

*The following is the text of a report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the Sole Sponsor pursuant to the requirements of Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.*



羅兵咸永道

November 29, 2011

The Directors  
China First Chemical Holdings Limited  
Morgan Stanley Asia Limited

Dear Sirs,

We report on the financial information of China First Chemical Holdings Limited (the "Company") and its subsidiaries (together, the "Group") which comprises the consolidated balance sheets as at December 31, 2008, 2009 and 2010 and June 30, 2011, the balance sheets of the Company as at December 31, 2010 and June 30, 2011, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements for each of the years ended December 31, 2008, 2009 and 2010 and the six months ended June 30, 2011 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information. This financial information has been prepared by the directors of the Company and is set out in Sections I to III below for inclusion in Appendix I to the prospectus of the Company dated November 29, 2011 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company was incorporated in the Cayman Islands on November 24, 2010 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation as described in Note 1 of Section II headed "General information and group reorganisation" below, which was completed on June 14, 2011, the Company became the holding company of the subsidiaries now comprising the Group (the "Reorganisation").

As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in Note 1 of Section II below. All of these companies are private companies or, if incorporated or established outside Hong Kong, have substantially the same characteristics as a Hong Kong incorporated private company. All companies comprising the Group have adopted December 31 as their financial year end date.

No audited financial statements have been prepared by the Company as it is newly incorporated and has not involved in any significant business since its date of incorporation other than the Reorganisation. The audited financial statements of the subsidiaries comprising the Group during the Relevant Periods for which there are statutory audit requirements have been prepared in accordance with the relevant accounting principles generally accepted in their place of incorporation. The details of the statutory auditors of these companies are set out in Note 1(b) of Section II below.

*PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong  
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com*

The directors of the Company have prepared the consolidated financial statements of the Company for the Relevant Periods, in accordance with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (the “IASB”) (the “Underlying Consolidated Financial Statements”). PricewaterhouseCoopers Zhong Tian CPAs Limited Company (普華永道中天會計師事務所有限公司) has audited the Underlying Consolidated Financial Statements in accordance with International Standards on Auditing (the “ISA”) issued by the International Auditing and Assurance Standards Board (“IAASB”) pursuant to separate terms of engagement with the Company.

The directors of the Company are responsible for the preparation of the Underlying Consolidated Financial Statements that gives a true and fair view in accordance with IFRSs.

The financial information has been prepared based on the Underlying Consolidated Financial Statements, with no adjustment made thereon.

### **Directors’ responsibility for the financial information**

The directors of the Company are responsible for the preparation of the financial information that gives a true and fair view in accordance with IFRSs, and for such internal control as the directors determine is necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error.

### **Reporting accountant’s responsibility**

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We carried out our procedures in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

### **Opinion**

In our opinion, the financial information gives, for the purpose of this report, a true and fair view of the state of affairs of the Company as at December 31, 2010 and June 30, 2011, and of the state of affairs of the Group as at December 31, 2008, 2009 and 2010 and June 30, 2011 and of the Group’s results and cash flows for the Relevant Periods then ended.

### **Review of stub period comparative financial information**

We have reviewed the stub period comparative financial information set out in Sections I to II below included in Appendix I to the Prospectus which comprises the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the six months ended June 30, 2010 and a summary of significant accounting policies and other explanatory information (the “Stub Period Comparative Financial Information”).

The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the accounting policies set out in Note 3 of Section II below.

Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the IAASB. A review of the Stub Period Comparative Financial Information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with ISA and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purpose of this report, has not been prepared, in all material respects, in accordance with the accounting policies set out in Note 3 of Section II below.

## (a) CONSOLIDATED BALANCE SHEETS

The following is the financial information of the Group prepared by the directors of the Company as at December 31, 2008, 2009 and 2010 and June 30, 2011, and for each of the years ended December 31, 2008, 2009 and 2010 and each of the six months ended June 30, 2010 and 2011:

	Note	As at December 31,			As at June 30,
		2008	2009	2010	2011
		RMB'000	RMB'000	RMB'000	RMB'000
<b>ASSETS</b>					
<b>Non-current assets</b>					
Land use rights	7	75,665	77,311	79,095	78,213
Property, plant & equipment	8	548,360	622,848	710,654	696,566
Intangible assets	9	7,382	1,476	—	—
Available-for-sale financial assets	10	—	—	—	10,500
Deferred income tax assets	11	496	1,218	370	37
Other non-current assets		17,954	37,030	268	4,638
		<b>649,857</b>	<b>739,883</b>	<b>790,387</b>	<b>789,954</b>
<b>Current assets</b>					
Inventories	12	48,013	56,308	107,527	103,740
Trade and other receivables	13	124,419	253,576	269,910	300,197
Restricted cash	14	13,300	38,293	30,895	38,787
Cash and cash equivalents	15	68,034	195,834	397,231	392,780
		<b>253,766</b>	<b>544,011</b>	<b>805,563</b>	<b>835,504</b>
<b>Total Assets</b>		<b>903,623</b>	<b>1,283,894</b>	<b>1,595,950</b>	<b>1,625,458</b>
<b>EQUITY</b>					
<b>Equity attributable to equity holders of the Company</b>					
Share capital	16	—	—	—	—
Reserves	17	232,064	297,891	334,471	443,429
Retained earnings		89,043	178,060	326,348	458,533
		321,107	475,951	660,819	901,962
Non-controlling interests		4,469	6,421	8,047	9,112
<b>Total equity</b>		<b>325,576</b>	<b>482,372</b>	<b>668,866</b>	<b>911,074</b>
<b>Liabilities</b>					
<b>Non-current liabilities</b>					
Borrowings	18	64,500	172,500	154,270	154,270
Deferred income	20	4,050	6,835	9,291	14,143
		<b>68,550</b>	<b>179,335</b>	<b>163,561</b>	<b>168,413</b>
<b>Current liabilities</b>					
Trade and other payables	19	227,086	310,452	507,493	286,248
Current income tax liabilities		9,692	16,023	22,450	24,031
Borrowings	18	272,719	295,712	233,580	235,692
		<b>509,497</b>	<b>622,187</b>	<b>763,523</b>	<b>545,971</b>
<b>Total liabilities</b>		<b>578,047</b>	<b>801,522</b>	<b>927,084</b>	<b>714,384</b>
<b>Total equity and liabilities</b>		<b>903,623</b>	<b>1,283,894</b>	<b>1,595,950</b>	<b>1,625,458</b>
<b>Net current (liabilities)/ assets</b>		<b>(255,731)</b>	<b>(78,176)</b>	<b>42,040</b>	<b>289,533</b>
<b>Total assets less current liabilities</b>		<b>394,126</b>	<b>661,707</b>	<b>832,427</b>	<b>1,079,487</b>

## (b) CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	Year ended December 31,			Six months ended June 30,	
		2008	2009	2010	2010	2011
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	22	700,055	1,006,502	1,211,826	552,465	715,316
Cost of sales	22, 23	(501,958)	(730,846)	(891,009)	(422,063)	(487,333)
<b>Gross profit</b>		<b>198,097</b>	<b>275,656</b>	<b>320,817</b>	<b>130,402</b>	<b>227,983</b>
Selling and marketing expenses	23	(16,569)	(15,785)	(20,944)	(9,257)	(15,200)
Administrative expenses	23	(42,879)	(45,856)	(51,281)	(25,731)	(27,071)
Other income	25	1,174	1,450	1,910	912	3,511
Other (losses)/gains-net	26	(603)	(1,342)	(3,146)	(773)	350
<b>Operating profit</b>		<b>139,220</b>	<b>214,123</b>	<b>247,356</b>	<b>95,553</b>	<b>189,573</b>
Finance income	27	1,058	437	1,621	867	1,127
Finance costs	28	(33,794)	(29,225)	(19,581)	(11,717)	(13,523)
Finance costs-net		(32,736)	(28,788)	(17,960)	(10,850)	(12,396)
<b>Profit before income tax</b>		<b>106,484</b>	<b>185,335</b>	<b>229,396</b>	<b>84,703</b>	<b>177,177</b>
Income tax expense	29	(29,283)	(48,970)	(58,719)	(22,062)	(43,927)
<b>Profit and total comprehensive income for the year/period</b>		<b>77,201</b>	<b>136,365</b>	<b>170,677</b>	<b>62,641</b>	<b>133,250</b>
<b>Attributable to:</b>						
— Equity holders of the Company		62,307	134,413	169,051	62,049	132,185
— Non-controlling interests		14,894	1,952	1,626	592	1,065
		<b>77,201</b>	<b>136,365</b>	<b>170,677</b>	<b>62,641</b>	<b>133,250</b>
Earnings per share attributable to equity holders of the Company						
— Basic and diluted earnings per share	30	20,769	44,804	56,350	20,683	42,778
<b>Dividends</b>	31	<b>20,000</b>	<b>20,100</b>	<b>—</b>	<b>—</b>	<b>100,374</b>

**Note:** The earnings per share as presented above is calculated using the weighted average number of ordinary shares of 3.00 shares for each of the years ended December 31, 2008, 2009 and 2010 and for the six months ended June 30, 2010, and of 3.09 shares for the six months ended June 30, 2011. It has not taken into account the proposed capitalisation issue of 599,999,996 shares pursuant to the shareholder resolutions dated June 12, 2011 and November 16, 2011 because the proposed capitalisation issue has not become effective as of the date of this report.

## (c) CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Note	Attributable to equity holders of the Company						Non-controlling interests	Total equity
		Share capital	Capital reserve	Statutory surplus reserve	Retained earnings	Sub-total			
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
		(Note 16)							
<b>Balance at January 1,2008</b> . . . . .		—	152,739	13,605	59,351	225,695	75,373	301,068	
Profit for the year . . . . .		—	—	—	62,307	62,307	14,894	77,201	
Profit appropriations to statutory reserves . . . . .	17(b)	—	—	12,615	(12,615)	—	—	—	
Deemed contribution from equity holders . . . . .	34(a)	—	2,800	—	—	2,800	—	2,800	
Dividends distribution . . . . .	31	—	—	—	(20,000)	(20,000)	—	(20,000)	
Acquisition of non-controlling interest . . . . .	17(a)(i)	—	50,305	—	—	50,305	(85,798)	(35,493)	
<b>Balance at December 31,2008</b> . . . . .		<u>—</u>	<u>205,844</u>	<u>26,220</u>	<u>89,043</u>	<u>321,107</u>	<u>4,469</u>	<u>325,576</u>	
<b>Balance at January 1,2009</b> . . . . .		—	205,844	26,220	89,043	321,107	4,469	325,576	
Profit for the year . . . . .		—	—	—	134,413	134,413	1,952	136,365	
Capital contribution by equity holders . . . . .	17(a)(ii)	—	37,531	—	—	37,531	—	37,531	
Profit appropriations to statutory reserves . . . . .	17(b)	—	—	25,296	(25,296)	—	—	—	
Deemed contribution from equity holders . . . . .	34(a)	—	3,000	—	—	3,000	—	3,000	
Dividends distribution . . . . .	31	—	—	—	(20,100)	(20,100)	—	(20,100)	
<b>Balance at December 31, 2009</b> . . . . .		<u>—</u>	<u>246,375</u>	<u>51,516</u>	<u>178,060</u>	<u>475,951</u>	<u>6,421</u>	<u>482,372</u>	
<b>Balance at January 1, 2010</b> . . . . .		—	246,375	51,516	178,060	475,951	6,421	482,372	
Profit for the year . . . . .		—	—	—	169,051	169,051	1,626	170,677	
Capital contribution by equity holders . . . . .	17(a)(ii)	—	12,421	—	—	12,421	—	12,421	
Profit appropriations to statutory reserves . . . . .	17(b)	—	—	20,763	(20,763)	—	—	—	
Deemed contribution from equity holders . . . . .	34(a)	—	3,400	—	—	3,400	—	3,400	
Deemed distribution to equity holders . . . . .	1(b)	—	(4)	—	—	(4)	—	(4)	
<b>Balance at December 31, 2010</b> . . . . .		<u>—</u>	<u>262,192</u>	<u>72,279</u>	<u>326,348</u>	<u>660,819</u>	<u>8,047</u>	<u>668,866</u>	
(Unaudited) . . . . .		—	—	—	—	—	—	—	
<b>Balance at January 1, 2010</b> . . . . .		—	246,375	51,516	178,060	475,951	6,421	482,372	
Profit for the period . . . . .		—	—	—	62,049	62,049	592	62,641	
Capital contribution by equity holders . . . . .	17(a)(ii)	—	12,421	—	—	12,421	—	12,421	
Deemed contribution from equity holders . . . . .	34(a)	—	2,000	—	—	2,000	—	2,000	
Deemed distribution to equity holders . . . . .	1(b)	—	(4)	—	—	(4)	—	(4)	
<b>Balance at June 30, 2010</b> . . . . .		<u>—</u>	<u>260,792</u>	<u>51,516</u>	<u>240,109</u>	<u>552,417</u>	<u>7,013</u>	<u>559,430</u>	
<b>Balance at January 1, 2011</b> . . . . .		—	262,192	72,279	326,348	660,819	8,047	668,866	
Profit for the period . . . . .		—	—	—	132,185	132,185	1,065	133,250	
Issue of ordinary share for extinguishment of debts by the Parent Company . . . . .	1(b)(ix)	—	209,332	—	—	209,332	—	209,332	
Dividends distribution . . . . .	31	—	(100,374)	—	—	(100,374)	—	(100,374)	
<b>Balance at June 30, 2011</b> . . . . .		<u>—</u>	<u>371,150</u>	<u>72,279</u>	<u>458,533</u>	<u>901,962</u>	<u>9,112</u>	<u>911,074</u>	

