三江化工
SANJIANG CHEMICAL

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

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

Annual Report 2011

CONTENTS

GUAN Jianzhong
Chairman

CHAIRMAN'S STATEMENT

On behalf of the board (the "**Board**") of directors (the "**Directors**") of China Sanjiang Fine Chemicals Company Limited (the "**Company**"), I am pleased to announce the annual results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2011.

2011 was our Group's first full-year operation after the success of the listing (the "**Listing**") of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 16 September 2010 and, in spite of challenging economic environment in the People's Republic of China ("**PRC**"), the annual results of the Group for the year ended 31 December 2011 has demonstrated our management's commitments and continuous efforts in pursuing our Group's various well-formulated strategies including but not limited to continuous expansion of our ethylene oxide ("**EO**") production capacity with an aim to maintain and further strengthen our position as the largest privately-owned manufacturer and supplier of EO in PRC and actively managing our internal financial resources including, among others, idle cash of the Group to generate higher finance incomes and lower finance costs for the Group and, in turn, maximise our shareholders' return.

During the year under review, revenue of our Group reached approximately RMB2,078.2 million, representing an increase of approximately 31.3% as compared to revenue of approximately RMB1,582.5 million for last year. Net profit attributable to shareholders was approximately RMB404.8 million and basic earnings per share was approximately RMB39.75 cents for the year ended 31 December 2011, representing increases of approximately 52.1% and 14.2% respectively as compared with last year.

The Board has recommended a final dividend of HK$9.5 cents per share, together with an interim dividend of HK$5.5 cents per share, representing a total payout of approximately RMB123.9 million and a dividend payout ratio of approximately 30.4% for the year ended 31 December 2011.

BUSINESS REVIEW AND OUTLOOK

We did not have any ramp-up of production facility for our Group's dominant product – Ethylene Oxide in 2010 when compared to 2009. Accordingly, our Group's financial performance in 2010 was basically maintained at a similar level of 2009. In 2011, following our Listing on the Stock Exchange on 16 September 2010, our Group has seized the opportunities and planned to accelerate the expansion of our EO production capacity in order to capture larger share of the EO market in PRC as we are optimistic towards the EO market in view of the keen demand for EO derivative products, the core components of household cleansing and cosmetic products, resulted from the improving living standard in PRC.

We finished the construction of our 3rd phase EO production facilities with designed annual production capacity of 60,000 metric tonnes ("**MT**") for EO in March 2011 and commenced commercial operation on 24 May 2011. Thereafter, our Group's aggregate annual designed production capacity of EO increased by 50% from 120,000 MT to 180,000 MT. The 3rd phase EO production facilities contributed approximately 40,000 MT for EO production during the year ended 31 December 2011 and we expects the 3rd phase EO production facilities will contribute approximately 66,000 MT for EO production/sales in 2012. During the year under review, the increase of our Group's revenue by approximately 31.3% when compared to 2010 was primarily resulted from the ramp-up of our 3rd phase EO production facilities which led to the increase in actual production volume of EO (including EO sales and EO used internally for the production of our own EO derivative products – AEO surfactants) by 33.3% from approximately 132,000 MT in 2010 to approximately 176,000 MT in 2011.

We believe 2012 will be another milestone for our Group as we expect our Group's aggregate annual designed production capacity of EO will substantially increase by approximately 80% from the existing aggregate annual designed production capacity of 180,000 MT to an aggregate designed production capacity of 330,000 MT as of the end of 2012. The additional EO production capacity in 2012 comes

CHAIRMAN'S STATEMENT

from the expected ramp-up of: 1) the 1st phase EO production facilities of Sanjiang Honam Chemical Co., Ltd.* (三江湖石化工有限公司) ("**Sanjiang Honam**"), a sino-foreign joint venture company we established in 2010 with Honam Petrochemical Corp ("**Honam**"), an independent third party, which contributes additional EO production capacity of 50,000 MT and 2) our 4th phase EO production facilities, which contributes additional EO production capacity of 100,000 MT.

We are now finalising the construction of the 1st phase EO production facilities of Sanjiang Honam which is located at our existing production plant in Jiaxing City, Zhejiang Province, the PRC and expect the production line will be in a position for commercial operation on a full-capacity basis by July 2012. The 1st phase EO production facilities of Sanjiang Honam has a designed annual production capacity of approximately 100,000 MT and we are entitled to 50% beneficial interest of Sanjiang Honam. The 1st phase EO production facilities of Sanjiang Honam is expected to contribute approximately 23,000 MT for EO production in 2012. Together with the additional EO contributed by our 3rd phase EO production facilities in 2012, we expect the actual production volume of EO will increase by 28.4% from approximately 176,000 MT in 2011 to approximately 226,000 MT in 2012. Apart from the construction of the 1st phase EO production facilities of Sanjiang Honam, we are also working on the construction of our 4th phase EO production facilities which will have a designed annual production capacity of approximately 100,000 MT of EO. We expect the commercial operation of our 4th phase EO production facilities will take place in late December 2012 and believe it will be the major performance booster of our Group in 2013.

China's economy as well as business environment experienced certain challenges, including but not limited to, credit tightening and moderation of economy growth momentum in 2011. In spite of those challenging economic environment in 2011, we managed to grow at a relatively fast pace which was attributable to a number of factors. We got Listing on the Stock Exchange before 2011 which provided us the opportunity to solidify our equity base and improve our overall cash position and gearing in a relatively favorable market condition, which, together with our strategy to actively manage our internal financial resources including, among others, idle cash of the Group by investing in various low-risk financial products provided by financial institutions and repaying bank borrowings with relatively high interest rates, enables us to generate higher finance incomes and lower finance costs in a credit tightening market condition. Furthermore, in light of the strong liquidity and cash position, we can obtain banking facilities easily and as at 31 December 2011, we used less than 60% of the available banking facilities of our Group.

Although China's rapid economy growth momentum may be moderated, we are optimistic towards the EO market in China in view of the keen and persistent demand for EO and EO derivative products. EO derivative products are the core components of daily consumables used for the production of household cleansing and cosmetic products as well as textiles products and rising income level of individuals and increasing living standard in PRC would increase the demand for those daily consumables and, in turn, lead to growing and sustainable demand for EO and EO derivative products. In order to respond to the keen and persistent demand for EO market, on 31 May 2011, we entered into a memorandum of understanding ("**MOU**") with the Management Committee of Haiyan Economic Development Zone of Zhejiang Province, another economic development zone located right next to our existing production plant located at Zhapu Economic Development Zone. Pursuant to the MOU, we will construct our 5th phase EO production facilities which will have a designed annual production capacity of approximately 200,000 MT of EO. We expect the commercial operation of our 5th phase EO production facilities will take place in the first quarter of 2014.

During the year under review, we have carried out additional measures to mitigate business risk in view of uncertain and challenging market conditions, although we are optimistic towards the EO market in China. We have been actively monitoring and assessing the sales order, business and financial performances of each customer and adjusting EO sales order allocation instantly to put more focus on customers with better potential and provide more flexible settlement approaches to those customers on a basis that it would not affect our credit risk. In addition, we have taken a more prudent approach to deal with merger and acquisition opportunities and

CHAIRMAN'S STATEMENT

any other new investment projects other than those which we have already planned for the expansion of EO production capacity. We have been actively considering an investment opportunity to develop and construct an upstream production facility to produce ethylene by using Methanol-to-Olefin ("**MTO**")-based technology, developed by Dalian Institute of Chemical Physics, Chinese Academy of Sciences (中國科學院大連化學物理研究所) with an aim to secure ethylene supply on a long term basis. MTO is primarily used to convert methanol into ethylene and propylene and the Group is still assessing whether to pursue that opportunity.

FINANCIAL REVIEW

Our Group's revenue broke through RMB2 billion for the first time reaching approximately RMB2,078.2 million for the year ended 31 December 2011, representing an increase of approximately 31.3%, primarily due to the ramp-up of our 3rd phase EO production facilities which led to the increase in actual production volume of EO by 33.3% from approximately 132,000 MT in 2010 to approximately 176,000 MT in 2011. We expect our revenue growth momentum will be maintain at a similar level or even faster in the next 3 years in view of our various EO expansion plans and the actual production volumes of EO in 2012 and 2013 are expected to be growth by 28.4% and 46.0% respectively.

Our average selling price of EO maintained at a similar level in 2011 when compared to 2010, although our EO selling price experienced fluctuation during the year with the first price peak and bottom at a level of approximately RMB14,000/MT (VAT-inclusive) and RMB12,000/MT (VAT-inclusive) in March and June 2011 respectively and the second price peak and bottom at a level of approximately RMB13,500/MT (VAT-inclusive) and RMB11,500/MT (VAT-inclusive) in October and December 2011 respectively. Our Group's overall gross profit margin decreased by 1.9% from 22.8% for the year ended 31 December 2010 to 20.9% for the year ended 31 December 2011 which is primarily resulted from the decrease in gross profit margin of EO sales by 1.7% from 22.2% of 2010 to 20.5% of 2011. The decrease in gross profit margin of EO sales was primarily due to the increase in production costs, resulted from the increase in utilities expenses and increase in direct labor cost. Electricity per unit and steam cost per unit increased by approximately 7% and 5% respectively in average during the year ended 31 December 2011 and the salaries of our staff increased by approximately 12% in average during the year ended 31 December 2011.

During the year under review, in light of the fact that majority of capital expenditures in respect of our various EO expansion plans were not due until the middle of 2012, we have actively managed our internal financial resources including, among others, idle cash of the Group by investing in certain low-risk unit-trust products provided by financial institutions and entering into certain financial arrangements with banks. Pursuant to the aforesaid financial arrangements, we placed amounts denominated in RMB as pledged deposits and obtain loans denominated in USD with values equivalent to corresponding RMB deposits for the purpose of potential appreciation of RMB against USD. As a result, our Group's bank interest income, income from available-for-sale investments and foreign exchange gains increased substantially for the year ended 31 December 2011.

PROSPECT

Looking forward, although we expect 2012 will be full of challenges in view of uncertain and challenging market conditions, we will continue to stay focused on our various well-formulated strategies and expect our market share in EO will grow in a way that outperform our competitors' growths.

ACKNOWLEDGEMENT

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

GUAN Jianzhong
Chairman

People's Republic of China, 12 March 2012

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND FINANCIAL REVIEW

Revenue

Revenue for the year under review was approximately RMB2,078.2 million, representing an increase of approximately 31.3% as compared to revenue of approximately RMB1,582.5 million for last year. The increase in revenue was primarily due to the ramp-up of our 3rd phase EO production facilities which led to the increase in actual production volume of EO (including EO sales and EO used internally for the production of our own EO derivative products – AEO surfactants) by 33.3% from approximately 132,000 MT in 2010 to approximately 176,000 MT in 2011.

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

REVENUE (RMB'000)	**Full year 2011**	**% of revenue**	**Full year 2010**	**% of revenue**	**Variance +/(-)**
Ethylene oxide	1,736,970	84%	1,318,168	83%	31.8%
Surfactants	185,396	9%	156,211	10%	18.7%
Surfactants processing services	21,972	1%	17,127	1%	28.3%
Others	133,850	6%	91,020	6%	47.1%
	2,078,188	**100%**	**1,582,526**	**100%**	**31.3%**
SALES VOLUME (MT)					
Ethylene oxide	166,814		127,658		30.7%
Surfactants	13,238		14,008		-5.5%
Surfactants processing services	49,053		38,338		27.9%
AVERAGE SELLING PRICE (RMB)					
Ethylene oxide	10,413		10,326		0.8%
Surfactants	14,005		11,152		25.6%
Surfactants processing services	448		447		0.2%
GROSS PROFIT MARGIN (%)					
Ethylene oxide	20.5%		22.2%		-1.7%
Surfactants	18.3%		19.2%		-0.9%
Surfactants processing services	47.0%		47.1%		-0.1%

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND FINANCIAL REVIEW (Continued)

Revenue (Continued)

Ethylene oxide sales

The annual designed EO production capacities as at 31 December 2011 and 31 December 2010 were 180,000 MT/year and 120,000 MT/year respectively. During the year under review, the sales volume of EO and the revenue from EO sales increased by 30.7% and 31.8% respectively in 2011 when compared to the corresponding period of 2010 which was primarily resulted from the ramp-up of our 3rd phase EO production facilities which led to the increase in actual production volume of EO (including EO sales and EO used internally for the production of our own EO derivative products – AEO surfactants) by 33.3% from approximately 132,000 MT in 2010 to approximately 176,000 MT in 2011.

