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 2012

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# 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 2012.

It has been two and a half years since 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 this is the 3rd annual report after the Listing. I am glad to report that, over the last two full-year operations since Listing, our Group has been growing at a rapid pace with an average increment of 37.7% on an annual basis in terms of net profit attributable to shareholders and, in the meantime, our Group has achieved an average increment of 45.8% on an annual basis in terms of designed annual production capacity of ethylene oxide ("**EO**"), our Group's dominant product, as at respective year ends. On this basis, I believe our management team has fulfilled and delivered what we originally committed to our shareholders at the time of our initial public offerings, in spite of challenging economic environment including but not limited to, credit tightening, moderation of economy growth momentum and volatility of global commodities' prices since 2011 in the People's Republic of China ("**PRC**").

Going forward, our management team will continue to pursue our established well-formulated strategies including but not limited to continuous expansion of our 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 focusing on vertical integration which enables us to secure the supply of ethylene, the core feedstock of EO, on a long term basis at a relatively reasonable and controllable material cost and, in turn, support our EO production capacity expansion plan.

**GUAN Jianzhong**
*Chairman*

Chairman's Statement

During the year under review, revenue of our Group improved by approximately 21.3% reaching approximately RMB2,521.4 million as compared to revenue of approximately RMB2,078.2 million for last year. The increase in revenue is primarily due to the increase in sale volume of EO (from own production facilities) by approximately 21.1% primarily due to the first full-year operation of the 3rd phase EO production facilities, the commencement of commercial operation of which was on 24 May 2011. Net profit attributable to shareholders was approximately RMB466.8 million and basic earnings per share was approximately RMB46.58 fens for the year ended 31 December 2012, representing increases of approximately 15.2% and 17.1% respectively as compared with last year.

The Board has recommended a final dividend of HK$18.0 cents per share, representing a total payout of approximately RMB144.8 million and a dividend payout ratio of approximately 31.0% on an annual basis for the year ended 31 December 2012. I would like to take this opportunity to emphasise that the Board will stick to the established dividend policy of making not less than 30% in terms of dividend payout ratio in the foreseeable future.

## BUSINESS REVIEW AND OUTLOOK

2012 is definitely a milestone for our Group as we made a number of strategic decisions and grew rapidly throughout the year. During the year, we initiated a vertical integration to build an upstream production facility to produce ethylene, the core feedstock of EO, through the acquisition of a connected limited liability company established in the PRC namely Xingxing New Energy. Furthermore, we have planned to shift the focus of our Group's future growth after 2014 to propylene derivative products from ethylene derivative products. We had a new ramp-up of production facilities for EO – the 1st phase EO production facilities (the "**1st phase EO production facilities of JV**") of Sanjiang Honam Chemical Co., Ltd.* (三江湖石化工有限公司) ("**Sanjiang Honam**"), a sino-foreign joint venture company which the Group established in 2010 on a 50:50 basis with Honam Petrochemical Corp ("**Honam**"), an independent third party, in October 2012. We had another new ramp-up of production facilities for EO – the 4th phase EO production facilities, in February 2013, which means that our aggregate designed annual production capacity of EO has achieved an increment of more than 80% as at the date of this report when comparing to our position a year earlier.

During the first half of 2012, we initiated the vertical integration for EO business for the purpose of securing the supply of ethylene on a long term basis at a relatively reasonable and controllable material cost and, in turn, supporting our EO production capacity expansion plan, through acquiring Xingxing New Energy, which controls the right to use MTO Technology i.e. Methanol-to-Olefin-based technology and related ancillary technologies. The MTO Technology enables us to build a MTO production facility to produce ethylene and propylene and we have commenced the construction of the production facility in October 2012 and expect the commercial operation will take place by the end of 2014. As at the date of this report, the Group holds 75% of the equity interest of Xingxing New Energy. We expect the major outputs of the MTO production facility on an annual basis will be approximately 300,000 MT for ethylene, approximately 400,000 MT for propylene, approximately 23,000 MT for C4 and approximately 26,000 MT for C5 while the major inputs during the production process on an annual basis will be the feedstock of approximately 1,800,000 MT for methanol and the processing costs including, among others, electricity expenses, nitrogen, steam costs and water expenses which are required approximately 175 kWh, 90 Nm3/h, 1.5 tone/h and 4 tone/h respectively for each MT of methanol processed.

In view of the enormous feedstock requirement of the MTO production facility (i.e. approximately 1,800,000 MT of methanol), we fully understand whether we can procure methanol in a supply-stable and cost-effective manner is very critical and we have been taking a number of initiatives to tackle this issue. We are planning to choose transportation by sea for both domestic and overseas procurement of methanol to fulfill the production requirement of the MTO production facility. There are a number of reasons behind: 1) The production base of MTO production facility is only a few miles away from the port area of Jiaxing City of Zhejiang Province, PRC – the Zhapu Port; 2) There will be a high level of procurement volume required and transportation by vessel is more easy and effective to manage than transportation by truck; 3) we expect high land transportation costs of methanol from inland areas where most of the domestic methanol producers locate; 4) we expect international methanol price will be in a downward trend due to shale gas advantage; and 5) we have been noticing a number of international methanol producers increasing their methanol production capacities substantially through new ramp-up or restart-up of production facilities due to increasing methanol demand in PRC. Furthermore, in view of the upcoming enormous import requirement of methanol, in February 2013, we took an initiative to acquire a local port runner – Zhejiang Zhapu Mei Fu Port & Storage Co. Ltd.* (浙江乍浦美福碼頭倉儲有限公司) ("**Mei Fu Port**"), which owns the biggest port in Zhapu, for the purpose of ensuring the smooth and cost-effective import of methanol. The acquisition of Mei Fu Port is yet to complete pending the shareholder approval and any other requirements as required by the Rules Governing the Listing of Securities (the "**Listing Rules**") on the Stock Exchange.

The aggregate capital expenditure of the MTO production facility is expected to be approximately RMB2.2 billion, around 2/3 of which will be funded by way of bank or debt financing and the remaining will be funded by way of internal resources of the Group. As at the date of this report, we have obtained a number of offers from various banks in respect of credit line of term loan available to the MTO production facility of an aggregate amount up to RMB1.6 billion with an average interest rate offered of around 8% per annum. We have a gearing guidance for the MTO production facility as well as the overall position for our Group. We will stick to a gearing ratio of not more than 66.7% on total interest-bearing borrowings to total assets basis, which we consider is a better measure when comparing to total interest-bearing borrowings to total equity basis as the Group will have rapid expansion of various production facilities in the coming years and there is a time lag of approximately 2 years between the construction period of production facilities and the profit and revenue generated from these facilities. Based on our assessment when comparing the current market prices of all the outputs and inputs after taking into account the expected processing costs and finance costs, we expect the MTO production facility can generate a ROE of around 20% on a yearly basis, which we believe can be maintained in long run, primarily due to our planned adoption of transportation by sea for the procurement of methanol and the expected downward trend of international methanol price due to shale gas advantage.

Chairman's Statement

Apart from the aforesaid direct financial contribution to the Group by the MTO production facility, our Group will also be benefited from synergy effect through: 1) the sharing of infrastructure as we can get enormous amount of nitrogen from air separation facilities during the EO production process and we have no use for certain amount of nitrogen except for supplying to MTO production facility, the benefit of which is expected to be approximately RMB50 million per annum; and 2) the procurement cost saving in respect of the 2% import duty and transportation cost charged for every MT of ethylene imported from overseas into China as the MTO production facility will supply 300,000 MT of ethylene to our EO production facilities, the benefit of which is expected to be approximately RMB90 million per annum.

Our Group's EO capacity expansion plan will finish after the completion of the 5th phase EO/EG production facilities by the end of 2014, details of which have been set out in separate paragraphs below, and we have planned to shift the focus of our Group's future growth after 2014 to propylene derivative products from ethylene derivative products. In view of the expected output of approximately 400,000 MT of propylene from the operation of the MTO production facility from 2015, we are planning to build propylene-downstream production facilities for the purpose of diversifying our product mix to support our Group's growth after 2014. Given that producing propylene derivative products is a new business line to our Group, we take a more conservative approach in this area and as a result, in February 2013, we took an initiative to acquire a local propylene and propylene derivative products producer – Zhejiang Mei Fu Petrochemical Co. Ltd.* (浙江美福石油化工有限責任公司) ("**Mei Fu Petrochemical**") for the purpose of equipping relevant know-how from a existing player. The acquisition of Mei Fu Petrochemical is yet to complete pending the shareholder approval and any other requirements as required by the Listing Rules.

During the year under review and up to the date of this report, we have two new ramp-ups of EO production facilities. We finished the construction of the 1st phase EO production facilities of JV with effective EO contribution to the Group of 50,000 MT in a designed annual production capacity basis in September and the commercial operation has taken place on 18 October 2012. The 1st phase EO production facilities of JV contributed approximately 14,760 MT for EO production/sales during the year ended 31 December 2012 and we expect the 1st phase EO production facilities of JV will contribute approximately 55,000 MT for EO production/sales in 2013. We also finished the construction of the 4th phase EO production facilities with designed annual production capacity of approximately 100,000 MT of EO in January 2013 and the commercial operation has taken place on 24 February 2013. We expect the 4th phase EO production facilities will contribute approximately 92,000 MT for EO production/sales in 2013. Thereafter, together with the additional EO production capacity contributed by the 1st phase EO production facilities of JV, the Group's aggregate designed annual production capacity of EO has increased by approximately 83.3% from 180,000 MT to 330,000 MT in around one year's time and we expect the actual production/sales volume of EO (for both own production facilities and the 1st phase EO production facilities of JV) will increase by approximately 60.8% from approximately 217,000 MT in 2012 to approximately 349,000 MT in 2013. As at the date of this report, we have entered into new sales contracts either with existing customers or new customers for aggregate sales order of approximately 80,000 MT on a yearly basis in respect of additional EO outputs from the 4th phase EO production facilities.

After the ramp-up of the 4th phase EO production facilities, we have initiated the construction of our Group's last phase of EO capacity expansion – the 5th phase EO/EG production facilities. The Group is planning to use and purchase, for the 5th phase EO/EG production facilities, the production technology from Scientific Design Company Inc. ("**SD Company**"), which is the same supplier of the production technologies used for the 1st phase to the 4th phase EO production facilities, under which, EO is regarded as the main product while ethylene glycol ("**EG**") is regarded as the by-product, representing the fact that the 1st phase to the 4th phase EO production facilities can only deliver industrial-grade EG, which is a secondary EG in terms of quality and market selling price when comparing with polyester-grade EG. Instead of adopting the same production technologies used for the 1st phase to the 4th phase EO production facilities, we have decided to use and purchase a more advanced production technology from SD Company for the 5th phase EO/EG production facilities, which allows shifting the production capacity in certain extent between the production of EO and the production of EG and, in turn, marking it more flexible for the Group to adjust the product mix in response to the market conditions of EO, EG and AEO surfactants. Furthermore, under the aforesaid production technology, both EO and EG are regarded as the main products and the output of EG will be at polyester-grade. The expected output of the 5th phase EO/EG production facilities on an annual production capacity basis will be in between: 1) EO output at a maximum level of 240,000 MT and EG output at a minimum level of 130,000 MT; and 2) EO output at a minimum level of 100,000 MT and EG output at a maximum level of 250,000 MT. Moreover, the 5th phase EO/EG production facilities is equipped with reprocessing function for EG and able to convert industrial-grade EG into polyester-grade EG and the Group expects it will be benefited by approximately RMB15.0 million additionally through the reprocessing of the industrial-grade EG expected to be delivered by the 1st phase to 4th phase EO production facilities. We expect the commercial operation of the 5th phase EO/EG production facilities will take place by the end of 2014. The aggregate capital expenditure of the 5th phase EO/EG production facilities is expected to be RMB1.3 billion, around 2/3 of which will be funded by way of bank or debt financing and the remaining will be funded by way of internal resources of the Group. As at the date of this report, we have obtained a number of offers from various banks in respect of credit line of term loan available to the 5th phase EO/EG production facilities of an aggregate amount up to RMB1 billion with an average interest rate offered of around 8% per annum.

## FINANCIAL REVIEW

During the year under review, revenue of our Group improved by approximately 21.3%, primarily due to the increase in sale volume of EO (from own production facilities) by approximately 21.1% in light of the first full-year operation of the 3rd phase EO production facilities, the commencement of commercial operation of which was on 24 May 2011.

Although the 1st phase EO production facilities of JV contributed approximately 14,760 MT for EO production/sales during the year ended 31 December 2012. Furthermore, given the fact that the Group closely involves in the operation of Sanjiang Honam and procures ethylene, the feedstock from suppliers and resells EO, the finished goods to customers for Sanjiang Honam, the aforesaid accounting policy choice also drags down the overall gross profit margin of our Group by approximately 2.0% due to the inclusion of trading transactions of ethylene and EO with Sanjiang Honam which only has an average gross profit margin of less than 4%. We will revisit this account policy for the financial statement ending 31 December 2013 when relevant new account standard namely ***Hong Kong Financial Reporting Standard 11 – Joint Arrangement*** has become effective, which allows combining the results of joint operation line by line with reference to the joint operator's shares held jointly and elimination of inter-transactions subject to the fulfillment of certain conditions. We will consider the appropriateness and relevant requirements of the adoption of the aforesaid new accounting standard on Sanjiang Honam.