## (d) CONSOLIDATED CASH FLOW STATEMENTS

	Note	Year ended December 31,			Six months ended June 30	
		2008	2009	2010	2010	2011
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
(Unaudited)						
<b>Cash flows from operating activities</b>						
Cash generated from operations	32(a)	209,294	255,075	238,939	43,746	200,635
Interest paid		(33,244)	(29,202)	(23,727)	(12,413)	(17,578)
Interest received		1,058	437	1,621	867	1,127
Income tax paid		(29,606)	(43,361)	(51,444)	(25,944)	(42,013)
Net cash generated from operating activities		147,502	182,949	165,389	6,256	142,171
<b>Cash flows from investing activities</b>						
Proceeds from disposal of subsidiaries		14,548	—	—	—	—
Proceeds from disposal of available-for-sale financial assets		1,088	300	—	—	—
Purchase of available-for-sale financial assets		—	—	—	—	(10,500)
Purchases of property, plant and equipment		(37,943)	(120,999)	(115,191)	(75,651)	(27,914)
Proceeds from sale of property, plant and equipment		39,970	127	5,603	—	1,029
Purchases of land use rights		—	(3,296)	(300)	—	—
Proceeds from government grants		4,050	2,785	2,535	943	5,230
Loan to related parties	34(a)	—	(38,499)	(2,898)	(1,959)	—
Repayments from related parties	34(a)	5,003	35,569	5,822	2,932	6
Loan to third parties		(2,451)	(5,314)	—	—	—
Repayments from third parties		44,572	2,451	5,314	5,294	—
Net cash generated from/(used in) investing activities		68,837	(126,876)	(99,115)	(68,441)	(32,149)
<b>Cash flows from financing activities</b>						
Contribution by capital injection		—	37,531	12,421	12,421	—
Borrowings from bank		300,436	502,499	452,947	324,077	244,294
Repayments of borrowings to bank		(396,107)	(371,506)	(533,309)	(326,266)	(242,182)
Borrowings from related parties	34(a)	41,100	8,747	225,986	216,550	—
Repayments of borrowings to related parties	34(a)	(98,307)	(8,758)	(10,974)	(3,413)	(5,680)
Borrowings from third parties		213,617	91,730	2,655	—	—
Repayments of borrowings to third parties		(212,321)	(168,435)	(12,066)	(10,000)	(589)
Payments of IPO expenses		—	—	(1,860)	—	(9,588)
Acquisition of additional interests in subsidiaries		(36,093)	—	—	—	—
Dividends paid		(20,000)	(20,100)	—	—	(100,374)
Net cash (used in)/generated from financing activities		(207,675)	71,708	135,800	213,369	(114,119)
<b>Net increase/(decrease) in cash and cash equivalents</b>						
Cash and cash equivalents at beginning of year/period		59,806	68,034	195,834	195,834	397,231
Exchange gain/(loss) on cash and cash equivalents		(436)	19	(677)	(92)	(354)
<b>Cash and cash equivalents at end of year/period</b>		<u>68,034</u>	<u>195,834</u>	<u>397,231</u>	<u>346,926</u>	<u>392,780</u>

## (e) BALANCE SHEETS OF THE COMPANY

	Note	As at December 31,	As at June 30,
		2010	2011
		RMB'000	RMB'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Interests in subsidiaries .....	21	—	1,449,426
		—	<b>1,449,426</b>
<b>Current assets</b>			
Trade and other receivables .....	13	—	135,086
Cash and cash equivalents .....		—	3,672
		—	<b>138,758</b>
<b>Total Assets</b> .....		—	<b>1,588,184</b>
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the Company</b>			
Share capital .....	16	—	—
Reserves .....	17	—	1,558,384
Accumulated losses .....		—	(1,262)
<b>Total equity</b> .....		—	<b>1,557,122</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables .....	19	—	31,062
<b>Total liabilities</b> .....		—	31,062
<b>Total equity and liabilities</b> .....		—	<b>1,588,184</b>
<b>Net current assets</b> .....		—	<b>107,696</b>
<b>Total assets less current liabilities</b> .....		—	<b>1,557,122</b>



**II. NOTES TO THE FINANCIAL INFORMATION****1. General information and group reorganisation****(a) General information**

The Company was incorporated in the Cayman Islands on November 24, 2010, as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is P.O. Box 309, Uglan House, Grand Cayman, KY1-1104, Cayman Islands.

During the Relevant Periods, the Group is principally engaged in the manufacturing and sale of bleaching and disinfectant chemical products, azodicarbonamide (“ADC” foaming agent) and other specialty chemical products in the People’s Republic of China (the “PRC”) (collectively the “Listing Business”).

**(b) Reorganisation**

Prior to the incorporation of the Company and the completion of the Reorganisation as described below, the Listing Business were carried out by companies now comprising the Group (collectively the “Operating Companies”) and the company disposed of prior to the listing of the Company’s shares on the Main Board of the Stock Exchange of Hong Kong Limited (the “Listing”) (the “Other Operating Company”). The Operating Companies were collectively controlled by Mr. Liem Djiang Hwa (the “Controlling Shareholder”) before the Reorganisation. The Other Operating Company was also controlled by the Controlling Shareholder before the date of its disposal.

In preparing for the Listing, the following reorganisation activities were carried out:

- (i) On January 29, 2010, China Yihua Holdings Pte Ltd. (“China Yihua”), a company controlled by the Controlling Shareholder, acquired the entire equity interests in Longpower Corporation Limited (“Longpower”) from GNL 09 Limited, a third party of the Group, at a cash consideration of Hong Kong Dollar (“HKD”) 1. On February 12, 2010, China First Chemical Ltd. (“Parent Company”), a company controlled by China Yihua acquired the entire equity interests in Longpower from China Yihua at a cash consideration of HKD1.
- (ii) On February 9, 2010, Longpower acquired the entire equity interests in Fujian Rongchang Chemical Co., Ltd. (“Fujian Rongchang”), a company then controlled by China Yihua at a cash consideration of HKD5,000 (equivalent to RMB4,000).
- (iii) On May 4, 2010, Parent Company acquired the entire share capital of Sun Champ Group Holdings Limited (“Sun Champ”) from GNL 10 Limited, a third party of the Group, at a cash consideration of HKD1.
- (iv) On July 28, 2010, Sun Champ acquired the entire equity interests in Fujian Rongping Chemical Co., Ltd. (“Fujian Rongping”), a company controlled by Fujian Rongchang, at a cash consideration of RMB102,000,000.
- (v) On November 24, 2010, the Company was established in the Cayman Islands. Upon incorporation, one share was allotted and issued to Parent Company.

- (vi) On December 3, 2010, Yihua Sub-Holding Alpha (BVI) Limited (“Yihua Alpha”) and Yihua Sub-Holding Beta (BVI) Limited (“Yihua Beta”) were set up in the British Virgin Islands (“BVI”). Upon incorporation, one fully paid share of each of these two BVI companies were allotted and issued to the Company.
- (vii) On April 7, 2011, Yihua Alpha acquired the entire equity interests in Longpower from Parent Company at a consideration of RMB324,295,000. The Company issued and allotted one share to Parent Company as the consideration. The excess of the fair value over the nominal value of the share issued was recorded in the capital reserve under equity.
- (viii) On April 7, 2011, Yihua Beta acquired the entire equity interests in Sun Champ from Parent Company at a consideration of RMB141,658,000. The Company issued and allotted one share to Parent Company as the consideration. The excess of the fair value over the nominal value of the share issued was recorded in the capital reserve under equity.
- (ix) On June 14, 2011, Parent Company assigned all the other receivables due from Longpower amounting to United States dollars (“USD”) 32.3 million to the Company, in settlement of which, the Company issued and allotted one share to Parent Company. The excess of the monetary value over the nominal value of the share issued amounting to RMB 209,332,000 was recorded in the capital reserve under equity.

Upon completion of the Reorganisation, the Company became the holding company of the subsidiaries now comprising the Group.

As at June 30, 2011 and the date of this report, the Company has direct and indirect interests in the following subsidiaries:

<u>Name of Company</u>	<u>Country/place and date of incorporation</u>	<u>Principal activities</u>	<u>Issued and fully paid capital / registered capital</u>	<u>Effective interest held</u>	<u>Statutory auditor</u>
<b>Directly owned</b>					
Yihua Sub-Holding Alpha (BVI) Limited . . . . .	BVI/ December 3, 2010	Investment holding	USD1	100.00%	(i)
Yihua Sub-Holding Beta (BVI) Limited . . . . .	BVI/ December 3, 2010	Investment holding	USD1	100.00%	(i)
<b>Indirectly owned</b>					
Longpower Corporation Limited. . . . .	Hong Kong/ December 3, 2009	Investment holding	HKD1	100.00%	(i)
Sun Champ Group Holdings Limited. . . . .	Hong Kong/ March 18, 2010	Investment holding	HKD1	100.00%	(i)
<sup>1</sup> Fujian Rongchang Chemical Co., Ltd. . . . .	PRC/ February 27, 1997	Manufacturing and sale of chemical products	RMB 101,000,000	100.00%	(ii)
<sup>2</sup> Fujian Rongping Chemical Co., Ltd. . . . .	PRC/ December 26, 2002	Manufacturing and sale of chemical products	RMB 102,000,000	100.00%	(iii)
<sup>2,3</sup> Fuzhou Yihua Chemical Stock Co., Ltd. (“Fuzhou Yihua”) . . . . .	PRC/ June 7, 2003	Manufacturing and sale of chemical products	RMB 110,000,000	97.27%	(iv)

*Notes:*

- 1 For the period from January 1, 2008 to June 10, 2008, Mr. Liem Djiang Hwa's equity interests in Fujian Rongchang were held by Fujian Kaili Investments Co., Ltd. (“Kaili Investments”) according to the Entrustment Agreement entered into between Mr. Liem Djiang Hwa and Kaili Investments on July 6, 2005. On June 10, 2008, China Yihua acquired 99.94% equity interests from Kaili Investments and 0.06% equity interests from a non-controlling shareholder at a consideration of RMB74,631,235.49 and RMB44,805.62 respectively. Thereafter, Fujian Rongchang became 100% owned by Mr. Liem Djiang Hwa.
- 2 For the year ended December 31, 2008 and the period from January 1, 2009 to August 29, 2009, Mr. Liem Djiang Hwa's equity interests in Fujian Rongping and the equity interests held by Fujian Rongping in Fuzhou Yihua were held by Mr. Ma Duo and Mr. Zhang Ping according to the Entrustment Agreement entered into between Mr. Liem Djiang Hwa and Mr. Ma Duo and Mr. Zhang Ping on April 17, 2006.  
  
On August 29, 2009, Fujian Rongchang acquired the entire equity interests in Fujian Rongping at a consideration of RMB 102,000,000 and the Controlling Shareholder waived the consideration. Thereafter, Fujian Rongping became 100% owned by Fujian Rongchang.
- 3 On September 3, 2008, Fujian Rongping acquired 46.11% equity interests in Fuzhou Yihua from several non-controlling shareholders at a consideration of RMB35,493,000. Thereafter, Fuzhou Yihua became 97.27% owned by Fujian Rongping. On March 6, 2010, the equity interests in Fuzhou Yihua were transferred to Fujian Rongchang from Fujian Rongping at consideration of RMB91,615,900.
  - (i) The statutory financial statements of these companies for the year ended December 31, 2010 were not subject to statutory audit requirements.

