets, liabilities and contingent liabilities acquired.

Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

Goodwill is measured at cost less any impairment losses. For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units ("CGU") that are expected to benefit from the synergies of the acquisition. A CGU to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the CGU to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

4.4 Property, plant and equipment

Buildings held for own use which are situated on leasehold land, where the fair value of the building could be measured separately from the fair value of the leasehold land at the inception of the lease, and other items of plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Construction-in-progress ("CIP") represents buildings, plant and machinery under construction or pending installation and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction and acquisition. No depreciation is charged on CIP until such time as the relevant assets are completed and ready for intended use. When the assets concerned are available for use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated below.

4. Summary of Significant Accounting Policies *(continued)*

4.4 Property, plant and equipment *(continued)*

Depreciation on property, plant and equipment, other than CIP is provided, using the straight-line method, to write off the cost or revalued amounts over their estimated useful lives, as follows:

Building and mining structures (including leasehold improvements)	4 to 30 years
Furniture, machinery and equipment	5 to 20 years
Motor vehicles	5 to 12 years

The assets' estimated useful lives and depreciation method are reviewed, and adjusted if appropriate, at each reporting date.

The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

4.5 Payments for leasehold land held for own use under operating leases

Payments for leasehold land held for own use under operating leases represent up-front payments to acquire long-term interests in lessee-occupied properties. These payments are stated at cost and are amortised over the period of the lease on a straight-line basis as an expense.

4.6 Operating leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

When the Group is the lessee, rentals payable under the operating leases are recognised to profit or loss on the straight-line basis over the lease terms.

Notes to the Financial Statements

For the year ended 31 December 2010

4. Summary of Significant Accounting Policies *(continued)*

4.7 Intangible asset (other than goodwill)

Trademark acquired in a business combination

Trademark acquired in a business combination is identified and recognised separately from goodwill where it satisfies the definition of an intangible asset and its fair value can be measured reliably. The cost of such trademark is its fair value at the acquisition date. Subsequently to initial recognition, trademark with indefinite useful life is carried at cost less any subsequent accumulated impairment losses.

Intangible assets with indefinite useful lives are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount.

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

4.8 Mining rights

Mining rights are stated at cost less accumulated amortisation and impairment loss and are amortised on a straight-line basis over the their estimated useful life, which is the shorter of the contractual period and the estimated period of extraction (based on the total proven and probable reserves of the mines), from the date such mine is available for use.

4. Summary of Significant Accounting Policies *(continued)*

4.9 Financial Instruments

(i) Financial assets

The Group classifies its financial assets as loans and receivables. Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and, where allowed and appropriate, re-evaluates this designation at every reporting date.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. All regular way purchases and sales of financial assets are recognised on trade date. When financial assets are recognised initially, they are measured at fair value, plus directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the financial assets expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

At each reporting date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

Notes to the Financial Statements

For the year ended 31 December 2010

4. Summary of Significant Accounting Policies *(continued)*

4.9 Financial Instruments *(continued)*

(ii) Impairment loss on financial assets

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group about one or more of the following loss events:

- Significant financial difficulty of the debtor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- It becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and
- Significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

Loss events in respect of a group of financial assets included observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group.

If any such evidence exists, the impairment loss is measured and recognised as follows:

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost 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) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of impairment loss is recognised in profit or loss of the period in which the impairment occurs.

4. Summary of Significant Accounting Policies *(continued)*

4.9 Financial Instruments *(continued)*

(ii) Impairment loss on financial assets *(continued)*

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the period in which the reversal occurs.

(iii) Financial liabilities

The Group's financial liabilities comprise bank borrowings, fixed rate senior notes and trade and other payables including amounts due to related parties. These are included in the line items in the statement of financial position as borrowings under current or non-current liabilities or trade and other payables.

Financial liabilities at amortised cost

Financial liabilities at amortised cost included trade and other payables and borrowings.

Trade and other payables are recognised at fair value and subsequently measured at amortised cost using the effective interest method.

Borrowings are recognised initially at fair value, net of directly attributable transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the year of the borrowings using effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the date of statement of financial position.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised in accordance with the Group's accounting policy for borrowing costs (note 4.18).

Notes to the Financial Statements

For the year ended 31 December 2010

4. Summary of Significant Accounting Policies *(continued)*

4.9 Financial Instruments *(continued)*

(iii) Financial liabilities *(continued)*

Financial liabilities at amortised cost (continued)

Financial liabilities are derecognised when the obligations specified in the relevant contract is discharged or cancelled or expired.

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 the recognition of a new liability, and the difference in the respective carrying amount is recognised in profit or loss.

Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

4.10 Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

4.11 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks and short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

4. Summary of Significant Accounting Policies *(continued)*

4.12 Revenue recognition

Revenue comprises the fair value of the consideration, net of value-added tax, received or receivable for the sale of goods and the use by others of the Group's assets yielding interest, net of discounts. Provided it is probable that the economic benefits will flow to the Group and revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

(i) Revenue from sales of goods is recognised upon transfer of the significant risks and rewards of ownership to the customer. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.

(ii) Interest income is accrued on time-proportion basis using effective interest method.

4.13 Income taxes

Income tax for the year comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in profit or loss.

Deferred tax is calculated using the liability method on all temporary differences at the reporting date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax credits and unused tax losses can be utilised.

Deferred tax assets and liabilities are not recognised if temporary differences arise from the initial recognition (other than in a business combination) of assets or liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities in respect of taxable temporary differences associated with on investments in subsidiaries except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Notes to the Financial Statements

For the year ended 31 December 2010

4. Summary of Significant Accounting Policies *(continued)*

4.13 Income taxes *(continued)*

Deferred tax is calculated, without discounting, at the tax rates that are expected to apply in the period the liability is settled or the asset realised, provided that they are enacted or substantively enacted at the reporting date.

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly in equity.

Current tax assets and current tax liabilities are presented in net if, and only if, the Group:

(a) has the legally enforceable right to set off the recognised amounts; and

(b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if,

(a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and

(b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

(i) the same taxable entity; or

(ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

4. Summary of Significant Accounting Policies *(continued)*

4.14 Foreign currencies

In preparing the financial statements of individual group entity, transactions in currencies other than the group entity's functional currency (i.e. foreign currency) are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated.

For the purpose of the consolidated financial statements, the assets and liabilities of the foreign entities which functional currency is not RMB are translated into RMB at the exchange rates ruling at the reporting date, and their statements of comprehensive income are translated into RMB at the average exchange rates for the year. Foreign exchange gains and losses arising thereon are recognised in other comprehensive income and accumulated in the translation reserve in equity. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

4.15 Retirement benefits costs

The Group's contributions to the Mandatory Provident Fund Scheme under the Mandatory Provident Fund Schemes Ordinance are expensed as incurred. Both the Group and its employees in Hong Kong are required to contribute 5% of each individual's relevant income with a maximum amount of HKD1,000 per month as a mandatory contribution. Employees may also elect to contribute more than the minimum as a voluntary contribution. The assets of the scheme are held in separate trustee-administered funds.

In accordance with the rules and regulations in the People's Republic of China (the "PRC"), the employees of the entities established in the PRC participate in defined contribution retirement benefits plans organised by regional governments. The regional governments undertake to assume the retirement benefit obligations of all existing and future retired employees payable under the plan described above. Contributions to these plans are expensed as incurred and other than these monthly contributions, the Group has no further obligation for the payment of retirement benefits of its employees. The assets of these plans are held separately from those of the Group in an independent fund managed by the PRC government.

The Group's contributions to the defined contribution retirement benefit plan are not reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

Notes to the Financial Statements

For the year ended 31 December 2010

4. Summary of Significant Accounting Policies *(continued)*

4.16 Share-based payments

Equity-settled share-based payment

The Group operates equity-settled share-based compensation plans for remuneration of its employees. All employee services received in exchange for the grant of equity instruments e.g. share options are measured at their fair values. The cost of equity-settled share-based compensation is measured by reference to the fair value of the equity instruments at the date on which the financial instruments are granted. In determining the fair value, no account is taken of any non-market vesting conditions (for example, profitability and sales growth targets). In situations where equity instruments are issued and some or all of the goods or services received by the Group as consideration cannot be specifically identified, the unidentifiable goods or services are measured as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received at the grant date.

When share options are granted to non-employee in exchange for services, they are measured at the fair value of the services received. The fair value is recognised as expense over the vesting period, if applicable, unless the services qualify for recognition as assets. Corresponding entries have been made to equity.

Equity-settled share-based compensation in relation to the pre-IPO share option scheme and share option scheme is recognised as an expense in profit or loss with a corresponding increase in equity. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of equity instruments expected to vest. Non market vesting conditions are included in assumptions about the number of equity instruments that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of equity instruments expected to vest differs from previous estimates.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied. In respect of share options, the fair value of the share options granted by the Group to its employees is recognised in profit or loss with a corresponding increase in employee share-based compensation reserve. Upon exercise of the share options, the amount in the employee share-based compensation reserve is transferred to the share premium account. In case the share options are lapsed, the amount in the employee share-based compensation reserve is released directly to retained profits.

4. Summary of Significant Accounting Policies *(continued)*

4.17 Impairment of other assets

At the end of each reporting period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- land use rights;
- mining rights;
- other intangible asset; and
- the Company's interests in subsidiaries.

If the recoverable amount (i.e. the greater of the fair value less costs to sell and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

4.18 Capitalisation of borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Notes to the Financial Statements

For the year ended 31 December 2010

4. Summary of Significant Accounting Policies *(continued)*

4.19 Government grants

Government grants are recognised as income when there is reasonable assurance that the conditions attaching to such grants are complied with the rights to receive payment have been established. When the grant relates to an expense item, it is recognised as other revenue and presented as such over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

4.20 Research and development costs

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

4.21 Provision and contingent liabilities

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

When the effect of discounting is material, the amount recognised for a provision is the present value at the reporting date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

4. Summary of Significant Accounting Policies *(continued)*

4.22 Share capital

Ordinary shares with discretionary dividends are classified as equity. Share capital is determined using the nominal value of shares that have been issued. Any transaction costs associated with the issuing of shares are deducted from share premium to the extent they are incremental costs directly attributable to the equity transactions.