Our Group's overall gross profit margin maintained at a similar level in 2012 when compared to 2011 (2012: 21.0%; 2011: 20.9%) which is primarily due to the combined effects of: 1) the inclusion of low-GP margin transactions with Sanjiang Honam as mentioned in the above paragraph; and 2) the improvement in gross profit margin of EO sales by 2.3% from 20.5% of 2011 to 22.8% of 2012, primarily due to the changeout of catalyst for two of the EO production facilities in Q1 and Q3 of 2012 respectively, which led to better output ratio of EO versus ethylene, despite the average selling price of EO decreased by 4.5% from RMB12,183/MT (VAT-inclusive) of 2011 to RMB11,629/MT (VAT-inclusive) of 2012 resulted from the impact of price fluctuation of ethylene during the year with the first price peak and then price bottom and the second price peak at a level of approximately USD1,402/MT, USD942/MT and USD1,368/MT in April, June and September 2012 respectively.

## 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, 19 March 2013

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS AND FINANCIAL REVIEW

### Revenue

Revenue of our Group improved by approximately 21.3% reaching approximately RMB2,521.4 million as compared to revenue of approximately RMB2,078.2 million for last year. The increase in revenue is primarily due to the increase in sale volume of EO (from own production facilities) by approximately 21.1% primarily due to the first full-year operation of the 3rd phase EO production facilities, the commencement of commercial operation of which was on 24 May 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 2012 | % of revenue | Full year 2011 | % of revenue | Variance +/(-) |
|---|---|---|---|---|---|
| Ethylene oxide | 2,007,444 | 80% | 1,736,970 | 84% | 15.6% |
| Surfactants | 85,961 | 3% | 185,396 | 9% | -53.6% |
| Surfactants processing services | 23,920 | 1% | 21,972 | 1% | 8.9% |
| Others | 404,123 | 16% | 133,850 | 6% | 201.9% |
| | **2,521,448** | **100%** | **2,078,188** | **100%** | **21.3%** |
| **SALES VOLUME (MT)** | | | | | |
| Ethylene oxide | 201,968 | | 166,814 | | 21.1% |
| Surfactants | 7,163 | | 13,238 | | -45.9% |
| Surfactants processing services | 53,895 | | 49,053 | | 9.9% |
| **AVERAGE SELLING PRICE (RMB)** | | | | | |
| Ethylene oxide | 9,939 | | 10,413 | | -4.5% |
| Surfactants | 12,001 | | 14,005 | | -14.3% |
| Surfactants processing services | 445 | | 448 | | -0.7% |
| **GROSS PROFIT MARGIN (%)** | | | | | |
| Ethylene oxide | 22.8% | | 20.5% | | 2.3% |
| Surfactants | 19.1% | | 18.3% | | 0.8% |
| Surfactants processing services | 76.0% | | 61.0% | | 15.0% |

**Ethylene oxide sales**

During the year under review, the revenue from EO sales increased by 15.6% when compared to 2011 which was primarily resulted from the combined effects of: 1) the first full-year operation of the 3rd phase EO production facilities, the commencement of commercial operation of which was on 24 May 2011, which led to 21.1% increment in the production/sales volume of EO in 2012; and 2) the decrease in the average selling price of EO by 4.5% from RMB10,413/MT of 2011 to RMB9,939/MT of 2012 resulted from the impact of price fluctuation of ethylene during the year with the first price peak and then price bottom and the second price peak at a level of approximately USD1,402/MT, USD942/MT and USD1,368/MT in April, June and September 2012 respectively.

The utilisation rate (measured as actual output divided by designed capacity) in 2012 of our ethylene oxide production facilities reached 116% (2011: 113%), representing the fact that the Group's ethylene oxide production facilities were operated in a full capacity in 2012 and 2011.

**Surfactants sales**

The revenue of surfactants sales decreased by 53.6% in 2012 when compared to 2011, primarily due to the delay of ramp-up of the 1st phase EO production facilities of JV by approximately two and a half months resulted from the uncertain weather condition and the delay of receipts of certain key parts/components during the construction period, which led to more EO allocated for direct sales in view of the committed new EO sales contacts. The Group expects the sales volume of surfactants in 2013 will improve after the ramp-ups of both the 1st phase EO production facilities of JV and the 4th phase EO production facilities, which will give the Group more flexibility to allocate EO for surfactant production/sales purpose. The decrease in average selling price of surfactants by 14.3% in 2012 when comparing to 2011 was primarily due to the significant price fluctuation of fatty alcohol, another feedstock of surfactants, except for EO, during 2011.

**Income from provision of surfactant processing service**

Revenue of surfactant processing services increased by approximately 9.9%, which was primarily due to the increase in the surfactant processing volume where we entered into surfactants processing service contracts with a number of customers 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. The significant increase in revenue from others during the year under review was primarily due to the inclusion of revenue from EO selling for Sanjiang Honam and revenue from ethylene procurement for Sanjiang Honam of approximately RMB153.0 million and approximately RMB110.3 million respectively.

## Gross profit and gross margin

Overall gross profit margin maintained at a similar level in 2012 when compared to 2011 (2012: 21.0%; 2011: 20.9%) which is primarily due to the combined effects of: 1) the inclusion of low-GP margin transactions with Sanjiang Honam as mentioned in the **Chairman's statement**; and 2) the improvement in gross profit margin of EO sales by 2.3% from 20.5% of 2011 to 22.8% of 2012, primarily due to the changeout of catalyst for two of the EO production facilities in Q1 and Q3 of 2012 respectively, which led to better output ratio of EO versus ethylene.

## Other income and gains

Other income and gains increased by approximately RMB94.9 million from approximately RMB149.3 million for the year ended 31 December 2011 to RMB244.2 million for the year ended 31 December 2012 which was primarily due to: 1) the increase in bank interest income (2012: approximately RMB106.8 million; 2011: approximately RMB32.5 million) as a result of entering into a financial arrangement for the purpose of actively managing internal financial resources of the Group; 2) increase in project management income by RMB21.2 million and 3) increase in income from selling circular water to Sanjiang Honam. Under the aforesaid financial arrangement, the Group places amounts denominated in RMB as pledged deposits and obtains loans denominated in USD with values equivalent to corresponding RMB deposits for the purpose of earning potential appreciation of RMB against USD and the interest spread between pledged deposits and loans.

### 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 2012 was mainly due to the increase in salaries, allowance and benefits in kind (2012: approximately RMB44.1 million; 2011: approximately RMB36.2 million) and increase in write-down of silver catalysts to net realisable value of approximately RMB15.4 million resulted from the decrease in internal sliver price as at year end.

### 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 2012 was mainly due to the increase in average balance of interest-bearing bank borrowings.

## LIQUIDITY AND FINANCIAL RESOURCES

### Financial position and bank borrowings

The Group had cash and bank balances of approximately RMB233.6 million (2011: approximately RMB290.7 million), most of which were denominated in Renminbi. The Group had interest-bearing bank borrowings of approximately RMB1,528.8 million as at 31 December 2012 (2011: approximately RMB1,435.8 million). Please refer to note 26 to the consolidated financial statements of this report for the details of borrowings and the respective charge of assets.

The Group's gearing, expressed as a percentage of total interest-bearing bank borrowings to total assets, was 33.5% as at 31 December 2012 as compared to 39.2% as at 31 December 2011. The Group has a gearing guidance of not more than 66.7% on total interest-bearing borrowings to total assets basis, which management considers is a better measure when comparing to total interest-bearing borrowings to total equity basis as the Group will have rapid expansion of various production facilities in the coming years and there is a time lag of approximately 2 years between the construction period of production facilities and the profit and revenue generated from these facilities.

### Working capital

The inventory turnover days increased by approximately 20.5 days in 2012 (2012: 56.7 days; 2011: 36.2 days), primarily due to the ramp-up of the 1st phase EO production facilities of JV in October 2012 and the Group maintains a relatively high level of ethylene as buffer stock for production.

The trade and notes receivables turnover days maintained at a similar level in 2012 when comparing to 2011 (2012: 21.4 days; 2011: 21.0 days).

The trade and bills payables turnover days increased by approximately 35.3 days in 2012 (2012: 95.0 days; 2011: 59.7 days), primarily due to the ramp-up of the 1st phase EO production facilities of JV in October 2012 and the Group procures more ethylene as buffer stock for production.

## CAPITAL COMMITMENTS

As at 31 December 2012, the Group has capital commitments amounted to approximately RMB486.7 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 2012, 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 2012, the Group employed a total of 518 full time employees. For the year ended 31 December 2012, the employee benefit expense was approximately RMB63.6 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 44, 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 Energy Chemical Co., Ltd. ("**Jiahua Energy**") ( Which was formerly known as Zhejiang Jiahua Industrial Park Investment and Development Co., Ltd.) since 2008. Zhejiang Jiahua Group Co., Ltd. and Jiahua Energy 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 together with Mr. Guan himself beneficially owned approximately 47.96% of the issued share capital of the Company.

### HAN Jianhong (韓建紅)

aged 38, 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.

### NIU Yingshan (牛瑛山)

aged 39, 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 41, 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 53, 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 45, 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 38, 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 60, 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 38, 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 50, 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 49, 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 (葉毅恆)

aged 35, 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 2012 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

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.

## 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 strategic 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 2012 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 2012 and the annual results of the Group for the year ended 31 December 2012, 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 2012 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 2012.

## BOARD COMMITTEES (Continued)

### Nomination Committee

As at the date of this report, 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 2012 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 2012 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)* | 10/10 | N/A | 1/1 | 0/0 |
| Ms. Han Jianhong | 7/10 | N/A | N/A | N/A |
| Mr. Niu Yingshan | 5/10 | N/A | N/A | N/A |
| Mr. Han Jianping | 5/10 | N/A | N/A | N/A |
| **Independent Non-Executive Directors** | | | | |
| Mr. Wang Wanxu | 5/10 | 2/2 | 1/1 | 0/0 |
| Mr. Shen Kaijun | 5/10 | 2/2 | N/A | 0/0 |
| Mr. Mui Ho Cheung, Gary | 10/10 | 2/2 | 1/1 | 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 2012 and up to the date of this annual report.

# FINANCIAL REPORTING AND INTERNAL CONTROL

## Financial reporting

The Board, supported by the financial controller and the finance department of the Group, is responsible for the preparation of the financial statements of the Company and the Group. The Board has prepared the financial statements in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. Appropriate accounting policies have also been used and applied consistently. The Board aims to present a clear and balanced assessment of the Group's performance in the annual and interim reports to the shareholders, and make appropriate disclosure and announcement 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 2012, the professional fees paid or payable to the independent auditors, Ernst & Young, for services rendered are set out below:

| | RMB'000 |
|---|---|
| Statutory audit – 2012 annual results | 1,390 |
| Other service | 110 |

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, save as disclosed in the "**Continuing Connected Transactions**" subsection contained in the "**Report of the Directors**" section in this annual report, (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 2012.

## DIRECTORS' RESPONSIBILITY ON THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2012, 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 2012 and up to the date of this annual report.

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

## COMMUNICATION WITH SHAREHOLDERS

The Company endeavours to maintain an on-going dialogue with its shareholders and in particular, through annual general meetings or other general meetings to communicate with the shareholders and encourage their participation. The Chairman of the Board will make himself available at the forthcoming annual general meeting to be held on Monday, 29 April 2013 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 2012.

## 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 2012 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 101 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 102 and 103 of this annual report.

## DIVIDENDS

The Board recommends the payment of a final dividend of HK$18.0 cents per share in respect of the year, representing a dividend payout of RMB144.8 million and a dividend payout ratio of 31.0% for the year ended 31 December 2012.

Subject to the approval of the shareholders at the forthcoming annual general meeting, the final dividend will be distributed on or about Wednesday, 15 May 2013 to the shareholders whose names appear on the register of members of the Company as at Tuesday, 7 May 2013.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 23 April 2013 to Monday, 29 April 2013, 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 Registrars, 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 Monday, 22 April 2013. In addition, the register of members of the Company will be closed from Monday, 6 May 2013 to Tuesday, 7 May 2013, 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 Registrars, 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, 3 May 2013.

## RESERVES

Profits attributable to equity shareholders, before dividends, of RMB466,776,000 (2011: RMB405,020,000) 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 2012 are set out in note 26 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 28 to the financial statements.

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year under view, the Company repurchased a total of 4,591,000 of its ordinary shares of HK$0.10 each on the Stock Exchange of Hong Kong Limited at prices ranging from HK$1.81 to HK$3.12 per share, for a total consideration of HK$11,598,000. Out of the aforesaid 4,591,000 shares, 2,576,000 shares have not been cancelled as at 31 December 2012.

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 2012.

## 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 2012 and up to the date of this annual 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

Details of the Directors' biographies are set out on pages 10 and 11 of this annual report.

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

## DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors namely, Mr. Guan Jianzhong, Ms. Han Jianhong, Mr. Niu Yingshan and Mr. Han Jianping, has entered into a service contract with the Company for a term of three years 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 35 (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 2012, 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 | 475,256,000(Note) | 47.33% |
| | Beneficial owner | Long position | 990,000(Note) | 0.10% |
| Han Jianhong ("**Ms. Han**") | Interests of spouse | Long position | 476,246,000(Note) | 47.43% |

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 | 8,473 | 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 2012.

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

As at 31 December 2012, 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 | 475,256,000(Note 1) | 47.33% |
| Delta Lloyd Asset Management NV ("**DL**") | Beneficial owner | Long position | 59,459,000(Note 2) | 5.92% |
| Delta Lloyd Azie Deelnemingen Fonds N.V. ("**DLADF**") | Interests in controlled corporation | Long position | 59,459,000(Note 2) | 5.92% |
| Delta Lloyd NV ("**DLNV**") | Interests in controlled corporation | Long position | 59,459,000(Note 2) | 5.92% |

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, which in turn was a subsidiary of DLNV. The long position of DL in 59,459,000 Shares were the same Shares deemed to be interested by DLADF and DLNV 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 2012.