- (ii) The statutory financial statements of this company for the years ended December 31, 2008, 2009 and 2010 were audited by Quan Zhou Zhing Cheng Certified Public Accountants Firm, Xiamen Sheng Yuan Certified Public Accountants Firm and Fujian Zhong Zhi Cheng Certified Public Accountants Firm respectively.
- (iii) For the year ended December 31, 2008, this company was not subject to statutory audit. The statutory financial statements of this company for the years ended December 31, 2009 and 2010 were audited by Xiamen Jing Shun Union Accounting Firm and Fujian Zhong Zhi Cheng Certified Public Accountants Firm respectively.
- (iv) This company is not subject to statutory audit requirement as it is a PRC domestic company.

During the Relevant Periods, the Group's businesses were carried out by the Operating Companies and Other Operating Company. The Other Operating Company was principally engaged in the resale of finished products to third party customers, which were purchased from Fujian Rongchang, Fujian Rongping and Fuzhou Yihua. Its activities formed an integral part of the Listing Business before being disposed to an independent third party and the related proceeds were kept by the Group. The trading business of the Other Operating Company was assumed by companies now comprising the Group after the disposal. Details of the Other Operating Company were as follows:

<u>Name of Company</u>	<u>Country/place and date of incorporation</u>	<u>Principal activities/place of operation</u>	<u>Issued and fully paid capital / registered capital RMB'000</u>	<u>Effective interest held</u>	<u>Disposal date</u>
Fuzhou Rongchang Trading Co., Ltd ("Rongchang Trading") (Note 32(b)) . . . . .	PRC/ 6 July, 2007	Trading and sale of chemical products	5,000	100.00%	20 February, 2008

## 2. Basis of presentation

The Reorganisation represents business combinations involving entities under common control of the Controlling Shareholder. For the purpose of this report, the Reorganisation has been accounted for as a business combination under common control in a manner similar to the principles of merger accounting. The financial information includes the consolidated financial position, results and cash flows of the companies now comprising the Group as if the existing Group structure had been in existence throughout the Relevant Periods or since their respective dates of incorporation/establishment or acquisition, whichever is the shorter period. The consolidated financial information of the Other Operating Company was included in the financial information up to the date of their disposal as it formed an integral part of the Listing Business and they were under common control of the Controlling Shareholder.

All significant intra-group transactions and balances have been eliminated upon combination.

Non-controlling interests represent the interest of entities other than equity holders of the company in the operating results and net assets of the Group during the Relevant Periods.

### 3. Summary of principal accounting policies

The principal accounting policies applied in the preparation of the financial information are set out below. These policies have been consistently applied during the Relevant Periods, unless otherwise stated. The Group has adopted IFRSs that are effective for the accounting periods beginning on or before January 1, 2011 consistently throughout the Relevant Periods.

#### 3.1 Basis of preparation

The financial information has been prepared in accordance with IFRSs and under the historical cost convention, as modified by the revaluation of available-for-sale financial assets as appropriate.

The preparation of financial information in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial information are disclosed in Note 5.

##### 3.1.1 Changes in principal accounting policy

The following new standards, amendments and interpretations to existing standards have been issued by IASB and are mandatory for the Group's accounting periods beginning on January 1, 2012 or later periods, but the Group has not early adopted them:

- IAS 1 (Amendment) "Presentation of financial statements" changes the disclosure of items presented in other comprehensive income in the statement of comprehensive income. The amendment requires entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be recycled to profit or loss in the future. Items that will not be recycled will be presented separately from items that may be recycled in the future. Entities that choose to present other comprehensive income items before tax will be required to show the amount of tax related to the two groups separately. The title used by IAS1 for the statement of comprehensive income has changed to 'statement of profit or loss and other comprehensive income'. However IAS 1 still permits entities to use other titles. The Group will apply the amendment for the financial reporting period commencing on July 1, 2012. Except for certain presentation changes as described above, it is not expected to have significant impact on the Group's consolidated financial information.
- Amendments to IAS 12, "Income Taxes", issued in December 20, 2010. IAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. This amendment introduces a presumption that recovery of the carrying amount of an investment property measured at fair value will normally be through sale. The amendment is effective for annual periods beginning on or after January 1, 2012. Early adopt is permitted. The Group will apply the amendment for the financial reporting period commencing on January 1, 2012. It is not expected to have significant impact on the Group's consolidated financial information.

- IAS 19 (Amendment) “Employee benefits”, makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. Some of the key changes are on the recognition of actuarial gains and losses, past-service costs, annual expense for a funded benefit plan, taxes related to benefit plans and future-service obligation. The Group will apply the amendment for the financial reporting period commencing on January 1, 2013. It is not expected to have significant impact on the Group’s consolidated financial information.
- IFRS 7 (Amendment) ‘Disclosures — Transfers of financial assets’ introduces new disclosure requirement on transfers of financial assets. Disclosure is required by class of asset of the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity’s balance sheet. The gain or loss on the transferred assets and any retained interest in those assets must be given. In addition, other disclosures must enable users to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. The disclosures must be presented by type of ongoing involvement. For example, the retained exposure could be presented by type of financial instrument (such as guarantees, call or put options), or by type of transfer (such as factoring of receivables, securitisations or securities lending). The amendment is applicable to annual periods beginning on or after 1 July 2011 with early adoption permitted. The Group will apply the amendment for the financial reporting period commencing on 1 January 2012. It is not expected to have significant impact on the Group’s consolidated financial information.
- IFRS 10 “Consolidated financial statements” replaces all of the guidance on control and consolidation in IAS 27, ‘Consolidated and separate financial statements’, and SIC-12, ‘Consolidation — special purpose entities’. IAS 27 is renamed ‘Separate financial statements’, and it continues to be a standard dealing solely with separate financial statements. The existing guidance for separate financial statements is unchanged. The revised definition of control under IFRS 10 focuses on the need to have both power and variable returns before control is present. IFRS10 includes guidance on ‘de facto’ control, participating and protective rights and agent/principal relationships. The Group will apply the amendment for the financial reporting period commencing on January 1, 2013. It is not expected to have significant impact on the Group’s consolidated financial information.
- IFRS 11 “Joint arrangements”, changes the definitions to reduce the types of joint arrangements to two, joint operations and joint ventures. The jointly controlled assets classification in IAS 31, ‘Interests in Joint Ventures’, has been merged into joint operations, as both types of arrangements generally result in the same accounting outcome. The Group will apply the amendment for the financial reporting period commencing on January 1, 2013. It is not expected to have significant impact on the Group’s consolidated financial information.
- IFRS 12 “Disclosure of interests in other entities” sets out the required disclosures for entities reporting under the two new standards, IFRS 10, ‘Consolidated financial statements’, and IFRS 11, ‘Joint arrangements’. It replaces the disclosure requirements currently found in IAS, ‘Investments in associates’. The existing guidance and disclosure requirements for separate financial statements are unchanged under IAS (as amended in 2011). The new standard requires entities to disclose information that helps financial statement readers to evaluate the nature, risks

and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. The Group will apply the amendment for the financial reporting period commencing on January 1, 2013. It is not expected to have significant impact on the Group's consolidated financial information.

- IFRS 13 "Fair value measurements", explains how to measure fair value and aims to enhance fair value disclosures. It does not say when to measure fair value or require additional fair value measurements. It does not apply to transactions within the scope of IFRS 2, 'Share-based payment', or IAS 17, 'Leases', or to certain other measurements that are required by other standards and are similar to, but are not, fair value (for example, value in use in IAS 36, 'Impairment of assets'). The Group will apply the amendment for the financial reporting period commencing on January 1, 2013. It is not expected to have significant impact on the Group's consolidated financial information.
- IFRS 9 'Financial instruments' addresses the classification, measurement and derecognition of financial assets and financial liabilities. When adopted, the standard will affect in particular the Group's accounting for its available-for-sale financial assets, as IFRS 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss. There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss, and the Group does not have any such liabilities. The derecognition rules have been transferred from IAS 39 'Financial instruments: Recognition and measurement' and have not been changed. The standard is not applicable until 1 January 2013 but is available for early adoption. The Group will apply the new standard for the financial reporting period commencing on 1 January 2013. It is not expected to have significant impact on the Group's consolidated financial information.

The directors of the Company anticipate that the application of these new standards, amendment and interpretation will have no material impact on the results of operations and financial position of the Group.

## 3.2 Consolidation and combination

### (a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Except for the acquisition of equity interests in the companies under common control which have been accounted for using merger accounting as explained in Note 2 above, the acquisition method of accounting is used to account for business combinations by the Group. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests

issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated statement of comprehensive income.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

**(b) Transactions with non-controlling interests**

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposal to non-controlling interests are also recorded in equity.

When the group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

**(c) Business combinations under common control**

The consolidated financial information incorporates the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been consolidated from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised with respect to goodwill or any excess of an acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent



liabilities over its cost at the time of common control combination, to the extent of the contribution of the controlling party's interest. All differences between the cost of acquisition (fair value of consideration paid) and the amounts at which the assets and liabilities are recorded have been recognised directly in equity as part of the capital reserve.

The consolidated comprehensive income statements include the results of each of the combining entities or businesses from the earliest date presented or since the date when combining entities or businesses first came under common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the financial information are presented as if the entities or businesses had been consolidated at the earliest date presented or when they first came under common control, whichever is the later.

Intra-group transactions, balances and unrealised gains on transactions between the combining entities or businesses are eliminated. Unrealised losses are also eliminated but considered as an impairment indicator of the asset transferred. Accounting policies of combining entities or businesses have been changed where necessary to ensure consistency with the policies adopted by the Group.

Transaction costs, including professional fees, registration fees, costs of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses, etc., incurred in relation to the common control combination that is to be accounted for by using merger accounting is recognised as expenses in the periods in which they are incurred.

### **3.3 Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors that makes strategic decisions.

### **3.4 Foreign currency translation**

#### **(a) Functional and presentation currency**

Items included in the financial information of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). Since the majority of the assets and operations of the Group are located in the PRC, the financial information is presented in Renminbi ("RMB"), which is the functional and presentation currency of the Company.

#### **(b) Transactions and balances**

Foreign currency transactions 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 the consolidated statement of comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equity instruments held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in other comprehensive income.

### (c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each consolidated statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognised as a separate comprehensive income.

### 3.5 Property, plant and equipment

Property, plant and equipment other than construction-in-progress are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are expensed in the consolidated statement of comprehensive income during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate the cost less residual value estimated for these assets less impairment loss of each asset over its estimated useful life, as follows:

Buildings .....	30-50 years
Machinery .....	8-15 years
Motor vehicles .....	8 years
Furniture and office equipment .....	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing net sales proceeds and the carrying amount of the relevant assets, and are included in the consolidated statement of comprehensive income.

Construction-in-progress (the "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 and capitalised borrowing costs. No provision for depreciation is made 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 above.

### **3.6 Land use rights**

Land use rights are up-front payments to acquire long-term interest in leasehold land, which are stated at cost less accumulated amortisation and accumulated impairment losses. Cost represents consideration paid for the rights to use the land from the date when the respective rights were granted. Amortisation of land use rights is calculated on a straight-line basis over the period of the lease and is recognised in the consolidated statement of comprehensive income within administrative expenses.

### **3.7 Intangible Assets**

Preferential right is shown at the fair value upon acquisition. Preferential right has a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of contract right over its estimated useful lives.

### **3.8 Financial assets**

#### *3.8.1 Classification*

The Group classifies its financial assets in the following categories: loans and receivables, and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

#### **(a) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables', 'restricted cash' and 'cash and cash equivalents' in the balance sheet (Notes 13, 14 and 15).

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

*3.8.2 Recognition and measurement*

Regular way purchases and sales of investments are recognised on trade-date — the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Changes in the fair value of securities classified as available for sale are recognised in other comprehensive income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated statement of comprehensive income as gains and losses from investment securities.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated statement of comprehensive income. Dividends on available-for-sale equity instruments are recognised in the consolidated statement of comprehensive income when the Group's right to receive payments is established.

*3.8.3 Impairment of financial assets*

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or Group of financial assets is impaired. A financial asset or a Group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or Group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;

- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  - (i) adverse changes in the payment status of borrowers in the portfolio;
  - (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists.

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. The asset's carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a 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 (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statement of comprehensive income.

(b) Assets classified as available for sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a Group of financial assets is impaired. For debt securities, the Group uses the criteria refer to (a) above. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired.

If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — is removed from equity and recognised in the separate consolidated statement of comprehensive income. Impairment losses recognised in the separate consolidated statement of comprehensive income on equity instruments are not reversed through the separate consolidated statement of comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the separate consolidated statement of comprehensive income.