The utilisation rate (measured as actual output divided by designed capacity) in 2011 of our ethylene oxide production facilities reached 113% (2010: 110%), representing the fact that the Group's ethylene oxide production facilities were operated in a full capacity in 2011 and 2010. In order to capture the strong demand from downstream manufacturers of hygiene and cleansing products and cosmetic products and in turn, create revenue growth, the Group has developed various ongoing expansion plans and believes that our expansion plans will enable us to meet the growth in demand we anticipate for our products and will help us to capture a larger share of the markets in which we operate. Please refer to the section headed "Business Review and Outlook" under **Chairman's Statement** for more details of the Group's expansion plan in 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND FINANCIAL REVIEW (Continued)

Revenue (Continued)

Surfactants sales

The annual designed production capacities of surfactants as at 31 December 2011 and 31 December 2010 were 218,000 MT/year. The revenue and average selling price of surfactants sales increased by 18.7% and 25.6% respectively in 2011 when compared to 2010 while gross profit margin of surfactants sales decreased by 0.9%. The core feedstocks of surfactant are ethylene oxide and fatty alcohol and as a downstream product of ethylene oxide and fatty alcohol, the price of surfactant is significantly influenced by the prices of ethylene oxide and fatty alcohol. During the year under review, although the EO selling price experienced certain fluctuation during the year, the average selling price of EO maintained at a similar level in 2011 when compared to 2010. However, the selling price of fatty alcohol fluctuated in an even larger extent than that of EO that it dragged down the gross down of the surfactants sales.

During the year under review, the sales volume of surfactants for the year ended 31 December 2011 maintained at a similar level when compared to 2010 (2011: 13,238MT; 2010: 14,008MT). The slight decrease in surfactants sales was mainly due to the fact that less ethylene oxide produced in-house was being allocated to the production of surfactants. As a result of the limited supply of ethylene oxide internally as mentioned above and the strong demand from the market, more ethylene oxide was allocated for direct sales instead of internal consumption. In order to secure a steady stream of revenue for our surfactant production capacities, we increased our surfactants processing service volume by entering into surfactants processing service contract with a major surfactant customer on a yearly basis.

Income from provision of surfactant processing service

Revenue of surfactant processing services increased by approximately 28.3% from approximately RMB17.1 million in 2010 to approximately RMB22.0 million in 2011. The increase was primarily due to the increase in the surfactant processing volume as we entered into a surfactants processing service contract with a major surfactant customer on a yearly basis.

Others

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

Gross profit and gross margin

Overall gross profit increased to approximately RMB433.3 million for the year ended 31 December 2011 (2010: RMB360.2 million) while the overall gross profit margin decreased from 22.8% for 2010 to 20.9% for 2011. The primary factor that caused the decrease in overall gross margin was due to the increase in production costs, resulted from the increase in utilities expenses and increase in direct labor cost. Electricity per unit and steam cost per unit increased by approximately 7% and 5% respectively in average during the year ended 31 December 2011 and the salaries of our staff increased by approximately 12% in average during the year ended 31 December 2011.

Other income and gains

Other income and gains increased by approximately RMB97.0 million from approximately RMB50.2 million for the year ended 31 December 2010 to RMB147.2 million for the year ended 31 December 2011 which was primarily due to the increase in interest income from available-for-sale investments (2011: approximately RMB32.3 million; 2010: Nil), foreign exchange gains (2011: approximately RMB45.6 million; 2010: approximately RMB16.1 million) and increase in bank interest income (2011: approximately RMB32.5 million; 2010: approximately RMB14.6 million). Please refer to the section headed “Financial Review” under **Chairman’s Statement** for more details on the increase in other income and gains.

Administrative and other expenses

Administrative and other expenses consist mainly of staff related costs, various local taxes and educational surcharge, depreciation, amortization of land use rights, operating lease rental expenses, audit fee and miscellaneous expenses. The increase in administrative and other expenses for the year ended 31 December 2011 was mainly due to the increase in salaries, allowance and benefits in kind (2011: RMB35.2 million; 2010: RMB18.8 million) and increase in bank charges (2011: RMB8.4 million; 2010: RMB5.6 million).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND FINANCIAL REVIEW (Continued)

Finance costs

The Group borrows loans from banking institutions in the PRC for financing its working capital and its overseas procurement. The increase in finance costs for the year ended 31 December 2011 was mainly due to the increase in average balance of interest-bearing bank borrowings.

Income tax

The Group had an overall income tax expense of approximately RMB58.4 million for the year ended 31 December 2011, representing an effective tax rate of 12.6% (2010: income tax expense of approximately RMB52.3 million; effective tax rate: 16.4%). The decrease in effective tax rate was primarily due to the inclusion of a tax credit in respect of purchases of property, plant and equipment from domestic vendors of RMB21.1 million. Please refer to note 10 to the financial statements for more details.

Profit for the year

The Group generated profit attributable to equity holders of the parent of approximately RMB404.8 million in 2011, compared to profit attributable to equity holders of the parent of approximately RMB266.1 million in 2010.

LIQUIDITY AND FINANCIAL RESOURCES

Financial position and bank borrowings

The Group had cash and bank balances of approximately RMB272.9 million (2010: approximately RMB601.2 million), most of which were denominated in Renminbi. The Group had interest-bearing bank borrowings of approximately RMB1,435.8 million as at 31 December 2011 (2010: approximately RMB793.8 million). Please refer to note 25 to the financial statements of this report for the details of borrowings and the respective charge of assets.

The Group's gearing, expressed as a percentage of total interest-bearing bank borrowings to total equity, was 0.9x as at 31 December 2011 as compared to 0.6x as at 31 December 2010. The increase in the gearing was primarily attributable to the entering into the financial arrangement as mentioned in the section headed "Financial Review" under **Chairman's Statement**, and both current assets and current liabilities of our Balance Sheet increased at the same time. Our liquidity position, in substance, improved in terms of net current assets, from RMB145.8 million to RMB293.6 million.

Working capital

Total inventories as at 31 December 2011 were approximately RMB222.3 million as compared to approximately RMB104.0 million as at 31 December 2010. The inventory turnover days increased by approximately 10.6 days in 2011 (2011: 36.2 days; 2010: 25.6 days), primarily due to the fact that the Group's EO production capacity increased by 50% since the commercial operation of the 3rd phase EO production facilities in May 2011 and the Group maintains a relatively high level of ethylene as buffer stock for production.

Trade and notes receivables as at 31 December 2011 were approximately RMB203.1 million as compared to approximately RMB35.7 million as at 31 December 2010. The trade and notes receivables turnover days was at 21.0 days as at 31 December 2011 (2010: 8.6 days). The increase in trade and notes receivables turnover days was mainly due to the significant increase in note receivables (2011: RMB187.7 million; 2010: RMB22.6 million) resulted from the fact that we provided more flexible settlement approaches to customers with good potentials on a basis that it would not affect our credit risk. Normally, all of our EO customers are on cash on delivery ("**C.O.D.**") term and required to pay in advance before delivery in order to secure supply of our products. Under the aforesaid arrangement, we accept bank's acceptance bills with interest elements with reference to the advance period added into the bank's acceptance bills' face amounts as a substitute of the C.O.D. term.

The trade payables turnover days was considered short and maintained at a similar level in 2011 as compared to 2010 (2011: 59.7 days; 2010: 68.2 days). The Group primarily uses letters of credit with a maturity period of 90 days in average to settle our trade payables.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL COMMITMENTS

As at 31 December 2011, the Group has capital commitments amounted to approximately RMB108.4 million which was primarily related to the procurement of plant and machinery for the constructions of additional production capacities.

CONTINGENT LIABILITIES

As at 31 December 2011, the Group had not provided any form of guarantee for any company outside the Group. The Group is not involved in any current material legal proceedings, nor is our Group aware of any pending or potential material legal proceedings involving the Group.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2011, the Group employed a total of 465 full time employees. For the year ended 31 December 2011, the employee benefit expense was approximately RMB54.7 million. The Group's employee benefits included housing subsidies, shift subsidies, bonuses, allowances, medical check-up, staff quarters, social insurance contributions and housing fund contributions. The remuneration committee of the Company reviews such packages annually, or when the occasion requires. The executive Directors, who are also employees of the Company, receive remuneration in the form of fees, salaries, bonuses and other allowances.

DIRECTORS AND SENIOR MANAGEMENT

BIOGRAPHIES OF DIRECTORS

GUAN Jianzhong (管建忠)

aged 43, has been an executive Director since 22 March 2010. Mr. Guan is also the Chairman of the Board and one of the founders of the Group. He is primarily responsible for the overall management and strategy of our Group. Mr. Guan is also a director of each of the subsidiaries of our Group and has over 26 years of experience in the chemical industry. Mr. Guan completed a training course in business administration at a management training centre of Zhejiang University (浙江大學) in 2007 and a corporate management training course at Tsinghua University (清華大學) in October 2009. Mr. Guan has been serving as the chairman of the board of directors of both Zhejiang Jiahua Group Co., Ltd.* (浙江嘉化集團股份有限公司) and Zhejiang Jiahua Industrial Park Investment and Development Co., Ltd.* (浙江嘉化工業園投資發展有限公司) since 2008. Zhejiang Jiahua Group Co., Ltd. and Zhejiang Jiahua Industrial Park Investment and Development Co., Ltd. are principally engaged in the manufacturing and supply of agrochemicals and desalinated water and steam in Zhejiang Province, the PRC and both companies are not in competition with the Group. Mr. Guan is the spouse of Ms. Han Jianhong, an executive Director, and the brother-in-law of Mr. Han Jianping, an executive Director. Mr. Guan is a director of Sure Capital Holdings Limited, which beneficially owns approximately 46.49% of the issued share capital of the Company.

HAN Jianhong (韓建紅)

aged 37, has been an executive Director since 22 March 2010. Ms. Han is also one of the founders of the Group. She is primarily responsible for the business planning, business structuring and restructuring, overseeing legal matters and investor relations of the Group. Ms. Han is also a director of various subsidiaries of the Group and has over 13 years of experience in the chemical industry. Ms. Han is the spouse of Mr. Guan Jianzhong, an executive Director, and the sister of Mr. Han Jianping, an executive Director. She is also a director of Sure Capital Holdings Limited, which beneficially owns approximately 46.49% of the issued share capital of the Company.

NIU Yingshan (牛瑛山)

aged 38, has been an executive Director since 24 August 2010. He is primarily responsible for the management of production, safety and environmental protection of the Group. Mr. Niu graduated with a bachelor's degree in computer science and application (distance learning course) from the Beijing University of Chemical Technology (北京化工大學) in 2002 and has over 19 years of experience in the chemical manufacturing industry. Mr. Niu joined the Group in 2004.

HAN Jianping (韓建平)

aged 40, has been an executive Director since 24 August 2010. He is primarily responsible for the sales, procurement, research and development of the Group. Mr. Han is also a director of certain subsidiaries of the Group and has over 20 years of experience in the chemical industry. Mr. Han is the brother of Ms. Han Jianhong, an executive Director, and the brother-in-law of Mr. Guan Jianzhong, an executive Director. Mr. Han joined the Group in 1998.

WANG Wanxu (王萬緒)

aged 52, has been an independent non-executive Director since 24 August 2010. He is the chairman of the remuneration committee and a member of both the audit committee and nomination committee of the Company. Mr. Wang graduated with a bachelor's degree in science from Shanxi University (山西大學) in 1982 and completed a master's degree in business administration from Xi'an Jiaotong University (西安交通大學) in 2004. Mr. Wang has extensive experience as an engineer and about 29 years of experience in the chemical industry.

DIRECTORS AND SENIOR MANAGEMENT

BIOGRAPHIES OF DIRECTORS (Continued)

SHEN Kaijun (沈凱軍)

aged 44, has been an independent non-executive Director since 24 August 2010. He is the chairman of the audit committee and a member of the nomination committee of the Company. Mr. Shen graduated with a bachelor's degree in accounting from Hangzhou Institute of Electronic Engineering (杭州電子工業學院) in 1995 and was admitted as a certified public accountant in China in December 1993. Mr. Shen was further awarded the qualifications as a licensed certified accountant to engage in securities-related businesses in July 1997 and a certified tax agent in June 2000. Mr. Shen has over 22 years of experience in accounting and corporate management.

MUI Ho Cheung, Gary (梅浩彰)

aged 37, has been an independent non-executive Director since 15 May 2011. He is a member of both the audit committee and remuneration committee of the Company. Mr. Mui is the executive director and Head of IPO and Capital Markets of Quam Capital Limited ("Quam Capital") and also the registered staff on behalf of Quam Capital for Type 6 regulated activity under the Securities and Futures Ordinance. Mr. Mui joined Quam Capital in early 2009. Mr. Mui has over 15 years of experience in the fields of finance and investment banking. Mr. Mui holds a bachelor's degree in accounting and finance from the University of New South Wales and is a member of CPA Australia.

BIOGRAPHIES OF SENIOR MANAGEMENT

CHA Lixin (查立新)

aged 59, is the head of the production department of the Group. Mr. Cha is primarily responsible for the ethylene oxide production management of the Group. He joined the Group in 2004.

CHEN Xian (陳嫻)

aged 37, is the secretary of the Board and the chief accountant of the Group. Ms. Chen is primarily responsible for the financial management of the Group. Ms. Chen graduated with a diploma in accounting from the Hangzhou Institution of Commerce of Zhejiang Gongshang University (浙江工商大學杭州商學院) in 1996 and is currently completing a bachelor's degree in accounting from Renmin University of China (中國人民大學) through online distance learning. She joined the Group in 2009.

DE Xin (德新)

aged 49, is the head of the sales department of the Group. Mr. De is primarily responsible for the sales management of the Group. Mr. De graduated with a diploma in business management (distance learning course) from Northeast Normal University (東北師範大學) in July 1997 and completed a chief marketing officer training course in April 2009. He joined the Group in 2004.