4.23 Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components.

Individually material operating segments are not aggregated for financial reporting purpose unless the segments have similar characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they are share a majority of these criteria.

4.24 Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

Notes to the Financial Statements

For the year ended 31 December 2010

4. Summary of Significant Accounting Policies *(continued)*

4.24 Related parties *(continued)*

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

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

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

5. Critical Accounting Estimates and Judgements

In the process of applying the Group's accounting policies, which are described in note 4, management has made various estimates and judgements which are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Estimates and judgements are continually evaluated. The key source of estimation uncertainty and accounting judgements that result in significant risk of causing a material adjustment to the carrying amount of assets and liabilities in the next financial year or significantly affect the amounts recognised in the financial statements are discussed below:

Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 4.3. The recoverable amounts of CGU have been determined based on value-in-use calculations. These calculations require the use of estimates. Details of the estimates used in assessing impairment for goodwill are set out in note 18.

Impairment of other assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Indefinite life intangible assets are tested for impairment annually and at other times when such indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value-in-use calculations are undertaken, management must estimate the expected future cash flows from the asset or CGU and choose a suitable discount rate in order to calculate the present value of those cash flows. Details about the estimates used in assessing impairment for indefinite life intangible assets are set out in note 20.

5. Critical Accounting Estimates and Judgements *(continued)*

Impairment of receivables

The Group's management determines the provision for impairment of receivables. This estimate is based on the evaluation of collectability and ageing analysis of receivables and on management's judgement. A considerable amount of judgement is required in assessing the expected timing of collection and ultimate realisation of these receivables, including credit worthiness and collection history of each customer and other debtor. Management will reassess the provision at each reporting date. If the financial conditions of the customers or debtors of the Group deteriorate thus resulting in impairment as to their ability to make payment, additional allowances may be required.

Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives for the property, plant and equipment of the Group. This estimate is based on the historical experience of the actual useful lives of the relevant assets of similar nature and functions. The estimated useful lives could be different as a result of technical innovations which could affect the related depreciation charges included in profit or loss.

Provision for reclamation and closure cost

Provision for reclamation and closure cost is estimated based on management's interpretation of current regulatory requirements and their past experiences. Provision set up, if any, is reviewed regularly by management to ensure it properly reflects the obligation arising from mining and exploration activities.

6. Segment Information

The Group determined its operating segments and prepared segment information based on the regular internal financial information reported to the Group's executive directors for their decisions about resources allocation to the Group's business components and review of these components' performance. There is only one business component in internal reporting to the executive directors, which is the processing and sales of powder thenardite, specialty thenardite and medical thenardite.

Under IFRS 8, reported segment information is based on internal management reporting information that is regularly reviewed by the executive directors. The executive directors assess segment profit or loss using a measure of operating profit. The measurement policies the Group uses for reporting segment results under IFRS 8 are the same as those used in its financial statements prepared under IFRSs, except that certain items are not included in arriving at the operating results of the operating segment (expenses relating to share-based payments, income tax and corporate income and expenses).

Notes to the Financial Statements

For the year ended 31 December 2010

6. Segment Information *(continued)*

Segment assets include all assets with the exception of corporate assets which are not directly attributable to the business activities of operating segment as these assets are managed on a group basis.

Segment liabilities include trade and other payables and fixed rate senior notes attributable to the manufacturing and sales activities of the business segment. Certain other payables are managed on a group basis.

Revenue, profit, assets and liabilities generated by the Group's operating segment are summarised as follows:

	2010 **RMB'000**	2009 RMB'000
Reportable segment revenue (note)	**1,961,215**	1,344,032
Reportable segment profit	**1,142,973**	828,728
Interest income	**8,614**	1,937
Interest expense	**(241,569)**	(105,913)
Depreciation and amortisation	**(95,169)**	(55,487)
Reportable segment assets	**4,741,035**	3,650,322
Additions to non-current segment assets	**915,308**	1,246,682
Reportable segment liabilities	**(2,368,732)**	(2,237,149)

Note: All of the segment revenue reported above is from external customers.

6. Segment Information *(continued)*

Reconciliation of reportable segment profit, assets and liabilities

	2010 RMB'000	2009 RMB'000
Profit		
Reportable segment profit	**1,142,973**	828,728
Equity-settled share-based payment expenses	**(23,110)**	(37,965)
Depreciation	**(1,358)**	(845)
Corporate income	**40**	1,565
Corporate expenses	**(66,100)**	(20,017)
Profit before income tax	**1,052,445**	771,466
Assets		
Reportable segment assets	**4,741,035**	3,650,322
Unallocated corporate assets	**173,800**	462,977
Group assets	**4,914,835**	4,113,299
Liabilities		
Reportable segment liabilities	**2,368,732**	2,237,149
Unallocated corporate liabilities	**2,709**	87,908
Group liabilities	**2,371,441**	2,325,057

Notes to the Financial Statements

For the year ended 31 December 2010

6. Segment Information *(continued)*

The Group's revenue from external customers and its non-current assets are divided into the following geographical areas:

	Revenue from external customers		Non-current assets	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Local (country of domicile):				
– The PRC, other than Hong Kong	**1,961,215**	1,343,054	**2,905,599**	2,482,087
New Zealand	**–**	695	**–**	–
Hong Kong	**–**	–	**8,640**	2,201
Others	**–**	283	**–**	–
	–	978	**8,640**	2,201
	1,961,215	1,344,032	**2,914,239**	2,484,288

The geographical location of customers is based on the location at which the goods were delivered. The geographical location of the non-current assets is based on the physical location of the asset.

The Company is an investment holding company incorporated in the Cayman Islands where the Group does not have any activities, the Group has the majority of its operations and workforce in the PRC, and therefore, the PRC is considered as the Group's country of domicile for the purpose of the disclosures as required by IFRS 8 "Operating Segments".

For the year ended 31 December 2010, revenue of approximately RMB442,447,000 (2009: RMB339,170,000) was derived from sales to a single customer, being the largest customer of the Group. As at 31 December 2010, approximately RMB72,809,000 (2009: RMB122,951,000) was due from this customer.

7. Revenue

Revenue, which is also the Group's turnover, represents the net amounts received and receivable for goods sold, less value-added tax and returns, for the year. The amount of each significant category of the revenue recognised is as follows:

	2010 RMB'000	2009 RMB'000
Revenue		
– powder thenardite	**130,107**	126,659
– medical thenardite	**790,374**	335,729
– specialty thenardite	**1,040,734**	881,644
	1,961,215	1,344,032

8. Other Revenue and Gains

	2010 RMB'000	2009 RMB'000
Interest income on bank balances stated at amortised cost	**8,654**	2,266
Gain on disposal of scrap materials	**1,232**	1,007
Government subsidy*	**300**	1,085
Net foreign exchange gain	**13,414**	1,235
Others	**144**	173
	23,744	5,766

* Government subsidy mainly comprised unconditional subsidy of subsidising the Group's business.

Notes to the Financial Statements

For the year ended 31 December 2010

9. Finance Costs

	2010 RMB'000	2009 RMB'000
Interest expenses on bank borrowings wholly repayable within five years	**23,636**	66,238
Interest expenses on fixed rate senior notes	**203,721**	37,237
Amortisation of fixed rate senior notes	**14,212**	2,438
	241,569	105,913

10. Profit before Income Tax

Profit before income tax is arrived at after charging the following items:

	2010 RMB'000	2009 RMB'000
Auditors' remuneration	**1,113**	971
Amortisation of land use rights (note (i))	**1,303**	1,288
Amortisation of mining rights (note (i))	**12,763**	13,620
Cost of inventories recognised as an expense	**541,551**	364,427
Depreciation of property, plant and equipment (note (ii))	**82,461**	41,424
Write-off of property, plant and equipment	**–**	430
Operating lease charges on rented premises	**7,263**	3,174
Research expenses	**97**	138
Staff costs (including directors' remuneration)		
– Wages, salaries and bonus	**61,785**	40,722
– Equity-settled share-based payments (note 35)	**23,110**	37,965
– Contribution to defined contribution pension plans	**3,509**	2,469
	88,404	81,156

10. Profit before Income Tax *(continued)*

Notes:

(i) Amounts have been included in other operating expenses on the face of consolidated statement of comprehensive income.

(ii) Depreciation of RMB76,488,000 (2009: RMB38,113,000), RMB252,000 (2009: RMB251,000) and RMB5,721,000 (2009: RMB3,060,000) has been charged to cost of sales, selling and distribution expenses and other operating expenses during the year respectively.

11. Income Tax Expense

	2010	2009
	RMB'000	RMB'000
PRC Enterprise Income Tax		
– current year	**329,103**	195,945
– overprovision for prior years	**(6,000)**	–
Deferred tax		
– current year	**–**	30,616
Income tax expense	**323,103**	226,561

Notes:

(i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands ("BVI"), the Group is not subject to any taxation under the jurisdiction of Cayman Islands and BVI during the year (2009: Nil).

(ii) No provision for Hong Kong profits tax has been made as the Group had no assessable profit arising from or derived in Hong Kong during the year (2009: Nil).

(iii) Sichuan Chuanmei Mirabilite Co., Ltd. ("Chuanmei Mirabilite"), one of the subsidiaries of the Company, was approved as a foreign invested enterprise in 2005. Pursuant to an approval document on certain tax preferential policies titled "Guo Shui You Pi (2005) No. 019" issued by the Bureau of State Tax of Dongpo District, Meishan City, Sichuan Province (四川省眉山市東坡區國家税務局國税優批 (2005) 019號), Chuanmei Mirabilite is entitled for exemption of PRC Enterprise Income Tax ("EIT") for two years starting from first year of profitable operations after offsetting prior year tax losses, followed by a three-year 50% tax deduction. The year ended 31 December 2005 was Chuanmei Mirabilite's first profit-making year and was the first year of its tax holiday. For the year ended 31 December 2010, Chuanmei Mirabilite is subject to EIT tax rate of 25% (2009: 12.5%).

(iv) Sichuan Chuanmei Special Glauber Salt Co., Ltd. ("Chuanmei Glauber Salt"), another subsidiary of the Company, is subject to EIT tax rate of 25% for the year ended 31 December 2010 (2009: 25%).