#### *3.8.4 Offsetting financial instruments*

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

### 3.9 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

### 3.10 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

### 3.11 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

### 3.12 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

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

### 3.13 Borrowings

Borrowings are recognised initially at fair value, net of 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 the consolidated statement of comprehensive income over the period of the borrowings using the 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 balance sheet date.

Borrowing costs incurred for the construction of qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed as incurred.

### 3.14 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

### 3.15 Employee benefits

#### (i) Pension obligations

The full-time employees of the Group in the PRC are covered by various government-sponsored pension plan under which the employees are entitled to a monthly pension based on certain formulas. The relevant government agencies are responsible for the pension liabilities to these retired employees. The Group contributes on a monthly basis to these pension plans. Under these pension plans, the Group has no obligation for post-retirement benefit beyond the contributions made. Contributions to these plans are expensed as incurred.

#### (ii) Housing benefits

All full-time employees of the Group are entitled to participate in various government-sponsored housing funds. The Group contributes on a monthly basis to these funds based on certain percentages of the

salaries of the employees. The Group's liability in respect of these funds is limited to the contributions payable in each period.

### 3.16 Provision and contingent liability

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

A contingent liability is a possible obligation that arises from past events and 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. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the Group's consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

### 3.17 Financial guarantee

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial information at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised. Subsequent to initial recognition, the company's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised in accordance with IAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of Management. The fee income earned is recognised on a straight-line basis over the life of the guarantee. Any increase in the liability relating to guarantees is reported in the consolidated income statement within other operating expenses.

### 3.18 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns and discounts and after eliminating sales within the Group.



The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entities within the Group and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

**(a) Sales of goods**

Sales of goods are recognised when a group entity has delivered products to the customer; the customer has accepted the products and collectability of the related receivables is reasonably assured.

**(b) Interest income**

Interest income is recognised using the effective interest method.

**3.19 Government grants**

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated statement of comprehensive income over the period necessary to match them with the cost that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred government grants and are recognised in the consolidated statement of comprehensive income as other income on a straight-line basis over the expected lives of the related assets.

**3.20 Operating leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor), including upfront payment made for land use rights are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

**3.21 Dividend distribution**

Dividend distribution to the Company's equity holders is recognised as a liability in the Group's consolidated financial information in the period in which the dividends are approved by the Company's directors, where appropriate.

#### 4. Financial risk management

##### 4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group regularly monitors its exposure and currently considers not necessary to hedge any of these financial risks.

##### (a) Foreign exchange risk

Foreign currency risk is the risk that the value of a financial instrument fluctuates because of the changes in foreign exchange rates.

The Group mainly operates in the PRC with most of the transactions settled in RMB. Foreign exchange rate risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

For the years ended December 31, 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011, approximately 14%, 12%, 16%, 17% and 16%, respectively of the Group's sales are denominated in currencies other than the entity's functional currency.

Other than certain bank balances, trade receivables, other payables and borrowings (Note 15, 13, 19, and 18), the Group's assets and liabilities are primarily denominated in RMB.

At December 31, 2008, 2009 and 2010 and June 30, 2011, if RMB had weakened/strengthened by 5% against the US dollar respectively with all other variables held constant, profit after tax for the years ended December 31, 2008 and 2009 and the six months ended June 30, 2011 would have been RMB111,000, RMB1,235,000 and RMB818,000 higher/lower, and profit after tax for the year ended December 31, 2010 would have been RMB7,547,000 lower/higher, mainly as a result of foreign exchange gains/losses on translation of US dollar-denominated cash and trade receivables, foreign exchange losses/gains on translation of US dollar-denominated other payables and borrowings.

The Group will constantly review the economic situation and its foreign exchange risk profile, and will consider appropriate hedging measures in the future, as may be necessary.

##### (b) Credit risk

The carrying amounts of cash and cash equivalents, restricted cash, and trade and other receivables, represent the Group's maximum exposure to credit risk in relation to financial assets.

As at December 31, 2008, 2009 and 2010 and June 30, 2011, 99%, 94%, 96% and 94% of the Group's restricted cash and cash and cash equivalents are held in state-owned financial institutions, which management believes are of high credit quality. Management does not expect any losses from non-performance by these counterparties.

The Group has no significant concentrations of credit risk. The carrying amount of receivables included in the consolidated balance sheets represents the Group's maximum exposure to credit risk in relation to these financial assets. Ageing analysis of the Group's accounts receivable is disclosed in Note 13. The Group has policies in place to ensure that credit sales are only made to customers with an appropriate credit history and the Group performs periodic credit evaluations of its customers. The Group assesses the credit quality of its customers by taking into account various factors including their financial position and past experience. The utilisation of credit terms is regularly monitored and management does not expect any losses from non-performance by these counterparties.

Counterparty risk related to trade receivables is limited due to the large number of customers in the Group's customer portfolio and their diversification throughout various business sectors, as well as geographic locations. As at June 30, 2011, the exposure to the top 15 customers did not exceed 50% of the gross trade and other receivables, with the exposure to the largest customer representing less than 7%.

During the Relevant Periods, the Group provided guarantees for the benefit of certain independent third parties for their bank borrowings (Note 35). Under the terms of the financial guarantee contracts, the Group will make payments to reimburse the lenders upon failure of the guaranteed entity to make payments when due. All guarantee agreements had been released as at June 30, 2011.

**(c) Liquidity risk**

To manage the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group expects to fund its future cash flow needs through internally generated cash flows from operations and bank borrowings, as well as equity financing through shareholders or initial public offering. The Group does not expect significant difficulties in subsequent renewals of these borrowings.

The maturity analysis of borrowings that shows the remaining contractual maturities is disclosed in Note 18. Generally there is no specific credit period granted by the suppliers but the related trade payables are normally expected to be settled within three months after receipt of goods or services.

The table below analyses the Group's financial liabilities that will be settled into relevant maturity groupings based on the remaining periods at December 31, 2008, 2009 and 2010 and June 30, 2011 to the contractual maturity dates. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years
	RMB'000	RMB'000	RMB'000
<b>At December 31, 2008</b>			
Borrowings and interest payable .....	287,228	14,273	56,151
Trade and other payables .....	<u>226,125</u>	<u>—</u>	<u>—</u>
	<b><u>513,353</u></b>	<b><u>14,273</u></b>	<b><u>56,151</u></b>
<b>At December 31, 2009</b>			
Borrowings and interest payable .....	311,841	78,845	111,668
Trade and other payables .....	<u>310,369</u>	<u>—</u>	<u>—</u>
	<b><u>622,210</u></b>	<b><u>78,845</u></b>	<b><u>111,668</u></b>
<b>At December 31, 2010</b>			
Borrowings and interest payable .....	248,836	26,674	154,608
Trade and other payables .....	<u>506,194</u>	<u>—</u>	<u>—</u>
	<b><u>755,030</u></b>	<b><u>26,674</u></b>	<b><u>154,608</u></b>
<b>At June 30, 2011</b>			
Borrowings and interest payable .....	251,569	25,431	149,147
Trade and other payables .....	<u>285,516</u>	<u>—</u>	<u>—</u>
	<b><u>537,085</u></b>	<b><u>25,431</u></b>	<b><u>149,147</u></b>

**(d) Interest rate risk**

The Group's exposure to changes in interest rates is mainly attributable to its borrowings, restricted cash and bank deposits.

Borrowings at floating rates expose the Group to cash flow interest-rate risk. As at December 31, 2008, 2009 and 2010 and June 30, 2011, approximately RMB113,730,000, RMB232,920,000, RMB278,970,000 and RMB165,000,000 of the Group's borrowings were at variable rates, respectively.

The interest rates and maturities of the Group's borrowings, restricted cash and bank balances are disclosed in Notes 18, 14 and 15 respectively.

The Group's income and operating cash flows are substantially independent of changes in market interest rates as the Group has no significant interest-bearing assets. The details of the Group's exposure to changes in interest rates attributable to its borrowings have been disclosed in Note 18. Borrowings carried at floating rates expose the Group to cash flow interest-rate risk whereas those carried at fixed rates expose the Group to fair value interest-rate risk.

At December 31, 2008, 2009 and 2010 and June 30, 2011, if the interest rates on bank borrowings, deposits and bank balances had been 50 basis points higher/lower than the prevailing rate announced by People's Bank of China, with all other variables held constant, profit for the year or period would have been RMB1,346,000, RMB1,233,000, RMB201,000 and RMB208,000 lower/higher.

## 4.2 Capital risk 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 and to maintain an optimal capital structure to reduce the cost of capital. The Group's strategy remains consistent throughout the Relevant Periods.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated at net debt divided by total capital. Net debt is calculated as total borrowings as shown in the consolidated balance sheets, less cash and cash equivalents. Total capital is calculated as total equity as shown in the consolidated balance sheets plus net debt. The Group aims to maintain the gearing ratio at a level of not more than 65%.

The gearing ratios at December 31, 2008, 2009 and 2010 and June 30, 2011 were as follows:

	As at December 31,			As at
	2008	2009	2010	June 30,
	RMB'000	RMB'000	RMB'000	2011
				RMB'000
Bank borrowings (Note 18) .....	337,219	468,212	387,850	389,962
Borrowings from related parties (Note 19(c)) .....	11	—	215,012	—
Borrowings from third parties (Note 19(c)) .....	86,705	10,000	589	—
Total borrowings .....	423,935	478,212	603,451	389,962
Less: cash and cash equivalents (Note 15) .....	(68,034)	(195,834)	(397,231)	(392,780)
Net debt .....	355,901	282,378	206,220	(2,818)
Total equity .....	325,576	482,372	668,866	911,074
Total capital .....	681,477	764,750	875,086	908,256
Gearing ratio .....	52%	37%	24%	N/A

## 4.3 Fair value estimation

The carrying amounts of the Group's financial assets, including cash and cash equivalents, restricted cash, receivables; and financial liabilities including payables, short-term borrowings, approximate their fair values due to their short maturities. The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values.

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

## 5. Critical accounting estimates and judgements

Estimates and judgements used in preparing the financial information are evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### (a) Depreciation

The Group's management determines the estimated useful lives and related depreciation charges for the property, plant and equipment with reference to the estimated periods that the Group intends to derive future economic benefits from the use of these assets. Management will revise the depreciation charge where useful lives are different to previously estimated, or it will write-off or write-down obsolete or non-strategic assets that have been abandoned or sold.

### (b) Impairment of receivables

Provision for impairment of receivables is determined based on the evaluation of collectability of receivables. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness, the past collection history of each customer and the current market condition.

### (c) Taxation

The Group's subsidiary that operates in the PRC is subject to enterprise income tax in the PRC. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provision in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

## 6. Segment information

The Group is principally engaged in the chemical products business in the PRC. Separate individual financial information of the three locations where the principal operations of the Group is located are presented to the chief operating decision maker (the Board of Directors) who reviews the internal reporting in order to assess performance and allocate resources. Due to the similarities in economic characters, nature of products and production, customers, etc, they are aggregated into a single reportable segment. Majority of the Group's products are sold to customers in the PRC. The Group has a large number of customers, which are widely dispersed within the PRC and Southeast Asia, no single customer accounted for more than 10% of the Group's total revenues during the Relevant Periods.

## 7. Land use rights

	As at December 31,			As at June 30,
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Cost .....	81,426	84,722	88,206	88,206
Accumulated amortisation .....	(5,761)	(7,411)	(9,111)	(9,993)
Net book value .....	<u>75,665</u>	<u>77,311</u>	<u>79,095</u>	<u>78,213</u>
<b>Representing:</b>				
Opening net book amount .....	77,293	75,665	77,311	79,095
Additions .....	—	3,296	3,484	—
Amortisation (Note 23) .....	(1,628)	(1,650)	(1,700)	(882)
<b>Closing net book amount .....</b>	<u><b>75,665</b></u>	<u><b>77,311</b></u>	<u><b>79,095</b></u>	<u><b>78,213</b></u>

The Group's interests in land use rights represent prepaid operating lease payments. All of the Group's land use rights are located in PRC and with the lease period ranging from 50 to 70 years.

Land use rights with net value of RMB75,110,000, RMB77,311,000, RMB75,401,000 and RMB12,400,000 as at December 31, 2008, 2009 and 2010 and 30 June, 2011 respectively were secured for bank borrowings (Note 18).

Amortisation of land use rights have been charged to administrative expenses in the consolidated statements of comprehensive income.