HAN Zongqi (韓宗奇)

aged 48, is the head of the procurement department of the Group. Mr. Han is primarily responsible for the procurement management of the Group. Mr. Han graduated with a diploma in English at HuaZhong Normal University (華中師範大學) in 1984. He joined the Group in 2005.

YIP Ngai Hang (葉毅恒)

aged 34, is the financial controller and company secretary of the Group. Mr. Yip is primarily responsible for the overall planning, financial reporting and budgeting and implementing business strategies of the Group. Mr. Yip graduated with a bachelor's degree in Accounting with Honours from the University of Hertfordshire in the United Kingdom in 1999. He joined the Group in 2010.

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

CORPORATE GOVERNANCE REPORT

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

The Company has adopted the code provisions in the Code of Corporate Governance Practices (to be renamed as the Corporate Governance Code effective from 1st April 2012) ("**CG Code**"), including any revisions and amendments from time to time, as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on the Stock Exchange as its own code of corporate governance. The Board considers that the Company has complied with all the code provisions of the CG Code during the year ended 31 December 2011 and up to the date of this annual report.

BOARD OF DIRECTORS

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

The Board currently comprises:

Executive Directors:
Mr. Guan Jianzhong *(Chairman)*
Ms. Han Jianhong
Mr. Niu Yingshan
Mr. Han Jianping

Independent non-executive Directors:
Mr. Wang Wanxu
Mr. Shen Kaijun
Mr. Mui Ho Cheung, Gary (appointed on 15 May 2011)
Mr. Li Zhihong (resigned on 15 May 2011)

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

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

The Company has received from each of Mr. Wang Wanxu, Mr. Shen Kaijun and Mr. Mui Ho Cheung, Gary, the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all the independent non-executive Directors meet the independence criteria set out in Rule 3.13 of the Listing Rules.

The Board has established various Board committees including the audit committee (the "**Audit Committee**"), the remuneration committee (the "**Remuneration Committee**") and the nomination Committee (the "**Nomination Committee**") with written terms of reference as suggested under the CG Code. Further details of these committees are set out below.

CORPORATE GOVERNANCE REPORT

BOARD MEETINGS

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

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

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of the executive Directors has entered into a service contract with the Company for a period of three years and each of the independent non-executive Directors has been appointed for a period of two years.

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

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

BOARD COMMITTEES

Audit Committee

As at the date of this report, the Audit Committee consists of three members, namely Messrs. Shen Kaijun, Wang Wanxu and Mui Ho Cheung, Gary, all of whom are independent non-executive Directors. The chairman of the Audit Committee is Mr. Shen Kaijun. The primary responsibilities of the Audit Committee include, among others, reviewing and supervising the financial reporting process and internal control system of the Group, nominating and monitoring external auditors and providing advice and comments to the Board.

During the year ended 31 December 2011 and up to the date of this annual report, the Audit Committee reviewed the interim results of the Group for the six months ended 30 June 2011 and the annual results of the Group for the year ended 31 December 2011, including the accounting principles and practices adopted by the Group, and the Group's internal control functions.

Remuneration Committee

As at the date of this report, the Remuneration Committee consists of three members, namely Messrs. Wang Wanxu, Mui Ho Cheung, Gary and Guan Jianzhong, of whom Messrs. Wang Wanxu and Mui Ho Cheung, Gary are independent non-executive Directors and Mr. Guan is the Chairman of the Board and an executive Director. The chairman of the Remuneration Committee is Mr. Wang Wanxu. The primary responsibilities of the Remuneration Committee include, among others, evaluating the performance and making recommendation on the remuneration package of the Directors and senior management, and evaluating and making recommendation on the share award plan of the Company.

During the year ended 31 December 2011 and up to the date of this annual report, one meeting was held by the Remuneration Committee to review the remuneration packages of the Directors and senior management for the year ended 31 December 2011.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES (Continued)

Nomination Committee

The Nomination Committee was established on 12 March 2012 with written terms of reference as suggested under the CG Code. The Nomination Committee consists of three members, namely Messrs. Guan Jianzhong, Wang Wanxu and Shen Kaijun, of whom Messrs. Wang Wanxu and Shen Kaijun are independent non-executive Directors and Mr. Guan is the Chairman of the Board and an executive Director. The chairman of the Nomination Committee is Mr. Guan Jianzhong.

The primary responsibilities of the Nomination Committee include, among others, considering and recommending to the Board suitably qualified persons to become the member of the Board and reviewing the structure, size and composition of the Board on a regular basis and as required.

During the year ended 31 December 2011 and up to the date of this annual report, no meeting was held by the Nomination Committee as the Board and the Nomination Committee considers that the size and composition of the Board is sufficient to meet the Company's business needs.

The attendance of individual members of the Board and other Board committees meetings during the year ended 31 December 2011 and up to the date of this annual report is set out below:

	Meetings attended/held			
	Board	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**
Executive Directors				
Mr. Guan Jianzhong *(Chairman)*	4/4	N/A	1/1	0/0
Ms. Han Jianhong	4/4	N/A	N/A	N/A
Mr. Niu Yingshan	4/4	N/A	N/A	N/A
Mr. Han Jianping	4/4	N/A	N/A	N/A
Independent Non-Executive Directors				
Mr. Wang Wanxu	4/4	2/2	1/1	0/0
Mr. Shen Kaijun	4/4	2/2	N/A	0/0
Mr. Mui Ho Cheung, Gary (appointed on 15 May 2011)	3/4	2/2	1/1	N/A
Mr. Li Zhihong (resigned on 15 May 2011)	0/4	0/2	0/1	N/A

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("**Model Code**") as set out in Appendix 10 to the Listing Rules as its model code for securities transactions by Directors and senior management. Having made specific enquiries, all the Directors confirmed that they have complied with the Model Code during the year ended 31 December 2011 and up to the date of this annual report.

CORPORATE GOVERNANCE REPORT

FINANCIAL REPORTING AND INTERNAL CONTROL

Financial reporting

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

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

Independent auditors

During the year ended 31 December 2011, the professional fees paid or payable to the independent auditors, Ernst & Young, for services rendered are set out below:

	RMB'000
Statutory audit	
– 2011 annual results	1,390

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

Internal controls

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

For the year under review, the Board has reviewed the effectiveness of the Group's internal control system. The Board considers that the internal control system is effective and adequate for the Group as a whole. The Board further considers that (i) there was no issue relating to the material controls, including financial, operational and compliance controls and risk management functions, of the Group; and (ii) that there were adequate staff with appropriate qualifications and experience, resources and budget of its accounting and financial reporting function, and adequate training programmes have been provided for during the year ended 31 December 2011.

CORPORATE GOVERNANCE REPORT

DIRECTORS' RESPONSIBILITY ON THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2011, and confirm that the financial statements give a true and fair view of the results of the Company and the Group and are prepared in accordance with the applicable statutory requirements and accounting standards.

The statement made by the external auditors regarding their reporting responsibilities on the financial statements of the Group is set out in the Auditors' Report on page 27 of this annual report.

NON-COMPETITION UNDERTAKINGS

The Company has received declaration from Mr. Guan and Sure Capital Holdings Limited (the "**Covenantors**"), the controlling shareholder of the Company, of their compliance with the terms of the non-competition undertaking ("**Undertaking**"). The Covenantors declared that they have fully complied with the Undertaking during the year ended 31 December 2011 and up to the date of this report.

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

COMMUNICATION WITH SHAREHOLDERS

The Company endeavours to maintain an on-going dialogue with its shareholders and in particular, through annual general meetings or other general meetings to communicate with the shareholders and encourage their participation. The Chairman of the Board will make himself available at the forthcoming annual general meeting to be held on Friday, 27 April 2012 to answer any questions from shareholders.

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

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

REPORT OF THE DIRECTORS

The board (the "**Board**") of directors (the "**Directors**") has pleasure in presenting their report and the audited consolidated financial statements of the Group for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Group are the manufacturing and supplying of ethylene oxide and surfactants and the provision of surfactants processing service. The principal activities and other particulars of the subsidiaries are set out in note 16 to the financial statements.

RESULTS

The results of the Group for the year ended 31 December 2011 and the state of the Company's and the Group's affairs as at that date are set out in the consolidated financial statements on pages 29 to 97 of this annual report.

FIVE YEAR FINANCIAL SUMMARY

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

DIVIDENDS

The Board recommends the payment of a final dividend of HK$9.5 cents per share in respect of the year, together with the payment of an interim dividend of HK$5.5 cents per share, representing a total payout of RMB123.9 million and dividend payout ratio of 30.4% for the year ended 31 December 2011.

Subject to the approval of the shareholders at the forthcoming annual general meeting, the final dividend will be distributed on or about 31 May 2012 to the shareholders whose names appear on the register of members of the Company as at 4:30 p.m. on Monday, 7 May 2012.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 23 April 2012 to Friday, 27 April 2012, both days inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at AGM. In order to qualify for the right to attend and vote at the forthcoming AGM, all transfers documents accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 20 April 2012. In addition, the register of members of the Company will be closed from Friday, 4 May 2012 to Monday, 7 May 2012, both days inclusive, for the purpose of ascertaining shareholders' entitlement to the proposed final dividend. In order to qualify for the proposed final dividend, all transfers documents accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4.30 p.m. on Thursday, 3 May 2012.

RESERVES

Profits attributable to equity shareholders, before dividends, of RMB404,769,000 (2010: RMB266,126,000) have been transferred to reserves. Other movements in reserves are set out in the Consolidated Statement of Changes in Equity.

NON-CURRENT ASSETS

Movements in non-current assets (including property, plant and equipment, prepaid land lease payments and intangible assets) during the financial year are set out in notes 13 to 15 to the financial statements.

BANK BORROWINGS

Particulars of the bank borrowings of the Company and of the Group as at 31 December 2011 are set out in note 25 to the financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 27 to the financial statements.

REPORT OF THE DIRECTORS

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year under view, the Company repurchased a total of 13,648,000 of its ordinary shares of HK$0.10 each either on the Stock Exchange of Hong Kong Limited or through private arrangement at prices ranging from HK$1.89 to HK$2.30 per share, for a total consideration of HK$29,204,000.

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2011.

PRE-EMPTIVE RIGHTS

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

DIRECTORS

The Directors during the year ended 31 December 2011 and up to the date of this report were:

Executive Directors

Mr. Guan Jianzhong *(Chairman)*
Ms. Han Jianhong
Mr. Niu Yingshan
Mr. Han Jianping

Independent Non-Executive Directors

Mr. Wang Wanxu	
Mr. Shen Kaijun	
Mr. Mui Ho Cheung, Gary	(appointed on 15 May 2011)
Mr. Li Zhihong	(resigned on 15 May 2011)

Details of the Directors' biographies are set out on pages 11 and 12 of this annual report.

Pursuant to article 105 of the Articles of Association, one-third of the Directors shall retire from office by rotation at each annual general meeting of the Company. Mr. Han Jianping, Mr. Wang Wanxu and Mr. Shen Kaijun shall retire from office by rotation at the AGM and, being eligible, offer themselves for re-election as Directors at the AGM. Pursuant to article 109 of the Articles of Association, Mr. Mui Ho Cheung, Gary shall retire from office and, being eligible, shall offer himself for re-election at the AGM.

DIRECTORS' SERVICE CONTRACTS

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

Each of the independent non-executive Directors, namely Mr. Wang Wanxu, Mr. Shen Kaijun and Mr. Mui Ho Cheung, Gary, has been appointed for a term of two years and is subject to termination by either party giving not less than three months' written notice.

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

DIRECTORS' REMUNERATION

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

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

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

As at 31 December 2011, the interests and short positions of the Directors and/or chief executives of the Company in any shares of the Company (the "**Shares**"), underlying Shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have under such provisions of the SFO), or which are required, pursuant to Section 352 of Part XV of the SFO, to be entered in the register kept by the Company, or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors (the "**Model Code**") are as follows:

Interest in shares of the Company

Name of Directors	Capacity/ Nature of interest	Long/ Short position	Number of Shares	Approximate % of issued share capital
Guan Jianzhong ("**Mr. Guan**")	Interests in controlled corporation	Long position	467,886,000(Note)	46.39%
	Beneficial owner	Long position	990,000(Note)	0.10%
Han Jianhong ("**Ms. Han**")	Interests of spouse	Long position	468,876,000(Note)	46.49%

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

Interest in shares of associated corporation of the Company

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

Save as disclosed above, none of the Directors or chief executive of the Company was interested or had any short position in any Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as at 31 December 2011.

REPORT OF THE DIRECTORS

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

As at 31 December 2011, so far as is known to the Directors, the following persons (other than the Directors or chief executive of the Company), who have interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company in accordance with the provision of Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein, are as follows:

Name	Capacity/ Nature of interest	Long/ Short position	Number of Shares	Approximate % of issued share capital
Sure Capital	Beneficial owner	Long position	467,886,000(Note 1)	46.39%
Delta Lloyd Asset Management NV ("**DL**")	Beneficial owner	Long position	50,657,000(Note 2)	5.02%
Delta Lloyd Azie Deelnemingen Fonds N.V. ("**DLADF**")	Interests in controlled corporation	Long position	50,657,000(Note 2)	5.02%
Delta Lloyd NV ("**DL NV**")	Interests in controlled corporation	Long position	50,657,000(Note 2)	5.02%
Aviva Plc ("**Aviva**")	Interests in controlled corporation	Long position	50,657,000(Note 2)	5.02%

Notes:

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

2. DL was a subsidiary of DLADF and which in turn was a subsidiary of DLNV and which in turn was subsidiary of Aviva. The long position of DL in 50,657,000 Shares were the same Shares deemed to be interested by DLADF, DLNV and Aviva under the SFO.