## 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:

| | 2012 | 2011 |
|---|---|---|
| As a percentage of the Group's total sales | | |
| The largest customer | 9.4% | 13.8% |
| Five largest customers in aggregate | 31.0% | 37.7% |
| As a percentage of Group's total purchases | | |
| The largest supplier | 40.6% | 41.9% |
| Five largest suppliers in aggregate | 91.0% | 86.8% |

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 2012.

## 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.

## 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 99,310,400, 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 2012, no share option has been granted by the Company.

## CONTRACT OF SIGNIFICANCE

Save as disclosed in the section headed "**Continuing Connected Transactions**" in this annual report and note 35 (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.

## CONTINUING CONNECTED TRANSACTIONS

The following related party transactions entered into during the year ended 31 December 2012 constitutes continuing connected transactions for the Company under the Listing Rules and are required to be disclosed in this annual 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 Energy Chemical Co., Ltd.* (浙江嘉化能源化工股份有限公司) ("**Jiahua Energy Chemical Co**") (formerly known as Zhejiang Jiahua Industrial Park Investment and Development Co., Ltd.* (浙江嘉化工業園投資發展有限公司)) on 16 August 2010, Jiahua Energy Chemical 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 Energy Chemical 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 Energy Chemical Co is a non-wholly owned subsidiary of Zhejiang Jiahua Group Co., Ltd., which is ultimately controlled by Mr. Guan and Ms. Han, the executive Directors. Jiahua Energy Chemical 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 Energy Chemical Co on 16 August 2010, Jiahua Energy Chemical 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 Energy Chemical Co on 16 August 2010, Jiahua Energy Chemical 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 Energy Chemical 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.

## CONTINUING CONNECTED TRANSACTIONS (Continued)

The actual amount of the transactions and approved annual caps for the above mentioned continuing connected transactions during the years ended 31 December 2012 and 2011 are as follows:

| Nature of transaction | Annual Cap amount RMB | Actual amount RMB | Excessive Amount RMB |
|---|---|---|---|
| **For the year ended 31 December 2012** | | | |
| Water and Miscellaneous Materials Supply Agreement | 857,000 | 1,502,000 | 645,000 |
| Low Pressure Steam Supply Agreement | 4,277,000 | 1,234,000 | N/A |
| High Pressure Steam Supply Agreement | 124,426,000 | 80,348,000 | N/A |
| | 129,560,000 | 83,084,000 | 645,000 |
| **For the year ended 31 December 2011** | | | |
| Water and Miscellaneous Materials Supply Agreement | 857,000 | 726,000 | N/A |
| Low Pressure Steam Supply Agreement | 3,770,000 | 1,750,000 | N/A |
| High Pressure Steam Supply Agreement | 118,701,000 | 87,055,000 | N/A |
| | 123,328,000 | 89,531,000 | – |

In or around February 2013, in the course of preparing the audited financial statements of the Company for the year ended 31 December 2012 and reviewing all previous continuing connected transactions of the Company, the Directors noted that the amount of the continuing connected transaction in respect of the aforesaid desalinated water and miscellaneous materials supply agreement for the year ended 31 December 2012 amounted to approximately RMB1,502,000 and exceeded the 2012 approved annual cap of RMB857,000.

The 2012 approved annual cap was exceeded mainly due to (i) the increase in production of ethylene oxide under the joint venture agreement between the Group and Honam Petrochemical Corp; and (ii) the technological advancement for the production of ethylene oxide, which leads to less usage of steam and more usage of desalinated water and miscellaneous materials for each MT of ethylene oxide produced in 2012 when comparing to 2011. Under the joint venture arrangement between the Group and Honam, the Group is responsible for, among other matters, providing utilities such as water and steam used in production to Sanjiang Honam. As a result, following the ramp-up of the 1st phase EO production facilities of JV, the Group has to purchase additional desalinated water and steam for production of EO for consumption by both the Group and Sanjiang Honam.

Another reason for the breach is due to the technological advancement for the production of ethylene oxide where less steam and more desalinated water are required for the production of EO. This is an advancement in technology since the purchasing cost of steam is much more expensive than desalinated water and thus the overall production costs of the Group can be reduced. As a result, more desalinated water and at same time, less steam were purchased since the middle of 2012 when the new technology was adopted by the Group even when there is an increment of actual production volume of EO by more than 20% in 2012 when comparing to 2011.

## CONTINUING CONNECTED TRANSACTIONS (Continued)

The exceeding of the 2012 Approved Cap took place in the fourth quarter of the year ended 31 December 2012. The Directors consider that the failure to re-comply with the requirements of Listing Rules on a timely basis, which was inadvertent and regretful, is an isolated event. The Company will take steps to tighten its compliance system in order to prevent a recurrence of a similar event.

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) save as disclosed above, 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. save as disclosed above, the aggregate consideration paid in respect of the continuing connected transactions during the year ended 31 December 2012 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, 19 March 2013

# 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 101, which comprise the consolidated and company statements of financial position as at 31 December 2012, 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.

## 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 2012, 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*
22/F CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

19 March 2013

# CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2012

| | Notes | 2012 RMB'000 | 2011 RMB'000 (Restated) |
|---|---|---|---|
| REVENUE | 5 | **2,521,448** | 2,078,188 |
| Cost of sales | | **(1,991,160)** | (1,644,844) |
| Gross profit | | **530,288** | 433,344 |
| Other income and gains | 5 | **244,155** | 149,312 |
| Selling and distribution expenses | | **(1,845)** | (4,576) |
| Administrative expenses | | **(91,849)** | (74,688) |
| Other expenses | | **(69,837)** | (3,009) |
| Finance costs | 6 | **(64,361)** | (32,438) |
| Share of profit/(loss) of a jointly-controlled entity | 17 | **10,383** | (4,057) |
| PROFIT BEFORE TAX | 7 | **556,934** | 463,888 |
| Income tax expense | 10 | **(89,924)** | (58,369) |
| PROFIT FOR THE YEAR | | **467,010** | 405,519 |
| Attributable to: | | | |
| Owners of the parent | 11 | **466,776** | 405,020 |
| Non-controlling interests | | **234** | 499 |
| | | **467,010** | 405,519 |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | 12 | | |
| Basic | | **46.58 fens** | 39.77 fens |
| Diluted | | **46.55 fens** | 39.76 fens |

Details of the dividends payable and proposed for the year are disclosed in note 31 to the financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2012

| | Notes | 2012<br>RMB'000 | 2011<br>RMB'000<br>(Restated) |
|---|---|---|---|
| **PROFIT FOR THE YEAR** | | **467,010** | 405,519 |
| **OTHER COMPREHENSIVE INCOME** | | | |
| Available-for-sale investments: | | | |
| Changes in fair value | | **1,308** | 3,991 |
| Income tax effect | 27 | **(164)** | (516) |
| **OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX** | | **1,144** | 3,475 |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **468,154** | 408,994 |
| Attributable to: | | | |
| Owners of the parent | 11 | **467,920** | 408,495 |
| Non-controlling interests | | **234** | 499 |
| | | **468,154** | 408,994 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2012

| | Notes | 31 December 2012 RMB'000 | 31 December 2011 RMB'000 (Restated) |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 13 | **1,452,588** | 1,135,436 |
| Prepaid land lease payments | 14 | **79,389** | 52,185 |
| Intangible assets | 15 | **26,496** | 26,970 |
| Advanced payments for property, plant and equipment | | **49,975** | 71,636 |
| Investment in a jointly-controlled entity | 17 | **147,251** | 92,105 |
| Deferred tax assets | 27 | **3,160** | 476 |
| Total non-current assets | | **1,758,859** | 1,378,808 |
| **CURRENT ASSETS** | | | |
| Inventories | 19 | **396,443** | 222,335 |
| Trade and notes receivables | 20 | **92,085** | 203,135 |
| Prepayments, deposits and other receivables | 21 | **259,571** | 44,047 |
| Due from related parties | 35 | **94,270** | 44,132 |
| Available-for-sale investments | 18 | **587,307** | 478,263 |
| Derivative financial instruments | 25 | **607** | – |
| Pledged deposits | 22 | **1,139,102** | 1,001,640 |
| Cash and cash equivalents | 22 | **233,585** | 290,691 |
| Total current assets | | **2,802,970** | 2,284,243 |
| **CURRENT LIABILITIES** | | | |
| Trade and bills payables | 23 | **701,437** | 335,430 |
| Other payables and accruals | 24 | **264,798** | 125,883 |
| Derivative financial instruments | 25 | **4,576** | – |
| Interest-bearing bank borrowings | 26 | **1,528,817** | 1,435,829 |
| Due to directors | 35 | **–** | 4,052 |
| Due to related parties | 35 | **21,508** | 1,954 |
| Tax payable | | **62,355** | 25,305 |
| Total current liabilities | | **2,583,491** | 1,928,453 |
| NET CURRENT ASSETS | | **219,479** | 355,790 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **1,978,338** | 1,734,598 |

## Consolidated Statement of Financial Position
31 December 2012

| | Notes | 31 December 2012 RMB'000 | 31 December 2011 RMB'000 (Restated) |
|---|---|---|---|
| **NON-CURRENT LIABILITIES** | | | |
| Deferred tax liabilities | 27 | 27,571 | 47,053 |
| Total non-current liabilities | | 27,571 | 47,053 |
| Net assets | | 1,950,767 | 1,687,545 |
| **EQUITY** | | | |
| Equity attributable to owners of the parent | | | |
| Issued capital | 28 | 87,144 | 87,308 |
| Treasury shares | 28 | (6,356) | – |
| Reserves | 30(a) | 1,697,392 | 1,494,997 |
| Proposed final dividend | 31 | 144,818 | 77,705 |
| | | 1,922,998 | 1,660,010 |
| Non-controlling interests | | 27,769 | 27,535 |
| Total equity | | 1,950,767 | 1,687,545 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2012

| | 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 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 (as restated) | – | – | – | – | – | – | – | – | 405,020 | – | 405,020 | 499 | 405,519 |
| 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 | – | – | 405,020 | – | 408,495 | 499 | 408,994 |
| Shares awarded under the share award plan | – | – | – | (4,808) | – | – | – | – | – | – | (4,808) | – | (4,808) |
| Business combination under common control (note 2.1) | – | – | – | – | 75,000 | – | – | – | – | – | 75,000 | 25,000 | 100,000 |
| Equity-settled share award plan | – | – | – | – | – | – | – | 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 | – | (46,169) | – | – | – | – | – | – | – | – | (46,169) | – | (46,169) |
| Proposed final 2011 dividend | – | (77,705) | – | – | – | – | – | – | – | 77,705 | – | – | – |
| At 31 December 2011 | 87,308 | 1,042,197 | 1,111 | (4,808) | (518,592) | 3,475 | 136,487 | 350 | 834,777 | 77,705 | 1,660,010 | 27,535 | 1,687,545 |

| | Attributable to owners of the parent | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Issued capital RMB'000 | Treasury shares 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 | Safety production 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 2012 | | | | | | | | | | | | | | | |
| As previously stated | 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 |
| Effect of business combination under common control (note 2.1) | - | - | - | - | - | 75,000 | - | - | - | - | 251 | - | 75,251 | 25,083 | 100,334 |
| As restated | 87,308 | - | 1,042,197 | 1,111 | (4,808) | (518,592) | 3,475 | 136,487 | 350 | - | 834,777 | 77,705 | 1,660,010 | 27,535 | 1,687,545 |
| Profit for the year | - | - | - | - | - | - | - | - | - | - | 466,776 | - | 466,776 | 234 | 467,010 |
| Other comprehensive income for the year: | | | | | | | | | | | | | | | |
| Change in fair value of available-for-sale investments, net of tax | - | - | - | - | - | - | 1,144 | - | - | - | - | - | 1,144 | - | 1,144 |
| Total comprehensive income for the year | - | - | - | - | - | - | 1,144 | - | - | - | 466,776 | - | 467,920 | 234 | 468,154 |
| Shares awarded under the share award plan (note 29) | - | - | - | - | (6,506) | - | - | - | - | - | - | - | (6,506) | - | (6,506) |
| Equity-settled share award plan | - | - | - | - | - | - | - | - | 651 | - | - | - | 651 | - | 651 |
| Repurchase and cancellation of ordinary shares | (164) | (6,356) | (2,877) | 164 | - | - | - | - | - | - | (164) | - | (9,397) | - | (9,397) |
| Business combination under common control (note 2.1) | - | - | - | - | - | (108,500) | - | - | - | - | - | - | (108,500) | - | (108,500) |
| Transfer from available-for-sale investment revaluation reserve | - | - | - | - | - | - | (3,475) | - | - | - | - | - | (3,475) | - | (3,475) |
| Final 2011 dividend declared | - | - | - | - | - | - | - | - | - | - | - | (77,705) | (77,705) | - | (77,705) |
| Appropriation to statutory surplus reserve | - | - | - | - | - | - | - | 66,854 | - | - | (66,854) | - | - | - | - |
| Appropriation to safety production reserve | - | - | - | - | - | - | - | - | - | 13,835 | (13,835) | - | - | - | - |
| Safety production reserve used | - | - | - | - | - | - | - | - | - | (13,373) | 13,373 | - | - | - | - |
| Interim 2012 dividend | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Proposed final 2012 dividend | - | - | - | - | - | - | - | - | - | - | (144,818) | 144,818 | - | - | - |
| At 31 December 2012 | 87,144 | (6,356) | 1,039,320* | 1,275* | (11,314)* | (627,092)* | 1,144* | 203,341* | 1,001* | 462* | 1,089,255* | 144,818 | 1,922,998 | 27,769 | 1,950,767 |

* These reserve accounts comprise the consolidated reserves of RMB1,697,392,000 (2011: RMB1,494,997,000) in the consolidated statement of financial position.