## 8. Property, plant and equipment

	Buildings	Machinery	Furniture		Construction in progress	Total
			Motor vehicles	and office equipment		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>At January 1, 2008</b>						
Cost .....	423,891	408,065	6,917	3,748	9,178	851,799
Accumulated depreciation .....	(71,930)	(198,307)	(3,947)	(2,606)	—	(276,790)
Net book amount .....	<u>351,961</u>	<u>209,758</u>	<u>2,970</u>	<u>1,142</u>	<u>9,178</u>	<u>575,009</u>
<b>Year ended December 31, 2008</b>						
Opening net book amount .....	351,961	209,758	2,970	1,142	9,178	575,009
Additions .....	—	7,830	349	401	12,707	21,287
Transfer upon completion .....	—	1,285	—	—	(1,285)	—
Disposals .....	—	(5,447)	(13)	(13)	—	(5,473)
Disposals of subsidiaries .....	—	—	—	(6)	—	(6)
Depreciation (Note 23) .....	(12,334)	(29,062)	(706)	(355)	—	(42,457)
Closing net book amount .....	<u>339,627</u>	<u>184,364</u>	<u>2,600</u>	<u>1,169</u>	<u>20,600</u>	<u>548,360</u>
<b>At December 31, 2008</b>						
Cost .....	423,891	407,027	7,223	4,113	20,600	862,854
Accumulated depreciation .....	(84,264)	(222,663)	(4,623)	(2,944)	—	(314,494)
Net book amount .....	<u>339,627</u>	<u>184,364</u>	<u>2,600</u>	<u>1,169</u>	<u>20,600</u>	<u>548,360</u>

	Buildings	Machinery	Motor vehicles	Furniture and office equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Year ended December 31, 2009</b>						
Opening net book amount	339,627	184,364	2,600	1,169	20,600	548,360
Additions	—	1,532	561	136	115,458	117,687
Transfer upon completion	8,529	11,852	—	—	(20,381)	—
Disposals	—	(1,247)	(208)	(14)	—	(1,469)
Depreciation (Note 23)	(12,381)	(28,421)	(590)	(338)	—	(41,730)
Closing net book amount	<u>335,775</u>	<u>168,080</u>	<u>2,363</u>	<u>953</u>	<u>115,677</u>	<u>622,848</u>
<b>At December 31, 2009</b>						
Cost	432,420	417,389	6,582	4,170	115,677	976,238
Accumulated depreciation	(96,645)	(249,309)	(4,219)	(3,217)	—	(353,390)
Net book amount	<u>335,775</u>	<u>168,080</u>	<u>2,363</u>	<u>953</u>	<u>115,677</u>	<u>622,848</u>
<b>Year ended December 31, 2010</b>						
Opening net book amount	335,775	168,080	2,363	953	115,677	622,848
Additions	1,221	10,532	3,620	1,098	125,861	142,332
Transfer upon completion	43,975	192,497	—	1,189	(237,661)	—
Disposals	(648)	(7,886)	(117)	(98)	—	(8,749)
Impairment charge (Note 23)	—	(1,449)	—	—	—	(1,449)
Depreciation (Note 23)	(12,855)	(30,520)	(571)	(382)	—	(44,328)
Closing net book amount	<u>367,468</u>	<u>331,254</u>	<u>5,295</u>	<u>2,760</u>	<u>3,877</u>	<u>710,654</u>
<b>At December 31, 2010</b>						
Cost	476,308	593,692	8,083	5,591	3,877	1,087,551
Accumulated depreciation and impairment	(108,840)	(262,438)	(2,788)	(2,831)	—	(376,897)
Net book amount	<u>367,468</u>	<u>331,254</u>	<u>5,295</u>	<u>2,760</u>	<u>3,877</u>	<u>710,654</u>
<b>Period ended June 30, 2011</b>						
Opening net book amount	367,468	331,254	5,295	2,760	3,877	710,654
Additions	—	3,001	760	311	11,597	15,669
Transfer upon completion	467	—	—	—	(467)	—
Disposals	—	(679)	—	—	—	(679)
Depreciation (Note 23)	(6,993)	(21,336)	(413)	(336)	—	(29,078)
Closing net book amount	<u>360,942</u>	<u>312,240</u>	<u>5,642</u>	<u>2,735</u>	<u>15,007</u>	<u>696,566</u>
<b>At June 30, 2011</b>						
Cost	476,775	596,014	8,843	5,902	15,007	1,102,541
Accumulated depreciation and impairment	(115,833)	(283,774)	(3,201)	(3,167)	—	(405,975)
Net book amount	<u>360,942</u>	<u>312,240</u>	<u>5,642</u>	<u>2,735</u>	<u>15,007</u>	<u>696,566</u>



- (a) Depreciation expenses have been charged to the consolidated statements of comprehensive income as follows:

	Year ended December 31,			Six months ended June 30,	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost of sales . . . . .	37,126	37,265	39,552	18,723	26,439
Selling and marketing expenses . . . . .	55	25	52	11	55
Administrative expenses . . . . .	5,276	4,440	4,724	2,315	2,584
	<u>42,457</u>	<u>41,730</u>	<u>44,328</u>	<u>21,049</u>	<u>29,078</u>

- (b) As at December 31, 2008, 2009 and 2010 and June 30, 2011, certain buildings and machinery with an aggregate carrying value of RMB374,501,000, RMB289,193,000, RMB277,000,000 and RMB140,952,000 were secured for bank borrowings respectively (Note 18).
- (c) Operating lease rentals amounting to RMB436,000, RMB505,000 and RMB894,000 for the years ended December 31, 2008, 2009 and 2010 and RMB349,000 and RMB528,000 for the six months ended June 30, 2010 and 2011 in respect of the lease of buildings respectively, were charged to the consolidated statement of comprehensive income.

## 9. Intangible assets

	Preferential right
	RMB'000
<b>At January 1, 2008</b>	
Cost . . . . .	18,701
Accumulated amortisation . . . . .	<u>(5,413)</u>
Net book amount . . . . .	<u>13,288</u>
<b>Year ended December 31, 2008</b>	
Opening net book amount . . . . .	13,288
Additions . . . . .	—
Amortisation (Note 23) . . . . .	<u>(5,906)</u>
Closing net book amount . . . . .	<u>7,382</u>
<b>At December 31, 2008</b>	
Cost . . . . .	18,701
Accumulated amortisation . . . . .	<u>(11,319)</u>
Net book amount . . . . .	<u>7,382</u>
<b>Year ended December 31, 2009</b>	
Opening net book amount . . . . .	7,382
Additions . . . . .	—
Amortisation (Note 23) . . . . .	<u>(5,906)</u>
Closing net book amount . . . . .	<u>1,476</u>

	Preferential right RMB'000
<b>At December 31, 2009</b>	
Cost .....	18,701
Accumulated amortisation .....	<u>(17,225)</u>
Net book amount .....	<u>1,476</u>
<b>Year ended December 31, 2010</b>	
Opening net book amount .....	1,476
Amortisation (Note 23) .....	<u>(1,476)</u>
Closing net book amount .....	<u>—</u>
<b>At December 31, 2010</b>	
Cost .....	18,701
Accumulated amortisation .....	<u>(18,701)</u>
Net book amount .....	<u>—</u>
<b>Period ended June 30, 2011</b>	
Opening net book amount .....	—
Amortisation (Note 23) .....	<u>—</u>
Closing net book amount .....	<u>—</u>
<b>At June 30, 2011</b>	
Cost .....	18,701
Accumulated amortisation .....	<u>(18,701)</u>
Net book amount .....	<u>—</u>

The preferential right was the fair value of the right to secure preferential electricity prices, which was acquired as consideration for disposal of a power station in 2007.

Amortisation of intangible assets has been charged to cost of sales in the consolidated statement of comprehensive income.

#### 10. Available-for-sale financial assets

Movements of the Group's available-for-sale financial assets are set out as follows:

	As at December 31,			As at June 30,
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of year/period .....	1,246	—	—	—
Additions .....	—	—	—	10,500
Disposals .....	<u>(1,246)</u>	—	—	—
At end of year/period .....	<u>—</u>	<u>—</u>	<u>—</u>	<u>10,500</u>

- (a) Available-for-sale financial assets disposed during the year ended December 31, 2008 represent interests in certain unlisted companies in PRC which do not have a quoted market price in an active market and for which the range of other methods of reasonably estimating fair value is wide and the probabilities of the various estimates cannot be reasonably assessed. Accordingly, these investments are carried at cost less accumulated impairment losses.
- (b) As at 30 June 2011, available-for-sale financial assets represent investments in short-term money market financial products, and the carrying amounts of available-for-sale financial assets approximate their fair values.

## 11. Deferred income tax

Deferred income taxes are calculated in respect of temporary differences under the liability method using the tax rates enacted or substantively enacted by the balance sheet date.

The movement on the deferred income tax assets is as follows:

	Employee benefit obligation	Provision for write-down of inventories	Total
	RMB'000	RMB'000	RMB'000
At January 1, 2008 .....	—	—	—
Credited to the consolidated statement of comprehensive income .....	321	175	496
At December 31, 2008 .....	321	175	496
Credited /(charged) to the consolidated statement of comprehensive income .....	897	(175)	722
At December 31, 2009 .....	1,218	—	1,218
Charged to the consolidated statement of comprehensive income .....	(848)	—	(848)
At December 31, 2010 .....	370	—	370
Charged to the consolidated statement of comprehensive income .....	(333)	—	(333)
At June 30, 2011 .....	37	—	37

Deferred income tax assets are expected to be recovered within 12 months after the balance sheet date.

Withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China, in respect of earnings generated after December 31, 2007. The Group's subsidiaries in Mainland China are held by Longpower and Sun Champ, companies incorporated in Hong Kong and is subject to 5% withholding tax. The Group is therefore liable to withholding taxes on dividends to be distributed by those subsidiaries established in Mainland China in respect of earnings generated from January 1, 2008.

As at December 31, 2008, 2009 and 2010 and June 30, 2011, no provision for withholding tax has been made, as unremitted earnings of those subsidiaries in Mainland China are expected to be permanently reinvested in Mainland China. Unremitted earnings amounted to RMB70,206,000, RMB160,782,000, RMB330,633,000 and RMB461,976,000 as at December 31, 2008, 2009 and 2010 and June 30, 2011, respectively.

**12. Inventories**

	As at December 31,			As at
	2008	2009	2010	June 30,
	RMB'000	RMB'000	RMB'000	2011
Raw materials .....	11,360	19,756	18,735	21,755
Semi-finished goods .....	30,696	24,804	78,157	73,017
Finished goods .....	6,655	11,748	10,635	8,968
	48,711	56,308	107,527	103,740
Less: provision for write-down of inventories .....	(698)	—	—	—
	<b>48,013</b>	<b>56,308</b>	<b>107,527</b>	<b>103,740</b>

The cost of inventories recognised as expense and included in cost of sales for the years ended December 31, 2008, 2009, 2010 and the six months ended 30 June 2010 and 2011 amounted to RMB249,426,000, RMB443,561,000, RMB553,930,000, RMB266,481,000 and RMB307,084,000 respectively.

**13. Trade and other receivables****Group**

	As at December 31,			As at
	2008	2009	2010	June 30,
	RMB'000	RMB'000	RMB'000	2011
Trade receivables (a)				
Due from third parties .....	112,230	239,450	257,368	275,004
Prepayments(b) .....	6,985	4,699	10,499	23,913
Other receivables (c)				
Due from related parties (Note 34(b)) .....	—	2,930	6	—
Due from third parties .....	5,204	6,497	2,037	1,280
	<b>5,204</b>	<b>9,427</b>	<b>2,043</b>	<b>1,280</b>
	<b>124,419</b>	<b>253,576</b>	<b>269,910</b>	<b>300,197</b>

The carrying amounts of receivables approximate their fair values.

- (a) As at December 31, 2008, 2009 and 2010 and June 30, 2011, certain trade receivables with an aggregate carrying value of RMB5,024,000, RMB12,608,000, RMB57,037,000 and nil were secured for bank borrowings respectively (Note 18).

The Group has a large number of customers, which are widely dispersed within the PRC and Southeast Asia. The outstanding balances are with credit terms of between 30 days and 90 days for both domestic customers and overseas customers. There is no concentration of credit risk with respect

to trade receivables. As at December 31, 2008, 2009 and 2010 and June 30, 2011, the aging analysis of the trade receivables is set as follows:

	As at December 31,			As at
	2008	2009	2010	June 30,
	RMB'000	RMB'000	RMB'000	2011
— Third parties				RMB'000
Within 3 months	110,935	237,796	256,817	274,363
Between 4 and 6 months	1,145	1,654	404	608
Between 7 and 12 months	150	—	147	33
	<u>112,230</u>	<u>239,450</u>	<u>257,368</u>	<u>275,004</u>

As at December 31, 2008, 2009 and 2010 and June 30, 2011, trade receivables of approximately RMB1,295,000, RMB1,654,000, RMB551,000 and RMB641,000 were past due but not impaired. These relate mainly to a number of customers with the Group, for whom there is no recent history of default. The ageing analysis of these past due but not impaired receivables is as follows:

	As at December 31,			As at
	2008	2009	2010	June 30,
	RMB'000	RMB'000	RMB'000	2011
Between 4 and 6 months	1,145	1,654	404	608
Between 7 and 12 months	150	—	147	33
	<u>1,295</u>	<u>1,654</u>	<u>551</u>	<u>641</u>

As at December 31, 2008, 2009 and 2010 and June 30, 2011, no trade receivables were impaired and provided for.