Save as disclosed above, no other interest or short position in the shares and underlying shares of the Company were recorded in the register required to be kept under section 336 of the SFO as at 31 December 2011.

MAJOR CUSTOMERS AND SUPPLIERS

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

	2011	2010
As a percentage of the Group's total sales		
The largest customer	13.8%	22.1%
Five largest customers in aggregate	37.7%	53.1%
As a percentage of Group's total purchases		
The largest supplier	41.9%	36.5%
Five largest suppliers in aggregate	86.8%	75.9%

None of the Directors or any of their associates or any shareholders of the Company (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interest in the Group's major customers and suppliers during the year ended 31 December 2011.

SHARE OPTION SCHEME

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

Eligible participants of the Share Option Scheme include the following:

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

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

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

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

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

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

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

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

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME (Continued)

As at the date of this annual report, the total number of Shares available for issue under the Share Option Scheme is 100,664,000, representing approximately 10.00% of the issued share capital of the Company as at the date of this annual report. The maximum number of Shares issuable upon exercise of the options which may be granted under the Share Option Scheme and any other share option scheme of the Group (including both exercised and outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being. Any further grant of share options in excess of this limit is subject to Shareholders' approval in a general meeting.

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

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

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

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

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

(iii) the nominal value of the Shares.

Since the Adoption Date and up to 31 December 2011, no share option has been granted by the Company.

CONTRACT OF SIGNIFICANCE

Save as disclosed in the section headed "Continuing Connected Transactions" in this report and note 34 (Related Party Transactions) to the financial statements, no contracts of significance in relation to the Company's business to which the Company, or its subsidiaries was a party and in which a Director has a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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

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

MANAGEMENT CONTRACTS

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

REPORT OF THE DIRECTORS

CONTINUING CONNECTED TRANSACTIONS

The following related party transactions entered into during the year ended 31 December 2011 constitutes continuing connected transactions for the Company under the Listing Rules and are required to be disclosed in this report in accordance with Chapter 14A of the Listing Rules:

1. Water and Miscellaneous Materials Supply Agreement

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

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

2. Low Pressure Steam Supply Agreement

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

3. High Pressure Steam Supply Agreement

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

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

REPORT OF THE DIRECTORS

CONTINUING CONNECTED TRANSACTIONS (Continued)

3. High Pressure Steam Supply Agreement (Continued)

The actual amount of the transactions and approved annual caps for the above mentioned continuing connected transactions during the year ended 31 December 2011 are as follows:

	Actual transaction amount RMB'000	**Annual cap amount** RMB'000
Water and Miscellaneous Materials Supply Agreement	726	857
Low Pressure Steam Supply Agreement	1,750	3,770
High Pressure Steam Supply Agreement	87,055	118,701

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

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

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

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

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

1. had been approved by the Board;

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

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

4. the aggregate consideration paid in respect of the continuing connected transactions during the year ended 31 December 2011 had not exceeded the cap as disclosed in the Prospectus.

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

SUFFICIENCY OF PUBLIC FLOAT

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

RETIREMENT AND PENSION SCHEMES

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

CONFIRMATION OF INDEPENDENCE

The Company has received from each of Mr. Wang Wanxu, Mr. Shen Kaijun and Mr. Mui Ho Cheung, Gary, the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all the independent non-executive Directors meet the independence criteria set out in Rule 3.13 of the Listing Rules.

AUDITORS

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

By order of the Board

GUAN Jianzhong
Chairman

People's Republic of China, 12 March 2012

INDEPENDENT AUDITORS' REPORT

ERNST & YOUNG
安永會計師事務所

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

We have audited the consolidated financial statements of China Sanjiang Fine Chemicals Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 29 to 97, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

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

INDEPENDENT AUDITORS' REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
Hong Kong

12 March 2012

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
REVENUE	5	**2,078,188**	1,582,526
Cost of sales		**(1,644,844)**	(1,222,362)
Gross profit		**433,344**	360,164
Other income and gains	5	**147,151**	50,187
Selling and distribution costs		**(4,576)**	(2,064)
Administrative expenses		**(72,861)**	(63,510)
Other expenses		**(3,009)**	(6,786)
Finance costs	6	**(32,438)**	(19,087)
Share of loss of a jointly-controlled entity	17	**(4,057)**	(330)
PROFIT BEFORE TAX	7	**463,554**	318,574
Income tax expense	10	**(58,369)**	(52,263)
PROFIT FOR THE YEAR		**405,185**	266,311
Attributable to:			
Owners of the parent	11	**404,769**	266,126
Non-controlling interests		**416**	185
		405,185	266,311
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT	12		
Basic		**39.75 cents**	34.82 cents
Diluted		**39.74 cents**	34.82 cents

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
PROFIT FOR THE YEAR		**405,185**	266,311
OTHER COMPREHENSIVE INCOME			
Available-for-sale investments:			
Changes in fair value		**3,991**	–
Income tax effect	26	**(516)**	–
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**3,475**	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**408,660**	266,311
Total comprehensive income attributable to:			
Owners of the parent		**408,244**	266,126
Non-controlling interests		**416**	185
		408,660	266,311

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	1,105,092	1,051,112
Prepaid land lease payments	14	44,409	45,467
Intangible assets	15	26,970	17,339
Advance payments for property, plant and equipment		71,636	77,218
Investment in a jointly-controlled entity	17	92,105	29,103
Available-for-sale investments	18	–	50,000
Deferred tax assets	26	476	45
Total non-current assets		1,340,688	1,270,284
CURRENT ASSETS			
Inventories	19	222,335	103,952
Trade and notes receivables	20	203,135	35,662
Prepayments, deposits and other receivables	21	41,294	32,985
Due from related parties	34	2,220	–
Available-for-sale investments	18	478,263	–
Pledged deposits	22	1,001,640	492,910
Cash and cash equivalents	22	272,869	601,249
Total current assets		2,221,756	1,266,758
CURRENT LIABILITIES			
Trade payables	23	335,330	202,433
Other payables and accruals	24	125,710	132,050
Interest-bearing bank borrowings	25	1,435,829	745,400
Due to directors	34	4,052	7,863
Due to related parties	34	1,954	5,218
Tax payable		25,305	27,996
Total current liabilities		1,928,180	1,120,960
NET CURRENT ASSETS		293,576	145,798
TOTAL ASSETS LESS CURRENT LIABILITIES		1,634,264	1,416,082

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	25	–	48,360
Deferred tax liabilities	26	47,053	32,911
Total non-current liabilities		47,053	81,271
Net assets		1,587,211	1,334,811
EQUITY			
Equity attributable to owners of the parent			
Issued capital	27	87,308	88,419
Reserves	29	1,419,746	1,162,504
Proposed final dividend	30	77,705	81,852
		1,584,759	1,332,775
Non-controlling interests		2,452	2,036
Total equity		1,587,211	1,334,811

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2011

	Attributable to owners of the parent												
	Issued capital RMB'000	Share premium RMB'000	Capital redemption reserve RMB'000	Shares held for share award plan RMB'000	Merger reserve RMB'000	Available-for-sale investment revaluation reserve RMB'000	Statutory surplus reserve RMB'000	Share award plan reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2010	901	493,934	–	–	(601,644)	–	56,331	–	284,838	–	234,360	(162)	234,198
Profit for the year	–	–	–	–	–	–	–	–	266,126	–	266,126	185	266,311
Total comprehensive income for the year	–	–	–	–	–	–	–	–	266,126	–	266,126	185	266,311
Deemed distribution to equity holders	–	–	–	–	8,052**	–	–	–	–	–	8,052	2,013	10,065
Dividends declared to the ultimate holding company	–	–	–	–	–	–	–	–	(39,940)	–	(39,940)	–	(39,940)
Issue of share capital for the year pursuant to the Group Reorgnisation and for cash	152	134,379	–	–	–	–	–	–	–	–	134,531	–	134,531
Issue of share capital for initial public offering	22,950	752,767	–	–	–	–	–	–	–	–	775,717	–	775,717
Share issue expenses	–	(46,071)	–	–	–	–	–	–	–	–	(46,071)	–	(46,071)
Capitalisation of share premium	64,416	(64,416)	–	–	–	–	–	–	–	–	–	–	–
Appropriation to statutory surplus reserve	–	–	–	–	–	–	30,006	–	(30,006)	–	–	–	–
Proposed final 2010 dividend	–	(81,852)	–	–	–	–	–	–	–	81,852	–	–	–
At 31 December 2010 and 1 January 2011	88,419	1,188,741	–	–	(593,592)	–	86,337	–	481,018	81,852	1,332,775	2,036	1,334,811
Profit for the year	–	–	–	–	–	–	–	–	404,769	–	404,769	416	405,185
Other comprehensive income for the year:													
Change in fair value of available-for-sale investments, net of tax	–	–	–	–	–	3,475	–	–	–	–	3,475	–	3,475
Total comprehensive income for the year	–	–	–	–	–	3,475	–	–	404,769	–	408,244	416	408,660
Shares awarded under the Share Award Plan (note 28)	–	–	–	(4,808)	–	–	–	–	–	–	(4,808)	–	(4,808)
Equity-settled Share Award Plan expense (note 28)	–	–	–	–	–	–	–	350	–	–	350	–	350
Repurchase and cancellation of ordinary shares	(1,111)	(22,670)	1,111	–	–	–	–	–	(1,111)	–	(23,781)	–	(23,781)
Final 2010 dividend declared	–	–	–	–	–	–	–	–	–	(81,852)	(81,852)	–	(81,852)
Appropriation to statutory surplus reserve	–	–	–	–	–	–	50,150	–	(50,150)	–	–	–	–
Interim 2011 dividend (note 30)	–	(46,169)	–	–	–	–	–	–	–	–	(46,169)	–	(46,169)
Proposed final 2011 dividend (note 30)	–	(77,705)	–	–	–	–	–	–	–	77,705	–	–	–
At 31 December 2011	87,308	1,042,197*	1,111*	(4,808) *	(593,592) *	3,475*	136,487*	350*	834,526*	77,705	1,584,759	2,452	1,587,211

* These reserve accounts comprise the consolidated reserves of RMB1,419,746,000 (31 December 2010: RMB1,162,504,000) in the consolidated statement of financial position as at 31 December 2011.

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		463,554	318,574
Adjustments for:			
Finance costs	6	32,438	19,087
Share of loss of a jointly-controlled entity		4,057	330
Bank interest income	5	(32,461)	(14,601)
Interest income from available-for-sale investments	5	(32,327)	–
Foreign exchange differences, net		129	64
Depreciation	7	88,126	69,088
Loss on disposal of items of property, plant and equipment	7	2	28
Recognition of prepaid land lease payments	7	1,038	1,040
Amortisation of intangible assets	7	3,882	3,031
Write-down of inventories to net realisable value	7	3,168	(7)
Equity-settled Share Award Plan expense	7	350	–
		531,956	396,634
Increase in inventories		(121,551)	(36,228)
(Increase)/decrease in trade and notes receivables		(167,473)	3,101
Increase in prepayments, deposits and other receivables		(8,289)	(10,847)
(Increase)/decrease in amounts due from related parties		(2,220)	102,910
Increase/(decrease) in trade payables		138,657	(57,410)
(Decrease)/increase in other payables and accruals		(6,340)	5,284
(Decrease)/increase in amounts due to directors		(3,811)	6,299
(Decrease)/increase in amounts due to related parties		(3,264)	64,274
Decrease in amounts due to the parent and the ultimate holding company		–	(68,282)
Cash generated from operations		357,665	405,735
Income tax paid		(47,865)	(35,461)
Net cash flows from operating activities		309,800	370,274

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(134,890)	(252,032)
Additions to intangible assets		(13,513)	(716)
Acquisition of businesses pursuant to the Reorganisation		–	(5,481)
Proceeds from disposal of items of property, plant and equipment		6	695
Injection in a jointly-controlled entity		(67,059)	(29,433)
Purchase of available-for-sale investments		(424,272)	(50,000)
Bank interest received		32,461	14,601
Receipt of interest income from available-for-sale investments		32,327	–
Net cash flows used in investing activities		(574,940)	(322,366)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		–	910,248
Share issue expense		–	(46,071)
Acquisition of non-controlling interests pursuant to the Reorganisation		–	(9,998)
New bank loans		3,068,451	1,086,989
Repayment of bank loans		(2,426,382)	(1,012,715)
Increase in deposits pledged for bank loans		(508,730)	(256,363)
Interest paid		(34,080)	(21,674)
Dividend paid to the ultimate holding company		–	(206,207)
Dividend paid to non-controlling interests		(5,760)	(9)
Dividend paid		(128,021)	–
Repurchase and cancellation of ordinary shares		(23,781)	–
Purchase of shares held for the Share Award Plan		(4,808)	–
Net cash flows (used in)/from financing activities		(63,111)	444,200
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(328,251)	492,108
Cash and cash equivalents at beginning of year		601,249	109,205
Effect of foreign exchange rate changes, net		(129)	(64)
CASH AND CASH EQUIVALENTS AT END OF YEAR	22	272,869	601,249

STATEMENT OF FINANCIAL POSITION

31 December 2011

	Notes	31 December 2011 RMB'000	31 December 2010 RMB'000
NON-CURRENT ASSETS			
Investments in subsidiaries, at cost	16	426,588	426,588
Total non-current assets		426,588	426,588
CURRENT ASSETS			
Prepayments, deposits and other receivables	21	6,396	7,194
Due from a subsidiary	34	675,465	572,561
Cash and cash equivalents	22	378	326,119
Total current assets		682,239	905,874
CURRENT LIABILITIES			
Due to directors	34	4,052	7,783
Total current liabilities		4,052	7,783
NET CURRENT ASSETS		678,187	898,091
TOTAL ASSETS LESS CURRENT LIABILITIES		1,104,775	1,324,679
Net assets		1,104,775	1,324,679
EQUITY			
Issued capital	27	87,308	88,419
Reserves	29(b)	939,762	1,154,408
Proposed final dividend	30	77,705	81,852
Total equity		1,104,775	1,324,679

NOTES TO FINANCIAL STATEMENTS

31 December 2011

1. CORPORATE INFORMATION

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

The Company and its subsidiaries (the "**Group**") are principally engaged in the manufacturing and supplying of ethylene oxide and surfactants. The Group is also engaged in the provision of processing service for surfactants to customers and the production and supply of other chemical products such as ethylene glycol, polymer grade ethylene and industrial gases, namely oxygen, nitrogen and argon. Ethylene oxide is a key intermediary component for the production of ethylene derivative products such as ethylene glycol, ethanolamines and glycol ethers and a wide range of surfactants. Surfactants are widely applied in different industries as scouring agent, moisturising agent, emulsifier and solubiliser.