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2012

| | Notes | 2012 RMB'000 | 2011 RMB'000 (Restated) |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit before tax | | 556,934 | 463,888 |
| Adjustments for: | | | |
| Finance costs | 6 | 64,361 | 32,438 |
| Share of (profit)/loss of a jointly-controlled entity | 17 | (10,383) | 4,057 |
| Bank interest income | 5 | (106,846) | (32,461) |
| Interest income from available-for-sale investments | 5 | (23,194) | (32,327) |
| Foreign exchange differences, net | | 83 | 129 |
| Net fair value gains of derivative instruments | | (1,469) | – |
| Depreciation | 7 | 99,772 | 88,199 |
| Loss on disposal of items of property, plant and equipment | 7 | 1,300 | 2 |
| Recognition of prepaid land lease payments | 7 | 1,536 | 1,038 |
| Amortisation of intangible assets | 7 | 5,106 | 3,882 |
| Write-down of inventories to net realisable value | 7 | 15,448 | 3,168 |
| Impairment of other receivables | | (181) | – |
| Equity-settled share award plan expense | 7 | 651 | 350 |
| | | 603,118 | 532,363 |
| Increase in inventories | | (189,556) | (121,551) |
| Decrease/(increase) in trade and notes receivables | | 111,050 | (167,473) |
| Increase in prepayments, deposits and other receivables | | (142,777) | (10,883) |
| Increase in amounts due from related parties | | (50,138) | (44,132) |
| Increase in trade and bills payables | | 366,007 | 138,757 |
| Increase/(decrease) in other payables and accruals | | 67,245 | (6,167) |
| Decrease in amounts due to directors | | (4,052) | (3,811) |
| Increase/(decrease) in amounts due to related parties | | 19,554 | (3,264) |
| Cash generated from operations | | 780,451 | 313,839 |
| Income tax paid | | (74,688) | (47,865) |
| Net cash flows from operating activities | | 705,763 | 265,974 |

## Consolidated Statement of Cash Flows
Year ended 31 December 2012

| | Notes | 2012 RMB'000 | 2011 RMB'000 (Restated) |
|---|---|---|---|
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchases of items of property, plant and equipment | | (324,500) | (165,307) |
| Purchases of prepaid land lease payments | | (29,306) | (7,935) |
| Purchases of intangible assets | | (4,632) | (13,513) |
| Proceeds from disposal of items of property, plant and equipment | | 1,302 | 6 |
| Investment in a jointly-controlled entity | | (44,763) | (67,059) |
| Purchase of available-for-sale investments | | (586,000) | (424,272) |
| Sales of available-for-sale investments | | 474,272 | – |
| Exercise of the bullion option | | 5,438 | – |
| Addition to entrusted loan receivables | | (72,000) | – |
| Bank interest received | | 106,846 | 32,461 |
| Receipt of interest income from available-for-sale investments | | 23,194 | 32,327 |
| Net cash flows used in investing activities | | (450,149) | (613,292) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Acquisition of a business combination under common control | | (108,500) | 100,000 |
| New bank loans | | 3,277,527 | 3,068,451 |
| Repayment of bank loans | | (3,184,539) | (2,426,382) |
| Increase in deposits pledged for bank loans | | (137,462) | (508,730) |
| Interest paid | | (66,055) | (34,080) |
| Dividends paid to non-controlling interests | | – | (5,760) |
| Treasury share buyback | | (6,356) | – |
| Dividends paid | | (77,705) | (128,021) |
| Repurchase and cancellation of ordinary shares | | (3,041) | (23,781) |
| Purchases of shares held for the share award plan | | (6,506) | (4,808) |
| Net cash flows (used in)/from financing activities | | (312,637) | 36,889 |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | | (57,023) | (310,429) |
| Cash and cash equivalents at beginning of year | | 290,691 | 601,249 |
| Effect of foreign exchange rate changes, net | | (83) | (129) |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | 22 | 233,585 | 290,691 |

# STATEMENT OF FINANCIAL POSITION

31 December 2012

| | Notes | 31 December 2012 RMB'000 | 31 December 2011 RMB'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Investments in subsidiaries | 16 | 426,588 | 426,588 |
| Total non-current assets | | 426,588 | 426,588 |
| **CURRENT ASSETS** | | | |
| Prepayments, deposits and other receivables | 21 | 33,797 | 6,396 |
| Due from a subsidiary | 35 | 966,743 | 675,465 |
| Cash and cash equivalents | 22 | 414 | 378 |
| Total current assets | | 1,000,954 | 682,239 |
| **CURRENT LIABILITIES** | | | |
| Interest-bearing bank borrowings | 26 | 50,270 | – |
| Other payables and accruals | 24 | 24,437 | – |
| Due to directors | 35 | – | 4,052 |
| Total current liabilities | | 74,707 | 4,052 |
| **NET CURRENT ASSETS** | | 926,247 | 678,187 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | 1,352,835 | 1,104,775 |
| Net assets | | 1,352,835 | 1,104,775 |
| **EQUITY** | | | |
| Issued capital | 28 | 87,144 | 87,308 |
| Treasury shares | | (6,356) | – |
| Reserves | 30(b) | 1,127,229 | 939,762 |
| Proposed final dividend | 31 | 144,818 | 77,705 |
| Total equity | | 1,352,835 | 1,104,775 |

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 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.

During the year, the Group was involved in the manufacture and supply of ethylene oxide ("**EO**") and surfactants, both of which are core chemical components for the production of household and industrial detergent products. The Group was also involved in the provision of surfactant processing services to its customers and the production and supply of other chemical products such as ethylene glycol, polymer grade ethylene and industrial gases, namely oxygen, nitrogen and argon in the People's Republic of China (the "**PRC**").

In the opinion of the directors, the holding company and the ultimate holding company of the Company is Sure Capital Holdings Limited ("**Sure Capital**"), which is incorporated in British Virgin Islands.

## 2.1 BASIS OF PREPARATION

On 31 August 2012, the Group completed the acquisition of the 75% equity interests in Zhejiang Xingxing New Energy Technology Co., Limited ("**Xingxing New Energy**") from Hangzhou Haoming Investment Co., Limited ("**Hangzhou Haoming**"). Upon completion of the acquisition, Xingxing New Energy became an indirectly 75% owned subsidiary of the Company. Hangzhou Haoming and Sure Capital are ultimately controlled by the same beneficial owners and Sure Capital is a controlling shareholder of the Company. The Company and Xingxing New Energy are ultimately under common control of the same beneficial owner before and after the acquisition and that control is not transitory. Hence, the acquisition has been accounted for as a business combination of entities under common control. The financial impact of the acquisition to the statement of financial position as at 31 December 2011 and income statement for the year ended 31 December 2011 was set out in note 40 to the financial statements.

Accordingly, the consolidated financial statements have been prepared by applying the principles of merger accounting as if the current group structure had been in existence throughout each of the two years ended 31 December 2011 and 2012, or since their respective dates of establishment, whichever is shorter. The consolidated statements of financial position of the Group as at 31 December 2011 have been prepared to present the assets and liabilities of Xingxing New Energy before the acquisition using the existing book values from the same beneficial owner's perspective. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the acquisition.

Equity interests in Xingxing New Energy held by parties other than the controlling shareholders were presented as non-controlling interests in equity in applying the principles of merger accounting.

Accordingly, the comparative figures of the consolidated financial statements have been restated.

## 2.1 BASIS OF PREPARATION (Continued)

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

They have been prepared under the historical cost convention, except for available-for-sale investments and derivative financial instruments, 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 2012. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. Other than the results of Xingxing New Energy, 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 it results in a deficit balance.

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

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

## 2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year's 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* |
| HKFRS 7 Amendments | Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets* |
| HKAS 12 Amendments | Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets* |

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

Notes to Financial Statements
31 December 2012

## 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 – Government Loans*[2] |
| HKFRS 7 Amendments | Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[2] |
| HKFRS 9 | *Financial Instruments*[4] |
| HKFRS 10 | *Consolidated Financial Statements*[2] |
| HKFRS 11 | *Joint Arrangements*[2] |
| HKFRS 12 | *Disclosure of Interests in Other Entities*[2] |
| HKFRS 10, HKFRS 11 and HKFRS 12 Amendments | Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – *Transition Guidance*[2] |
| HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments | Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities*[3] |
| HKFRS 13 | *Fair Value Measurement*[2] |
| HKAS 1 Amendments | Amendments to HKAS 1 Presentation of Financial Statements – *Presentation of Items of Other Comprehensive Income*[1] |
| HKAS 19 (2011) | *Employee Benefits*[2] |
| HKAS 27 (2011) | *Separate Financial Statements*[2] |
| HKAS 28 (2011) | *Investments in Associates and Joint Ventures*[2] |
| HKAS 32 Amendments | Amendments to HKAS 32 Financial Instruments: *Presentation – Offsetting Financial Assets and Financial Liabilities*[3] |
| HK(IFRIC)-Int 20 | *Stripping Costs in the Production Phase of a Surface Mine*[2] |
| *Annual Improvements 2009-2011 Cycle* | Amendments to a number of HKFRSs issued in June 2012[2] |

1 Effective for annual periods beginning on or after 1 July 2012
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2014
4 Effective for annual periods beginning on or after 1 January 2015

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

The HKFRS 7 Amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with HKAS 32. The Group expects to adopt the amendments from 1 January 2013.

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

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. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

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 addresses the issues raised in HK(SIC)-Int 12. Based on the preliminary analyses performed, HKFRS 10 is not expected to have any impact on the currently held investments of the Group.

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 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.

Notes to Financial Statements
31 December 2012

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

In July 2012, the HKICPA issued amendments to HKFRS 10, HKFRS 11 and HKFRS 12 which clarify the transition guidance in HKFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between HKFRS 10 and HKAS 27 or HK(SIC)-Int 12 at the beginning of the annual period in which HKFRS 10 is applied for the first time. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before HKFRS 12 is first applied.

The amendments to HKFRS 10 issued in December 2012 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with HKFRS 9 rather than consolidate them. Consequential amendments were made to HKFRS 12 and HKAS 27 (2011). The amendments to HKFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as the Company is not an investment entity as defined in HKFRS 10.

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, HKAS 27 (2011), HKAS 28 (2011), and the subsequent amendments to these standards issued in July and December 2012 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.

The HKAS 1 Amendments 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, net gain on hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendments will affect presentation only and have no impact on the financial position or performance. 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.

The HKAS 32 Amendments clarify the meaning of “currently has a legally enforceable right to setoff” for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in HKAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

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

The *Annual Improvements to HKFRSs 2009–2011 Cycle* issued in June 2012 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2013. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

(a) HKAS 1 *Presentation of Financial Statements*: Clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the previous period. The additional comparative information does not need to contain a complete set of financial statements.

In addition, the amendment clarifies that the opening statement of financial position as at the beginning of the preceding period must be presented when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position. However, the related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

(b) HKAS 32 *Financial Instruments: Presentation*: Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with HKAS 12 Income Taxes. The amendment removes existing income tax requirements from HKAS 32 and requires entities to apply the requirements in HKAS 12 to any income tax arising from distributions to equity holders.

## 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.

Notes to Financial Statements
31 December 2012

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Joint ventures (Continued)

A joint venture is treated as:

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

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

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

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

### Jointly-controlled entities

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

The Group's investments in jointly-controlled entities are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. 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.

### Business combinations and goodwill

Business combinations not under common control are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Business combinations and goodwill (Continued)

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of HKAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed in these circumstances is measured based on the relative value of the disposed operation and the portion of the cash-generating unit retained.

**Merger accounting for business combination under common control**
The combining entities or businesses over which the common control exists are consolidated from the date when the combining entities or businesses first came under the control of the controlling parties.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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.

An assessment is made at the end of each reporting period as to whether there is an 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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).

### 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Property, plant and equipment and depreciation (Continued)

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

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

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

An item of property, plant and equipment including 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.

### 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 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Operating leases

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

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

### Investments and other financial assets

**Initial recognition and 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 investments, 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.

**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 positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Investments and other financial assets (Continued)

**Financial assets at fair value through profit or loss** (Continued)
The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When, 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 them. 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 and gains in the income statement. The loss arising from impairment is recognised in other income and gains statement in finance costs for loans and in other expenses for receivables.

**Available-for-sale financial investments**
Available-for-sale financial investments 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 investments 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Investments and other financial assets (Continued)

**Available-for-sale financial investments** (Continued)
When the fair value of unlisted equity 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.

### 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.

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## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. 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.

If there is objective evidence that an impairment loss has been incurred, 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 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 write-off is later recovered, the recovery is credited to other expenses in the income statement.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Impairment of financial assets (Continued)

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

If an available-for-sale 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.

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 financial liabilities at fair value through profit or loss and 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 and, in the case of loans and borrowings, net of 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, derivative financial instruments and interest-bearing bank borrowings.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial liabilities (Continued)

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

**Financial liabilities at fair value through profit or loss**
Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities.

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

**Loans and borrowings**
After initial recognition, interest-bearing 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.

### 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 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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.

### 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 is recognised in equity. Voting rights related to treasury shares are nullified for the Group.

### 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.

### Provisions

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

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

## 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 joint ventures, 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 joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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 on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

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;

(d) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(e) dividend income, when the shareholders' right to receive payment has been established.

### Share-based payments

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 payments, whereby employees render services as consideration for equity instruments ("**equity-settled transactions**").

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 29 to the financial statements.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Share-based payments (Continued)

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 payments, 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 Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "**MPF Scheme**") under the Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute 14% to 22% of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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 the 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 prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in 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 translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference 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).