(v) For the year ended 31 December 2010, the Group did not have any material unrecognised deferred tax assets (2009: Nil).

Notes to the Financial Statements

For the year ended 31 December 2010

11. Income Tax Expense *(continued)*

A reconciliation of income tax expense and accounting profit at applicable tax rate is as follows:

	2010	2009
	RMB'000	RMB'000
Profit before income tax	**1,052,445**	771,466
Tax calculated at domestic tax rates applicable to profits in the respective jurisdictions	**286,095**	209,340
Effect of tax holidays of the PRC subsidiaries	**–**	(33,274)
Tax effect of expenses not deductible	**54,212**	22,030
Tax effect of income not taxable	**(11,204)**	(2,151)
Effect of withholding tax at 5% on distributable profits of the Group's PRC subsidiaries	**–**	30,616
Overprovision in respect of prior years	**(6,000)**	–
Income tax expense	**323,103**	226,561

12. Profit attributable to Owners of the Company

Of the consolidated profit attributable to owners of the Company of RMB729,342,000 (2009: RMB532,966,000), a loss of RMB77,026,000 (2009: RMB128,497,000) has been dealt with in the financial statements of the Company.

13. Earnings per Share

The calculation of basic earnings per share is based on the profit attributable to owners of the Company of RMB729,342,000 (2009: RMB532,966,000) and the weighted average number of ordinary shares of 1,948,910,242 (2009: ordinary shares of 1,748,179,236) in issue during the year, which has been determined after taking into consideration of the exercise of share options.

13. Earnings per Share *(continued)*

The calculation of diluted earnings per share is based on the profit attributable to owners of the Company of RMB729,342,000 (2009: RMB532,966,000) and the weighted average number of ordinary shares of 1,954,298,541 (2009: ordinary shares of 1,766,813,424) outstanding during the year, after adjusting for the effects of all dilutive potential ordinary shares.

The weighted average number of ordinary shares for the purposes of the calculation of diluted earnings per share can be reconciled to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:

	2010	2009
	'000	'000
Number of shares		
Weighted average number of ordinary shares used in basic earnings per share	**1,948,910**	1,748,179
Shares deemed to be issued at no consideration as if all the Company's share options have been exercised	**5,389**	18,634
Weighted average number of ordinary shares used in diluted earnings per share	**1,954,299**	1,766,813

14. Dividends

	2010	2009
	RMB'000	RMB'000
Proposed final dividend of HK1.94 cents per ordinary share (equivalent to approximately RMB1.705 cents per ordinary share) (2009: Nil)	**93,000**	–
Interim dividend declared and paid during the year of HK5.2 cents per ordinary share (equivalent to approximately RMB4.589 cents per ordinary share) (2009: Nil)	**89,227**	–
	182,227	–

The final dividend proposed after the reporting date has not been recognised as a liability at the reporting date, but reflected as an appropriation of retained profits for the year ended 31 December 2010. In addition, the final dividend is subject to the shareholders' approval at the forthcoming annual general meeting of the Company.

Notes to the Financial Statements

For the year ended 31 December 2010

15. Directors' Remuneration and Senior Management's Emoluments

Directors' emoluments

	Directors' fees RMB'000	Salaries, allowance and bonus RMB'000	Contribution to pension plans RMB'000	Equity-settled share-based payment expenses RMB'000	Total RMB'000
2010					
Executive directors					
Zhang Daming	–	1,602	11	1,168	2,781
Li Xudong	–	630	20	1,110	1,760
Yu Man Chiu Rudolf (appointed on 3 March 2010)	–	958	9	1,790	2,757
Deng Xianxue (resigned on 3 March 2010)	–	146	2	221	369
Non-executive directors					
Suo Lang Duo Ji	–	1,132	11	149	1,292
Zhang Songyi	–	1,132	11	1,653	2,796
Wang Chun Lin	–	1,222	11	931	2,164
Independent non-executive directors					
Koh Tiong Lu John	297	–	–	–	297
Wong Chun Keung	262	–	–	–	262
Gao Zongze (appointed on 3 March 2010)	98	–	–	–	98
Xia Lichuan (appointed on 3 March 2010)	109	–	–	–	109
Patrick Logan Keen (resigned on 31 July 2010)	203	–	–	–	203
	969	6,822	75	7,022	14,888

Notes to the Financial Statements

For the year ended 31 December 2010

15. Directors' Remuneration and Senior Management's Emoluments *(continued)*

	Directors' fees RMB'000	Salaries and allowance RMB'000	Contribution to pension plans RMB'000	Equity-settled share-based payment expenses RMB'000	Total RMB'000
2009					
Executive directors					
Zhang Daming	–	917	11	3,152	4,080
Deng Xianxue	–	917	11	3,111	4,039
Li Xudong	–	630	13	2,968	3,611
Non-executive directors					
Suo Lang Duo Ji	–	1,146	11	383	1,540
Zhang Songyi	–	1,146	11	383	1,540
Wang Chun Lin	–	1,237	11	2,394	3,642
Independent non-executive directors					
Patrick Logan Keen	206	–	–	–	206
Koh Tiong Lu John	154	–	–	–	154
Wong Chun Keung	154	–	–	–	154
	514	5,993	68	12,391	18,966

Notes to the Financial Statements

For the year ended 31 December 2010

15. Directors' Remuneration and Senior Management's Emoluments *(continued)*

No emoluments were paid by the Group to any directors as an inducement to join or upon joining the Group or as compensation for loss of office during the year (2009: Nil).

There were no arrangements under which a director waived or agreed to waive any remuneration during the year (2009: Nil).

The value of share options granted to directors is measured according to the Group's accounting policy for share-based compensation set out in note 4.16. Details of these benefits in kind including the principal terms and number of options granted are disclosed under the heading 'share options' in the directors' report.

Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included five (2009: five) directors whose emoluments are reflected in the analysis presented above.

16. Property, Plant and Equipment – Group

	Construction in progress RMB'000	Buildings and mining structures RMB'000	Furniture, machinery and equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
At 31 December 2008					
At cost	205,971	182,108	488,951	4,190	881,220
Accumulated depreciation	–	(11,432)	(61,968)	(1,606)	(75,006)
Net book amount	205,971	170,676	426,983	2,584	806,214
Year ended 31 December 2009					
Opening net book amount	205,971	170,676	426,983	2,584	806,214
Additions	755,703	30,103	56,682	535	843,023
Depreciation	–	(8,903)	(31,782)	(739)	(41,424)
Write-off	–	(430)	–	–	(430)
Reclassifications	(657,572)	537,658	119,871	43	–
Closing net book amount	304,102	729,104	571,754	2,423	1,607,383
At 31 December 2009					
At cost	304,102	749,061	665,504	4,768	1,723,435
Accumulated depreciation	–	(19,957)	(93,750)	(2,345)	(116,052)
Net book amount	304,102	729,104	571,754	2,423	1,607,383
Year ended 31 December 2010					
Opening net book amount	304,102	729,104	571,754	2,423	1,607,383
Additions	539,234	205,258	150,062	–	894,554
Depreciation	–	(36,238)	(45,466)	(757)	(82,461)
Exchange realignment	–	(55)	(89)	(17)	(161)
Reclassifications	(420,314)	420,314	–	–	–
Closing net book amount	423,022	1,318,383	676,261	1,649	2,419,315
At 31 December 2010					
At cost	423,022	1,374,555	815,451	4,701	2,617,729
Accumulated depreciation	–	(56,172)	(139,190)	(3,052)	(198,414)
Net book amount	423,022	1,318,383	676,261	1,649	2,419,315

Notes to the Financial Statements

For the year ended 31 December 2010

16. Property, Plant and Equipment – Group *(continued)*

The Group's buildings are held on land under medium-term lease in the PRC.

As at reporting date, certain buildings and mining structures, machinery and equipment are pledged to secure bank borrowings granted to the Group as disclosed in note 31.

17. Land Use Rights – Group

	2010	2009
	RMB'000	RMB'000
Net carrying amount at 1 January	**57,084**	57,709
Additions (notes (ii))	**26,801**	663
Amortisation charge	**(1,303)**	(1,288)
Net carrying amount at 31 December	**82,582**	57,084

Notes:

(i) The Group's interests in land use rights represent prepaid operating lease payments in respect of land located in the PRC. The land use rights were acquired with the lease period from 43 years to 50 years and are amortised over their lease periods. As at 31 December 2010, the land use rights have remaining lease periods from 32 to 49 years.

(ii) The consideration for the acquisition of land use right which took place during the year were settled by the deposits paid (note 21) in 2009.

18. Goodwill – Group

	2010 RMB'000	2009 RMB'000
Net carrying amount	**8,386**	8,386

Goodwill arose from the acquisition of Chuanmei Mirabilite in 2004. For the annual impairment test, the carrying amount of goodwill belongs to the CGU which is engaged in processing and sale of powder and medical thenardite. Its recoverable amount was determined based on a value-in-use calculation, covering a detailed five-year budget plan. The discount rate applied to the cash flow projections was 22.89% (2009: 22.89%). Cash flow beyond the five-year period is extrapolated using the estimated growth rate of 5% (2009: 2%). The growth rate does not exceed the projected long-term average growth rate for thenardite industry in the PRC. Based on the results of the impairment testing, management determines that there is no impairment of the CGU of processing and sale of powder and medical thenardite attributed to the goodwill.

Key assumptions were used for value-in-use calculation. The following described each key assumption on which management has based for its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins – Management determined gross margin based on past experience in this market and its expectations for market development.

Discount rates – The discount rates used are before tax and reflect specific risks relating to the respective industries.

Apart from the considerations described above in determining the value-in-use of the CGU above, the Group's management is not currently aware of any other probable changes that would necessitate changes in its key estimates.