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

The shares of the Company were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 16 September 2010.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong, the disclosure requirements of Hong Kong Companies Ordinance and applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange ("**Listing Rules**").

These financial statements have been prepared under the historical cost convention, except for available-for-sale investments, which have been measured at fair value. These financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2011. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

2.1 BASIS OF PREPARATION (CONTINUED)

Basis of consolidation (Continued)

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

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

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*
HKAS 24 (Revised)	*Related Party Disclosures*
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to HKFRSs 2010	Amendments to a number of HKFRSs issued in May 2010

Other than as further explained below regarding the impact of HKAS 24 (Revised), and amendments to HKAS 1 included in *Improvements to HKFRSs 2010*, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements. The principal effects of adopting these HKFRs are as follows:

(a) HKAS 24 (Revised) *Related Party Disclosures*

HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group. Details of the related party transactions, including the related comparative information, are included in note 34 to the consolidated financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (CONTINUED)

(b) *Improvements to HKFRSs 2010* issued in May 2010 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Group. Details of the key amendment most applicable to the Group are as follows:

HKAS 1 *Presentation of Financial Statements*: The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* [1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets* [1]
HKFRS 9	*Financial Instruments* [5]
HKFRS 10	*Consolidated Financial Statements* [4]
HKFRS 11	*Joint Arrangements* [4]
HKFRS 12	*Disclosure of Interests in Other Entities* [4]
HKFRS 13	*Fair Value Measurement* [4]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income* [3]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures-Offsetting Financial Assets and Financial Liabilities* [4]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets* [2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation-Offsetting Financial Assets and Financial Liabilities* [6]
HKAS 19 (2011)	*Employee Benefits* [4]
HKAS 27 (2011)	*Separate Financial Statements* [4]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures* [4]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine* [4]

[1] Effective for annual periods beginning on or after 1 July 2011
[2] Effective for annual periods beginning on or after 1 January 2012
[3] Effective for annual periods beginning on or after 1 July 2012
[4] Effective for annual periods beginning on or after 1 January 2013
[5] Effective for annual periods beginning on or after 1 January 2015
[6] Effective for annual periods beginning on or after 1 January 2014

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

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

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

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

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2015.

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 and HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in HK(SIC)-Int 12.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

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

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 11, HKFRS 12, and the consequential amendments to HKAS 27 and HKAS 28 from 1 January 2013.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. The Group expects to adopt HKFRS 13 prospectively from 1 January 2013.

Amendments to HKAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified. The Group expects to adopt the amendments from 1 January 2013.

HKAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short term employee benefits and disclosures of defined benefit plans. The Group expects to adopt HKAS 19 (2011) from 1 January 2013.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Joint ventures

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Jointly-controlled entities

A joint venture is treated as:

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

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

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

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

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

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

Impairment of non-financial assets

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

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets (Continued)

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

Related parties

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

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a); and
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation

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

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

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

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

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

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

Construction in progress represents buildings, plant and machinery under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (other than goodwill)

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

Software

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

Technology use rights

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

Operating leases

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

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

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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

The Group's financial assets include cash and bank balances, trade and notes receivables, deposits and other receivables, amounts due from related parties, and available-for-sale investments.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (Continued)

Subsequent measurement

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in other income and gains or finance costs in the income statement. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria under HKAS 39 are satisfied.

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

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

Loans and receivables

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (Continued)

Available-for-sale financial assets

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

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

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

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

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial assets

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

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

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

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

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (Continued)

Financial assets carried at amortised cost (Continued)

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

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

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

Available-for-sale financial assets

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (Continued)

Available-for-sale financial assets (Continued)

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through the income statement if the increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as loans and borrowings, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

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

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

Subsequent measurement

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

Loans and borrowings

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Fair value of financial instruments

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

Inventories

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

Cash and cash equivalents

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax

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

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

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

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

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

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

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

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

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

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (Continued)

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

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

Government grants

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

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the income statement by way of a reduced depreciation charge.

Revenue recognition

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

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

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

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

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

Share-based payment transactions

The Company operates a share award plan for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payment transactions (Continued)

The cost of equity-settled transactions with employees is measured by reference to the fair value of the shares at the date at which they are granted. The fair value is measured at the market value of the shares, adjusted for the exclusion of expected dividends to be received in the next 5 years, further details of which are given in note 28 to the financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding non-vested ordinary shares is reflected as additional share dilution in the computation of earnings per share.

Retirement benefits

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

NOTES TO FINANCIAL STATEMENTS
31 December 2011

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Retirement benefits (Continued)

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

Borrowing costs

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

Dividends

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

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

Foreign currencies

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

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in share premium. Voting rights related to treasury shares are nullified for the Group. Treasury shares purchased during the reporting period are used for share award plan.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Estimation uncertainty

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

Impairment of non-financial assets other than goodwill

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

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. The amount of unrecognised tax losses at 31 December 2011 was RMB3,444,000 (31 December 2010: RMB5,013,000). Further details on deferred tax assets are disclosed in note 26 to these financial statements.

NOTES TO FINANCIAL STATEMENTS
31 December 2011

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (Continued)

Income tax

The Group is subject to income taxes in various regions. As a result of the fact that certain matters relating to the income taxes have not been confirmed by the local tax bureau, objective estimates and judgements based on currently enacted tax laws, regulations and other related policies are required in determining the provision of income tax. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact the income tax and tax provisions in the period in which the differences are realised. Further details are disclosed in note 10 to these financial statements.

Fair value of available-for-sale investments

The available-for-sale investments have been valued based on the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics. This valuation requires the Group to make estimates about expected future cash flows, credit risk, volatility and discount rates, and hence they are subject to uncertainty. The fair value of the available-for-sale investments at 31 December 2011 was RMB478,263,000 (31 December 2010: RMB50,000,000). Further details are included in note 18 to the financial statements.

Impairment of available-for-sale financial assets

The Group classifies certain investments as available for sale and recognises movements of their fair values in equity. When the fair value declines, management makes assumptions about the declines in value to determine whether there is an impairment that should be recognised in the income statement. At 31 December 2011, no impairment loss has been recognised for available-for-sale investments (31 December 2010: Nil).

Impairment of trade and other receivables

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

Useful lives and residual values of property, plant and equipment

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

4. SEGMENT INFORMATION

For management purpose, the Group did not organise into business units based on their products and services and only has one reportable operating segment. Management monitors the operating results of its operating segment as a whole for the purpose of making decisions about resources allocation and performance assessment.

Entity-wide disclosures

Information about products and services

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

	2011 RMB'000	2010 RMB'000
EO	1,736,970	1,318,168
Surfactants	185,396	156,211
Other chemical products	127,783	87,516
Processing services	21,972	17,127
Others	6,067	3,504
Total	2,078,188	1,582,526

Geographical information

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

Information about a major customer

Revenue of approximate RMB284,538,000 (2010: RMB298,580,000) was derived from sales to a single customer, including sales to a group of entities which are known to be under common control with that customer.

NOTES TO FINANCIAL STATEMENTS
31 December 2011

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, net of value-added tax and government surcharges, and after allowances for returns and trade discounts; the value of services rendered; and gross rental income received.

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

	2011 RMB'000	2010 RMB'000
Revenue		
Sale of goods	2,050,149	1,561,895
Provision of services	21,972	17,127
Others	6,067	3,504
	2,078,188	1,582,526
Other income		
Bank interest income	32,461	14,601
Interest income from available-for-sale investments	32,327	–
Government subsidies*	18,875	14,187
Gross rental income	3,088	2,748
Others	2,771	2,558
	89,522	34,094
Gains		
Foreign exchange gains, net	45,557	16,093
Gain on disposal of catalysts**	12,072	–
	57,629	16,093
	147,151	50,187

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

** Gain on disposal of catalysts represents the gain from disposal of silver catalysts used in production which were replaced during overhaul for the EO production line.

6. FINANCE COSTS

An analysis of finance costs is as follows:

	2011 RMB'000	2010 RMB'000
Interest on bank loans wholly repayable within five years	**34,080**	21,674
Less: interest capitalised	**(1,642)**	(2,587)
	32,438	19,087

7. PROFIT BEFORE TAX

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

	Notes	2011 RMB'000	2010 RMB'000
Cost of inventories sold		**1,634,306**	1,211,672
Cost of service provided		**8,661**	9,053
Depreciation	13	**88,126**	69,088
Recognition of prepaid land lease payments	14	**1,038**	1,040
Amortisation of intangible assets*	15	**3,882**	3,031
Loss on disposal of items of property, plant and equipment		**2**	28
Write-down/(reversal) of inventories to net realisable value		**3,168**	(7)
Auditors' remuneration		**1,390**	1,180
Minimum lease payments under operating leases		**2,423**	900
Employee benefit expense (including directors' remuneration (note 8)):			
Wages and salaries		**50,573**	30,135
Pension scheme contributions		**1,625**	1,114
Staff welfare expenses		**2,188**	1,905
Equity-settled Share Award Plan expense		**350**	–
		54,736	33,154

* The amortisation of technology use rights for the year is included in "Cost of sales" in the consolidated income statement.

NOTES TO FINANCIAL STATEMENTS
31 December 2011

8. DIRECTORS' REMUNERATION

	2011 RMB'000	2010 RMB'000
Fees	**362**	102
Other emoluments:		
Salaries, allowances and benefits in kind	**2,916**	1,740
Performance related bonus*	**20,188**	7,576
Equity-settled Share Award Plan expense	**64**	–
Pension scheme contributions	**35**	19
	23,203	9,335
	23,565	9,437

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

During the year, certain directors were awarded shares, in respect of their services to the Group, under the Share Award Plan of the Company, further details of which are set out in note 28 to the financial statements. The fair value of these shares, which has been recognised in the income statement over the vesting period, was determined as at the date of award, and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2011 RMB'000	2010 RMB'000
Wang Wanxu	**100**	34
Shen Kaijun	**100**	34
Mui Ho Cheung, Gary	**125**	–
Li Zhihong	**37**	34
	362	102

There were no other emoluments payable to the independent non-executive directors during the year (2010: Nil).

8. DIRECTORS' REMUNERATION (CONTINUED)

(b) Executive directors

	Salaries, allowances and benefits in kind RMB'000	Performance related bonus RMB'000	Equity-settled share award plan expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2011					
Guan Jianzhong	**1,011**	**14,124**	**–**	**–**	**15,135**
Han Jianhong	**990**	**6,064**	**–**	**12**	**7,066**
Niu Yingshan	**470**	**–**	**37**	**12**	**519**
Han Jianping	**445**	**–**	**27**	**11**	**483**
	2,916	**20,188**	**64**	**35**	**23,203**
2010					
Guan Jianzhong	562	5,578	–	5	6,145
Han Jianhong	558	1,998	–	5	2,561
Niu Yingshan	411	–	–	3	414
Han Jianping	209	–	–	6	215
	1,740	7,576	–	19	9,335

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

NOTES TO FINANCIAL STATEMENTS

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees included four directors (2010: three), details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining one (2010: two) non-director, highest paid employees for the year are as follows:

	2011 RMB'000	2010 RMB'000
Salaries, allowances and benefits in kind	860	804
Equity-settled Share Award Plan expense	18	–
Pension scheme contributions	15	–
	893	804

The remuneration of the non-director, highest paid employees fell within the range of nil to RMB1,000,000.