## 3. SIGNIFICANT ACCOUNTING 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 their accompanying disclosures, and the disclosure of contingent liabilities. 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 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 2012 was RMB5,627,000 (2011: RMB3,444,000). Further details on deferred tax assets are disclosed in note 27 to these financial statements.

**Income tax**

The Group is subject to income taxes in various regions. As a result of the fact that certain matters relating to the income taxes have not been confirmed by the local tax bureau, objective estimates and judgements based on currently enacted tax laws, regulations and other related policies are required in determining the provision of 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 2012 was RMB587,307,000 (2011: RMB478,263,000). 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 2012, no impairment loss has been recognised for available-for-sale investments (2011: Nil).

## 3. SIGNIFICANT ACCOUNTING ESTIMATES (Continued)

### Estimation uncertainty (Continued)

**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 and 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. OPERATING SEGMENT INFORMATION

For management purpose, the Group is not organised into business units based on their products and services and only has one reportable operating segment. Management monitors the operating results of the Group's operating segment as a whole for the purpose of making decisions about 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:

| | 2012 RMB'000 | 2011 RMB'000 (Restated) |
|---|---|---|
| EO | 2,007,444 | 1,736,970 |
| EO trading for EO procured from a jointly-controlled entity | 152,991 | – |
| Ethylene procurement for a jointly-controlled entity | 110,347 | – |
| Surfactants | 85,961 | 185,396 |
| Liquefied nitrogen, EG and others | 133,725 | 127,783 |
| Processing services | 23,920 | 21,972 |
| Others | 7,060 | 6,067 |
| | 2,521,448 | 2,078,188 |

**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.

The Group's non-current assets are all located in Mainland China.

**Information about a major customer**
Revenue of approximate RMB236,039,000 (2011: RMB284,538,000) was derived from sales to a single customer.

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## 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; and the value of services rendered.

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

| | 2012 RMB'000 | 2011 RMB'000 (Restated) |
|---|---|---|
| **Revenue** | | |
| Sale of goods | 2,490,468 | 2,050,149 |
| Provision of services | 23,920 | 21,972 |
| Others | 7,060 | 6,067 |
| | 2,521,448 | 2,078,188 |
| **Other income** | | |
| Bank interest income | 106,846 | 32,461 |
| Sales of raw materials | 6,942 | – |
| Sales of cooling water* | 47,016 | – |
| Interest income from available-for-sale investments | 23,194 | 32,327 |
| Project management** | 21,186 | – |
| Government subsidies*** | 18,140 | 18,875 |
| Gross rental income | 6,359 | 3,088 |
| Others | 4,131 | 4,932 |
| | 233,814 | 91,683 |
| **Gains** | | |
| Foreign exchange gains, net | 598 | 45,557 |
| Fair value gains on derivative instruments | 1,469 | – |
| Gain on disposal of catalysts**** | 8,274 | 12,072 |
| | 10,341 | 57,629 |
| | 244,155 | 149,312 |

* Cooling water sales income mainly represents the income from selling cooling water to a jointly-controlled entity which started the commercial production of EO in 2012.

** Project management income represents the income from the project management services provided to a jointly-controlled entity.

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

**** 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:

| | 2012 RMB'000 | 2011 RMB'000 (Restated) |
|---|---|---|
| Interest on bank loans wholly repayable within five years | 66,055 | 34,080 |
| Less: Interest capitalised | (1,694) | (1,642) |
| | 64,361 | 32,438 |

## 7. PROFIT BEFORE TAX

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

| | Notes | 2012 RMB'000 | 2011 RMB'000 (Restated) |
|---|---|---|---|
| Cost of inventories sold* | | 1,983,420 | 1,634,306 |
| Cost of service provided | | 5,516 | 8,661 |
| Depreciation* | 13 | 99,772 | 88,199 |
| Amortisation of prepaid land lease payments | 14 | 1,536 | 1,038 |
| Amortisation of intangible assets** | 15 | 5,106 | 3,882 |
| Loss on disposal of items of property, plant and equipment | | 1,300 | 2 |
| Write-down of inventories to net realisable value | | 15,448 | 3,168 |
| Auditors' remuneration | | 1,465 | 1,458 |
| Minimum lease payments under operating leases | | 2,570 | 2,423 |
| Employee benefit expense (including directors' remuneration (note 8)): | | | |
| Wages and salaries | | 57,871 | 51,415 |
| Pension scheme contributions | | 1,640 | 1,653 |
| Staff welfare expenses | | 3,445 | 2,188 |
| Equity-settled share award plan expense | | 651 | 350 |
| | | 63,607 | 55,606 |

* The depreciation of property, plant and equipment for the year is included in "Cost of sales" by amounts of RMB87,845,000 (2011: RMB80,236,000) in the consolidated income statement.

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

## 8. DIRECTORS' REMUNERATION

| | 2012 RMB'000 | 2011 RMB'000 (Restated) |
|---|---|---|
| Fees | 391 | 362 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | 2,882 | 2,916 |
| Performance related bonus* | – | 20,188 |
| Equity-settled share award plan expense | 125 | 64 |
| Pension scheme contributions | 47 | 35 |
| | 3,054 | 23,203 |
| | 3,445 | 23,565 |

* 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 29 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:

| | 2012 RMB'000 | 2011 RMB'000 (Restated) |
|---|---|---|
| Wang Wanxu | 98 | 100 |
| Shen Kaijun | 98 | 100 |
| Mui Ho Cheung, Gary | 195 | 125 |
| Li Zhihong (resigned in 2011) | – | 37 |
| | 391 | 362 |

There were no other emoluments payable to the independent non-executive directors during the year (2011: 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 |
|---|---|---|---|---|---|
| **2012** | | | | | |
| Guan Jianzhong | 976 | – | – | – | 976 |
| Han Jianhong | 858 | – | – | 22 | 880 |
| Niu Yingshan | 613 | – | 65 | 22 | 700 |
| Han Jianping | 435 | – | 60 | 3 | 498 |
| | 2,882 | – | 125 | 47 | 3,054 |
| **2011 (Restated)** | | | | | |
| 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 |

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

The Group did not appoint chief executive, and the duty of chief executive was performed by chairman.

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## 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees included four directors (2011: four), details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining one (2011: one) non-director, highest paid employee for the year are as follows:

| | 2012<br>RMB'000 | 2011<br>RMB'000<br>(Restated) |
|---|---|---|
| Salaries, allowances and benefits in kind | 861 | 860 |
| Equity-settled share award plan expense | 32 | 18 |
| Pension scheme contributions | 11 | 15 |
| | 904 | 893 |

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

During the year, shares were awarded to a non-director, highest paid employee in respect of his services to the Group, further details of which are included in the disclosures in note 29 to the financial statements. The fair value of such share awards, 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 employee's remuneration disclosures.

## 10. INCOME TAX

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

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

| | 2012<br>RMB'000 | 2011<br>RMB'000<br>(Restated) |
|---|---|---|
| Current – Mainland China | | |
| Charge for the year | 74,457 | 45,174 |
| Deferred (note 27) | 15,467 | 13,195 |
| Total tax charge for the year | 89,924 | 58,369 |

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% (2011: 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 (2011: Nil).

## 10. INCOME TAX (Continued)

The Group conducts a significant portion of its business in Mainland China and the applicable income tax rate of its subsidiaries operated in Mainland China is generally 25% in accordance with the PRC corporate income Tax Law which was approved and become effective on 1 January 2008, except for following entities who are entitle to favourable tax rates.

Pursuant to the approval of the tax bureau, Sanjiang Chemical Co., Ltd. ("**Sanjiang Chemical**") was qualified as a high-new technology company since 2010 and enjoyed a favorable 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 2012 (2011: 15%).

Pursuant to the approval of the tax bureau, Jiaxing Yongming Petrochemical Co., Ltd. ("**Yongming Petrochemical**") was exempted from CIT for its first two profit-making years (after deducting losses incurred in previous years) and was entitled to a 50% tax reduction for the succeeding three years. In accordance with the Corporate Income Tax Law, the tax concession would be deemed to commence from 1 January 2008 even if the company did not have taxable profits at that time. Although Yongming Petrochemical was in an accumulative loss position as of 1 January 2008, its tax concession was deemed to have started in 2008. Therefore, Yongming Petrochemical was subject to CIT at a rate of 12.5% for the year ended 31 December 2012 (2011: 12.5%).

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

| | 2012 RMB'000 | 2011 RMB'000 (Restated) |
|---|---|---|
| Profit before tax | 556,934 | 463,888 |
| Tax at the statutory tax rate | 139,233 | 115,972 |
| Lower tax rates enacted by local authority | (54,590) | (44,964) |
| Acceleration deduction for research and development activities | (8,843) | (4,953) |
| Adjustments in respect of current tax of previous periods | (2,672) | (1,363) |
| Expenses not deductible for tax | 805 | 236 |
| Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries (note 27) | 18,042 | 13,626 |
| Tax credit in respect of purchases of property, plant and equipment from domestic vendors* | – | (21,107) |
| (Profit)/loss attributable to a jointly-controlled entity | (2,596) | 1,014 |
| Tax losses utilised from previous years | (126) | (677) |
| Tax losses not recognised | 671 | 585 |
| Tax charge at the Group's effective rate | 89,924 | 58,369 |

* 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 was 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.

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## 11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2012 includes a profit of RMB341,017,000 (2011: loss of RMB63,644,000) which has been dealt with in the financial statements of the Company (note 30(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:

| | **2012 RMB'000** | 2011 RMB'000 (Restated) |
|---|---|---|
| **Earnings** | | |
| Profit for the year attributable to ordinary equity holders of the parent | **466,776** | 405,020 |

| | Number of shares | |
|---|---|---|
| | **2012 000** | 2011 000 |
| **Shares** | | |
| Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation | **1,002,077** | 1,018,377 |
| Effect of dilution – weighted average number of ordinary shares under the share award plan | **601** | 266 |
| | **1,002,678** | 1,018,643 |

## 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 2012** | | | | | | |
| At 1 January 2012: | | | | | | |
| Cost | 267,780 | 1,109,102 | 5,626 | 7,473 | 32,612 | 1,422,593 |
| Accumulated depreciation | (49,943) | (230,002) | (2,320) | (4,892) | – | (287,157) |
| Net carrying amount | 217,837 | 879,100 | 3,306 | 2,581 | 32,612 | 1,135,436 |
| At 1 January 2012: | | | | | | |
| Net of accumulated depreciation | 217,837 | 879,100 | 3,306 | 2,581 | 32,612 | 1,135,436 |
| Additions | 165 | 24,760 | 2,011 | – | 392,590 | 419,526 |
| Disposal | – | (2,602) | – | – | – | (2,602) |
| Depreciation provided during the year | (10,143) | (87,943) | (739) | (947) | – | (99,772) |
| Transfers | (6,940) | 16,148 | 27 | – | (9,235) | – |
| At 31 December 2012: | | | | | | |
| Net of accumulated depreciation | 200,919 | 829,463 | 4,605 | 1,634 | 415,967 | 1,452,588 |
| At 31 December 2012: | | | | | | |
| Cost | 261,005 | 1,147,408 | 7,664 | 7,473 | 415,967 | 1,839,517 |
| Accumulated depreciation | (60,086) | (317,945) | (3,059) | (5,839) | – | (386,929) |
| Net carrying amount | 200,919 | 829,463 | 4,605 | 1,634 | 415,967 | 1,452,588 |

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## 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 2011 (Restated)** | | | | | | |
| 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 | – | 27,241 | 2,474 | 622 | 142,194 | 172,531 |
| Disposal | – | – | – | (8) | – | (8) |
| Depreciation provided during the year | (11,251) | (75,354) | (508) | (1,086) | – | (88,199) |
| Transfers | 64,891 | 272,249 | – | – | (337,140) | – |
| At 31 December 2011: | | | | | | |
| Net of accumulated depreciation | 217,837 | 879,100 | 3,306 | 2,581 | 32,612 | 1,135,436 |
| At 31 December 2011: | | | | | | |
| Cost | 267,780 | 1,109,102 | 5,626 | 7,473 | 32,612 | 1,422,593 |
| Accumulated depreciation | (49,943) | (230,002) | (2,320) | (4,892) | – | (287,157) |
| Net carrying amount | 217,837 | 879,100 | 3,306 | 2,581 | 32,612 | 1,135,436 |

As at 31 December 2012, none of the Group's property, plant and equipment (2011: Nil) was pledged to secure bank loan facilities granted to the Group.

## 14. PREPAID LAND LEASE PAYMENTS

### Group

| | 2012 RMB'000 | 2011 RMB'000 (Restated) |
|---|---|---|
| Carrying amount at beginning of year | 53,382 | 46,485 |
| Additions | 29,306 | 7,935 |
| Amortisation during the year | (1,536) | (1,038) |
| Carrying amount at end of year | 81,152 | 53,382 |
| Current portion included in prepayments, deposits and other receivables (note 21) | (1,763) | (1,197) |
| Non-current portion | 79,389 | 52,185 |

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

As at 31 December 2012, none of the Group's leasehold land (2011: 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 2012** | | | | |
| Cost at 1 January 2012, net of accumulated amortisation | 58 | 25,202 | 1,710 | 26,970 |
| Additions | 217 | 4,415 | | 4,632 |
| Amortisation provided during the year | (9) | (4,987) | (110) | (5,106) |
| At 31 December 2012 | 266 | 24,630 | 1,600 | 26,496 |
| At 31 December 2012: | | | | |
| Cost | 408 | 46,737 | 2,116 | 49,261 |
| Accumulated amortisation | (142) | (22,107) | (516) | (22,765) |
| Net carrying amount | 266 | 24,630 | 1,600 | 26,496 |

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## 15. INTANGIBLE ASSETS (Continued)

### Group

| | Software RMB'000 | Technology use rights RMB'000 | Others RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **31 December 2011 (Restated)** | | | | |
| 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 |

## 16. INVESTMENTS IN SUBSIDIARIES

### Company

| | **2012 RMB'000** | 2011 RMB'000 |
|---|---|---|
| Unlisted investments, at cost | **426,588** | 426,588 |

The amounts due from subsidiaries included in the Company's current assets are disclosed in note 35(b) to the financial statements.