Notes to the Financial Statements

For the year ended 31 December 2010

19. Mining Rights – Group

	RMB'000
At 1 January 2009	
Cost	409,063
Accumulated amortisation	(4,593)
Net book value	404,470
Year ended 31 December 2009	
Opening net book amount	404,470
Amortisation charge	(13,620)
Closing net book amount	390,850
At 31 December 2009	
Cost	409,063
Accumulated amortisation	(18,213)
Net book value	390,850
Year ended 31 December 2010	
Opening net book amount	390,850
Additions	2,630
Amortisation charge	(12,763)
Closing net book amount	380,717
At 31 December 2010	
Cost	411,693
Accumulated amortisation	(30,976)
Net book value	380,717

Notes:

(i) During the year, the Group made a payment of approximately RMB2,630,000 for the acquisition of the mining right of the Yuegou Mining Area.

(ii) The mining rights are amortised over their estimated useful life of 30 years.

(iii) Details of the Group's mining rights pledged to secure the Group's bank borrowings as at reporting date are set out in note 31 below.

20. Other Intangible Asset – Group

	Trademark RMB'000
Cost	
At 1 January 2009, 31 December 2009 and 2010	17,588
Impairment	
At 1 January 2009 and 31 December 2009	17,588
Impairment loss recognised	–
At 31 December 2010	17,588
Net book value	
At 31 December 2010	17,588
At 31 December 2009	17,588

Trademark as at 31 December 2010 arose from the acquisition of Chuanmei Mirabilite in 2004. The Group assessed the useful life and economic life of the trademark and concluded that the trademark have no foreseeable limit to the period which it is expected to generate net cash inflow for the Group and regarded the trading right as having indefinite useful life.

The carrying amount of trademark at each reporting date is tested for impairment by the management by estimating its recoverable amount based on the value-in-use calculations. The calculations use cash flow projection based on the financial budgets approved by the management covering a period up to 2012. The discount rate applied to the cash flow projections was 19.84% (2009: 19.84%). Cash flow beyond the five-year period is extrapolated using the estimated growth rate of 5% (2009: 2%). The growth rate does not exceed the projected long-term average growth rate for thenardite industry in the PRC.

Notes to the Financial Statements

For the year ended 31 December 2010

20. Other Intangible Asset – Group *(continued)*

Based on the results of the impairment testing, management determines that there is no impairment of the CGU of processing and sale of thenardite attributed to the trademark.

Key assumptions were used for value-in-use calculation. The following described each key assumption on which management has based its cash flow projections to undertake impairment testing of trademark:

Budgeted gross margins – Management determined gross margin based on past experience in this market and its expectations for market development.

Discount rates – The discount rates used are before tax and reflect specific risks relating to the respective industries.

Apart from the considerations described above in determining the value-in-use of the CGU above, the Group's management is not currently aware of any other probable changes that would necessitate changes in its key estimates.

21. Deposits – Group

	2010 **RMB'000**	2009 RMB'000
Deposits paid for		
Property, plant and equipment	**1,189**	255,752
Land use right	**–**	26,801
Mining right	**–**	115,982
Other deposits	**4,462**	4,462
	5,651	402,997

22. Interests in Subsidiaries – Company

	2010	2009
	RMB'000	RMB'000
Investment in subsidiaries	**113,014**	113,014
Amounts due from subsidiaries	**612,745**	612,745
	725,759	725,759

Amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors, the settlement of these amounts due is neither planned nor likely to occur in the foreseeable future and in substance, the amounts due from subsidiaries are extensions of the Company's investments in these subsidiaries.

As at reporting date, the Company's interests in certain subsidiaries have been pledged as securities for the Company's issued fixed rate senior notes as shown in note 30.

Notes to the Financial Statements

For the year ended 31 December 2010

22. Interests in Subsidiaries – Company *(continued)*

As at 31 December 2010, the particulars of the principal subsidiaries in which the Company has direct or indirect interests are set out as follows:

Name	Country/Place of incorporation/ establishment and type of legal entity	Particulars of issued and fully paid share capital/registered capital	Effective interest held by the Company	Principal activities
Interests held directly				
Rich Light International Limited	Incorporated in the BVI, limited liability company	U.S. dollars ("USD") 100	100%	Investment holding
Interests held indirectly				
Top Promise Resources Limited ("Top Promise")	Incorporated in Hong Kong, limited liability company	HKD1	100%	Investment holding
Grandco (Group) Limited	Incorporated in Hong Kong, limited liability company	HKD1	100%	Investment holding
Sichuan Chuanmei Mirabilite Co., Ltd. 四川省川眉芒硝有限責任公司	Established in the PRC, foreign investment enterprise	RMB142,077,000	100%	Processing and sale of powder thenardite and medical thenardite
Sichuan Chuanmei Special Glauber Salt Co., Ltd. 四川川眉特種芒硝有限公司	Established in the PRC, wholly foreign-owned enterprise	USD75,000,000	100%	Processing and sale of powder thenardite, medical thenardite and specialty thenardite

23. Inventories – Group

	2010 **RMB'000**	2009 RMB'000
Raw materials	**6,852**	8,913
Finished goods	**1,183**	4,647
	8,035	13,560

24. Trade and Other Receivables

	Group		**Company**	
	2010 **RMB'000**	2009 RMB'000	**2010** **RMB'000**	2009 RMB'000
Trade receivables	**607,346**	361,015	**–**	–
Less: provision for impairment	**(9,146)**	(9,146)	**–**	–
Trade receivables, net	**598,200**	351,869	**–**	–
Other receivables	**32,226**	103,379	**1,658**	67,659
Bills receivables	**–**	80	**–**	–
Deposits and prepayments	**136,547**	60,010	**22,527**	243
	766,973	515,338	**24,185**	67,902

Trade receivables are non-interest bearing. Credit terms normally granted to the trade customers ranged from 45 days to 180 days (2009: 45 days to 100 days) depending on the customers' relationship with the Group, its creditworthiness and settlement record.

Notes to the Financial Statements

For the year ended 31 December 2010

24. Trade and Other Receivables *(continued)*

Ageing analysis of trade receivables, net of impairment provision, is as follows:

	2010 **RMB'000**	2009 RMB'000
Outstanding balances with ages:		
– 90 days or below	**367,824**	334,483
– 91 – 180 days	**193,246**	11,945
– 181 – 365 days	**36,157**	251
– Over 365 days	**973**	5,190
	598,200	351,869

At each reporting date, the Group's trade receivables are individually determined for impairment testing. The individually impaired receivables, if any, are recognised based on the credit history of the customers, such as financial difficulties and default in payments, and current market conditions.

In general, trade receivables that are aged below one year are not considered impaired based on management's historical experience and the Group would consider impairment provision for trade receivables which are aged one year or above. The movement in the provision for impairment is as follows:

	2010 **RMB'000**	2009 RMB'000
At 1 January and 31 December	**9,146**	9,146

Where the recovery of trade receivables is considered doubtful but not remote, the impairment losses for doubtful receivables are recorded using an allowance account. When the Group is satisfied that recovery of trade receivables is remote, the amount considered irrecoverable is written off against trade receivables directly and any amounts held in the allowance account in respect of that receivable are reversed.

24. Trade and Other Receivables *(continued)*

The individually impaired receivables mainly relate to management assessment that the entire amount of the receivable balances is unlikely to be recovered. The Group did not hold any collateral as security or other credit enhancements over the impaired receivables. The ageing analysis of trade receivables which were impaired and were provided for is as follows:

	2010	2009
	RMB'000	RMB'000
Over 365 days	**9,146**	9,146

Ageing analysis of trade receivables that are past due as at the reporting date but are not considered impaired based on due date is as follows:

	2010	2009
	RMB'000	RMB'000
– 1 – 90 days past due	**123,414**	11,945
– 91 – 180 days past due	**4,252**	9
– 181 – 365 days past due	**453**	242
– Over 365 days past due	**–**	5,190
	128,119	17,386

Trade receivables of RMB470,081,000 (2009: RMB334,483,000) that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Trade receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance 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 over these balances.

The directors of the Company consider that the fair values of trade and other receivables which are expected to be recovered within one year are not materially different from their carrying amounts because these balances have short maturity periods on their inception.

Notes to the Financial Statements

For the year ended 31 December 2010

25. Loans to a Subsidiary – Company

The balance is unsecured, interest-free and repayable on demand. The directors considered that the carrying amount of the balance approximate to the fair value.

26. Pledged Deposits

As at 31 December 2010, pledged deposits were denominated in the following currencies:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
– RMB (note (i))	**12,000**	–	**–**	–
– USD (note (ii))	**79,024**	170,646	**79,024**	170,646
	91,024	170,646	**79,024**	170,646

Notes:

(i) Certain deposits of the Group denominated in RMB have been pledged to secure RMB bank loan (note 29(ii)). It will be released upon the settlement of the relevant bank borrowing.

(ii) Certain bank deposits of the Company denominated in USD have been pledged to secure RMB bank loan (note 29(ii)). The effective interest rate per annum of the pledged bank deposits of the Company was 0.92% (2009: 0.92%). It will be released upon the settlement of the relevant bank borrowing.

The directors considered that the carrying amounts of pledged deposits approximate to their fair values.

27. Cash and Cash Equivalents

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and in hand	**794,618**	572,842	**133,796**	133,431
Short-term bank deposits	**430,970**	527,271	**–**	202,271
Less: Pledged deposits	**(91,024)**	(170,646)	**(79,024)**	(170,646)
Cash and cash equivalents as stated in the statement of financial position	**1,134,564**	929,467	**54,772**	165,056

Cash deposited with banks bear interest at effective interest rates ranging from 0.01% to 0.36% (2009: 0.01% to 1.7%) per annum.

The directors considered that the carrying amounts of cash and cash equivalents approximate to their fair values.

The Group had cash and bank balances denominated in RMB amounting to approximately RMB1,073,371,000 (2009: RMB366,310,000) as at 31 December 2010, which were deposited with the banks in the PRC. RMB is currently not a freely convertible currency in the international market. The conversion of RMB into foreign currencies and remittance of RMB out of the PRC are subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

Notes to the Financial Statements

For the year ended 31 December 2010

28. Trade and Other Payables

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables	**60,247**	39,289	**–**	–
Other payables	**97,822**	157,996	**40,366**	99,944
Receipts in advance	**46,978**	28,712	**–**	–
Consideration payable on acquisition of non-controlling interests	**–**	79,200	**–**	–
	205,047	305,197	**40,366**	99,944

Ageing analysis of trade payables is as follows:

	2010	2009
	RMB'000	RMB'000
Outstanding balances with ages:		
– 90 days or below	**40,251**	29,848
– 91 – 180 days	**5,997**	2,045
– 181 – 365 days	**6,179**	1,019
– Over 365 days	**7,820**	6,377
	60,247	39,289

The directors considered that the carrying amounts of trade and other payables approximate to their fair values.