(b) Prepayments

	As at December 31,			As at
	2008	2009	2010	June 30,
	RMB'000	RMB'000	RMB'000	2011
Prepayments for IPO expenses	—	—	1,860	22,183
Prepayments for raw materials	6,779	4,521	329	600
VAT input credits	—	—	7,382	684
Others	206	178	928	446
	<u>6,985</u>	<u>4,699</u>	<u>10,499</u>	<u>23,913</u>

## (c) Other receivables

	As at December 31,			As at
	2008	2009	2010	June 30,
	RMB'000	RMB'000	RMB'000	2011
Due from related parties (Note 34(b))	—	2,930	6	—
Loans to third parties	2,451	5,314	—	—
Advance to employees	584	999	559	674
Receivables from disposal of available-for-sale financial assets	300	—	—	—
Others	1,869	184	1,478	606
	<u>5,204</u>	<u>9,427</u>	<u>2,043</u>	<u>1,280</u>

The aging analysis of other receivables is as follows:

	As at December 31,			As at
	2008	2009	2010	June 30,
	RMB'000	RMB'000	RMB'000	2011
Within 3 months	924	3,717	1,569	842
Between 4 and 6 months	225	5,487	222	240
Between 7 and 12 months	2,944	19	218	117
Over 1 year	1,111	204	34	81
	<u>5,204</u>	<u>9,427</u>	<u>2,043</u>	<u>1,280</u>

(d) The carrying amounts of the Group's trade receivables and other receivables are denominated in the following currencies:

	As at December 31,			As at
	2008	2009	2010	June 30,
	RMB'000	RMB'000	RMB'000	2011
RMB	114,201	243,273	248,892	262,641
USD	3,233	5,604	10,519	13,643
	<u>117,434</u>	<u>248,877</u>	<u>259,411</u>	<u>276,284</u>

**Company**

	As at December 31,	As at June 30,
	2010	2011
	RMB'000	RMB'000
Prepayments	—	3,589
Receivables from subsidiaries	—	131,497
	<u>—</u>	<u>135,086</u>

The carrying amounts of the Company's prepayments and other receivables are denominated in RMB.

**14. Restricted cash**

As at December 31, 2008, 2009 and 2010 and June 30, 2011, the entire balance of the restricted cash was secured for bills payable. The amount of trade finance facilities utilised by the Group for issuing bills payable to its suppliers amounting to RMB30,980,000, RMB115,634,000, RMB128,030,000 and RMB140,343,000 respectively (Note 19(b)).

All of the restricted cash is denominated in RMB and earns interest at floating rates based on daily bank deposit rates.

**15. Cash and cash equivalents**

	As at December 31,			As at June 30,
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Cash in hand .....	16	15	16	12
Bank deposits .....	68,018	195,819	397,215	392,768
	<u>68,034</u>	<u>195,834</u>	<u>397,231</u>	<u>392,780</u>

Cash and cash equivalents are denominated in the following currencies:

— RMB .....	67,407	168,437	393,979	384,601
— USD .....	627	27,397	3,252	8,179
	<u>68,034</u>	<u>195,834</u>	<u>397,231</u>	<u>392,780</u>

Bank balances earn interest at floating rates based on daily bank deposit rates. The conversion of RMB denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

**16. Share capital**

	Note	Number of ordinary shares	Nominal value of ordinary shares	Nominal value of ordinary shares
				HK\$
<b>Authorised:</b>				
Ordinary shares of HK\$0.1 each				
<b>At November 24, 2010 (date of incorporation) and December 31, 2010</b> .....	(a)	2,500,000,000	250,000,000	250,000,000
Increase in authorised share capital .....	(a)	2,500,000,000	250,000,000	250,000,000
At June 30, 2011 .....	(a)	<u>5,000,000,000</u>	<u>500,000,000</u>	<u>500,000,000</u>
	Note	Number of ordinary shares	Nominal value of ordinary shares	Equivalent nominal value of ordinary shares
			HK\$	RMB
<b>Issued and fully paid:</b>				
<b>At November 24, 2010 (date of incorporation) and December 31, 2010</b> .....	(a)	<u>1</u>	<u>0.1</u>	<u>0.1</u>
Issue of ordinary shares for Reorganisation .....	(b)	2	0.2	0.2
Issue of ordinary shares for extinguishment of debts by the Parent Company .....	(c)	<u>1</u>	<u>0.1</u>	<u>0.1</u>
<b>At June 30, 2011</b> .....		<u>4</u>	<u>0.4</u>	<u>0.4</u>

---

*Notes:*

- (a) The Company was incorporated on November 24, 2010 with an initial authorised share capital of HKD250,000,000 divided into 2,500,000,000 ordinary shares with par value of HKD0.10 each. By a written resolutions of the sole shareholder of the Company dated June 14, 2011, the authorised share capital has been increased from HKD250,000,000 to HKD500,000,000 divided into 5,000,000,000 shares by the creation of an additional 2,500,000,000 shares. On the date of incorporation, 1 ordinary share was issued to Parent Company. Prior to the incorporation date, the share capital for the Group was nil as at December 31, 2008 and 2009.
- (b) On April 7, 2011, the Company issued and allotted 2 shares to Parent Company pursuant to the Reorganization (Note 1 (b)(vii) and (viii)).
- (c) On June 14, 2011, the Parent Company assigned all the outstanding loan due and payable by Longpower, a subsidiary of the Company, approximately RMB209,332,000 to the Company, in settlement of which, the Company issued and allotted one Share to Parent Company (Note 1(b)(ix)).

**17. Reserves****Group**

- (a) Capital reserve of the Group represented the nominal value of the paid-up share capital of companies now comprising the Group (Note 1(b)) and Other Operating Company (Note 1(b)), after eliminating intra-Group investments.
  - (i) During the Relevant Periods, the Controlling Shareholder acquired equity interests in certain companies comprising the Group from the non-controlling shareholders of these companies (see Note 1). The carrying amounts of the Group's shares of the additional equity interests acquired were accounted for as contributions from the equity holders.
  - (ii) During the Relevant Periods, the Controlling Shareholder made cash contribution to the Group through capital injection to the companies now comprising the Group, which were accounted for as capital injection by equity holders.
  - (iii) On June 14, 2011, the Parent Company assigned all the outstanding loan due and payable by Longpower, a subsidiary of the Company, approximately RMB209,332,000 to the Company, in settlement of which, the Company issued and allotted one Share to Parent Company (Note 1(b)(ix)), the excess of the monetary value over the nominal value of the share issued amounting to RMB209,332,000 was accounted for as capital reserve.
  - (iv) On April 29, 2011, the Company declared a dividend amounting to HKD120 million, which was accounted for as deduction from capital reserve.
- (b) Statutory surplus reserve

Under the relevant PRC laws and regulations, PRC companies are required to appropriate 10% of their respective net profits according to their statutory financial statements to statutory surplus reserve until such reserve reached 50% of the companies registered capital. The statutory surplus reserve can be utilised, upon approval by the relevant authorities, to offset accumulated losses or to increase registered capital of the companies, provide that such reserve is maintained at a minimum of 25% of the companies registered capital.



## Company

	<b>Capital Reserve</b>
	<b>RMB'000</b>
Balance at November 24, 2010 (date of incorporation) and December 31, 2010 .....	—
Issue of ordinary shares for Reorganisation (Note 1(b)(vii) and (viii)) .....	1,449,426
Issue of ordinary share for extinguishment of debts by the Parent Company (Note 1(b)(ix)) .....	209,332
Dividends distribution (Note 31) .....	(100,374)
Balance at June 30, 2011 .....	<u>1,558,384</u>

## 18. Borrowings

	<b>As at December 31,</b>			<b>As at June 30,</b>
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
<b>Non-current</b>				
Secured bank borrowings .....	<u>64,500</u>	<u>172,500</u>	<u>154,270</u>	<u>154,270</u>
<b>Current</b>				
Current portion of long-term secured bank borrowings .....	28,900	14,000	65,230	10,730
Short-term secured bank borrowings .....	<u>243,819</u>	<u>281,712</u>	<u>168,350</u>	<u>224,962</u>
	<u>272,719</u>	<u>295,712</u>	<u>233,580</u>	<u>235,692</u>
<b>Total borrowings</b> .....	<u><b>337,219</b></u>	<u><b>468,212</b></u>	<u><b>387,850</b></u>	<u><b>389,962</b></u>

(a) The Group's borrowings are pledged as follows:

	<b>As at December 31,</b>			<b>As at June 30,</b>
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
<b>Group's assets</b>				
— Buildings and land use rights (Note 8(b), Note 7) .....	196,600	143,000	81,500	14,500
— Machinery (Note 8(b)) .....	8,200	65,000	500	—
— Trade receivables (Note 13(a)) .....	<u>3,300</u>	<u>9,370</u>	<u>49,527</u>	—
	<u><b>208,100</b></u>	<u><b>217,370</b></u>	<u><b>131,527</b></u>	<u><b>14,500</b></u>
<b>Guarantees provided by</b>				
— Subsidiaries within the Group <sup>(1)</sup> .....	51,119	186,392	141,223	375,462
— Related parties <sup>(2)</sup> (Note 34(c)) .....	27,000	64,450	115,100	—
— Third parties .....	<u>51,000</u>	—	—	—
	<u><b>129,119</b></u>	<u><b>250,842</b></u>	<u><b>256,323</b></u>	<u><b>375,462</b></u>
	<u><b>337,219</b></u>	<u><b>468,212</b></u>	<u><b>387,850</b></u>	<u><b>389,962</b></u>

## Notes:

- (1) As at December 31, 2008, 2009 and 2010 and June 30, 2011, the Group's borrowings guaranteed by certain subsidiaries within the Group amounting to RMB14,580,000, RMB47,070,000 and RMB1,770,000 and nil respectively were also guaranteed by certain third parties.
- (2) As at December 31, 2008, 2009 and 2010 and June 30, 2011, the Group's borrowings guaranteed by related parties amounting to nil, RMB3,000,000 and nil and nil respectively were also guaranteed by a third party.
- (b) The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the balance sheet dates was as follows:

	As at December 31,			As at
	2008	2009	2010	June 30,
	RMB'000	RMB'000	RMB'000	2011
Bank borrowings				RMB'000
— fixed rates	223,489	235,292	108,880	224,962
— floating rates	113,730	232,920	278,970	165,000
	<b>337,219</b>	<b>468,212</b>	<b>387,850</b>	<b>389,962</b>

- (c) The maturity date of the borrowing was analysed as follows:

	As at December 31,			As at
	2008	2009	2010	June 30,
	RMB'000	RMB'000	RMB'000	2011
Within 1 year	272,719	295,712	233,580	235,692
Between 1 and 2 years	10,000	70,730	16,960	16,960
Between 2 and 5 years	54,500	101,770	137,310	137,310
	<b>337,219</b>	<b>468,212</b>	<b>387,850</b>	<b>389,962</b>

- (d) The weighted average effective interest rates (per annum) at the balance sheet dates are set out as follows:

	As at December 31,			As at
	2008	2009	2010	June 30,
				2011
Bank borrowings	8.02%	6.47%	6.03%	5.79%

The carrying amount for the current borrowings approximated their fair values because of their short-term maturities. The carrying amount for non-current borrowings approximated their fair values because of the floating interest rates they carried.