Particulars of the subsidiaries are as follows:

| **Name** | **Place and date of incorporation/ registration and place of operations** | **Nominal value of issued ordinary share/ registered paid-up capital** | **Percentage of equity interest attributable to the Group** | **Principal activities** |
|---|---|---|---|---|
| Capitol International Limited ("**Capitol International**") | Hong Kong 18 July 2003 | HK$1,000,000 | 100% (direct) | Investment holding |
| Sanjiang Chemical (note (i)) | PRC/Mainland China 9 December 2003 | US$94,450,000 | 100% (indirect) | Manufacture and sale of EO, surfactants, ethylene glycol, polymer grade ethylene, industrial gases and provision of surfactant processing services |

## 16. INVESTMENTS IN SUBSIDIARIES (Continued)

### Company

| Name | Place and date of incorporation/ registration and place of operations | Nominal value of issued ordinary share/ registered paid-up capital | Percentage of equity interest attributable to the Group | Principal activities |
|---|---|---|---|---|
| Yongming Petrochemical (note (iii)) | PRC/Mainland China 9 December 2003 | US$133,000,000 | 100% (indirect) | Manufacture and sale of EO, surfactants, ethylene glycol, polymer grade ethylene, industrial gases and provision of surfactant processing services |
| Jiaxing Port Chemical Industry Park Pipe Gallery Co., Ltd. ("**Guanlang**") (note (ii)) | PRC/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 Co., Ltd. ("**Sanjiang Trading**") (note (ii)) | PRC/Mainland China 29 October 2004 | RMB5,000,000 | 100% (indirect) | Trading of ethylene, EO and other chemical products |
| Hangzhou Textile Auxiliaries Co., Ltd. ("**Hangzhou Sanjiang**") (note (ii)) | PRC/Mainland China 1 April 2010 | RMB5,000,000 | 100% (indirect) | Manufacture and sale of alcohol ethoxylate, nonylphenols, and textile auxiliaries |
| Zhejiang Sanjiang Chemical New Material Co., Ltd ("**Sanjiang New Material**") (note (ii)) | PRC/Mainland China 23 December 2011 | US$7,500,000 | 100% (indirect) | Manufacture and sale of water reducing auxiliaries |
| Xingxing New Energy (note (ii)) | PRC/Mainland China 19 January 2011 | RMB100,000,000 | 75% (indirect) | Manufacture and sale of polyethylene |

Notes:

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

During the year, the Group acquired Xingxing New Energy, further details of this acquisition are included in note 2.1 of the financial statements.

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## 17. INVESTMENT IN A JOINTLY-CONTROLLED ENTITY

### Group

| | 2012 RMB'000 | 2011 RMB'000 (Restated) |
|---|---|---|
| Share of net assets | **147,251** | 92,105 |

The Group's trade receivable and payable balances due from and to the jointly-controlled entity are disclosed in note 35(b) to the financial statements.

Particulars of the jointly-controlled entity are as follows:

| Name | Place and date of incorporation/ registration and operations | Registered paid-up capital | Percentage of equity interest attributable to the Group* | Principal activities |
|---|---|---|---|---|
| Sanjiang Honam Chemical Co., Ltd ("**Sanjiang Honam**") | PRC/Mainland China 11 May 2010 | US$44,000,000 | 50% | Manufacture of EO |

* Percentage of Voting power and Profit sharing is 50%.

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:

| | 2012 RMB'000 | 2011 RMB'000 (Restated) |
|---|---|---|
| Share of the jointly-controlled entity's assets and liabilities: | | |
| Current assets | **168,591** | 77,469 |
| Non-current assets | **254,625** | 39,761 |
| Current liabilities | **(207,702)** | (1,052) |
| Non-current liabilities | **(68,263)** | (24,073) |
| Net assets | **147,251** | 92,105 |
| Share of the jointly-controlled entity's results: | | |
| Sales | **162,621** | – |
| Total expenses | **(147,523)** | (4,057) |
| Tax | **(4,715)** | – |
| Profit/(loss) after tax | **10,383** | (4,057) |

## 18. AVAILABLE-FOR-SALE INVESTMENTS

### Group

| | 2012 RMB'000 | 2011 RMB'000 (Restated) |
|---|---|---|
| Unlisted investments, at fair value | 256,006 | 226,552 |
| Unlisted managed investment funds, at fair value | 331,301 | 251,711 |
| | 587,307 | 478,263 |

Unlisted investments represent investments in certain financial assets issued by licensed financial institution and trust company in the PRC and the investments bear expected yield rates of 2.3% to 5.8% (2011: 5.4% to 8.8%) per annum upon maturity, which is stipulated to be one year.

During the year, the gross gain in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to RMB1,308,000 (2011: RMB3,991,000).

## 19. INVENTORIES

### Group

| | 2012 RMB'000 | 2011 RMB'000 (Restated) |
|---|---|---|
| Raw materials | 382,641 | 213,718 |
| Finished goods | 13,802 | 8,617 |
| | 396,443 | 222,335 |

The carrying amount of inventories carried at fair value less cost to sell is RMB40,703,000 (2011: Nil) at 31 December 2012.

## 20. TRADE AND NOTES RECEIVABLES

### Group

| | 2012 RMB'000 | 2011 RMB'000 (Restated) |
|---|---|---|
| Trade receivables | 10,401 | 15,463 |
| Notes receivable | 81,684 | 187,672 |
| | 92,085 | 203,135 |

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.

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## 20. TRADE AND NOTES RECEIVABLES (Continued)

As at 31 December 2012, note receivables were neither past due nor impaired.

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

| | **2012 RMB'000** | 2011 RMB'000 (Restated) |
|---|---|---|
| 1 to 30 days | **8,045** | 7,664 |
| 31 to 60 days | **917** | 6,050 |
| 61 to 90 days | **328** | 330 |
| 91 to 360 days | **1,024** | 1,332 |
| Over 360 days | **87** | 87 |
| | **10,401** | 15,463 |

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

| | **2012 RMB'000** | 2011 RMB'000 (Restated) |
|---|---|---|
| Neither past due nor impaired | **8,045** | 7,664 |
| Less than 30 days past due | **917** | 6,050 |
| 31 to 60 days past due | **328** | 330 |
| 61 to 90 days past due | **798** | 600 |
| 91 to 360 days past due | **226** | 732 |
| Over 360 days past due | **87** | 87 |
| | **10,401** | 15,463 |

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 a number of independent customers 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.

At 31 December 2012, the Group endorsed certain bills receivable accepted by banks in the PRC (the "**Derecognized Bills**"), to certain of its suppliers in order to settle the trade and bills payables due to such suppliers with a carrying amount in aggregate of RMB176,395,000. The Derecognized Bills have a maturity from one to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognized Bills have a right of recourse against the Group if the PRC banks default (the "**Continuing Involvement**"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognized Bills. Accordingly, it has derecognized the full carrying amounts of the Derecognized Bills and the associated trade and bills payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognized Bills and the undiscounted cash flows to repurchase these Derecognized Bills equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognized Bills are not significant.

## 21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

### Group

| | 2012 RMB'000 | 2011 RMB'000 (Restated) |
|---|---|---|
| Other receivables | 102,280 | 21,298 |
| Entrusted loan receivable | 72,000 | – |
| Prepayments | 83,528 | 21,733 |
| Prepaid land lease payments (note 14) | 1,763 | 1,197 |
| | 259,571 | 44,228 |
| Less: Impairment | – | (181) |
| | 259,571 | 44,047 |

### Company

| | 2012 RMB'000 | 2011 RMB'000 |
|---|---|---|
| Other receivables | 33,487 | 3,842 |
| Prepayments | 310 | 2,554 |
| | 33,797 | 6,396 |

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 movement in the provision for impairment of prepayments, deposits and other receivables is as follows:

### Group

| | 2012 RMB'000 | 2011 RMB'000 (Restated) |
|---|---|---|
| At beginning of year | 181 | 181 |
| Impairment loss reversed | (181) | – |
| At end of year | – | 181 |

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## 22. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

### Group

| | 2012 RMB'000 | 2011 RMB'000 (Restated) |
|---|---|---|
| Cash and bank balances | **233,585** | 290,691 |
| Time deposits | **1,139,102** | 1,001,640 |
| | **1,372,687** | 1,292,331 |
| Less: Pledged time deposits: | | |
| Pledged for letters of credit | **–** | 3,350 |
| Pledged for notes payable | **115,025** | – |
| Pledged for bank loans (note 26) | **1,024,077** | 998,290 |
| | **1,139,102** | 1,001,640 |
| Cash and cash equivalents | **233,585** | 290,691 |

### Company

| | 2012 RMB'000 | 2011 RMB'000 |
|---|---|---|
| Cash and bank balances | **414** | 378 |

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to RMB217,265,000 (2011: RMB237,415,000). 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 time 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 time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

## 23. TRADE AND BILLS PAYABLES

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

### Group

| | 2012<br>RMB'000 | 2011<br>RMB'000<br>(Restated) |
|---|---|---|
| Within 3 months | 535,258 | 329,740 |
| 3 to 6 months | 108,885 | 3,907 |
| 6 to 12 months | 55,634 | 357 |
| 12 to 24 months | 1,011 | 787 |
| 24 to 36 months | 649 | 247 |
| Over 36 months | – | 392 |
| | 701,437 | 335,430 |

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

## 24. OTHER PAYABLES AND ACCRUALS

### Group

| | 2012<br>RMB'000 | 2011<br>RMB'000<br>(Restated) |
|---|---|---|
| Other payables | 140,746 | 58,790 |
| Advances from customers | 73,088 | 45,497 |
| Taxes payable other than income tax | 14,326 | 14,420 |
| Payroll payable | 30,294 | 6,383 |
| Other accrued liabilities | 6,344 | 793 |
| | 264,798 | 125,883 |

### Company

| | 2012<br>RMB'000 | 2011<br>RMB'000 |
|---|---|---|
| Other payables | 113 | – |
| Payroll payable | 24,324 | – |
| | 24,437 | – |

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

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## 25. DERIVATIVE FINANCIAL INSTRUMENTS

### Group

| | 2012 Assets RMB'000 | 2012 Liabilities RMB'000 |
|---|---|---|
| **Current** | | |
| Forward currency contracts | 607 | – |
| Bullion option | – | 1,740 |
| Deferred bullion sale facilities | – | 2,836 |
| | 607 | 4,576 |

The Group has entered into various forward currency and commodity option contracts to manage its exchange rate and commodity price exposures. These contracts are not designated for hedge purposes and are measured at fair value through profit or loss.

Changes in the fair value of non-hedging derivatives amounting to RMB1,469,000 were credited to the income statement during the year (2011: Nil).

## 26. INTEREST-BEARING BANK BORROWINGS

### Group

| | Effective Interest rate (%) | Maturity | 2012 RMB'000 | 2011 RMB'000 (Restated) |
|---|---|---|---|---|
| Current | | | | |
| Bank loans – secured * | 1.110–4.253 | Within 1 year | 1,478,547 | – |
| | 2.988–5.076 | Within 1 year | – | 1,050,021 |
| Bank loans – unsecured | 3.86 | Within 1 year | 50,270 | – |
| | 3.393–4.627 | Within 1 year | – | 385,808 |
| | | | 1,528,817 | 1,435,829 |

* Certain of the Group's bank borrowings are secured by the pledge of certain of the Group's time deposits amounting to RMB1,024,077,000 as at 31 December 2012 (2011: RMB998,290,000).

### Company

| | Effective Interest rate (%) | Maturity | 2012 RMB'000 | 2011 RMB'000 |
|---|---|---|---|---|
| Current | | | | |
| Bank loans – unsecured | 3.86 | Within 1 year | 50,270 | – |

## 27. DEFERRED TAX

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

### Deferred tax liabilities

**Group**

| | **Fair value on derivative financial instruments** RMB'000 | **Available-for-sale investment revaluation** RMB'000 | **Withholding tax on distributable profits** RMB'000 | **Total** RMB'000 |
|---|---|---|---|---|
| At 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 and 1 January 2012 (Restated) | – | 516 | 46,537 | 47,053 |
| Deferred tax charged to the income statement during the year (note 10) | 109 | – | 18,042 | 18,151 |
| Deferred tax charged to other comprehensive income during the year | – | 164 | – | 164 |
| Deferred tax realised during the year | – | (516) | (37,281) | (37,797) |
| At 31 December 2012 | 109 | 164 | 27,298 | 27,571 |

### Deferred tax assets

**Group**

| | **Accrued expense** RMB'000 | **Impairment of assets** RMB'000 | **Total** RMB'000 |
|---|---|---|---|
| At 1 January 2011 | – | 45 | 45 |
| Deferred tax credited to the income statement during the year (note 10) | – | 431 | 431 |
| At 31 December 2011 and 1 January 2012 (Restated) | – | 476 | 476 |
| Deferred tax credited to the income statement during the year (note 10) | 451 | 2,233 | 2,684 |
| At 31 December 2012 | 451 | 2,709 | 3,160 |

## 27. DEFERRED TAX (Continued)

Pursuant to the PRC CIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprise established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax arrangement between Mainland 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 those 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 RMB928,083,000 as at 31 December 2012 (2011: RMB506,639,000).