29. Bank Borrowings – Group

As at 31 December 2010, the Group's bank borrowings are secured and were repayable as follows:

	2010	2009
	RMB'000	RMB'000
Current		
Within one year	**531,700**	236,500
Non-current		
In the second year	**–**	120,000
	531,700	356,500

The secured RMB bank loans as at reporting date are collateralised by pledging of certain buildings, machinery and equipment and other assets of the Group as set out in note 31.

The exposure of bank borrowings to interest rate changes are as follows:

	2010	2009
	RMB'000	RMB'000
– at fixed rates (note (i))	**20,000**	200,000
– at floating rates (note (ii))	**511,700**	156,500
	531,700	356,500

Notes:

(i) The RMB bank loans were arranged at fixed interest rates of 5.84% per annum (2009: 5.05% to 5.09%).

(ii) The RMB bank loans were arranged at floating rates of 5.05% to 6.37% per annum (2009: 5.31% to 5.51%).

The carrying amounts of bank borrowings approximate to their fair value.

Notes to the Financial Statements

For the year ended 31 December 2010

30. Fixed Rate Senior Notes – Group and Company

On 27 October 2009, the Company issued USD250,000,000 (equivalent to approximately RMB1,706,458,000) of 12% fixed rate senior notes (the "Notes"), which mature on 27 October 2014 for bullet repayment. The Notes bear interest from 27 October 2009 and are payable semi-annually in arrears on 27 October and 27 April of each year, commencing on 27 April 2010 (each, an "Interest Payment Date"). The Notes are listed on the Singapore Exchange Securities Trading Limited.

The Notes are direct, unsubordinated and unconditional obligations of the Company, and are guaranteed by certain subsidiaries of the Company on a senior basis, subject to certain limitations.

At any time prior to 27 October 2012, the Company may at its option redeem the Notes, in whole or in part, at a redemption price equal to 100% of the principle amount of the Notes, plus the applicable premium as of, and accrued and unpaid interest, if any, to the redemption date. In addition, at any time prior to 27 October 2012, the Company may redeem up to 35% of the aggregate principal amount of the Notes with the net cash proceeds of one or more sales of common stock of the Company in an equity offering at a redemption price of 112% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to the redemption date.

At any time on or after 27 October 2012, the Company may redeem the Notes, in whole or in part, at a redemption price equal to the percentage of principal amount set forth below, plus accrued and unpaid interest, if any, to the redemption date, if redeemed during the 12-month period commencing on 27 October of any year set forth below:

Period	**Redemption price**
2012	106%
2013	103%

The Company gives not less than 30 days' nor more than 60 days' notice of any redemption.

The early redemption option of the Notes is regarded as an embedded derivative not closely related to the host contract (the Notes). It shall be separately accounted for as a financial instrument at fair value through profit or loss. The directors consider that the fair value of the early redemption option was insignificant on initial recognition and as at the reporting date.

30. Fixed Rate Senior Notes – Group and Company *(continued)*

The Notes recognised in the statement of financial position are calculated as follows:

	2010 RMB'000	2009 RMB'000
Carrying amount as at 1 January	**1,616,755**	–
Issue of the Notes	**–**	1,614,319
Amortisation of the Notes (note 9)	**14,212**	2,438
Exchange realignment	**(42,298)**	(2)
Carrying amount as at 31 December	**1,588,669**	1,616,755
Fair value of the Notes as at 31 December*	**1,550,444**	1,450,490

* The fair value was determined by reference to the closing price of the Notes published by a leading global financial market data provider as at that date.

The effective interest rate of the Notes is 13.52% per annum.

31. Pledge of Assets

At 31 December 2010, the Group had pledged certain buildings, machinery and equipment and other assets to secure the credit facilities granted by certain banks. The carrying values of these assets pledged at the reporting date are as follows:

	Group		Company	
	2010 RMB'000	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
Buildings and mining structures (note 16)	**29,676**	31,711	**–**	–
Machinery and equipment (note 16)	**245,093**	289,434	**–**	–
Land use rights (note 17)	**8,051**	–	**–**	–
Mining rights (note 19)	**293,394**	48,833	**–**	–
Pledged deposits (note 26)	**91,024**	170,646	**79,024**	170,646
	667,238	540,624	**79,024**	170,646

Notes to the Financial Statements

For the year ended 31 December 2010

32. Deferred Tax Liability – Group

The movement in the deferred tax liability during the year is as follows:

	Withholding tax
	RMB'000
At 1 January 2009	–
Charged to the profit or loss for the year	30,616
At 31 December 2009 and 31 December 2010	30,616

Under the PRC Tax Law, starting from 1 January 2008, 10% withholding income tax will be imposed on dividends relating to profits earned by the companies established in the PRC in the calendar year 2008 onwards to their foreign shareholders. A lower withholding tax rate is enjoyed by the Group because there is a tax treaty between Mainland China and the jurisdiction of the Top Promise, the immediate holding company of the PRC subsidiaries. For the Group, the applicable rate is 5%. Pursuant to the grandfathering treatments of the PRC Tax Law, dividends receivable by the Group from its PRC subsidiaries in respect of its undistributed retained earnings prior to 31 December 2007 are exempt from withholding tax.

As at 31 December 2010, deferred tax liabilities of approximately RMB30,616,000 (2009: RMB30,616,000) were recognised in respect of the undistributed retained earnings of the PRC subsidiaries. The aggregate amount of temporary differences associated with the PRC subsidiaries' undistributed retained earnings for which deferred tax liabilities have not been recognised are RMB1,407,945,000 (2009: RMB500,425,000). No deferred tax liabilities have been recognised in respect of these differences because the Group is in a position to control the dividend policies of these PRC subsidiaries and it is probable that such differences will not be reversed in the foreseeable future.

33. Share Capital – Group and Company

	Number of ordinary shares	Nominal value	
		USD	RMB'000
Authorised:			
At 1 January 2009, 31 December 2009 and 31 December 2010	5,000,000,000	50,000	385
Issued and fully paid:			
At 1 January 2009	1,520,000,000	15,200	113
Issue of new shares in connection with the listing (note (i))	404,000,000	4,040	28
Exercise of share options – proceeds from shares issued	26,657,500	267	2
At 31 December 2009	1,950,657,500	19,507	143
Exercise of share options – proceeds from shares issued	38,501,164	385	3
Repurchase and cancellation of shares (note (ii))	(7,436,000)	(74)	(1)
At 31 December 2010	**1,981,722,664**	**19,818**	**145**

Notes:

(i) On 16 June 2009, 404,000,000 new ordinary shares of USD0.00001 each of the Company were issued to the public by global offering at HKD2.00 (equivalent to RMB1.76) each. Gross proceeds received from the issue of 404,000,000 new shares amount to approximately HKD808,000,000 (equivalent to RMB712,656,000). Part of the proceeds amounting to approximately RMB28,000 was recorded as share capital, the remaining proceeds of approximately RMB712,628,000 was recorded in the share premium account. The shares of the Company were listed on the Stock Exchange on 16 June 2009.

(ii) During the year, the Company repurchased a total of 7,436,000 ordinary shares of US$0.00001 each in the capital of the Company at an aggregate price of approximately HKD14,623,000 (equivalent to RMB12,780,000). The repurchased shares were fully cancelled and the issued share capital of the Company was reduced by the nominal value of these shares accordingly. The premium payable on repurchase was charged against the share premium account. An amount equivalent to the nominal value of the shares cancelled was transferred from retained earnings to the capital redemption reserve.

Notes to the Financial Statements

For the year ended 31 December 2010

34. Reserves

(a) Company

Details of the Company's reserves are as follows:

	Share premium RMB'000	Capital redemption reserve RMB'000	Employee share-based compensation reserve RMB'000	Capital contribution RMB'000	Translation reserve RMB'000	Contributed surplus* RMB'000	Dividend reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2009	27,836	-	13,800	103,539	41	85,142	-	(180,238)	50,120
Issue of new shares arising from listing (note 33(i))	712,628	-	-	-	-	-	-	-	712,628
Expenses of share issues	(114,987)	-	-	-	-	-	-	-	(114,987)
Exercise of share options	59,147	-	(12,160)	-	-	-	-	-	46,987
Recognition of share-based payments	-	-	37,965	-	-	-	-	-	37,965
Transactions with owners	656,788	-	25,805	-	-	-	-	-	682,593
Loss for the year	-	-	-	-	-	-	-	(128,497)	(128,497)
Exchange loss on translation of financial statements of foreign operations	-	-	-	-	(852)	-	-	-	(852)
Lapse of share options	-	-	(6,164)	-	-	-	-	6,164	-
At 31 December 2009 and 1 January 2010	684,624	-	33,441	103,539	(811)	85,142	-	(302,571)	603,364
Exercise of share options	91,045	-	(9,635)	-	-	-	-	-	81,410
Recognition of share-based payments	-	-	23,110	-	-	-	-	-	23,110
Repurchase and cancellation of shares (note 33(ii))	(12,779)	1	-	-	-	-	-	(1)	(12,779)
Interim dividend paid	-	-	-	-	-	-	-	(89,227)	(89,227)
Proposed final dividend	-	-	-	-	-	-	93,000	(93,000)	-
Transactions with owners	78,266	1	13,475	-	-	-	93,000	(182,228)	2,514
Loss for the year	-	-	-	-	-	-	-	(77,026)	(77,026)
Exchange gain on translation of financial statements of foreign operations	-	-	-	-	8,843	-	-	-	8,843
Lapse of share options	-	-	(13,674)	-	-	-	-	13,674	-
At 31 December 2010	**762,890**	**1**	**33,242**	**103,539**	**8,032**	**85,142**	**93,000**	**(548,151)**	**537,695**

* Contributed surplus represents the difference between the underlying net assets of the subsidiaries acquired by the Company and the nominal value of the shares issued by the Company pursuant to the shares swap for the Group reorganisation.