(e) The Group's borrowings are denominated in the following currencies:

	As at December 31,			As at June 30,
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
RMB .....	337,060	468,212	387,850	389,962
USD .....	159	—	—	—
	<b>337,219</b>	<b>468,212</b>	<b>387,850</b>	<b>389,962</b>

(f) The undrawn borrowing facilities at the balance dates are set out as follows:

	As at December 31,			As at June 30,
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Undrawn borrowing facilities .....	6,500	48,100	378,070	652,652

## 19. Trade and other payables

### Group

	As at December 31,			As at June 30,
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables (a)				
Due to third parties .....	31,403	90,708	93,517	95,250
Bills payable (b) (Note 14)				
Due to third parties .....	30,980	115,634	128,030	140,343
Other payables (c)				
Due to related parties (Note 34(b)) .....	11	—	215,012	—
Due to third parties .....	164,692	104,110	70,934	50,655
	<b>164,703</b>	<b>104,110</b>	<b>285,946</b>	<b>50,655</b>
	<b>227,086</b>	<b>310,452</b>	<b>507,493</b>	<b>286,248</b>

(a) Details of ageing analysis of trade payables are as follows:

	As at December 31,			As at June 30,
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Within 3 months .....	25,876	87,963	92,617	95,209
Between 4 and 6 months .....	4,286	2,715	437	41
Between 7 and 12 months .....	1,178	30	463	—
Between 1 and 2 years .....	63	—	—	—
	<b>31,403</b>	<b>90,708</b>	<b>93,517</b>	<b>95,250</b>

(b) As at December 31, 2008, 2009 and 2010 and June 30, 2011, the entire balances of bills payable were secured by restricted cash of RMB13,300,000, RMB38,293,000, RMB30,895,000 and RMB38,787,000 respectively (Note 14).

(c) Details of other payables are as follows:

	As at December 31,			As at
				June 30,
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Due to related parties (Note 34(b))	11	—	215,012	—
Advance from customers	961	83	1,299	732
Borrowings from third parties <sup>(i)</sup>	86,705	10,000	589	—
Payable for property, plant and equipment	3,666	19,430	12,993	5,118
Payable for freight charges	7,518	8,798	12,774	12,705
Payable for water and electricity	41,534	40,175	18,257	11,247
Salary and welfare payable	9,846	13,431	11,226	6,219
Other taxes	7,069	5,618	9,468	10,197
Others	7,393	6,575	4,328	4,437
	<b>164,703</b>	<b>104,110</b>	<b>285,946</b>	<b>50,655</b>

(i) The loans from third parties are non-interest bearing, unsecured and repayable on demand.

(d) The carrying amounts of the Group's trade and other payables are denominated in the following currencies:

	As at December 31,			As at
				June 30,
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
RMB	226,340	310,371	292,481	286,248
USD	746	81	215,012	—
	<b>227,086</b>	<b>310,452</b>	<b>507,493</b>	<b>286,248</b>

### Company

	As at	As at
	December 31,	June 30,
	2010	2011
	RMB'000	RMB'000
Due to subsidiaries	—	31,062

The carrying amounts of the Company's other payables are denominated in USD.

**20. Deferred income**

Deferred income represented government grants related to the construction of property, plant and equipment which are credited to the consolidated statements of comprehensive income on a straight-line basis over the expected lives of the related assets.

	As at December 31,			As at
	2008	2009	2010	June 30,
	RMB'000	RMB'000	RMB'000	2011
Opening net book amount .....	—	4,050	6,835	9,291
Additions .....	4,050	2,785	2,535	5,230
Amortisation .....	—	—	(79)	(378)
<b>Closing net book amount .....</b>	<b><u>4,050</u></b>	<b><u>6,835</u></b>	<b><u>9,291</u></b>	<b><u>14,143</u></b>
At end of year/period				
Cost .....	4,050	6,835	9,370	14,600
Accumulated amortisation .....	—	—	(79)	(457)
<b>Net book amount .....</b>	<b><u>4,050</u></b>	<b><u>6,835</u></b>	<b><u>9,291</u></b>	<b><u>14,143</u></b>

**21. Interests in subsidiaries**

	As at December 31,	As at June 30,
	2010	2011
	RMB'000	RMB'000
Investments in Yihua Alpha and Yihua Beta pursuant to the Reorganisation (Note 1(b)) .....	—*	<u>1,449,426</u>

\* As at December 31, 2010, investments in subsidiaries represent one fully paid share subscribed for each of Yihua Alpha and Yihua Beta amounting to US\$1.00 respectively pursuant to the Reorganisation (Note 1 (b)).

**22. Revenue and cost of sales**

The results from manufacturing and sale of bleaching and disinfectant chemicals, azodicarbonamide("ADC" foaming agent) and other specialty chemicals during the Relevant Periods are as follows:

	<b>Bleaching and disinfectant chemicals</b>	<b>ADC foaming agent</b>	<b>Other specialty chemicals</b>	<b>Total</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
<b>Year ended December 31,2008</b>				
Revenue .....	340,927	123,161	235,967	700,055
Costs of sales .....	<u>(196,100)</u>	<u>(110,734)</u>	<u>(195,124)</u>	<u>(501,958)</u>
	<u>144,827</u>	<u>12,427</u>	<u>40,843</u>	<u>198,097</u>
<b>Year ended December 31, 2009</b>				
Revenue .....	409,103	343,207	254,192	1,006,502
Costs of sales .....	<u>(235,315)</u>	<u>(295,467)</u>	<u>(200,064)</u>	<u>(730,846)</u>
	<u>173,788</u>	<u>47,740</u>	<u>54,128</u>	<u>275,656</u>
<b>Year ended December 31, 2010</b>				
Revenue .....	417,120	586,139	208,567	1,211,826
Costs of sales .....	<u>(264,410)</u>	<u>(471,142)</u>	<u>(155,457)</u>	<u>(891,009)</u>
	<u>152,710</u>	<u>114,997</u>	<u>53,110</u>	<u>320,817</u>
<b>Period ended June 30, 2010 (Unaudited)</b>				
Revenue .....	179,183	270,696	102,586	552,465
Costs of sales .....	<u>(118,052)</u>	<u>(223,007)</u>	<u>(81,004)</u>	<u>(422,063)</u>
	<u>61,131</u>	<u>47,689</u>	<u>21,582</u>	<u>130,402</u>
<b>Period ended June 30, 2011</b>				
Revenue .....	269,051	329,333	116,932	715,316
Costs of sales .....	<u>(160,620)</u>	<u>(251,340)</u>	<u>(75,373)</u>	<u>(487,333)</u>
	<u>108,431</u>	<u>77,993</u>	<u>41,559</u>	<u>227,983</u>

## 23. Expenses by nature

	Year ended December 31,			Six months ended June 30,	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Raw materials used and changes in inventories . . . . .	249,426	443,561	553,930	266,481	307,084
Depreciation of property, plant and equipment (Note 8) . . . . .	42,457	41,730	44,328	21,049	29,078
Electricity and other utility fees . . . . .	169,113	203,294	248,122	111,032	129,838
Employee benefit expenses (Note 24) . . . . .	46,901	48,170	54,497	27,058	28,500
Transportation and related charges . . . . .	13,418	13,069	17,915	7,757	10,835
Business tax and other transaction taxes . . . . .	7,379	6,291	7,751	3,554	7,709
Provision for write-down of inventory (Note 12) . . . . .	698	—	—	—	—
Provision for impairment of property, plant and equipment (Note 8) . . . . .	—	—	1,449	1,449	—
Amortisation of land use rights (Note 7) . . . . .	1,628	1,650	1,700	847	882
Amortisation of intangible assets (Note 9) . . . . .	5,906	5,906	1,476	1,476	—
Office and entertainment expenses . . . . .	6,547	9,083	8,559	3,495	3,975
Operating leases expenses (Note 8) . . . . .	436	505	894	349	528
Property insurance fee . . . . .	1,913	1,432	1,720	928	1,137
Travelling expenses . . . . .	1,298	1,658	1,451	588	962
Repairs and maintenance . . . . .	8,420	8,716	11,590	7,694	3,953
Auditors' remuneration . . . . .	72	66	140	80	73
Other expenses . . . . .	5,794	7,356	7,712	3,214	5,050
	<b>561,406</b>	<b>792,487</b>	<b>963,234</b>	<b>457,051</b>	<b>529,604</b>

## 24. Employee benefit expenses

	Year ended December 31,			Six months ended June 30,	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Wages, salaries and bonuses . . . . .	32,260	32,635	39,829	20,264	20,681
Contributions to pension plan <sup>(a)</sup> . . . . .	5,807	5,874	6,770	3,315	3,437
Welfare and other expenses . . . . .	8,834	9,661	7,898	3,479	4,382
	<b>46,901</b>	<b>48,170</b>	<b>54,497</b>	<b>27,058</b>	<b>28,500</b>

(a) The employees of the Group participate in certain defined contribution pension plans organised by the relevant municipal and provincial government, under which the Group are required by the plan to contribute at a rate of 18% of the employee's basic salary, subject to certain caps, during the Relevant Periods.

## b) Directors' emoluments

The aggregate amounts of the emoluments paid and payable to the directors of the Company by companies comprising the Group during the Relevant Periods are set out as follows:

	Year ended December 31,			Six months ended June 30,	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Salaries, wages and bonuses .....	1,090	1,489	1,751	875	1,225
Contributions to pension plan .....	8	6	39	20	25
	<u>1,098</u>	<u>1,495</u>	<u>1,790</u>	<u>895</u>	<u>1,250</u>

The emoluments of the directors are set out as follows:

Name of director	Year ended December 31, 2008		
	Salaries, wages and bonuses	Contributions to pension plan	Total
	RMB'000	RMB'000	RMB'000
Mr. Liem Djiang Hwa .....	200	—	200
Mr. Chen Hong .....	364	8	372
Ms. Miao Fei .....	200	—	200
Mr. Lam Wai Wah .....	326	—	326
Mr. Chen Xiao* .....	—	—	—
Mr. Kou Huizhong* .....	—	—	—
Mr. Li Junfa* .....	—	—	—
<b>Total</b> .....	<u>1,090</u>	<u>8</u>	<u>1,098</u>

Name of director	Year ended December 31, 2009		
	Salaries, wages and bonuses	Contributions to pension plan	Total
	RMB'000	RMB'000	RMB'000
Mr. Liem Djiang Hwa .....	420	—	420
Mr. Chen Hong .....	343	6	349
Ms. Miao Fei .....	300	—	300
Mr. Lam Wai Wah .....	426	—	426
Mr. Chen Xiao* .....	—	—	—
Mr. Kou Huizhong* .....	—	—	—
Mr. Li Junfa* .....	—	—	—
<b>Total</b> .....	<u>1,489</u>	<u>6</u>	<u>1,495</u>



Name of director	Year ended December 31, 2010		
	Salaries, wages and bonuses	Contributions to pension	
		plan	Total
	RMB'000	RMB'000	RMB'000
Mr. Liem Djiang Hwa .....	400	—	400
Mr. Chen Hong .....	520	22	542
Ms. Miao Fei .....	390	17	407
Mr. Lam Wai Wah .....	441	—	441
Mr. Chen Xiao* .....	—	—	—
Mr. Kou Huizhong* .....	—	—	—
Mr. Li Junfa* .....	—	—	—
<b>Total</b> .....	<b><u>1,751</u></b>	<b><u>39</u></b>	<b><u>1,790</u></b>

Name of director	Six months ended June 30,2010 (Unaudited)		
	Salaries, wages and bonuses	Contributions to pension	
		plan	Total
	RMB'000	RMB'000	RMB'000
Mr. Liem Djiang Hwa .....	200	—	200
Mr. Chen Hong .....	260	11	271
Ms. Miao Fei .....	195	9	204
Mr. Lam Wai Wah .....	220	—	220
Mr. Chen Xiao* .....	—	—	—
Mr. Kou Huizhong* .....	—	—	—
Mr. Li Junfa* .....	—	—	—
<b>Total</b> .....	<b><u>875</u></b>	<b><u>20</u></b>	<b><u>895</u></b>

Name of director	Six months ended June 30,2011		
	Salaries, wages and bonuses	Contributions to pension	
		plan	Total
	RMB'000	RMB'000	RMB'000
Mr. Liem Djiang Hwa .....	330	—	330
Mr. Chen Hong .....	320	13	333
Ms. Miao Fei .....	250	12	262
Mr. Lam Wai Wah .....	250	—	250
Mr. Chen Xiao* .....	25	—	25
Mr. Kou Huizhong* .....	25	—	25
Mr. Li Junfa* .....	25	—	25
<b>Total</b> .....	<b><u>1,225</u></b>	<b><u>25</u></b>	<b><u>1,250</u></b>

\* represent the independent non-executive directors

## c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group are as follows:

	Year ended December 31,			Six months ended June 30,	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
In the capacity as:					
Directors .....	1,098	1,495	1,790	895	1,175
Senior management .....	<u>221</u>	<u>251</u>	<u>280</u>	<u>129</u>	<u>153</u>

The five highest paid individuals include 4 directors during the Relevant Periods, whose emoluments were reflected in the analysis presented above. Details of remuneration of member of senior management amongst the five highest paid individuals are as follows:

	Year ended December 31,			Six months ended June 30,	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Salaries, wages and bonuses .....	210	240	264	122	142
Contributions to pension plan .....	<u>11</u>	<u>11</u>	<u>16</u>	<u>7</u>	<u>11</u>
	<u>221</u>	<u>251</u>	<u>280</u>	<u>129</u>	<u>153</u>

The emoluments of the member of senior management fell within the following band:

	Number of individuals				
	Year ended December 31,			Six months ended June 30,	
	2008	2009	2010	2010	2011
				(Unaudited)	
Nil — RMB 1,000,000 .....	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>

- d) On June 10, 2011, the Company appointed 3 independent non-executive directors, Mr. Kou Huizhong, Mr. Chen Xiao, and Mr. Li Junfa. No emoluments have been paid by the Group to the directors of the Company or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. No director waived or has agreed to waive any emoluments.