During the year, shares were awarded to a non-director, highest paid employees in respect of his services to the Group, further details of which are included in the disclosures in note 28 to the financial statements. The fair value of these shares, which has been recognised in the income statement over the vesting period, was determined as at the date of award and the amount included in the financial statements for the current year is included in the above non-director, highest paid employees' remuneration disclosures.

10. INCOME TAX EXPENSE

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

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

	2011 RMB'000	2010 RMB'000
Current – Mainland China		
Charge for the year	45,174	51,592
Deferred (note 26)	13,195	671
Total tax charge for the year	58,369	52,263

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

Pursuant to the relevant tax law of the Hong Kong Special Administrative Region, Hong Kong profits tax has been provided at the rate of 16.5% (2010: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. No provision for income tax has been made as the Group did not generate any assessable profits in Hong Kong during the year (2010: Nil).

10. INCOME TAX EXPENSE (CONTINUED)

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

Sanjiang Chemical was registered as a foreign-invested enterprise on 9 December 2003. Sanjiang Chemical was subject to CIT at a rate of 25% for the years ended 31 December 2011 and 2010. Pursuant to the approval of the tax bureau, Sanjiang Chemical has been qualified as a high-new technology company since 2010, which may enjoy a favourable CIT tax rate of 15% from year 2010 to year 2012. Therefore, Sanjiang Chemical was subject to CIT at a rate of 15% for the year ended 31 December 2011 (2010: 12.5%).

Yongming Petrochemical was registered as a foreign-invested enterprise on 9 December 2003 and subject to CIT at a rate of 25% for the years ended 31 December 2011 and 2010. Pursuant to the approval of the tax bureau, Yongming Petrochemical was exempted from CIT for its first two profit-making years (after deducting losses incurred in previous years) and was entitled to a 50% tax reduction for the succeeding three years. In accordance with the Corporate Income Tax Law, the tax concession would be deemed to commence from 1 January 2008 even if the company did not have taxable profits at that time. Although Yongming Petrochemical was in an accumulative loss position as at 1 January 2008, its tax concession was deemed to have started in 2008. Therefore, Yongming Petrochemical was subject to CIT at a rate of 12.5% for the year ended 31 December 2011 (2010: 12.5%).

Guanlang was registered as a domestic-invested enterprise on 29 September 2005 and was subject to CIT at a rate of 25% for the year ended 31 December 2011 (2010: 25%).

Sanjiang Trading was registered as a domestic-invested enterprise on 29 October 2004 and was subject to CIT at a rate of 25% for the year ended 31 December 2011 (2010: 25%).

Hangzhou Sanjiang was registered as a domestic-invested enterprise on 1 April 2010 and was subject to CIT at a rate of 25% for the year ended 31 December 2011 (2010: 25%).

Sanjiang New Material was registered as a foreign-invested enterprise on 23 December 2011 and was subject to CIT at a rate of 25% for the year ended 31 December 2011.

NOTES TO FINANCIAL STATEMENTS
31 December 2011

10. INCOME TAX EXPENSE (CONTINUED)

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

	2011 RMB'000	2010 RMB'000
Profit before tax	463,554	318,574
Tax at the statutory tax rate	115,889	79,644
Tax effect of tax concession and allowances	(51,197)	(37,169)
Tax losses not recognised	585	910
Expenses not deductible for tax	236	734
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries (note 26)	13,626	8,088
Tax credit in respect of purchases of property, plant and equipment from domestic vendors*	(21,107)	–
Losses attributable to a jointly-controlled entity	1,014	83
Tax losses utilised from previous years	(677)	(27)
Tax charge at the Group's effective rate	58,369	52,263

* The amount represents a tax credit in respect of the purchase of certain manufacturing plant, machinery and equipment made in Mainland China. The tax credit is calculated at 40% of the purchase consideration of such manufacturing plant, machinery and equipment and the tax credit was fully recognised in 2011 upon approval of the Jiaxing City local tax bureau.

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2011 includes a loss of RMB63,644,000 (2010: RMB34,333,000) which has been dealt with in the financial statements of the Company (note 29(b)).

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares in issue during the year.

The calculation of diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares under the Share Award Plan.

The calculations of basic and diluted earnings per share are based on:

	2011	2010
	RMB'000	RMB'000
Earnings		
Profit for the year attributable to ordinary equity holders of the parent	**404,769**	266,126

	Number of shares	
	2011	2010
	'000	'000
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,018,377**	764,317
Effect of dilution – weighted average number of ordinary shares under the Share Award Plan	**266**	–
	1,018,643	764,317

NOTES TO FINANCIAL STATEMENTS
31 December 2011

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2011						
At 1 January 2011:						
Cost	202,889	847,243	3,443	10,750	227,558	1,291,883
Accumulated depreciation	(38,692)	(192,279)	(2,103)	(7,697)	–	(240,771)
Net carrying amount	164,197	654,964	1,340	3,053	227,558	1,051,112
At 1 January 2011:						
Net of accumulated depreciation	164,197	654,964	1,340	3,053	227,558	1,051,112
Additions	–	27,243	2,377	–	112,494	142,114
Disposal	–	–	–	(8)	–	(8)
Depreciation provided during the year	(11,250)	(75,354)	(453)	(1,069)	–	(88,126)
Transfers	64,893	272,247	–		(337,140)	–
At 31 December 2011:						
Net of accumulated depreciation	217,840	879,100	3,264	1,976	2,912	1,105,092
At 31 December 2011:						
Cost	267,782	1,109,102	5,581	6,798	2,912	1,392,175
Accumulated depreciation	(49,942)	(230,002)	(2,317)	(4,822)	–	(287,083)
Net carrying amount	217,840	879,100	3,264	1,976	2,912	1,105,092

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group

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

As at 31 December 2011, none of the Group's buildings, plant and machinery (31 December 2010: Nil) were pledged to secure bank loan facilities granted to the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

14. PREPAID LAND LEASE PAYMENTS

Group

	2011 RMB'000	2010 RMB'000
Carrying amount at beginning of year	**46,485**	49,679
Deemed distribution to equity holders	**–**	(2,154)
Recognised during the year	**(1,038)**	(1,040)
Carrying amount at end of year	**45,447**	46,485
Current portion included in prepayments, deposits and other receivables	**(1,038)**	(1,018)
Non-current portion	**44,409**	45,467

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

As at 31 December 2011, none of the Group's leasehold land (31 December 2010: Nil) was pledged to secure bank loan facilities granted to the Group.

15. INTANGIBLE ASSETS

Group

	Software RMB'000	Technology use rights RMB'000	Others RMB'000	Total RMB'000
31 December 2011				
Cost at 1 January 2011, net of accumulated amortisation	29	15,493	1,817	17,339
Additions	43	13,470	–	13,513
Amortisation provided during the year	(14)	(3,761)	(107)	(3,882)
At 31 December 2011	58	25,202	1,710	26,970
At 31 December 2011:				
Cost	191	42,322	2,116	44,629
Accumulated amortisation	(133)	(17,120)	(406)	(17,659)
Net carrying amount	58	25,202	1,710	26,970

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

NOTES TO FINANCIAL STATEMENTS
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16. INVESTMENTS IN SUBSIDIARIES

Company

	2011 RMB'000	2010 RMB'000
Unlisted investments, at cost	426,588	426,588

Particulars of the principal subsidiaries are as follows:

Name	Place and date of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered paid-up capital	Percentage of equity interest attributable to the Group	Principal activities
Capitol International Limited ("Capitol International")	Hong Kong 18 July 2003	HK$1,000,000	100% (direct)	Investment holding
Sanjiang Chemical (note (i))	Mainland China 9 December 2003	US$64,950,000	100% (indirect)	Manufacture and sale of EO, surfactants, ethylene glycol, polymer grade ethylene, industrial gases and provision of surfactant processing services
Yongming Petrochemical (note (iii))	Mainland China 9 December 2003	US$104,500,000	100% (indirect)	Manufacture and sale of EO, surfactants, ethylene glycol, polymer grade ethylene, industrial gases and provision of surfactant processing services
Guanlang (note (ii))	Mainland China 29 September 2005	RMB13,000,000	83.85% (indirect)	Construction and management of a pipe network at Jiaxing Port Chemical Industrial Park
Sanjiang Trading (note (ii))	Mainland China 29 October 2004	RMB5,000,000	100% (indirect)	Trading of ethylene, EO and other chemical products
Hangzhou Sanjiang (note (ii))	Mainland China 1 April 2010	RMB5,000,000	100% (indirect)	Manufacture and sale of alcohol ethoxylate, nonylphenols, and textile auxiliaries
Sanjiang New Material (note (ii))	Mainland China 23 December 2011	US$50,000,000	100% (indirect)	Manufacture and sale of water reducing auxiliaries

Notes:

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

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

17. INVESTMENT IN A JOINTLY-CONTROLLED ENTITY

	2011 RMB'000	2010 RMB'000
Share of net assets	92,105	29,103

Particulars of the jointly-controlled entity are as follows:

Name	Place and date of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered paid-up capital	Percentage of equity interest attributable to the Group	Principal activities
Sanjiang Honam Petrochemical Company Limited ("**Sanjiang Honam**")	PRC 11 May 2010	US$44,000,000	50%	Manufacture of EO

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

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

	2011 RMB'000	2010 RMB'000
Share of the jointly-controlled entity's assets and liabilities:		
Current assets	77,469	24,253
Non-current assets	39,761	4,850
Current liabilities	(1,052)	–
Non-current liabilities	(24,073)	–
Net assets	92,105	29,103
Share of the jointly-controlled entity's results:		
Total expenses	(4,057)	(330)
Tax	–	–
Loss after tax	(4,057)	(330)

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18. AVAILABLE-FOR-SALE INVESTMENTS

Group

	2011 RMB'000	2010 RMB'000
Non-current		
Available-for-sale investments, at fair value	–	50,000
Current		
Available-for-sale investments, at fair value	478,263	–

The Group has investments in bank and trust financial products. The fair value of the available-for-sale investments is measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

19. INVENTORIES

	2011 RMB'000	2010 RMB'000
Raw materials	213,718	100,436
Finished goods	8,617	3,516
	222,335	103,952

20. TRADE AND NOTES RECEIVABLES

	2011 RMB'000	2010 RMB'000
Trade receivables	15,463	13,023
Notes receivable	187,672	22,639
	203,135	35,662
Less: Impairment	–	–
	203,135	35,662

The credit period is generally 15 to 30 days, extending up to three months for certain customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

The maturity date of notes receivable is within six months. As at 31 December 2010, notes receivable amounting to RMB21,000,000 were discounted but not derecognised, and the proceeds received were accounted for as short-term loans (note 25). No such situation existed as at 31 December 2011.

20. TRADE AND NOTES RECEIVABLES (CONTINUED)

The movements in provision for impairment of trade receivables are as follows:

	2011 RMB'000	2010 RMB'000
At beginning of year	–	266
Amount written off as uncollectible	–	(266)
At end of year	–	–

As at 31 December 2011, the provision for individually impaired trade receivables was nil (31 December 2010: Nil).

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

	2011 RMB'000	2010 RMB'000
1 to 30 days	107,015	33,111
31 to 60 days	52,698	342
61 to 90 days	7,132	86
91 to 360 days	36,203	1,511
Over 360 days	87	612
	203,135	35,662

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

	2011 RMB'000	2010 RMB'000
Neither past due nor impaired	195,336	33,792
Less than 30 days past due	6,050	292
31 to 60 days past due	330	86
61 to 90 days past due	600	636
91 to 360 days past due	732	558
Over 360 days past due	87	298
	203,135	35,662

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

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

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21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Group

	2011 RMB'000	2010 RMB'000
Other receivables	**21,625**	19,122
Prepayments	**18,812**	13,026
Prepaid land lease payments (note 14)	**1,038**	1,018
	41,475	33,166
Less: Impairment	**(181)**	(181)
	41,294	32,985

The impairment provision is for prepayments to suppliers from whom the purchased materials were not received. Except for the impairment of prepayments mentioned above, none of the above assets is either past due or impaired.

The financial assets included in the above balances are non-interest bearing, unsecured and repayable on demand and relate to receivables for which there was no recent history of default.

Company

	2011 RMB'000	2010 RMB'000
Other receivables	**6,396**	7,194

None of the above assets is either past due or impaired. The financial assets included in the above balances are non-interest bearing, unsecured and repayable on demand and relate to receivables for which there was no recent history of default.

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

Group

	2011 RMB'000	2010 RMB'000
At beginning of year	**181**	797
Amount written off as uncollectible	**–**	(616)
At end of year	**181**	181

22. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

Group

	2011 RMB'000	2010 RMB'000
Cash and bank balances	272,869	601,249
Time deposits	1,001,640	492,910
	1,274,509	1,094,159
Less: Pledged time deposits:		
Pledged for letter of credit	3,350	–
Pledged for bank loans (Note 25)	998,290	492,910
Cash and cash equivalents	272,869	601,249

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to RMB217,758,000 (2010: RMB273,385,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

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23. TRADE PAYABLES

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

Group

	2011 RMB'000	2010 RMB'000
Within 3 months	329,740	193,976
3 to 6 months	3,907	7,535
6 to 12 months	257	137
12 to 24 months	788	380
24 to 36 months	247	20
Over 36 months	391	385
	335,330	202,433

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

24. OTHER PAYABLES AND ACCRUALS

Group

	2011 RMB'000	2010 RMB'000
Other payables	58,790	56,648
Advances from customers	45,497	36,965
Taxes payable other than income tax	14,367	19,956
Payroll payable	6,263	6,564
Other accrued liabilities	793	11,917
	125,710	132,050

Other payables are non-interest-bearing and are normally settled on a term of three months.