34. Reserves *(continued)*

(b) Group

Details of the movements on the Group's reserves are as set out in the consolidated statement of changes in equity.

Employee share-based compensation reserve

Employee share-based compensation reserve is comprised of the fair value of the actual or estimated number of unvested share options granted to employees of the Group recognised in accordance with the accounting policy adopted for share-based employee compensation set out in note 4.16.

General reserve

General reserve represents the difference between the net assets acquired by the Group and the consideration paid for the acquisition of additional interest in a subsidiary.

Capital contribution

On 23 June 2007, the Company entered into a facility agreement with Credit Suisse, Singapore Branch and Credit Suisse International to borrow an US Dollar bank loan. At the same date, the Company and its shareholders are required to enter into another agreement in respect of an instrument constituting warrants to purchase shares in the Company for the provision of the facility. The warrants were issued by a shareholder of the Company to Credit Suisse, Singapore Branch and Credit Suisse International, the warrant holders, with a right to purchase a specified amount of the Company's shares within a specific period. Due to the fact that the facility arrangements were specially for the purpose of capital injection in Chuanmei Glauber Salt and the acquisition of mines, and these facility arrangements were secured by the warrants and guarantees provided by shareholders, accordingly, the capital contribution of the Group and the Company represented the fair value of the warrants which entitled the warrant holders to purchase for the share capital of the Company from a shareholder as well as the guarantees provided by the shareholders of the Company.

Notes to the Financial Statements

For the year ended 31 December 2010

34. Reserves *(continued)*

(b) Group *(continued)*

Statutory reserves

– *Statutory surplus reserve*

According to the relevant laws and regulations in the PRC, subsidiaries of the Group are required to transfer 10% of their profits after taxation after setting off the accumulated losses brought forward from prior years, as determined under PRC Accounting Regulations, to statutory surplus reserve until the reserve balance reaches 50% of the registered capital. Any further appropriation is optional. These reserves may be used to make good previous years' losses, if any, and may be converted to increase paid-up capital of the respective entities.

– *Statutory public welfare fund*

In accordance with the relevant laws and regulations in the PRC, the subsidiaries of the Group is required to appropriate certain portion of its profits after tax, as determined in accordance with the PRC Accounting Regulations, to the statutory public welfare fund but the amount of appropriation is determined by the board of directors. The statutory public welfare fund shall only apply to collective welfare of staff and workers and welfare facilities remain as properties of the Group.

35. Share-based Employee Compensation – Company

(i) Pre-IPO share option scheme

Pursuant to a written resolution approved by the Company's shareholders on 30 April 2008, the Pre-IPO Share Option Scheme became effective. Certain executive directors, senior managerial staff and employees of the Group were granted options to recognise their contributions to the Group. Under the Pre-IPO Share Option Scheme, 198 individuals (the "Grantees") comprised of 3 directors, 7 senior managerial staff and 188 employees of the Group, were granted options conditionally. The exercise of the options would entitle the Grantees to purchase an aggregate of 76,000,000 shares of the Company immediately following completion of the global offering and the capitalisation issue at the offer price. The options vested on 16 June 2009, the date on which the shares of the Company were listed on the Stock Exchange (the "Listing Date"), and the Grantees remain in employment for a certain period of time. The options are exercisable by installments and up to 7 years since the Listing Date. The Group has no legal or constructive obligation to repurchase or settle the options other than by issuing the Company's ordinary shares.

35. Share-based Employee Compensation – Company *(continued)*

(i) Pre-IPO share option scheme *(continued)*

Pre-IPO share options and weighted average exercise price are as follows for the reporting periods presented:

	2010		2009	
	Number	**Weighted average exercise price HKD**	Number	Weighted average exercise price HKD
Outstanding at 1 January	**49,001,500**	**2**	76,000,000	2
Forfeited	**(4,477,334)**	**2**	(341,000)	2
Exercised	**(12,701,164)**	**2**	(26,657,500)	2
Expired	**(1,000)**	**2**	–	–
Outstanding at 31 December	**31,822,002**	**2**	49,001,500	2
Exercisable at 31 December	**9,789,002**	**2**	11,342,500	2

The Group would receive HKD1.00 for each grant under the Pre-IPO Share Option Scheme.

The weighted average share price for share options exercised during the year at the date of exercise was HKD2.86 (2009: HKD3.39).

The options outstanding at 31 December 2010 had exercise prices of HKD2.00 (2009: HKD2.00) and a weighted average remaining contractual life of 5.46 years (2009: 6.46 years).

Notes to the Financial Statements

For the year ended 31 December 2010

35. Share-based Employee Compensation – Company *(continued)*

(i) Pre-IPO share option scheme *(continued)*

The fair value of the options is determined using the Binomial Option Pricing Model that takes into account factors specific to the share incentive plans. The following principal assumptions were used in the valuation:

Expected volatility*	47.88%
Risk-free interest rate	2.544%
Dividend yield	3.93%
Expected life of option	7 years
Fair value at grant date	HKD0.51 – HKD0.59
Exercise price at the date of grant	HKD1.659

* The expected volatility is assumed based on the historical volatilities of the share prices of the comparable companies. It is assumed that the volatility is constant throughout the option life.

The fair value of the options granted is approximately HKD41,099,000 in aggregate, of which the Group recognised HKD4,030,000 (RMB3,508,000) (2009: HKD15,452,000 (RMB13,618,000)) as share option expense in the consolidated statement of comprehensive income for the year ended 31 December 2010. The corresponding amount has been credited to the employee share-based compensation reserve. No liabilities were recognised as those are equity settled share-based payments transactions.

(ii) Share option scheme

In order to comply with the Listing Rules of Main Board regarding share option scheme of a Company, a share option scheme (the "Share Option Scheme") was adopted by the Company on 26 May 2009.

The Company operates the Share Option Scheme for the purpose of providing incentives and rewards to eligible participants who work for the interest of the Group. Eligible participants of the Share Option Scheme include executive directors, non-executive directors, employees, consultants, advisers and other service providers. The Share Option Scheme became effective on 26 May 2009 and, unless otherwise cancelled or amended will remain in force for 10 years from that date.

35. Share-based Employee Compensation – Company *(continued)*

(ii) Share option scheme *(continued)*

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their respective associates are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares as stated in the daily quotation sheets issued by the Stock Exchange at the date of the grant) in excess of HKD5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The exercise price of the share options must be at least the highest of (i) the nominal value of an ordinary share on the date of grant; (ii) the closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange on the date of the offer of the share options; and (iii) the average closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange for the five trading days immediately preceding the date of the offer.

The Group has no legal or constructive obligation to repurchase or settle the options other than by issuing the Company's ordinary shares.

The share options vest upon the commencement of the exercise period which is determined by the Board at the date of grant. The grantees are entitled to exercise the share options upon fulfilment of all requirements set out in the Share Option Scheme.

On 28 July 2009, the Company granted 103,200,000 share options to certain of its directors and employees for HKD1.00 consideration for each grant at an exercise price of HKD3.59 per share. The share options granted pursuant to the Share Option Scheme will be exercisable during three respective periods commencing from 2 October 2009, 1 January 2010 and 1 January 2011 and expiring on 31 December 2009, 31 December 2010 and 31 December 2011 respectively. Particulars of the share options granted under the Share Option Scheme were set forth in the announcement of the Company dated 28 July 2009.

Notes to the Financial Statements

For the year ended 31 December 2010

35. Share-based Employee Compensation – Company *(continued)*

(ii) Share option scheme *(continued)*

On 23 April 2010, the Company granted 60,000,000 share options to certain of its directors and employees for HKD1.00 consideration for each grant at an exercise price of HKD2.64 per share. The share options granted pursuant to the Share Option Scheme will be exercisable during three respective periods commencing from 23 April 2010 (save for the 5,000,000 share options granted to an executive director, which shall be exercisable from 1 July 2010), 1 January 2011 and 1 January 2012 and expiring on 31 December 2010, 31 December 2011 and 31 December 2012 respectively. Particulars of the share options granted under the Share Option Scheme were set forth in the announcement of the Company dated 23 April 2010.

Movement in share options at the reporting date are as follows:

	2010		2009	
	Number of share options	**Weighted average exercise prices**	Number of share options	Weighted average exercise prices
Outstanding at 1 January	**50,600,000**	**3.59**	–	–
Granted	**60,000,000**	**2.64**	103,200,000	3.59
Exercised	**(25,800,000)**	**2.64**	–	–
Forfeited	**(4,750,000)**	**3.59**	(1,000,000)	3.59
Expired	**(28,750,000)**	**3.45**	(51,600,000)	3.59
Outstanding at 31 December	**51,300,000**	**3.03**	50,600,000	3.59
Exercisable at 31 December	**–**		–	

The options granted on 28 July 2009 and 23 April 2010 which were outstanding at 31 December 2010 had exercise prices of HKD3.59 and HKD2.64 respectively.

The options granted on 28 July 2009 which were outstanding at 31 December 2009 had exercise price of HKD3.59.

35. Share-based Employee Compensation – Company *(continued)*

(ii) Share option scheme *(continued)*

The weighted average remaining contractual life of the share options outstanding at 31 December 2010 was approximately 1.3 years (2009: 1.5 years).

The fair values of options granted were determined using the Binomial Option Pricing Model that takes into account factors specific to the share incentive plans. The following principal assumptions were used in the valuation:

Share price grant on 28 July 2009	HKD3.59
Expected volatility*	23.91% – 68.75%
Risk-free interest rate	0.06% – 0.61%
Dividend yield	15%
Expected life of option	0.25 – 2.25 years
Fair value at 28 July 2009	HKD0.14 – HKD0.70
Exercise price at 28 July 2009	HKD3.59
Share price grant on 23 April 2010	HKD2.64
Expected volatility*	37.31% – 58.66%
Risk-free interest rate	0.02% – 1.08%
Dividend yield	15%
Expected life of option	0.69 – 2.69 years
Fair value at 23 April 2010	HKD0.17 – HKD0.48
Exercise price at 23 April 2010	HKD2.64

* The underlying expected volatility was determined by reference to historical data, calculated based on expected life of share options. Expectations of early exercise were incorporated into the Binomial Option Pricing Model. No special features pertinent to the options granted were incorporated into measurement of fair value.