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 following items:

| | 2012 RMB'000 | 2011 RMB'000 (Restated) |
|---|---|---|
| Tax losses of Hangzhou Sanjiang | 4,989 | 2,942 |
| Tax losses of Xingxing New Energy | 638 | – |
| Tax losses of Capitol International | – | 502 |
| | 5,627 | 3,444 |

The Group has tax losses arising in Mainland China of RMB5,627,000 (2011: RMB2,942,000) that will be expire one to five years for offsetting against future taxable profits of Hangzhou Sanjiang and Xingxing New Energy.

Deferred tax assets have not been recognised in respect of the losses of Hangzhou Sanjiang and Xingxing New Energy as it is considered not probable that taxable profits will be available against which the tax losses can be utilised.

## 28. SHARE CAPITAL AND TREASURY SHARES

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 2011 and 31 December 2012 | | 5,000,000,000 | 432,465 |
| Issued and fully paid ordinary shares of HK$0.1 each: | | | |
| At 1 January 2011 | | 1,022,303,000 | 88,419 |
| Repurchase and cancellation of ordinary shares | (i) | (13,648,000) | (1,111) |
| At 31 December 2011 and 1 January 2012 (Restated) | | 1,008,655,000 | 87,308 |
| Repurchase and cancellation of ordinary shares | (ii) | (2,015,000) | (164) |
| At 31 December 2012 | (iii) | 1,006,640,000 | 87,144 |

Notes:

(i) 13,648,000 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 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.

(ii) 2,015,000 ordinary shares were repurchased and cancelled during the year ended 31 December 2012, 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 2,015,000 ordinary shares of HK$3,546,000 (equivalent to approximately RMB2,877,000) 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.

(iii) 2,576,000 ordinary shares were repurchased during the year ended 31 December 2012, and cancelled on 24 January 2013. The premium and related expenses paid on the repurchase of the 2,576,000 ordinary shares of HK$7,839,000 (equivalent to approximately RMB6,356,000) were recorded as to treasury shares.

Details of the repurchases in 2012 are summarised as follows:

| Month | Number of ordinary shares repurchased | Price per ordinary share | | Aggregate consideration paid | |
|---|---|---|---|---|---|
| | | Highest HK$ | Lowest HK$ | HK$'000 | RMB'000 |
| January 2012 | 2,015,000 | 1.95 | 1.81 | 3,759 | 3,041 |
| December 2012 | 2,576,000 | 3.12 | 2.92 | 7,839 | 6,356 |
| | 4,591,000 | | | 11,598 | 9,397 |

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.

## 29. 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;

(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 conditions or performance targets (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.

## 29. SHARE AWARD PLAN (Continued)

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 remains as an employee of the Group.

Pursuant to share award notices issued on 1 December 2012 to those selected employees, an aggregate of 3,519,000 shares (the "**2012 Awarded Shares**") of the Company of HK$0.01 each were granted at nil consideration and the earliest vesting date of the 2012 Awarded Shares is 1 December 2017. There is no other performance target required except the eligible participant remains as an employee of the Group.

During the year, net Share Award Plan expense of HK$800,000 (equivalent to approximately RMB651,000) was charged to the income statement (2011: RMB350,000), of which HK$154,000 (equivalent to approximately RMB125,000) was included in the directors' remuneration (2011: RMB64,000).

The directors of the Company believe that the estimated fair values of the 2012 Awarded Shares are reasonable and the fair values were appropriate at the end of the reporting period.

## 30. 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 pages 35 and 36 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.

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## 30. 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)/ Retained Profits RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| At 1 January 2011 | 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 2011dividend | (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 |
| Total comprehensive income for the year | – | – | – | – | 341,017 | 341,017 |
| Shares awarded under the share award plan | – | – | (6,506) | – | – | (6,506) |
| Equity-settled share award plan expense | – | – | – | 651 | – | 651 |
| Repurchase and cancellation of ordinary shares | (2,877) | 164 | – | – | (164) | (2,877) |
| Proposed final 2012 dividend | – | – | – | – | (144,818) | (144,818) |
| At 31 December 2012 | 1,039,320 | 1,275 | (11,314) | 1,001 | 96,947 | 1,127,229 |

## 31. DIVIDENDS

| | 2012 RMB'000 | 2011 RMB'000 (Restated) |
|---|---|---|
| Interim – nil (2011: HK5.5 cents) per ordinary share | – | 46,169 |
| Proposed final – HK18 cents (2011: HK9.5 cents) per ordinary share | 144,818 | 77,705 |
| | 144,818 | 123,874 |

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

## 32. 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.

## 33. 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:

| | 2012 RMB'000 | 2011 RMB'000 (Restated) |
|---|---|---|
| Operating lease commitments: | | |
| Within one year | 2,239 | 2,506 |
| In the second to third years, inclusive | 2,400 | 3,739 |
| In the fourth to fifth years, inclusive | 1,600 | 2,400 |
| After five years | 1,200 | 1,600 |
| | 7,439 | 10,245 |

## 34. COMMITMENTS

In addition to the operating lease commitments detailed in note 33 above, the Group had the following capital commitments at the end of the reporting period:

| | 2012 RMB'000 | 2011 RMB'000 (Restated) |
|---|---|---|
| Contracted, but not provided for: | | |
| Plant and machinery | 486,693 | 70,673 |
| Capital contributions payable to a jointly-controlled entity | – | 45,997 |
| | 486,693 | 116,670 |

The Company had no significant commitment at the end of the reporting period.

## 35. 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 of ultimate controlling shareholder |
| Jiaxing Xinggang Rewang Co., Ltd. ("**Jiaxing Rewang**") | Associate of ultimate controlling shareholder |
| Sanjiang Honam | Jointly-controlled entity |
| Honam Petrochemical Corp. ("**Honam Petrochemical**") | Shareholder of a jointly-controlled entity |
| Zhejiang Jiahua Group Co., Ltd. ("**Zhejiang Jiahua**") | Fellow subsidiary of ultimate controlling shareholder |
| Zhejiang Jiahua Energy Chemical Co., Ltd. ("**Jiahua Energy**") | Fellow subsidiary of ultimate controlling shareholder |
| Jiaxing Jianghao Zhiye Co., Ltd. ("**Jianghao Zhiye**") | Fellow subsidiary of ultimate controlling shareholder |
| Jiaxing Port Jianghao Investment ("**Jianghao Investment**") | Fellow subsidiary of ultimate controlling shareholder |
| Hangzhou Xiaoshan Fine Chemical Co., Ltd. ("**Xiaoshan Fine**") | Fellow subsidiary of ultimate controlling shareholder |
| Jiaxing City Zhapu Construction and Investment Co., Ltd. ("**Zhapu Construction**") | Non-controlling shareholder of a subsidiary |

## 35. RELATED PARTY TRANSACTIONS (Continued)

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

### Group

| | Notes | 2012 RMB'000 | 2011 RMB'000 (Restated) |
|---|---|---|---|
| Sales of goods to: | | | |
| Sanjiang Homan | (i) | **150,153** | – |
| Homan Petrochemical | (i) | **4,290** | – |
| Zhejiang Jiahua | (ii) | **42** | – |
| | | **154,485** | – |
| Purchases of goods from: | | | |
| Sanjiang Homan | (i) | **166,278** | – |
| Jiahua Energy | (ii) | **83,251** | 89,501 |
| Jiaxing Rewang | (ii) | **8,031** | 6,324 |
| | | **257,560** | 95,825 |
| Rental income from: | | | |
| Sanjiang Homan | (i) | **6,044** | 3,137 |
| Jiaxing Rewang | (i) | **768** | 746 |
| Jiahua Energy | (i) | **20** | – |
| Homan Petrochemical | (i) | **5** | – |
| | | **6,837** | 3,883 |
| Rental expense to: | | | |
| Hangzhou Haoming | (i) | **1,200** | 1,200 |
| Management service income from: | | | |
| Sanjiang Honam | (iii) | **21,970** | 516 |
| Training service income from: | | | |
| Sanjiang Honam | (iv) | **–** | 2,220 |
| Interest income from: | | | |
| Jianghao Investment | (v) | **1,863** | 179 |
| Jianghao Zhiye | (v) | **872** | 1,493 |
| Hangzhou Haoming | (v) | **–** | 212 |
| | | **2,735** | 1,884 |

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## 35. RELATED PARTY TRANSACTIONS (Continued)

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

Notes:

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

(ii) The sales and purchases of goods to and from the related parties were made according to the published prices and conditions offered by the related parties to their major customers.

(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.

(v) The loans were unsecured, bear interest at 8% or 9% per annum and repayable within one year.

(b) Outstanding balances with related parties:

### Group

| | 2012 RMB'000 | 2011 RMB'000 (Restated) |
|---|---|---|
| Due from related parties: | | |
| Sanjiang Honam | 92,402 | 2,220 |
| Zhapu Construction | 1,470 | – |
| Hangzhou Haoming | 300 | 212 |
| Homan Petrochemical | 98 | – |
| Jianghao Zhiye | – | 35,200 |
| Jianghao Investment | – | 6,500 |
| | 94,270 | 44,132 |
| Due to related parties: | | |
| Sanjiang Honam | 14,732 | 992 |
| Jiahua Energy | 5,346 | – |
| Jiaxing Rewang | 1,330 | 962 |
| Jiahua Group | 70 | – |
| Xiaoshan Fine | 30 | – |
| | 21,508 | 1,954 |

### Company

| | 2012 RMB'000 | 2011 RMB'000 |
|---|---|---|
| Due from a subsidiary: | | |
| Capitol International | 966,743 | 675,465 |

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

## 35. RELATED PARTY TRANSACTIONS (Continued)

(c) Outstanding balances with directors:

### Group & Company

| | 2012 RMB'000 | 2011 RMB'000 |
|---|---|---|
| Due to directors: | | |
| Guan Jianzhong | – | 2,836 |
| Han Jianhong | – | 1,216 |
| | – | 4,052 |

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:

| | 2012 RMB'000 | 2011 RMB'000 (Restated) |
|---|---|---|
| Short term employee benefits | 7,372 | 24,974 |
| Equity-settled share award plan expense | 272 | 350 |
| Pension scheme contributions | 144 | 84 |
| Total compensation paid to key management personnel | 7,788 | 25,408 |

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

## 36. 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**

| | 2012 | | | |
|---|---|---|---|---|
| | **Derivative financial instruments RMB'000** | **Loans and receivables RMB'000** | **Available-for-sale financial assets RMB'000** | **Total RMB'000** |
| Trade and notes receivables | **–** | **92,085** | **–** | **92,085** |
| Financial assets included in prepayments, deposits and other receivables | **–** | **174,280** | **–** | **174,280** |
| Due from related parties | **–** | **94,270** | **–** | **94,270** |
| Available-for-sale investments | **–** | **–** | **587,307** | **587,307** |
| Derivative financial instruments | **607** | **–** | **–** | **607** |
| Pledged deposits | **–** | **1,139,102** | **–** | **1,139,102** |
| Cash and cash equivalents | **–** | **233,585** | **–** | **233,585** |
| | **607** | **1,733,322** | **587,307** | **2,321,236** |

| | 2011 (Restated) | | |
|---|---|---|---|
| | Loans and receivables RMB'000 | Available-for-sale financial assets RMB'000 | Total RMB'000 |
| Trade and notes receivables | 203,135 | – | 203,135 |
| Financial assets included in prepayments, deposits and other receivables | 21,298 | – | 21,298 |
| Due from related parties | 44,132 | – | 44,132 |
| Available-for-sale investments | – | 478,263 | 478,263 |
| Pledged deposits | 1,001,640 | – | 1,001,640 |
| Cash and cash equivalents | 290,691 | – | 290,691 |
| | 1,560,896 | 478,263 | 2,039,159 |

## 36. 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**

| | 2012 | | |
|---|---|---|---|
| | **Derivative financial instruments RMB'000** | **Financial liabilities at amortised cost RMB'000** | **Total RMB'000** |
| Trade and bills payables | **–** | **701,437** | **701,437** |
| Financial liabilities included in other payables and accruals | **–** | **155,072** | **155,072** |
| Derivative financial instruments | **4,576** | **–** | **4,576** |
| Interest-bearing bank borrowings | **–** | **1,528,817** | **1,528,817** |
| Due to related parties | **–** | **21,508** | **21,508** |
| | **4,576** | **2,406,834** | **2,411,410** |

| | 2011 (Restated) | |
|---|---|---|
| | Financial liabilities at amortised cost RMB'000 | Total RMB'000 |
| Trade and bills payables | 335,430 | 335,430 |
| Financial liabilities included in other payables and accruals | 73,210 | 73,210 |
| Interest-bearing bank borrowings | 1,435,829 | 1,435,829 |
| Due to directors | 4,052 | 4,052 |
| Due to related parties | 1,954 | 1,954 |
| | 1,850,475 | 1,850,475 |

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## 36. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

### Company

**Financial assets**

| | 2012 Loans and receivables RMB'000 | 2011 Loans and receivables RMB'000 |
|---|---|---|
| Financial assets included in prepayments, deposits and other receivables | 33,487 | 3,842 |
| Due from a subsidiary | 966,743 | 675,465 |
| Cash and cash equivalents | 414 | 378 |
| | 1,000,644 | 679,685 |

**Financial liabilities**

| | 2012 Financial liabilities at amortised cost RMB'000 | 2011 Financial liabilities at amortised cost RMB'000 |
|---|---|---|
| Interest-bearing bank borrowings | 50,270 | – |
| Financial liabilities included in other payables and accruals | 113 | – |
| Due to directors | – | 4,052 |
| | 50,383 | 4,052 |

## 37. 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)

## 37. FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

### Fair value hierarchy (Continued)

**Assets measured at fair value:**

**Group**

| | As at 31 December 2012 | | | |
|---|---|---|---|---|
| | **Level 1 RMB'000** | **Level 2 RMB'000** | **Level 3 RMB'000** | **Total RMB'000** |
| Derivative financial instruments | **–** | **607** | **–** | **607** |
| Available-for-sale investments | **–** | **587,307** | **–** | **587,307** |
| | **–** | **587,914** | **–** | **587,914** |

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

**Liabilities measured at fair value:**

**Group**

| | As at 31 December 2012 | | | |
|---|---|---|---|---|
| | **Level 1 RMB'000** | **Level 2 RMB'000** | **Level 3 RMB'000** | **Total RMB'000** |
| Derivative financial instruments | **–** | **4,576** | **-** | **4,576** |

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

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 (2011: Nil).