25. INTEREST-BEARING BANK BORROWINGS

	Effective Interest rate (%)	Maturity	2011 RMB'000	2010 RMB'000
Current				
Bank loans – secured*	2.988-5.076	Within 1 year	**1,050,021**	–
	1.101-4.253	Within 1 year	**–**	618,182
Bank loans – unsecured	3.393-4.627	Within 1 year	**385,808**	–
	1.876-5.598	Within 1 year	**–**	106,218
Discounted bank accepted bills**	3.641-4.430		**–**	21,000
			1,435,829	745,400
Non-current				
Bank loans – secured*	5.598	2012.12.20-2014.12.20	**–**	48,360
			1,435,829	793,760
Repayable:				
Within one year or on demand			**1,435,829**	745,400
In the second year			**–**	28,360
In the third to fifth years, inclusive			**–**	20,000
			1,435,829	793,760

* Certain of the Group's bank borrowings are secured by the pledge of certain of the Group's time deposits amounting to RMB998,290,000 as at 31 December 2011 (2010: RMB492,910,000).

** As at 31 December 2010, notes receivable amounting to RMB21,000,000 were discounted but not derecognised, and the proceeds received were accounted for as short-term loans. No such situation existed as at 31 December 2011.

26. DEFERRED TAX

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

Deferred tax liabilities

	Available-for-sale investment revaluation RMB'000	Withholding tax on distributable profits RMB'000	Total RMB'000
At 1 January 2010	–	32,822	32,822
Deferred tax charged to the income statement during the year (Note 10)	–	8,088	8,088
Deferred tax realised during the year	–	(7,999)	(7,999)
At 31 December 2010 and 1 January 2011	–	32,911	32,911
Deferred tax charged to the income statement during the year (Note 10)	–	13,626	13,626
Deferred tax charged to other comprehensive income during the year	516	–	516
At 31 December 2011	516	46,537	47,053

Deferred tax assets

	Impairment of assets RMB'000	Pre-operating expense RMB'000	Unrealised profit attributable to intra-group transactions RMB'000	Total RMB'000
At 1 January 2010	45	579	3	627
Deferred tax charged to the income statement during the year (Note 10)	–	(579)	(3)	(582)
At 31 December 2010 and 1 January 2011	45	–	–	45
Deferred tax credited to the income statement during the year (Note 10)	431	–	–	431
At 31 December 2011	476	–	–	476

26. DEFERRED TAX (CONTINUED)

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

Deferred tax liabilities are recognised based on 30% of the accumulated distributable earnings of the subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries established in Mainland China will distribute the remaining 70% of such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised was approximately RMB506,639,000 as at 31 December 2011 (2010: RMB188,712,000).

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

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

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

	2011 **RMB'000**	2010 RMB'000
Tax losses of Capitol International	**502**	4,038
Tax losses of Hangzhou Sanjiang	**2,942**	601
Tax losses of Sanjiang Trading	**–**	374
	3,444	5,013

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

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27. SHARE CAPITAL

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

	Notes	Number of shares	Amount RMB'000
Authorised ordinary shares of HK$0.1 each:			
At 31 December 2010 and 31 December 2011		5,000,000,000	432,465
Issued and fully paid ordinary shares of HK$0.1 each:			
At 1 January 2010		132,000	901
Issue of shares on 6 May 2010	(i)	4,470	31
Issue of shares on 15 September 2010	(ii)	18,000	121
Capitalisation issue of shares	(iii)	756,748,530	64,416
New issue of shares from initial public offering	(iv)	265,400,000	22,950
At 31 December 2010 and 1 January 2011		1,022,303,000	88,419
Repurchase and cancellation of ordinary shares	(v)	(13,648,000)	(1,111)
At 31 December 2011		1,008,655,000	87,308

Notes:

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

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

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

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

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

27. SHARE CAPITAL (CONTINUED)

Notes: (continued)

(v) 13,648,000 of ordinary shares were repurchased and cancelled during the year ended 31 December 2011, and the issued share capital of the Company was accordingly reduced by the par value of the repurchased and cancelled ordinary shares. The premium and related expenses paid on the repurchase of the 13,648,000 of ordinary shares, of HK$27,840,000 (equivalent to approximately RMB22,670,000) were charged to the share premium account. An amount equivalent to the par value of the ordinary shares cancelled was transferred to the capital redemption reserve as set out in the consolidated statement of changes in equity. Details of the repurchases are summarised as follows:

Month of repurchased	Number of ordinary shares repurchases	Price per ordinary share Highest repurchased	Lowest repurchased	Aggregate consideration paid
		HK$	HK$	HK$'000
September 2011	401,000	2.09	2.05	833
October 2011	9,162,000	2.30	1.89	19,180
December 2011	4,085,000	2.25	2.25	9,191
	13,648,000			29,204

The repurchase and cancellation of ordinary shares were effected by the directors with a view to benefiting the shareholders as a whole by enhancing the Company's net assets and earnings per share.

28. SHARE AWARD PLAN

The Company adopted a Share Award Plan on 31 March 2011 (the "Share Award Plan"). The purpose of the Share Award Plan is to recognise and reward the contribution of certain eligible employees for the growth and development of the Group and to give incentives thereto in order to retain them for the continual growth and development of the Group; and to attract suitable personnel for further development of the Group. The eligible employees include any employee (whether full time or part time, including any executive director) of the Company, any subsidiary or any invested entity.

The Share Award Plan will be valid and effective for a term of 50 years commencing on the date on which the Share Award Plan was adopted.

Under the rules of the Share Award Plan (the "Plan Rules"), the Share Award Plan will be subject to the administration of the board of directors of the Company (the "Board", or the Plan Administrator, who is authorised by the Board to render supports in all aspects to the Board in connection with the implementation of the Share Award Plan) whose decisions on all matters arising in relation to the Share Award Plan or its interpretation or effect shall be final, conclusive and binding on all persons who may be affected thereby.

The Group has appointed a trustee (the "Trustee") for the purposes of administering the Share Award Plan. The Trustee will be notified by the directors in writing upon making an award to an eligible employee under the Share Award Plan. Upon the receipt of such notice, the Trustee will set aside the appropriate number of awarded shares out of a pool of shares comprising the following:

(A) such shares as may be (i) transferred to the Trustee from any person (other than the Group) by way of gift, or (ii) purchased by the Trustee on the Stock Exchange by utilising the funds received by the Trustee from any person (other than the Group) by way of gift;

(B) such shares as may be purchased by the Trustee on the Stock Exchange by utilising the funds allocated by the Board out of the Company's resources;

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28. SHARE AWARD PLAN (CONTINUED)

(C) such shares as may be subscribed for at par value by the Trustee by utilising the funds allocated by the Board out of the Company's resources; and

(D) such shares which remain unvested and revert to the Trustee.

The legal and beneficial ownership of the relevant awarded shares shall vest in the relevant selected employee within 10 business days after the latest of: (a) the earliest vesting date as specified in the award notice to which such award relates; and (b) where applicable, the date on which the condition(s) or performance target(s) (if any) to be attained by such selected employee as specified in the related award notice have been attained and notified to the Trustee by the Board in writing.

Under the Plan Rules, the employees of the Group shall not have any right to receive any shares awarded to them under the Share Award Plan and all other interest attributable thereto unless and until the Trustee has transferred the legal and beneficial ownership of such awarded shares to them and the legal and beneficial ownership of those awarded shares vested in them. When the participant ceased to be the Group's employee, the unvested shares would be retained by the Trustee.

The fair value of services received in return for shares granted is measured by reference to the fair value of shares granted. The fair value of the shares granted is measured at the grant date at the market value of the shares, adjusted for the exclusion of expected dividends to be received in the next 5 years.

Pursuant to share award notices issued on 7 June 2011 to those selected employees, an aggregate of 1,912,000 shares (the "2011 Awarded Shares") of the Company of HK$0.01 each were granted at nil consideration and the earliest vesting date of the 2011 Awarded Shares is 1 April 2016. There is no other performance target required except the eligible participant remained as an employee of the Group.

During the year, net Share Award Plan expense of HK$418,000 (equivalent to approximately RMB350,000) was charged to the income statement, of which HK$76,000 (equivalent to approximately RMB64,000) was included in the directors' remuneration.

The directors of the Company believe that the estimated fair values of the 2011 Awarded Shares resulting are reasonable and the fair values are appropriate at the end of the reporting period.

29. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 33 of the financial statements.

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

29. RESERVES (CONTINUED)

(b) Company

	Share premium RMB'000	Capital redemption reserve RMB'000	Shares held for share award plan RMB'000	Share award plan reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2010	493,934	–	–	–	–	493,934
Total comprehensive income for the year	–	–	–	–	(34,333)	(34,333)
Issue of share capital for the year pursuant to the Group Reorgnisation and for cash	134,379	–	–	–	–	134,379
Issue of share capital for initial public offering	752,767	–	–	–	–	752,767
Share issue expenses	(46,071)	–	–	–	–	(46,071)
Capitalisation of share premium	(64,416)	–	–	–	–	(64,416)
Proposed final 2010 dividend	(81,852)	–	–	–	–	(81,852)
At 31 December 2010	1,188,741	–	–	–	(34,333)	1,154,408
Total comprehensive income for the year	–	–	–	–	(63,644)	(63,644)
Shares awarded under the Share Award Plan	–	–	(4,808)	–	–	(4,808)
Equity-settled Share Award Plan expense	–	–	–	350	–	350
Repurchase and cancellation of ordinary shares	(22,670)	1,111	–	–	(1,111)	(22,670)
Interim 2011 dividend	(46,169)	–	–	–	–	(46,169)
Proposed final 2011 dividend	(77,705)	–	–	–	–	(77,705)
At 31 December 2011	1,042,197	1,111	(4,808)	350	(99,088)	939,762

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30. DIVIDENDS

	2011 RMB'000	2010 RMB'000
Interim – HK$5.5 cents per ordinary share (2010: Nil)	46,169	–
Proposed final – HK$9.5 cents per ordinary share (2010: HK$9.5 cents)	77,705	81,852
	123,874	81,852

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

31. PLEDGE OF ASSETS

Details of the Group's bank borrowings, which are secured by the assets of the Group, are included in note 22 to these financial statements.

32. OPERATING LEASES

As lessee

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

	2011 RMB'000	2010 RMB'000
Operating lease commitments:		
Within one year	2,506	3,360
In the second to third years, inclusive	3,739	2,400
In the fourth to fifth years, inclusive	2,400	2,400
After five years	1,600	2,500
	10,245	10,660

33. COMMITMENTS

In addition to the operating lease commitments detailed in note 32 above, the Group had the following capital commitments at the end of the reporting period:

	2011 RMB'000	2010 RMB'000
Contracted, but not provided for:		
Plant and machinery	62,373	103,499
Capital contributions to a jointly-controlled entity	45,997	10,596
	108,370	114,095

34. RELATED PARTY TRANSACTIONS

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

Name	Relationship with the Company
Guan Jianzhong	Ultimate controlling shareholder
Han Jianhong	Ultimate controlling shareholder
Hangzhou Haoming	Fellow subsidiary
Jiaxing Xinggang Rewang Co., Ltd. ("Jiaxing Rewang")	Associate of a fellow subsidiary
Zhejiang Jiahua Energy Chemical Co., Ltd. ("Jiahua Energy")*	Fellow subsidiary

* Zhejiang Jiahua Energy Chemical Co., Ltd. was formerly known as Jiahua Industrial Park Co., Ltd.

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

Group

	Notes	2011 RMB'000	2010 RMB'000
Purchases of raw materials from:			
Jiahua Energy	(i)	**89,501**	47,790
Jiaxing Rewang	(i)	**6,324**	4,085
		95,825	51,875
Rental income from:			
Sanjiang Homan	(ii)	**3,137**	–
Jiaxing Rewang	(ii)	**746**	746
		3,883	746
Rental expense to:			
Hangzhou Haoming	(ii)	**1,200**	900
Management service income from:			
Sanjiang Honam	(iii)	**516**	–
Training service income from:			
Sanjiang Honam	(iv)	**2,220**	–

Note:

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

(ii) The transactions were conducted at prevailing market rates mutually agreed between the relevant parties.

(iii) Management service income arose from the services on project management, administration management and finance management provided to the jointly controlled entity arranged by a subsidiary, which in return received a management service income based on actual cost incurred.

(iv) Training service income arose from the training service provided to the jointly controlled entity arranged by a subsidiary, which in return received a training service income based on actual cost incurred.

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34. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Outstanding balances with related parties:

Group

	2011 RMB'000	2010 RMB'000
Due from a related party:		
Sanjiang Honam	2,220	–
Due to related parties:		
Sanjiang Honam	992	–
Jiaxing Rewang	962	738
Jiahua Energy	–	4,480
	1,954	5,218

Company

	2011 RMB'000	2010 RMB'000
Due from a subsidiary:		
Capitol International	675,465	572,561

The balances with related parties are non-interest-bearing, unsecured and repayable on demand.

(c) Outstanding balances with directors:

Group

	2011 RMB'000	2010 RMB'000
Due to directors		
Executive directors:		
Guan Jianzhong	2,836	5,735
Han Jianhong	1,216	2,026
	4,052	7,761
Non-executive directors:		
Wang Wanxu	–	34
Shen Kaijun	–	34
Li Zhihong	–	34
	4,052	7,863

34. RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Outstanding balances with directors: (continued)

Company

	2011 RMB'000	2010 RMB'000
Due to directors		
Executive directors:		
Guan Jianzhong	2,836	5,655
Han Jianhong	1,216	2,026
	4,052	7,681
Non-executive directors:		
Wang Wanxu	–	34
Shen Kaijun	–	34
Li Zhihong	–	34
	4,052	7,783

The balances with directors were non-trade in nature, unsecured, interest-free and repayable on demand.

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

	2011 RMB'000	2010 RMB'000
Short term employee benefits	24,974	11,291
Pension scheme contributions	84	40
Equity-settled Share Award Plan expense	350	–
Total compensation paid to key management personnel	25,408	11,331

Further details of directors' remuneration are included in note 8 to these financial statements.

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35. FINANCIAL INSTRUMENTS BY CATEGORY

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

Group

Financial assets

	2011		
	Loans and receivables RMB'000	**Available-for-sale financial assets RMB'000**	**Total RMB'000**
Available-for-sale investments	–	478,263	478,263
Trade and notes receivables	203,135	–	203,135
Financial assets included in prepayments, deposits and other receivables	21,625	–	21,625
Due from related parties	2,220	–	2,220
Pledged deposits	1,001,640	–	1,001,640
Cash and cash equivalents	272,869	–	272,869
	1,501,489	478,263	1,979,752

	2010		
	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Available-for-sale investments	–	50,000	50,000
Trade and notes receivables	35,662	–	35,662
Financial assets included in prepayments, deposits and other receivables	19,122	–	19,122
Pledged deposits	492,910	–	492,910
Cash and cash equivalents	601,249	–	601,249
	1,148,943	50,000	1,198,943

35. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

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

Group

Financial liabilities

	2011 Financial liabilities at amortised cost RMB'000	2010 Financial liabilities at amortised cost RMB'000
Trade payables	335,330	202,433
Financial liabilities included in other payables and accruals	73,157	76,604
Interest-bearing bank borrowings	1,435,829	793,760
Due to directors	4,052	7,863
Due to related parties	1,954	5,218
	1,850,322	1,085,878

Company

Financial assets

	2011 Loans and receivables RMB'000	2010 Loans and receivables RMB'000
Financial assets included in prepayments, deposits and other receivables	6,396	7,194
Due from a subsidiary	675,465	572,561
Cash and cash equivalents	378	326,119
	682,239	905,874

Financial liabilities

	2011 Financial liabilities at amortised cost RMB'000	2010 Financial liabilities at amortised cost RMB'000
Due to directors	4,052	7,783
	4,052	7,783

36. FAIR VALUE AND FAIR VALUE HIERARCHY

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

Assets measured at fair value:
Group

	As at 31 December 2011			
	Level 1 RMB'000	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
Available-for-sale investments	**–**	**478,263**	**–**	**478,263**

	As at 31 December 2010			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Available-for-sale investments	–	50,000	–	50,000

The Company did not have any financial assets measured at fair value.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2010: nil).

The Group did not have any financial liabilities measured at fair value as at 31 December 2011 and 2010.

Financial instruments whose carrying amounts approximate fair values
Management has determined that the carrying amounts of cash and cash equivalents, pledged deposits, trade and notes receivables, deposits and other receivables, due from related parties, trade payables, other payables, due to directors, due to related parties and interest-bearing borrowings, reasonably approximate to their fair values because these financial instruments are either short term in nature or are repriced frequently.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank borrowings. Some of these interest-bearing bank borrowings were obtained at floating interest rates, which have exposed the Group to fair value interest rate risk. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The interest rates and terms of repayment of borrowings are disclosed in note 25 above.

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

Group

	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax** RMB'000
2011		
RMB	**50**	**–**
RMB	**(50)**	**–**
2010		
RMB	50	(20)
RMB	(50)	20

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31 December 2011

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. Approximately 52% (2010: 53%) of the Group's purchases for the year ended 31 December 2011 are denominated in currencies other than the functional currencies of the operating units making the purchase, whilst almost 100% of sales for the year are denominated in the respective operating units' functional currencies. At present, the Group does not intend to seek to hedge its exposure to foreign exchange fluctuations. However, management constantly monitors the economic situation and the Group's foreign exchange risk profile and will consider appropriate hedging measures in the future should the need arise.

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

Group

	Increase/ (decrease) in foreign currency rate	**Increase/ (decrease) in profit before tax** RMB'000
2011		
If RMB weakens against United States dollar	**5**	**(73,610)**
If RMB strengthens against United States dollar	**(5)**	**73,610**
2010		
If RMB weakens against United States dollar	5	(11,251)
If RMB strengthens against United States dollar	(5)	11,251

Credit risk

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

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

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty. At 31 December 2011, the Group had certain concentrations of credit risk as 14% (31 December 2010: 21%) and 38% (31 December 2010: 45%) of the Group's trade receivables were due from the Group's largest customer and the five largest customers, respectively.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (Continued)

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and notes receivables and prepayments, deposits and other receivables are disclosed in note 20 and note 21, respectively, to the financial statements.

Liquidity risk

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

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

Group

	31 December 2011					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade payables	203,558	126,474	3,920	1,378	–	335,330
Other payables	–	26,125	41,153	5,879	–	73,157
Interest-bearing bank borrowings	–	991,527	462,432	–	–	1,453,959
Due to related parties	1,954	–	–	–	–	1,954
Due to directors	4,052	–	–	–	–	4,052
	209,564	1,144,126	507,505	7,257	–	1,868,452

	31 December 2010					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade payables	8,457	193,976	–	–	–	202,433
Other payables	–	31,285	39,654	5,665	–	76,604
Interest-bearing bank borrowings	–	350,377	404,552	52,954	–	807,883
Due to related parties	5,218	–	–	–	–	5,218
Due to directors	7,863	–	–	–	–	7,863
	21,538	575,638	444,206	58,619	–	1,100,001

NOTES TO FINANCIAL STATEMENTS

31 December 2011

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (Continued)

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

Company

	31 December 2011					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Due to directors	4,052	–	–	–	–	4,052
	4,052	–	–	–	–	4,052

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

Capital management

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

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

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital management (Continued)

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

	2011 RMB'000	2010 RMB'000
Trade payables	335,330	202,433
Other payables and accruals	125,710	132,050
Interest-bearing bank borrowings	1,435,829	793,760
Due to directors	4,052	7,863
Due to related parties	1,954	5,218
Less: Cash and cash equivalents	(272,869)	(601,249)
Pledged deposits	(1,001,640)	(492,910)
Net debt	628,366	47,165
Equity attributable to owners of the parent	1,584,759	1,332,775
Capital and net debt	2,213,125	1,379,940
Gearing ratio	28%	3%

38. EVENTS AFTER THE REPORTING PERIOD

(a) On 4 January 2012, Sanjiang Chemical, a wholly-owned subsidiary of the Group, entered into two Trust Agreements with China Zheshang Bank Company Limited ("CZSB") and two Entrusted Loan Agreements with CZSB and Xinhu Zhongbao Co., Limited ("Xinhu Zhongbao").

Pursuant to the Trust Agreements, Sanjiang Chemical entrusted total amount of RMB150,000,000 (the "Fund") to CZSB and which would arrange for the advancement of the Fund to entities as approved by Sanjiang Chemical. As arranged by CZSB, Sanjiang Chemical advanced the Fund of RMB150,000,000 to Xinhu Zhongbao as a short term loan pursuant to the Entrusted Loan Agreements. The short term loans are secured by the pledge of two land use rights, one with a site area of approximately 42,646.60 square meters located in Tongxiang City, Zhejiang Province, the PRC, owned by one of the subsidiaries of Xinhu Zhongbao and the other with a site area of approximately 20,199.00 square meters located in Wujiang City, Jiangsu Province, the PRC, owned by one of the subsidiaries of Xinhu Zhongbao.

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31 December 2011

38. EVENTS AFTER THE REPORTING PERIOD (CONTINUED)

(b) In January 2012, the Company repurchased certain of its own shares on the Stock Exchange.

These repurchased shares Shares were cancelled upon repurchase and, accordingly, the issued share capital of the Company was reduced by the par value of these shares. The premium and related expenses paid on the repurchase were charged to the share premium account.

Month of repurchased	Number of ordinary shares repurchased	Price per ordinary share Highest repurchased	Lowest repurchased	Aggregate consideration paid
		HK$	HK$	HK$'000
January 2012	2,015,000	1.95	1.81	3,747

39. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform to the current year's presentation. Such reclassifications had no effect on the Group's net profit as previously reported.

40. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 12 March 2012.

FIVE YEAR FINANCIAL SUMMARY

	2011 RMB'000	2010 RMB'000	2009 RMB'000	2008 RMB'000	2007 RMB'000
REVENUE	**2,078,188**	1,582,526	1,285,533	952,847	876,774
Gross profit	**433,344**	360,164	356,321	224,502	209,431
Other income – Bank interest income	**32,461**	14,601	7,573	6,923	5,796
Other income – Foreign exchange gains	**45,557**	16,093	942	18,185	12,418
Finance costs	**32,438**	19,087	32,915	36,736	34,360
PROFIT BEFORE TAX	**463,554**	318,574	303,835	181,335	170,527
Income tax expense	**58,369**	52,263	43,673	19,500	839
Net profit for the year	**405,185**	266,311	260,162	161,835	169,688
Profits attributable to ordinary equity holders of the parent	**404,769**	266,126	242,075	139,081	147,358
NON-CURRENT ASSETS	**1,340,688**	1,270,284	1,020,083	1,034,690	856,225
CURRENT ASSETS	**2,221,756**	1,266,758	616,895	737,110	712,662
Interest-bearing bank borrowings	**1,435,829**	793,760	719,486	786,963	648,287
CURRENT LIABILITIES	**1,928,180**	1,120,960	1,280,458	1,280,449	1,267,245
NET CURRENT ASSETS/(LIABILITIES)	**293,576**	145,798	(663,563)	(543,339)	(554,583)
NON-CURRENT LIABILITIES	**47,053**	81,271	122,322	153,110	80,341
Net assets/Total equity	**1,587,211**	1,334,811	234,198	338,241	221,301
Cash inflow from operating activities	**309,800**	370,274	294,705	69,711	221,914
Cash (outflow) from investing activities	**(574,940)**	(322,366)	(18,875)	(223,093)	(311,601)
Cash inflow/(outflow) from financing activities	**(63,111)**	444,200	(232,932)	85,241	101,112

	RMB cents	RMB cents	RMB cents	RMB cents	RMB cents
Earnings per share – Basic	**39.75**	34.82	37.43	21.50	22.78
Earnings per share – Diluted	**39.74**	34.82	37.43	21.50	22.78
Net assets per share	**157.12**	130.37	36.21	52.29	34.21

	In %	In %	In %	In %	In %
Gross profit margin	**20.9**	22.8	27.7	23.6	23.9
Profit before tax margin	**22.3**	20.1	23.6	19.0	19.4
Net profit margin	**19.5**	16.8	20.2	17.0	19.4
Effective tax rate	**12.6**	16.4	14.4	10.8	0.5
ROE – net profit for the year to total equity	**25.5**	20.0	111.1	47.8	76.7
Gearing – total interest-bearing bank borrowings to total equity	**0.9x**	0.6x	3.1x	2.3x	2.9x

FIVE YEAR FINANCIAL SUMMARY

	2011	2010	2009	2008	2007
	In days	In days	In days	In days	In days
Inventory turnover days – Average opening and closing inventories divided by cost of sales x 365 days	**36.2**	25.6	28.4	43.1	42.3
Trade and notes receivables turnover days – Average opening and closing trade and note receivables divided by revenue x 365 days	**21.0**	8.6	12.0	19.6	20.7
Trade payables turnover days – Average opening and closing trade payables divided by cost of sales x 365 days	**59.7**	68.2	106.2	166.9	198.0

CORPORATE INFORMATION

DIRECTORS

Executive Directors

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

Independent non-executive Directors

WANG Wanxu
SHEN Kaijun
MUI Ho Cheung, Gary (appointed on 15 May 2011)
LI Zhihong (resigned on 15 May 2011)

SHARE LISTING

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

AUDITORS

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Hong Kong

LEGAL ADVISERS AS TO HONG KONG LAW

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1 Connaught Place, Hong Kong

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Grand Cayman KY1-1107
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COMPANY SECRETARY

Yip Ngai Hang, FCPA FCCA

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20 Pedder Street, Central, Hong Kong

Deutsche Bank AG
Hong Kong Branch
Level 52, International Commerce Centre
1 Austin Road West, Kowloon, Hong Kong

PRINCIPAL BANKERS IN THE PRC

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Pinghu Zhapu Branch
42 Tianfei Road, Zhapu District
Pinghu City, Zhejiang Province, PRC

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

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

China CITIC Bank
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