The fair value of the options granted is approximately HKD59,127,000 in aggregate, of which the Group recognised HKD22,515,000 (RMB19,602,000) (2009: HKD27,625,000 (RMB24,347,000)) as share option expense in the consolidated statement of comprehensive income. The corresponding amount has been credited to the employee share-based compensation reserve. No liabilities were recognised as those are equity settled share-based payments transactions.

Notes to the Financial Statements

For the year ended 31 December 2010

36. Operating Lease Commitments – Group and Company

Group

At the reporting date, the total future minimum lease payments payable by the Group under non-cancellable operating leases are as follows:

	2010 RMB'000	2009 RMB'000
Within one year	**6,517**	3,597
In the second to fifth years	**10,368**	200
	16,885	3,797

The Group leases a number of properties under operating leases. The leases run for an initial period of 2 to 3 years, with an option to renew the lease and renegotiate the terms at the expiry date or at dates as mutually agreed between the Group and respective landlords/lessors. None of the leases include contingent rentals.

Company

The Company had no operating lease commitments as at 31 December 2010 (2009: Nil).

37. Capital Commitments – Group and Company

Group

At the reporting date, the Group had the following capital commitments:

	2010 RMB'000	2009 RMB'000
Contracted, but not provided for:		
– additions to property, plant and equipment	**173,461**	305,932
– acquisition of land use right	**–**	4,786
	173,461	310,718

Company

The Company does not have any significant capital commitments.

38. Related Party Transactions

Except as disclosed elsewhere in these financial statements, the Group and the Company have the following related party transactions during the year:

Key management personnel remuneration

Key management of the Group are members of the board of directors, as well as the senior management of the Group. Key management personnel remuneration includes the following expenses:

	2010 **RMB'000**	2009 RMB'000
Salaries, allowances and other short-term employee benefits	**10,102**	9,761
Equity-settled share-based payment expenses	**8,373**	16,583
Contribution to pension plans	**117**	120
	18,592	26,464

39. Financial Risk Management Objectives and Policies

The Group is exposed to a variety of financial risks through its use of financial instruments in its ordinary course of operations and in its investment activities. The financial risks include market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management focuses on unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by key management under the policies approved by the board of directors. The Group does not have written risk management policies. However, the board of directors meet regularly and co-operate closely with key management to identify and evaluate risks and to formulate strategies to manage financial risks. The Group has not used any derivatives or other instruments for hedging purposes and has not hold or issue derivative financial instruments for trading purposes. The most significant risks to which the Group is exposed to are described below.

Notes to the Financial Statements

For the year ended 31 December 2010

39. Financial Risk Management Objectives and Policies *(continued)*

(i) Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. Except for bank deposits which are interest bearing (notes 26 and 27), the Group has no other significant interest-bearing assets. The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest rate risk arises primarily from bank borrowings. Bank borrowings obtained at variable rates and fixed rates expose the Group to cash flow interest-rate risk and fair value interest rate risk respectively.

Management does not anticipate significant impact to interest-bearing assets resulted from the changes in interest rates, because the interest rates of bank deposits are not expected to change significantly. Management also considers the fair value interest rate risk is insignificant due to fixed-rate bank borrowings are due within one year in general.

The Group is exposed to changes in market interest rates on its bank borrowings, which are at variable rates.

As at 31 December 2010, approximately 96% of the bank borrowings bore interest at floating rates (2009: approximately 44%). The interest rate and terms of repayment of bank borrowings are disclosed in note 29 above. The Group has not hedged its cash flow and fair value interest rate risk. The management monitors the Group's exposure on an ongoing basis and will consider hedging interest rate risk should the need arises.

The policies to manage interest rate risk have been followed by the Group since prior year are considered to be effective.

Sensitivity analysis

The following table illustrates the sensitivity of the Group's profit for the year and equity to a possible change in interest rates of +/-1.5% (2009: +/-1.5%), with effect from the beginning of the year. This sensitivity analysis is provided internally to key management personnel.

39. Financial Risk Management Objectives and Policies *(continued)*

(i) Interest rate risk *(continued)*

Sensitivity analysis *(continued)*

	Group Profit for the year and retained earnings	
	RMB'000	RMB'000
Change in interest rate	+1.5%	-1.5%
31 December 2010	(7,676)	7,676
31 December 2009	(2,348)	2,348

The assumed changes in interest rates are considered to be reasonably possible based on observation of current market conditions and represents management's assessment of a reasonably possible change in interest rate over the next twelve month period. There is no impact on other components of consolidated equity in response to the possible change in interest rates.

The calculations are based on a change in average market interest rates for each period, and the financial instruments held at each reporting date that are sensitive to changes in interest rates. All other variables are held constant. The sensitivity analysis included in the financial statements of prior year has been prepared on the same basis.

The Company's other borrowing is at fixed interest rates. The Company therefore does not have any exposure to interest rate risk at the reporting date.

(ii) Foreign currency risk

Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group mainly operates in the PRC. The functional currency of the Company and its subsidiaries are mainly HKD and RMB respectively with certain of their business transactions being settled in USD. Furthermore, the Group has borrowings denominated in USD. The Group currently does not have hedging policy in respect of the foreign currency risk. However, management monitors the related foreign currency risk exposure closely and will consider hedging significant foreign currency risk exposure should the need arises.

Notes to the Financial Statements

For the year ended 31 December 2010

39. Financial Risk Management Objectives and Policies *(continued)*

(ii) Foreign currency risk *(continued)*

Summary of exposure

The overall net exposure in respect of the carrying amount of the Group's and the Company's foreign currency denominated financial assets and liabilities in net position were as follows:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Net financial liabilities				
USD	**1,508,788**	1,165,112	**1,509,362**	1,510,132

In respect of those Group entities with HKD as functional currency, as HKD is linked to USD, the Group does not have material exchange risk on such currency. The following table illustrates the sensitivity of the Company's and Group's profit after tax for the year and equity in regards to a 10% (2009: 10%) appreciation in RMB against USD. These rates are the rates used when reporting foreign currency risk internally to key management personnel and represents management's best assessment of the possible change in foreign exchange rates.

The sensitivity analysis of the Group's and the Company's exposure to foreign currency risk at the reporting date has been determined based on the assumed percentage changes in foreign currency exchange rates taking place at the beginning of the financial year and held constant throughout the year. There is no impact on other components of equity in response to the general fluctuation in the following foreign currency rate.

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Profit for the year and retained earnings	**(2)**	(25,603)	**–**	–

These are the same method and assumption used in preparing the sensitivity analysis included in the financial statements of prior year.

39. Financial Risk Management Objectives and Policies *(continued)*

(iii) Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The Group's exposure to credit risk mainly arises from granting credit to customers in the ordinary course of its operations.

The Group's and the Company's maximum exposure to credit risk on recognised financial assets is limited to the carrying amount at the reporting date as summarised below:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Classes of financial assets –carrying amount				
Trade and other receivables	**630,426**	455,328	**1,658**	67,659
Loan to a subsidiary	**–**	–	**1,083,135**	1,190,843
Cash and bank balances	**1,134,564**	929,467	**54,722**	165,056
Pledged deposits	**91,024**	170,646	**79,024**	170,646
	1,856,014	1,555,441	**1,218,539**	1,594,204

The credit risk on pledged deposits and cash and cash equivalents is limited because the counterparties are banks with high credit-ratings.

The Group trades only with recognised, creditworthy third parties. The Group performs ongoing credit evaluation on the financial condition of its debtors and tightly monitors the ageing of receivable balances. With respect to credit risk arising from the other financial assets of the Group which comprise other receivables, the Group's exposure to credit risk arising from default of counterparties is limited as the counterparties have good credit standing and the Group does not expect any significant loss for uncollected advances from these entities.

Notes to the Financial Statements

For the year ended 31 December 2010

39. Financial Risk Management Objectives and Policies *(continued)*

(iii) Credit risk *(continued)*

None of the financial assets of the Group and the Company are secured by collateral or other credit enhancements.

In order to minimise the credit risk, the management continuously monitor the level of exposure to ensure that follow-up action and/or corrective actions are taken promptly to lower exposure or even to recover over due balances. In addition, management reviews the receivable amount of the receivables individually or collectively at each reporting date to ensure that adequate impairment losses are made for irrecoverable amounts.

See note 24 to these financial statements for further details of the Group's exposures to credit risk on trade and other receivables.

(iv) Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group is exposed to liquidity risk in respect of settlement of trade payables and its financing obligations, and also in respect of its cash flow management. The Group's objective is to maintain an appropriate level of liquid assets and committed lines of funding to meet its liquidity requirements in the short and longer term.

The table below analyses the Group's and the Company's financial liabilities based on the remaining contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Group	Carrying amount	Total contractual undiscounted cash flow	Less than one year	One to less than two years	Two to less than five years
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2010					
Bank borrowings	**531,700**	**546,465**	**546,465**	**–**	**–**
Fixed rate senior notes	**1,588,669**	**2,460,759**	**199,521**	**199,521**	**2,061,717**
Trade and other payables	**158,069**	**158,069**	**158,069**	**–**	**–**
As at 31 December 2009					
Bank borrowings	356,500	373,850	250,376	123,474	–
Fixed rate senior notes	1,616,755	2,730,333	204,775	204,775	2,320,783
Trade and other payables	276,485	276,485	276,485	–	–

39. Financial Risk Management Objectives and Policies *(continued)*

(iv) Liquidity risk *(continued)*

Company	Carrying amount	Total contractual undiscounted cash flow	Less than one year	One to less than two years	Two to less than five years
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2010					
Fixed rate senior notes	**1,588,669**	**2,460,759**	**199,521**	**199,521**	**2,061,717**
Trade and other payables	**40,366**	**40,366**	**40,366**	**–**	**–**
As at 31 December 2009					
Fixed rate senior notes	1,616,755	2,730,333	204,775	204,775	2,320,783
Trade and other payables	99,944	99,944	99,944	–	–

(v) Fair value

The fair values of the Group's financial assets and liabilities are not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments. The fair value of long-term bank borrowings was not disclosed because the carrying value is not materially different from the fair value.

Notes to the Financial Statements

For the year ended 31 December 2010

39. Financial Risk Management Objectives and Policies *(continued)*

(vi) Summary of financial assets and liabilities by category

The carrying amount of the Group's and the Company's financial assets and liabilities as recognised at the respective reporting dates may also be categorised as follows:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Loans and receivables				
– Trade and other receivables	**630,426**	455,328	**1,658**	67,659
– Loan to a subsidiary	**–**	–	**1,083,135**	1,190,843
Pledged deposits	**91,024**	170,646	**79,024**	170,646
Cash and cash equivalents	**1,134,564**	929,467	**54,772**	165,056
	1,856,014	1,555,441	**1,218,589**	1,594,204
Financial liabilities				
At amortised cost				
– Trade and other payables	**158,069**	276,485	**40,366**	99,944
– Bank borrowings	**531,700**	356,500	**–**	–
– Fixed rate senior notes	**1,588,669**	1,616,755	**1,588,669**	1,616,755
	2,278,438	2,249,740	**1,629,035**	1,716,699

(vii) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, to maintain an optimal capital structure to reduce the cost of capital and to support the Group's stability and growth. The Group actively and regularly reviews and manages its capital structure, taking into consideration the future capital requirements of the Group, to ensure optimal shareholder returns.

39. Financial Risk Management Objectives and Policies *(continued)*

(vii) Capital management *(continued)*

The Group monitors capital using a gearing ratio, which is net debts divided by total equity. Net debt comprises all bank borrowings, fixed rate senior notes and trade and other payables less pledged deposits and cash and cash equivalents. The Group aims to maintain the gearing ratio at a reasonable level.

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Bank borrowings	**531,700**	356,500	**–**	–
Fixed rate senior notes	**1,588,669**	1,616,755	**1,588,669**	1,616,755
Trade and other payables	**205,047**	305,197	**40,366**	99,944
Less: Pledged deposits	**(91,024)**	(170,646)	**(79,024)**	(170,646)
Cash and cash equivalents	**(1,134,564)**	(929,467)	**(54,772)**	(165,056)
Net debts	**1,099,828**	1,178,339	**1,495,239**	1,380,997
Equity	**2,543,394**	1,788,242	**337,840**	603,507
Net debts to equity ratio	**0.43**	0.66	**4.43**	2.29

Notes to the Financial Statements

For the year ended 31 December 2010

40. Events after the Reporting Date

Saved as disclosed elsewhere in the financial statements, the Group had the following significant events subsequent to 31 December 2010 and up to the date of this report:

(i) On 14 January 2011, the Company formally completed acquisition of approximately 94.1% of the equity interests in Sino Polymer New Materials Co., Ltd. ("Sino Polymer"), marking its entry into the PPS new materials market. The directors believe that the acquisition would enable the Group to make a meaningful step in its stated strategic direction to focus on downstream thenardite products, also the Group would broaden its sources of income and strengthen the Group's ability to produce higher quality products and reduce cost through operational synergies.

As Mr. Suo Lang Duo Ji was the controlling shareholder of the Company and the controlling shareholder of Sino Polymer during the year, accordingly, the acquisition constituted a connected transaction for the Company under the Listing Rules.

The control of Sino Polymer has been passed to the Group on 14 January 2011 and the transaction was accounted for using acquisition method.

Consideration transferred	RMB'000
Cash	929,397
Equity instruments issued	8,550,339
	9,479,736

Equity instruments issued represent 3,128,043,403 ordinary shares of the Company whose fair value has been determined as the share price of the Company at the date of acquisition.

Because the acquisition of Sino Polymer was completed close to the date of approval of these financial statements and we are still awaiting the receipt of professional valuation of certain intangible assets to be identified and to be recognised separately from goodwill, it is not practicable to disclose further details in relation to the acquisition as at the date of the approval of these financial statements.

40. Events after the Reporting Date *(continued)*

(ii) On 27 September 2010, the Group entered into a memorandum of understanding with the proposed vendors ("MOU") in respect of the possible acquisition of the entire equity interest in two target companies which are principally engaged in mining and production of thenardite products. Each of these two target companies holds a valid mining right permit in a mining area which is located in Sichuan, the PRC. Pursuant to the MOU, the proposed vendors granted the Group an exclusive right for the period from the date of the MOU to 27 December 2010 (the "the Long Stop Date") to acquire the interests in the target companies.

On 14 January 2011, the Group entered into a supplemental memorandum (the "Supplemental MOU") to extend the Long Stop Date for a period of three months to 27 March 2011 or such other date as the Group and the proposed vendors may agree in writing. Also, both parties preliminarily agreed that the consideration of the proposed acquisition is RMB320 million. Details of the MOU and the Supplemental MOU were set out in the announcements of the Company dated 27 September 2010 and 14 January 2011.

On 31 March 2011, the Group entered into a second supplemental memorandum (the "Second Supplemental MOU") to the MOU to extend the Long Stop Date for a period of 30 days to 26 April 2011 or such other date as the Group and the proposed vendors may agree in writing. Save for the aforesaid, no other amendments were made to the MOU and the Supplemental MOU. Details of the Second Supplemental MOU were set out in the announcement of the Company date 31 March 2011.

(iii) On 14 January 2011, the Company granted 175,920,000 share options to certain directors and employees at a consideration of HK$1 for each grant and at an exercise price of HK$3.28 per share, under the Share Option Scheme of the Company adopted on 26 May 2009. The options will be exercisable during the period from 14 January 2011 to 14 January 2013 in three batches. Details of the share options granted are set out in the Company's announcement dated 16 January 2011. The issue of these share options has had no effect on the financial statements. However, the share option expenses will be recognised in the next financial year. The directors are currently assessing the impact but consider that the amount of the expenses cannot be reasonably estimated at this stage.

Notes to the Financial Statements

For the year ended 31 December 2010

40. Events after the Reporting Date *(continued)*

(iv) As disclosed in the announcements of the Company dated 25 January 2011 and 7 February 2011, Nice Ace Technology Limited ("Nice Ace") entered into a placing and subscription agreement (the "Placing and Subscription Agreement") with BOCI Asia Limited, BOCOM International Securities Limited and Morgan Stanley & Co. International PLC (the "Joint Placing Agents") and the Company. Pursuant to the Placing and Subscription Agreement, Nice Ace agreed to place, through the Joint Placing Agents, 340,000,000 existing shares of the Company (the "Shares") to not less than six placees, at a price of HK$2.81 per Share and Nice Ace conditionally agreed to subscribe for such number of Shares as is equal to the number of Shares sold by Nill Ace at a price of HK$2.81 per Share.

As disclosed in the announcement of the Company dated 7 February 2011, the said placing and the subscription was completed on 7 February 2011. An aggregate of 340,000,000 Shares were placed by the Joint Placing Agents to not less than six placees at the placing price of HK$2.81. An aggregate of 340,000,000 Shares were allotted and issued to Nice Ace and the number of Shares Nice Ace was interested in remains the same immediately before the placing and immediately after the subscription. The Company received net proceeds of approximately HK$923 million from the subscription.

Five Year Financial Summary

	Year ended 31 December				
	2010	2009	2008	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Results					
Revenue	**1,961,215**	1,344,032	1,140,354	371,530	204,755
Cost of sales	**(541,551)**	(364,427)	(343,794)	(151,295)	(112,430)
Gross profit	**1,419,664**	979,605	796,560	220,235	92,325
Gross profit margin	**72.39%**	72.89%	69.85%	59.28%	45.09%
Operating profit	**1,294,014**	877,379	712,383	149,424	57,949
Finance costs	**(241,569)**	(105,913)	(98,800)	(34,521)	(7,079)
Profit before income tax	**1,052,445**	771,466	613,583	114,903	50,870
Income tax expense	**(323,103)**	(226,561)	(171,503)	(25,901)	(1,616)
Profit for the year	**729,342**	544,905	442,080	89,002	49,254
Profit attributable to:					
Owners of the Company	**729,342**	532,966	429,739	78,950	44,029
Non-controlling interests	**–**	11,939	12,341	10,052	5,225
	729,342	544,905	442,080	89,002	49,254
Earnings per share (RMB cents) – Basic	**37.42**	30.49	28.27	5.19	2.90
Earnings per share (RMB cents) – Diluted	**37.32**	30.17	NA	NA	NA
Assets, liabilities and non-controlling interests					
Total assets	**4,914,835**	4,113,299	1,903,897	1,314,031	283,848
Total liabilities	**(2,371,441)**	(2,325,057)	(1,078,355)	(985,161)	(169,855)
Non-controlling interests	**–**	–	(40,242)	(27,901)	(17,849)

Five Year Financial Summary

	Year ended 31 December				
	2010	2009	2008	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Other Financial Data					
EBITDA[(1)]	**1,381,887**	931,445	757,821	159,346	68,662
EBITDA Margin[(2)]	**70.5**	69.3	66.5	42.9	33.5
Adjusted EBITDA[(3)]	**1,404,997**	969,410	771,621	159,346	68,662
Adjusted EBITDA margin[(4)]	**71.6**	72.1	67.7	42.9	33.5

(1) Represents profit for the year before interest income, interest expense, income tax expense, depreciation and amortization. EBITDA and the related ratios in this report are supplemental measures of our performance and liquidity and are not required by, or represented in accordance with, IFRS. Furthermore, EBITDA is not a measure of our financial performance or liquidity under IFRS and should not be considered as an alternative to net income, operating income or any other performance measures derived in accordance with IFRS or as an alternative to cash flow from operating activities or as a measure of our liquidity. Other companies may calculate EBITDA differently than us, limiting its usefulness as a comparative measure.

(2) Represents EBITDA as a percentage of revenue.

(3) Represents profit for the year before interest income, interest expense, income tax expense, depreciation and amortization and share-based payments. Adjusted EBITDA and the related ratios in this report are supplemental measures of our performance and liquidity and are not required by, or represented in accordance with, IFRS. Furthermore, adjusted EBITDA is not a measure of our financial performance or liquidity under IFRS and should not be considered as an alternative to net income, operating income or any other performance measures derived in accordance.

(4) Represents adjusted EBITDA as a percentage of revenue.