*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, amounts due from related parties, trade and bills payables, other payables, amounts due to directors, amounts due to related parties and interest-bearing bank borrowings, reasonably approximate to their fair values because these financial instruments are either short term in nature or repriced frequently.

Notes to Financial Statements
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## 38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The Group also enters into derivative transactions, including principally forward currency, bullion option contracts and deferred billion purchase facilities. The purpose is to manage the currency and commodity price risks arising from the Group's operations and its sources of finance.

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. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

### Interest rate risk

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

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

**Group**

| | Increase/ (decrease) in basis points | Increase/ (decrease) in profit before tax RMB'000 |
|---|---|---|
| **2012** | | |
| RMB | **5** | **(48)** |
| RMB | **(5)** | **48** |
| | | |
| **2011** | | |
| RMB | 5 | – |
| RMB | (5) | – |

## 38. 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 78% (2011: 52%) of the Group's purchases for the year ended 31 December 2012 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 rate, 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 |
|---|---|---|
| **2012** | | |
| If RMB weakens against United States dollar | **5** | **(94,441)** |
| If RMB strengthens against United States dollar | **(5)** | **94,441** |
| **2011** | | |
| If RMB weakens against United States dollar | 5 | (73,610) |
| If RMB strengthens against United States dollar | (5) | 73,610 |

Notes to Financial Statements
31 December 2012

## 38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### 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 2012, the Group had certain concentrations of credit risk as 9% (2011: 14%) and 31% (2011: 38%) of the Group's trade receivables were due from the Group's largest customer and the five largest customers, respectively.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and notes receivables and prepayments, deposits and other receivables are disclosed in notes 20 and 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**

| | | | 2012 | | |
|---|---|---|---|---|---|
| | On demand RMB'000 | Less than 3 months RMB'000 | 3 to less than 12 months RMB'000 | 1 to 5 years RMB'000 | Total RMB'000 |
| Trade payables | 171,065 | 447,467 | 82,905 | – | 701,437 |
| Other payables | – | 76,410 | 71,580 | 7,082 | 155,072 |
| Derivative financial instruments | – | 90 | 4,486 | – | 4,576 |
| Interest-bearing bank borrowings | – | 831,435 | 710,394 | – | 1,541,829 |
| Due to related parties | 21,508 | – | – | – | 21,508 |
| | 192,573 | 1,355,402 | 896,365 | 7,082 | 2,424,422 |

## 38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Liquidity risk (Continued)

**Group**

| | 2011 (Restated) | | | | |
|---|---|---|---|---|---|
| | On demand RMB'000 | Less than 3 months RMB'000 | 3 to less than 12 months RMB'000 | 1 to 5 years RMB'000 | Total RMB'000 |
| Trade and bills payables | 203,558 | 126,474 | 4,020 | 1,378 | 335,430 |
| Other payables | – | 26,178 | 41,153 | 5,879 | 73,210 |
| 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 | 1,144,179 | 507,605 | 7,257 | 1,868,605 |

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**

| | **2012** | | | | | |
|---|---|---|---|---|---|---|
| | **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** |
| Other payables | **–** | **24,437** | **–** | **–** | **–** | **24,437** |
| Interest-bearing bank borrowings | **–** | **485** | **51,078** | **–** | **–** | **51,563** |
| | **–** | **24,922** | **51,078** | **–** | **–** | **76,000** |

| | 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 |

## 38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### 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.

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 and bills 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:

| | 2012<br>RMB'000 | 2011<br>RMB'000<br>(Restated) |
|---|---|---|
| Trade and bills payables | **701,437** | 335,430 |
| Other payables and accruals | **264,798** | 125,883 |
| Interest-bearing bank borrowings | **1,528,817** | 1,435,829 |
| Due to directors | **–** | 4,052 |
| Due to related parties | **21,508** | 1,954 |
| Less: Cash and cash equivalents | **(233,585)** | (290,691) |
| Pledged deposits | **(1,139,102)** | (1,001,640) |
| Net debt | **1,143,873** | 610,817 |
| Equity attributable to owners of the parent | **1,922,998** | 1,660,010 |
| Capital and net debt | **3,066,871** | 2,270,827 |
| Gearing ratio | **37%** | 27% |

## 39. EVENTS AFTER THE REPORTING PERIOD

(a) On 28 February 2013, two of the wholly-owned subsidiaries of the Company namely Sanjiang Chemical and Capitol International entered into an investment agreement with some third parties in respect of the capital injections into Zhejiang Mei Fu Petrochemical Co., Ltd. and Zhejiang Zhapu Mei Fu Port & Storage Co., Ltd. (collectively referred to as "**Target Companies**") for the purpose of obtaining 51% of the equity interests in the Target Companies. The Target Companies are principally engaged in the manufacturing and supplying of propylene and propylene derivative products and provision of loading and storage services in their own ports located in the Port Area, Jiaxing City, Zhejiang Province, PRC. The Group will acquire the Target Companies to shift the focus of growth after 2014 to propylene and propylene derivative products and to source methanol through 100% overseas procurement. The purchase consideration of approximately RMB380,000,000 for the acquisition is in the form of cash. The transaction has not yet been completed.

(b) On 24 January 2013, the Company cancelled 2,576,000 ordinary shares which were repurchased in 2012, as further detailed in note 28 to the financial statements.

(c) In January 2013, the Company repurchased its own shares through the Stock Exchange as follows and the shares were cancelled on 24 January 2013 upon repurchase.

| Month of repurchase | Number of ordinary shares | Price per ordinary share | | Aggregate consideration paid | |
|---|---|---|---|---|---|
| | | Highest | Lowest | | |
| | | HK$ | HK$ | HK$'000 | RMB'000 |
| 2 January 2013 | 5,559,000 | 3.15 | 3.05 | 17,230 | 13,971 |
| 3 January 2013 | 5,401,000 | 3.12 | 3.10 | 16,829 | 13,646 |

## 40. COMPARATIVE AMOUNTS

As explained in note 2.1 to the financial statements, due to the adoption of merger for business combination under common control during the year ended 31 December 2012, certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

The following table demonstrates the effect of adopting merger accounting for the common control combination on the consolidated income statement for the year ended 31 December 2011 and the consolidated statement of financial position as at 31 December 2011:

Notes to Financial Statements
31 December 2012

## 40. COMPARATIVE AMOUNTS (Continued)

Effect on the consolidated income statement for the year ended 31 December 2011:

| | As previously reported RMB'000 | Effect of business combination under common control RMB'000 (note 2.1) | As restated RMB'000 |
|---|---|---|---|
| Other income and gains | 147,151 | 2,161 | 149,312 |
| Administrative expenses | (72,861) | (1,827) | (74,688) |
| Profit before tax | 463,554 | 334 | 463,888 |
| Profit for the year | 405,185 | 334 | 405,519 |
| Attributable to: | | | |
| Owners of the parent | 404,769 | 251 | 405,020 |
| Non-controlling interests | 416 | 83 | 499 |

Effect on the consolidated statement of financial position as at 31 December 2011:

| | As previously reported RMB'000 | Effect of business combination under common control RMB'000 (note 2.1) | As restated RMB'000 |
|---|---|---|---|
| Assets: | | | |
| Property, plant and equipment | 1,105,092 | 30,344 | 1,135,436 |
| Prepaid land lease payments | 44,409 | 7,776 | 52,185 |
| Prepayments, deposits and other receivables | 41,294 | 2,753 | 44,047 |
| Due from related parties | 2,220 | 41,912 | 44,132 |
| Cash and cash equivalents | 272,869 | 17,822 | 290,691 |
| Liabilities: | | | |
| Trade and bills payables | 335,330 | 100 | 335,430 |
| Other payables and accruals | 125,710 | 173 | 125,883 |

## 41. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 19 March 2013.

# FIVE YEAR FINANCIAL SUMMARY

| | 2012 RMB'000 | 2011 RMB'000 | 2010 RMB'000 | 2009 RMB'000 | 2008 RMB'000 |
|---|---|---|---|---|---|
| REVENUE | 2,521,448 | 2,078,188 | 1,582,526 | 1,285,533 | 952,847 |
| Gross profit | 530,288 | 433,344 | 360,164 | 356,321 | 224,502 |
| Other income – Bank interest income | 106,846 | 32,461 | 14,601 | 7,573 | 6,923 |
| Other income – Foreign exchange gains | 598 | 45,557 | 16,093 | 942 | 18,185 |
| Finance costs | 64,361 | 32,438 | 19,087 | 32,915 | 36,736 |
| PROFIT BEFORE TAX | 556,934 | 463,888 | 318,574 | 303,835 | 181,335 |
| Income tax expense | 89,924 | 58,369 | 52,263 | 43,673 | 19,500 |
| Net profit for the year | 467,010 | 405,519 | 266,311 | 260,162 | 161,835 |
| Profits attributable to ordinary equity holders of the parent | 466,776 | 405,020 | 266,126 | 242,075 | 139,081 |
| NON-CURRENT ASSETS | 1,758,859 | 1,378,808 | 1,270,284 | 1,020,083 | 1,034,690 |
| CURRENT ASSETS | 2,802,970 | 2,284,243 | 1,266,758 | 616,895 | 737,110 |
| Interest-bearing bank borrowings | 1,528,817 | 1,435,829 | 793,760 | 719,486 | 786,963 |
| CURRENT LIABILITIES | 2,583,491 | 1,928,453 | 1,120,960 | 1,280,458 | 1,280,449 |
| NET CURRENT ASSETS | 219,479 | 355,790 | 145,798 | (663,563) | (543,339) |
| NON-CURRENT LIABILITIES | 27,571 | 47,053 | 81,271 | 122,322 | 153,110 |
| **Net assets/Total equity** | 1,950,767 | 1,687,545 | 1,334,811 | 234,198 | 338,241 |
| Cash inflow from operating activities | 705,763 | 265,974 | 370,274 | 294,705 | 69,711 |
| Cash (outflow) from investing activities | (450,149) | (613,292) | (322,366) | (18,875) | (223,093) |
| Cash (outflow)/inflow from financing activities | (312,637) | 36,889 | 444,200 | (232,932) | 85,241 |

| | RMB fens | RMB fens | RMB fens | RMB fens | RMB fens |
|---|---|---|---|---|---|
| Earnings per share – Basic | 46.58 | 39.77 | 34.82 | 37.43 | 21.50 |
| Earnings per share – Diluted | 46.55 | 39.76 | 34.82 | 37.43 | 21.50 |
| Net assets per share | 196.4 | 167.1 | 130.37 | 36.21 | 52.29 |

| | In % | In % | In % | In % | In % |
|---|---|---|---|---|---|
| Gross profit margin | 21.0 | 20.9 | 22.8 | 27.7 | 23.6 |
| Profit before tax margin | 22.1 | 22.3 | 20.1 | 23.6 | 19.0 |
| Net profit margin | 18.5 | 19.5 | 16.8 | 20.2 | 17.0 |
| Effective tax rate | 16.1 | 12.6 | 16.4 | 14.4 | 10.8 |
| ROE – net profit for the year to total equity | 23.9 | 24.0 | 20.0 | 111.1 | 47.8 |
| Gearing – total interest-bearing bank borrowings to total asset | 33.5% | 39.2% | 31.3% | 43.9% | 51.6% |

## Five Year Financial Summary

| | 2012<br>In days | 2011<br>In days | 2010<br>In days | 2009<br>In days | 2008<br>In days |
|---|---|---|---|---|---|
| Inventory turnover days | | | | | |
| – Average opening and closing inventories divided by cost of sales x 365 days | **56.7** | 36.2 | 25.6 | 28.4 | 43.1 |
| Trade and notes receivables turnover days | | | | | |
| – Average opening and closing trade and note receivables divided by revenue x 365 days | **21.4** | 21.0 | 8.6 | 12.0 | 19.6 |
| Trade and bills payables turnover days | | | | | |
| – Average opening and closing trade payables divided by cost of sales x 365 days | **95.0** | 59.7 | 68.2 | 106.2 | 166.9 |

# 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

## SHARE LISTING

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

## AUDITORS

Ernst & Young
22nd Floor, CITIC Tower,
1 Tim Mei Avenue, Central
Hong Kong

## LEGAL ADVISERS AS TO HONG KONG LAW

Chiu & Partners
40th Floor, Jardine House
1 Connaught Place, Hong Kong

## PRINCIPAL PLACE OF BUSINESS IN THE PRC AND HEADQUARTERS

Pinghai Road, Jiaxing Port Area, Zhejiang Province, PRC

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 601-602, Infinitus Plaza
199 Des Voeux Road Central, Sheung Wan, Hong Kong

## REGISTERED OFFICE

Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 609
Grand Cayman KY1-1107
Cayman Islands

## COMPANY SECRETARY

Yip Ngai Hang, FCPA FCCA

## PRINCIPAL BANKER IN HONG KONG

Bank of Communications Co., Ltd.
Hong Kong Branch,
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

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

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

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

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

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

## BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

## CORPORATE WEBSITE

www.chinasanjiang.com