## 25. Other income

	Year ended December 31,			Six months ended June 30,	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Profit from sales of raw materials . . . . .	—	343	1,029	637	2,444
Subsidy income granted by government . . . . .	1,174	1,107	881	275	1,067
	<u>1,174</u>	<u>1,450</u>	<u>1,910</u>	<u>912</u>	<u>3,511</u>

## 26. Other (losses)/gains, net

	Year ended December 31,			Six months ended June 30,	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
(Loss) /gain on disposals of					
— Property, plant and equipment . . . . .	(759)	(1,342)	(3,146)	(773)	350
— Available-for-sale financial assets . . . . .	142	—	—	—	—
— Subsidiaries (Note 32(b)) . . . . .	14	—	—	—	—
	<u>(603)</u>	<u>(1,342)</u>	<u>(3,146)</u>	<u>(773)</u>	<u>350</u>

## 27. Finance income

	Year ended December 31,			Six months ended June 30,	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Interest income from bank deposits . . . . .	<u>1,058</u>	<u>437</u>	<u>1,621</u>	<u>867</u>	<u>1,127</u>

## 28. Finance costs

	Year ended December 31,			Six months ended June 30,	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Interest expenses:					
— Bank borrowings	31,605	26,720	28,535	13,574	12,663
— Discount interest for bill receivables	890	1,201	3,202	2,067	2,544
— Other charges	1,510	6,030	7,325	6,395	2,371
	34,005	33,951	39,062	22,036	17,578
Less: Interest capitalised in property, plant and equipment	(761)	(4,749)	(15,335)	(9,623)	—
	33,244	29,202	23,727	12,413	17,578
Exchange losses/(gains)	550	23	(4,146)	(696)	(4,055)
	<u>33,794</u>	<u>29,225</u>	<u>19,581</u>	<u>11,717</u>	<u>13,523</u>

	Year ended December 31,			Six months ended June 30,	
	2008	2009	2010	2010	2011
	(Unaudited)				
Weighted average effective interest rates used to calculate capitalisation amount	<u>7.96%</u>	<u>7.13%</u>	<u>7.14%</u>	<u>6.68%</u>	<u>—</u>

## 29. Income tax expense

	Year ended December 31,			Six months ended June 30,	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Current income tax — PRC enterprise income tax . . .	29,779	49,692	57,871	20,853	43,594
Deferred income tax (credit)/charge (Note 11) . . . . .	(496)	(722)	848	1,209	333
	<u>29,283</u>	<u>48,970</u>	<u>58,719</u>	<u>22,062</u>	<u>43,927</u>

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate of companies comprising the Group is set out as follows:

	Year ended December 31,			Six months ended June 30,	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Profit before income tax	106,484	185,335	229,396	84,703	177,177
Tax calculated at PRC statutory tax rates	26,621	46,334	57,349	21,176	44,294
Expenses not deductible for tax purposes	2,956	2,913	1,536	1,190	418
Income not subject to taxation	(294)	(277)	(166)	(304)	(785)
	<u>29,283</u>	<u>48,970</u>	<u>58,719</u>	<u>22,062</u>	<u>43,927</u>

Hong Kong profits tax has not been provided for as the Group has no assessable profit derived from Hong Kong.

The provision for PRC enterprise income tax is based on the statutory rate of 25% on the basis of the profit for the statutory financial reporting purposes, adjusted for income and expenses items which are not assessable or deductible for income tax purpose.

### 30. Earnings per share

#### (a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the Relevant Period.

	Year ended December 31,			Six months ended June 30,	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Profit attributable to equity holders of the Company	<u>62,307</u>	<u>134,413</u>	<u>169,051</u>	<u>62,049</u>	<u>132,185</u>
Weighted average number of ordinary shares in issue	<u>3.00</u>	<u>3.00</u>	<u>3.00</u>	<u>3.00</u>	<u>3.09</u>
Basic earnings per share (note)	<u>20,769</u>	<u>44,804</u>	<u>56,350</u>	<u>20,683</u>	<u>42,778</u>

Note: The earnings per share as presented above is calculated using the weighted average number of ordinary shares of 3.00 shares for each of the years ended December 31, 2008, 2009 and 2010 and for the six months ended June 30, 2010, and of 3.09 shares for the six months ended June 30, 2011. It has not taken into account the proposal capitalisation issue of 599,999,996 shares pursuant to the shareholder resolutions dated June 12, 2011 and November 16, 2011 because the proposed capitalisation issue has not become effective as of the date of this report.

(b) No diluted earnings per share is presented as the Group has no dilutive potential ordinary shares during the Relevant Period.

## 31. Dividends

	Year ended December 31,			Six months ended June 30,	
	2008	2009	2010	2010	2011
	RMB'000 Note(a)	RMB'000 Note(a)	RMB'000	RMB'000 (Unaudited)	RMB'000 Note(b)
Dividends .....	20,000	20,100	—	—	100,374

Note:

- (a) Dividends disclosed represented dividends declared by the companies now comprising the Group, as set out in Note 1, out of their retained earnings to the then shareholders of the respective companies, after eliminating intra-group dividends, for the years ended December 31, 2008 and 2009.
- (b) On April 29, 2011, the Company declared a dividend of HK\$40 million per share totalling to HK\$120 million to the shareholders of the Company. Such dividend has been paid in April 2011.

## 32. Notes to consolidated cash flow statements

## a) Cash generated from operations

	Year ended December 31,			Six months ended June 30,	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Profit for the year/period .....	77,201	136,365	170,677	62,641	133,250
Adjustments for:					
— Income tax expenses (Note 29) .....	29,283	48,970	58,719	22,062	43,927
— Depreciation (Note 8) .....	42,457	41,730	44,328	21,049	29,078
— Amortisation (Note 7,9) .....	7,534	7,556	3,176	2,323	882
— Deferred income amortisation (Note 20) .....	—	—	(79)	—	(378)
— Interest income (Note 27) .....	(1,058)	(437)	(1,621)	(867)	(1,127)
— Finance cost (Note 28) .....	33,794	29,225	19,581	11,717	13,523
— Provision for write-down of Inventory (Note 12) .....	698	—	—	—	—
— Provision for impairment of property, plant and equipment (Note 8) .....	—	—	1,449	1,449	—
— Loss/(gain) on disposals of property, plant and equipment (Note 26) .....	759	1,342	3,146	773	(350)
— Gain on disposals of subsidiaries (Note 26) .....	(14)	—	—	—	—
— Gain on disposal of available-for-sale of financial assets (Note 26) .....	(142)	—	—	—	—
Changes in working capital:					
— Inventories (Note 12) .....	22,105	(7,597)	(51,219)	(4,120)	3,787
— Trade and other receivables .....	10,563	(123,664)	(24,525)	(63,436)	(20,835)
— Trade and other payables .....	(586)	146,578	7,909	(10,998)	6,770
— Restricted cash (Note 14) .....	(13,300)	(24,993)	7,398	1,153	(7,892)
<b>Cash generated from operations .....</b>	<b>209,294</b>	<b>255,075</b>	<b>238,939</b>	<b>43,746</b>	<b>200,635</b>

**Non-cash transaction**

The primary non-cash transaction is the acquisition of preferential right as consideration for the disposal of power station disclosed in Note 9, and the extinguishment of debts by Parent Company as disclosed in Note 1(b)(ix).

**b) Proceed from disposal of subsidiaries**

(i) During the year ended December 31, 2008, the Group disposed of equity interests in the following subsidiary:

<u>Company name</u>	<u>Disposal date</u>	<u>Percentage of equity interests disposed</u>	<u>Sales Proceeds</u>
			<b>RMB'000</b>
Rongchang Trading .....	20 February 2008	100%	5,000

Details of net assets disposed of and gain on disposal are as follows:

	<b>RMB'000</b>
Sales proceeds .....	5,000
Less: Net assets disposed .....	<u>(4,986)</u>
Gain on disposal .....	<u>14</u>

The effect of the disposal is as follows:

	<b>RMB'000</b>
Cash and cash equivalents .....	599
Property, plant and equipment .....	6
Trade and other receivables .....	4,343
Other non-current assets .....	<u>38</u>
Net assets disposal .....	<u>4,986</u>
Sales proceeds .....	5,000
Less: Cash and cash equivalents of subsidiary disposed .....	<u>(599)</u>
Net cash inflow on disposal of subsidiary .....	<u>4,401</u>

**33. Commitments****a) Capital commitments**

The Group has the following capital commitments not provided for in the financial information:

	<u>As at December 31,</u>			<u>As at June 30,</u>
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Authorised and contracted but not provided for —property, plant and equipment .....	<u>253,694</u>	<u>137,325</u>	<u>16,124</u>	<u>7,342</u>

**b) Operating lease commitments**

The Group has commitments to make the following future minimum lease payments under non-cancellable operating leases:

	As at December 31,			As at June 30,
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
No later than 1 year . . . . .	325	114	1,031	921
Later than 1 year and no later than 5 years . . . . .	—	—	615	—
	<u>325</u>	<u>114</u>	<u>1,646</u>	<u>921</u>

**34. Related-party transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control.

**a) Transactions with related parties****Discontinued transactions**

	Year ended December 31,			Six months ended June 30,	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Payments of staff bonus by related parties on behalf of the Group and deemed as contribution to the Group . . . . .	2,800	3,000	3,400	2,000	—
Loans to related parties . . . . .	—	38,499	2,898	1,959	—
Repayment of loans from related parties . . . . .	5,003	35,569	5,822	2,932	6
Borrowings from related parties . . . . .	41,100	8,747	225,986	216,554	—
Repayment of borrowings to related parties . . . . .	<u>98,307</u>	<u>8,758</u>	<u>10,974</u>	<u>3,413</u>	<u>5,680</u>

**b) Balance with related parties:**

	As at December 31,			As at June 30,
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and other receivables . . . . .	—	2,930	6	—
Trade and other payables . . . . .	<u>11</u>	<u>—</u>	<u>215,012</u>	<u>—</u>

As at December 31, 2008, 2009 and 2010 and June 30, 2011, all balances with related companies are non-interest bearing. All balances due from and due to related parties are unsecured and repayable on



demand. As at the date of this report, all the balances due from and due to related parties have been fully settled (Note 35).

**c) Guarantees for borrowing:**

	As at December 31,			As at June 30
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Borrowings guaranteed by related parties .....	<u>27,000</u>	<u>64,450</u>	<u>115,100</u>	<u>—</u>

The guarantee agreements were released as of the date of this report.

**d) Key management compensation:**

	Year ended December 31,			Six months ended June 30,	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Salaries, wages and bonuses .....	1,481	2,068	2,506	1,251	1,553
Contributions to pension plan .....	<u>34</u>	<u>58</u>	<u>141</u>	<u>70</u>	<u>91</u>
	<u>1,515</u>	<u>2,126</u>	<u>2,647</u>	<u>1,321</u>	<u>1,644</u>

Key management includes executive directors and certain executives who have important role in making operational and financial decisions.

**35. Financial guarantee**

As at December 31, 2008, 2009 and 2010 and June 30, 2011, the Group provided guarantees for the benefit of certain independent third parties in respect of their bank borrowings amounting to RMB11,600,000, RMB6,000,000, nil and nil respectively. Under the terms of the financial guarantee contracts, the Group will make payments to reimburse the lenders upon failure of the guaranteed entity to make payments when due.

**36. Subsequent events**

There is no significant subsequent event after June 30, 2011.

**III. SUBSEQUENT CONSOLIDATED FINANCIAL STATEMENTS**

No audited consolidated financial statements have been prepared for the Company and its subsidiaries in respect of any period subsequent to 30 June 2011 and up to the date of this report.

Same as disclosed elsewhere in this report, no dividend or distribution has been declared, made or paid by the Company or any of its subsidiaries in respect of any period subsequent to 30 June 2011.

Yours faithfully,

**PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong